Public Policy Clinic
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Professor Levy

POLICY ALTERNATIVES:

Introduction

Public policy analysis involves an evaluation of the means to effectuate public policy objectives. Most public policy objectives might be obtained using a variety of methods end effective public policy requires the choice of a regulatory approach that is likely to accomplish a given set of objectives. Led by Justice Breyer's path-breaking book, "Regulation and Its Reform" (1982)), the policy literature has paid increasing attention to whether regulatory methods "match" the problems they are designed to address. The central function of the policy reports prepared by the clinic is the presentation and evaluation of various policy alternatives available regarding a particular policy issue in order to assist the legislature and other policy makers in choosing the best alternative to achieve the state's policy objectives.

Effective analysis of policy objectives depends upon a systematic organization and categorization of alternatives. This organization task is not always easy, however, because possible policy choices may differ in respect to a number of different variables. Thus, although there are a number of archetypical regulator tools (e.g., ratemaking, licensing, "command and control" regulation, etc.), these types appear in an infinite array of combinations and gradations. Indeed commentators do not even agree on the number of basic forms, much less their precise definitions and categorizations. Our goal in this respect is a pragmatic one – we want to group policy alternatives based on certain key criteria so that the choices are easily comprehensible to our clients. The following excerpt from a recent law review article is intended to provide a basis for thinking about possible organizational strategies respecting your topic and will provide the basis for class discussion. Footnotes have been omitted

Lester M. Salamon, *New Governance and the Tools of Public Action: An Introduction* 28 **FORDHAM URB. L.J.** 1611, 1640-1670 (2001)

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In short, the proliferation of tools of public action has necessitated a new approach to public problem-solving, a "new governance" that recognizes both the collaborative character of modern public action and the significant challenges that such collaboration entails. Central to this "new governance" is a shift in the basic paradigm guiding action on public problems. Instead of focusing exclusively on public agencies or public programs, the "new governance" moves the focus of attention to the distinctive tools or technologies used to address public problems. Underlying this shift is a recognition that different tools have their own characteristic features that impart a distinctive twist to the operation of public programs. Tools importantly structure the post-enactment process of policy definition by specifying the network of actors that will play important roles and the

nature of the roles they will perform. In these circumstances, the whole character of public management has to change. Instead of command and control, it must emphasize negotiation and persuasion. In place of management skills, it must require enablement skills. Far from simplifying the task of public problem-solving, the proliferation of tools has importantly complicated it even while enlarging the range of options and the pool of resources potentially brought to bear. All of this makes the development of a systematic body of information about the dynamics and characteristics of the different tools of public action all the more urgent.

III. BUILDING THE KNOWLEDGE BASE

A. Basic Analytics

The "new governance" thus calls attention to the new world of public problem-solving that has been ushered in by the proliferation of tools of public action over the past half-century or more. Rather than resisting this trend, like the traditional public administration, or uncritically celebrating it, like the reinventing government school, however, the "new governance" calls for the development of a systematic body of knowledge that can help policymakers, public managers, and others engaged in the increasingly collaborative business of public problem-solving take advantage of the special opportunities and cope with the special challenges that these new tools entail. In the process, it directs our attention to the characteristic features of the different tools and at the often-complex networks of interaction on which many of them depend.

But which features of the different tools are most important? How can tools be analyzed and compared? Which facets are likely to have the biggest effects? And which effects are most important? Clearly, if the "new governance" and the "tools framework" on which it rests are to be more than mere metaphors, they must offer meaningful answers to these questions. It is therefore necessary to turn from the rationale for the "new governance" and the general features that characterize it to a more detailed exploration of its analytical core.

B. Definition and Classification: The Basic Building Blocks

1. *Basic Definition*

As a first step in this direction, it may be useful to specify more precisely what is meant by a "tool" or "instrument" of public action. This is no simple task since tools have multiple features and can be defined at any of a number of levels of abstraction. For our purposes here, however, the most basic descriptive level seems most appropriate. As used here, therefore, *a tool, or instrument, of public action can be defined as an identifiable method through which collective action is structured to address a public problem*. Several features of this definition are particularly notable:

In the first place, each tool is assumed to have certain common features that make it "identifiable." This is not to say that all tools of a particular type share all features. In addition to their common, or defining, features, tools also have design features that can vary from one embodiment of the tool to another. For example, all grants-in-aid involve payments from one level

of government to either anotherlevel of government or a private entity, but different grant programs can vary in the level of specificity with which they define eligible purposes, in the range of eligible recipients, in how funds are distributed, and in many other features.

Secondly, tools "structure" action. What this means is that the relationships that tools foster are not free-form or transient. Rather, they are institutionalized. Tools are thus "institutions" in the sense emphasized by students of the "new institutionalism," i.e., they are regularized patterns of interaction among individuals or organizations. They define who is involved in the operation of public programs, what their roles are, and how they relate to each other. They thus importantly shape the set of considerations that effectively come to bear in the all-important implementation phase of policy.

Finally, the action that is structured by tools is "collective action" aimed at responding to "public problems." This is different from saying that tools structure only government action. Other entities are also often involved in the action that is structured by the tools of public action.

Given this definition, it is possible to distinguish tools from both programs and policies, two other concepts commonly used to discuss policy action. Tools are more general than programs. Programs thus embody tools, applying them to the circumstances of a particular field or problem. A single tool therefore can be used in many different programs in many different fields. Typically, a program embodies a single tool, though increasingly, as we will see below, programs are coming to embody entire suites of tools. A central premise of the tools approach is that particular tools impart similar pressures and have similar operating requirements wherever they happen to be applied.

If tools are typically more general than programs, they are typically less general than policies. Policies are essentially collections of programs operating in a similar field or aimed at some general objective. The programs comprising a policy can all utilize a single tool (e.g., multiple grants-in-aid) or multiple tools. An interesting question that tools analysis raises is whether some tools are more appropriate for some policy objectives than others, an issue I will return to below.

One other distinction worth making is that between internal tools and external tools. Internal tools refers to the procedures that governments use to handle their own internal operations. Included here would be basic procedures for personnel recruitment, human resource management, budgeting, and procurement for the supplies that government needs to operate. External tools, by contrast, are those used to affect society at large, not just the government. The focus of this article, and of the "new governance" approach, is on the latter type of tools, those that seek to affect society and not just the internal workings of government.

2. Tools as Bundles of Attributes

From what has been said it should be clear that although the concept of a tool of public action is relatively straightforward, in reality tools are often quite complex. Any given tool is really a "package" that contains a number of different elements. These include:

- *A type of good or activity* (e.g., a cash or in-kind payment, a restriction or prohibition, the provision of information);
- *A delivery vehicle for this good or activity* (e.g., through a loan, an outright grant, a voucher, the direct provision of a service, or the tax system);
- *A delivery system, i.e., a set of organizations that are engaged in providing the good, service, or activity* (e.g., a government agency, a nonprofit organization, a local government, a for-profit corporation); and
- *A set of rules, whether formal or informal, defining the relationships among the entities that comprise the delivery system.*

These multiple facets naturally complicate the task of sorting and describing tools, as we will see more fully below. Tools can be classified according to any of the different facets--the nature of the good or service, the delivery vehicle, the nature of the delivery system. This means that no single classification of tools is possible. Classification schemes will differ depending on which facet is used as the basis. Table 5 illustrates this point by portraying how some of the most commonly used tools compare to each other descriptively in terms of these four features. For example, loan guarantees provide cash delivered through a loan by commercial banks operating according to a set of rules that stipulate the conditions under which the government will reimburse the bank if the loan becomes uncollectable. By contrast, direct loans provide cash through loans delivered by a government agency.

TABLE 5: COMMON TOOLS OF PUBLIC ACTION: DEFINING FEATURES

Tool	Product/Activity	Vehicle	Delivery System
Direct government	Good or service	Direct provision	Public agency
Social regulation	Prohibition	Rule	Public agency/regulatee
Economic regulation	Fair prices	Entry and rate controls	Regulatory commission
Contracting	Good or service	Contract and cash payment	Business, nonprofit organization
Grant	Good or service	Grant award/cash payment	Lower level of government, nonprofit
Direct loan	Cash	Loan	Public agency
Loan Guarantee	Cash	Loan	Commercial bank
Insurance	Protection	Insurance policy	Public agency
Tax expenditure	Cash incentives	Tax	Tax system
Fees, charges	Financial penalty	Tax	Tax system
Liability law	Social protections	Tort law	Court system
Government corporations	Good or service	Direct provision/loan	Quasi-public agency
Vouchers	Good or service	Consumer subsidy	Public agency/consumer

3. *The Challenge of Classification*

This multi-dimensionality of policy tools naturally complicates the task of describing and sorting them. This is particularly true in view of the fact that unlike tools in the physical world, such as hammers, saws, and screwdrivers, the tools of public action rarely appear in pure form. Rather, they come bundled in particular programs, many of which combine more than one tool and all of which bring different approaches to the design issues that each program must address. Beyond this, there is occasionally ambiguity about which features of a tool are truly the defining features and which are the design features that can vary with particular manifestations. For example, some observers treat "block grants," a form of grant-in-aid that defines eligible purposes fairly broadly, as a separate tool from "categorical grants," which define eligible activities more narrowly. Other observers, however, consider this distinction inconsequential.

Coupled with the considerable ingenuity that has characterized the design of public action in recent years, the multi-dimensionality of individual tools has made it difficult to reach consensus even on the number of tools that exist. Thus, Savas identified ten different arrangements that can be used just for the provision of public services, the U.S. Office of Management and Budget's Catalog of Federal Assistance identifies sixteen distinct tools, Osborne and Gaebler recorded thirty-six, and E.S. Kirschen of the Netherlands identified no fewer than sixty-three.

Complicating matters further is the fact that tools are often mislabeled, sometimes deliberately. For example, President Roosevelt insisted on including a symbolic employee contribution in the Social Security Program so that this program could be characterized as "insurance," which was easier to sell politically, even though it lacks most of the defining features of insurance. This mislabeling, whether deliberate or inadvertent, can play havoc with efforts to characterize tools and analyze their consequences.

All of this makes it difficult to reach clear consensus about the types of tools that exist. Several different classifications are available in the literature, but each uses a slightly different tool dimension as the basis for its grouping. Thus Christopher Hood, in one of the earliest schemes, sorted tools in terms of two major dimensions: (i) the role of government for which they are used (i.e., detecting vs. effecting); and (ii) the governmental resource they enlist (i.e., nodality, treasure, authority, or organization). McDonnell and Elmore focused instead on the strategy of intervention that government uses, producing a four-fold division of tools into: (i) mandates, (ii) inducements, (iii) capacity-building, and (iv) system-changing. Schneider and Ingram elaborated on this with a classification that focuses on the behaviors that programs seek to modify, leading to a five-fold distinction among: (i) authority tools, (ii) incentive tools, (iii) capacity tools, (iv) symbolic or hortatory tools, and (v) learning tools. Finally, Evert Vedung returned recently to a scheme first developed by F.C.J. van der Doelen and identified three classes of tools--carrots, sticks, and sermons--based on the extent of force that each involves. Given this diversity, some analysts have begun to question whether the concept of a policy tool is rigorous enough to support any serious analysis.

Our approach, by contrast, is to recognize this diversity not as a drawback of the tools approach, but as a strength. The fact is that tools have multiple dimensions in terms of which they

can be compared and contrasted, and particular tools may be alike along some dimensions and different along others. This means that multiple classifications of tools are entirely appropriate since different classifications will highlight different facets. Tools thus can be sorted in a two-step process: first, basic descriptive features can be used to define different tools; and second, various dimensions can then be identified in terms of which various tools so defined can be grouped together for analytical purposes.

But which dimensions are the most appropriate to use? Because the tools approach argues that various tool dimensions have significant consequences for how programs operate and what results they produce, the answer to this question depends, first, on which outcomes are of particular interest to us; and second, on which tool dimensions our theories suggest might affect them. Our approach to sorting tools therefore must be to focus on these two factors.

4. *Evaluating Tools: The Criteria*

So far as the first step in this process is concerned, the field of policy analysis has identified three criteria in terms of which public interventions are typically assessed: effectiveness, efficiency, and equity. The policy implementation and political science literature suggest two other criteria that also seem highly germane: manageability and political legitimacy. Taken together, this gives us five criteria in terms of which the consequences of tools can be assessed.

a. Effectiveness

Effectiveness is the most basic criterion for gauging the success of public action. It essentially measures the extent to which an activity achieves its intended objectives. Although considerations of cost can enter into this judgment, effectiveness judgments are typically made independent of costs. Using this criterion, the most effective tool is the one that most reliably allows action on a public problem to achieve its intended purposes.

Gauging the effectiveness of public action is far from easy, however. For one thing, as we have seen, program purposes are often quite ambiguous, either because precise indicators are technically difficult to locate or because conflicts exist about what the principal purpose really is. Indeed, such ambiguity is almost chronic in fragmented political systems like that in the United States, in which multiple perspectives have ample opportunities to influence the definition of program objectives. This makes the choice of tool all the more important because ambiguity at the point of enactment pushes the specification of program purposes into the implementation process, in which the choice of tool can have an even more decisive impact.

The effectiveness of different tools also varies with the circumstances. Not just the nature of the tool, but also the nature of the circumstances, therefore, must be considered when making tool choices. One of the major tasks of the tools approach, in fact, is to specify the circumstances in which particular tools are likely to be most effective. The tool of contracting has great advantages, for example, where a competitive market exists for the goods and services that government wants to buy. However, this is often not the case, so that the adoption of the contracting tool in such circumstances can lead to great disappointments. Because other considerations are often involved

in tool choices, the "new governance" can hardly avoid such dilemmas. But at least it can clarify the risks and point out the trade-offs involved.

b. Efficiency

Where effectiveness focuses exclusively on results, a second criterion-- efficiency--balances results against costs. The most efficient tool may not be the most effective one. Rather, it is the one that achieves the optimum balance between benefits and costs.

The costs that are relevant to a judgment about the efficiency of a tool are not only the ones that show up on the ledger of the government that authorizes the program, however. The costs imposed on non-governmental institutions also are relevant, and for some tools these are far more immense. Regulation, for example, places heavy compliance costs on private businesses that never show up in the balance sheet of government. Indeed, with severe fiscal pressures on governments, there is a strong incentive to utilize tools that have precisely this effect. This suggests the need for a "double balance sheet" to assess the efficiency of various tools, one focused on the costs to government alone and one focused on the costs to other social actors as well.

c. Equity

A third crucial criterion in terms of which the consequences of tools can be judged is equity. The criterion of equity has two different meanings, however. The first of these involves basic fairness--the distribution of benefits and costs more or less evenly among all those eligible. A tool that facilitates the distribution of program benefits evenly across the country can thus be considered equitable in this "fairness" sense.

But equity also has a different connotation relating to "redistribution," to channeling benefits disproportionately to those who lack them. Achieving such redistribution is, in fact, one of the principal rationales for public action. In this view, government exists in part to remedy past inequalities and ensure equal opportunity and access to all. Students of policy thus distinguish between distributive programs, which essentially distribute benefits evenly among a class of recipients; and redistributive programs, which tilt the benefits toward the disadvantaged. Some tools might be more likely to serve such redistributive goals than others might.

d. Manageability

In addition to the classic economic criteria of effectiveness, efficiency, and equity, recent research on program implementation suggests the importance of manageability, or "implementability," as an additional criterion in terms of which to assess tools. Implementability refers to the ease or difficulty involved in operating programs. The more complex and convoluted the tool, the more separate actors are involved, the more difficult it is likely to be to manage. Some tools are more cumbersome to operate than others are. Although they may promise great efficiency and effectiveness in theory, they are unlikely to deliver it in practice because of the managerial difficulties they pose. It was for this reason that Jeffrey Pressman and Aaron Wildavsky identified

implementability as a first rule of program design. Generally speaking, this presumably means choosing simpler, more direct tools.

e. Legitimacy and Political Feasibility

Finally, tool choices also can affect the political feasibility and perceived legitimacy of public action. They do this, in the first instance, by helping to determine which actors, and hence which interests, get to shape program implementation, and therefore which are most likely to support or oppose program passage. Clearly, no matter what the prospects for effectiveness, a program that cannot win political support cannot make headway.

Beyond this, tool choices also can affect broader public perceptions of the legitimacy of public action. As we have seen, some approaches are considered more legitimate than others in particular national settings regardless of their technical advantages. Quite apart from such national styles, the choice of tool can affect the perceived legitimacy of public action in other ways as well. For one thing, some tools may facilitate accountability for the exercise of public authority or the spending of public funds better than others may, a matter of some importance in a democratic society where such accountability is highly valued. So, too, the choice of tool can affect the extent to which the public can perceive a link between the taxes they pay and the services they receive. The more this link is attenuated or broken, the greater the degree of alienation between government and citizens and the greater the risk to democratic participation. Tool choices can thus affect the overall sense of legitimacy that government enjoys in the eyes of citizens.

5. *Key Tool Dimensions*

Armed with this set of criteria, it is possible to identify more precisely which tool dimensions are likely to be most important, and therefore how best to classify tools for analytical purposes. Rather than focus on a single dimension that can work for all purposes, however, the discussion above suggests the need for a range of dimensions in terms of which tools can be compared and contrasted. Tools can differ from each other along one dimension and be similar along others. Only in this way will it be possible to clarify the full matrix of choices that policy-makers face and the significant trade- offs that exist among them.

More specifically, five key tool dimensions seem most likely to have implications for the kinds of consequences identified above. These are not, of course, the only tool dimensions that might be important. Nevertheless, they usefully illustrate the analytical power that the "new governance," and its tools framework, possess.

a. Degree of Coerciveness

Perhaps the most salient of these dimensions has to do with the nature of the activity that a tool embodies, and particularly with the degree of coercion that it utilizes. Essentially, this dimension measures the extent to which a tool restricts individual or group behavior as opposed to merely encouraging or discouraging it.

This coerciveness dimension is probably the most common basis for classifying tools in the literature. Economists in particular consider this dimension important because it essentially measures the extent to which a tool involves a deviation from reliance on the market as a mechanism to allocate resources and settle social roles. Such deviations are commonly viewed by economists as inappropriate except where "market imperfections" make them imperative.

The coerciveness of tools is also of concern to political scientists. This is so because coercion has implications not only for the operation of the market, but also for the operation of the political system, and especially for the preservation of democracy. Of particular concern is the degree of infringement on individual liberty that a tool entails. In a political democracy, all such infringements are viewed with skepticism and are expected to be undertaken only with clear popular authority. As we have seen, much of the classical theory of public administration, with its stress on the distinction between politics and administration, took shape in response to this concern to root administrative authority clearly in democratic decision- making. The more coercive the tool, the greater the infringement on individual liberty, the greater the potential threat to political legitimacy, and therefore the greater the burden of proof on those advocating the program embodying it.

Although almost all government action involves at least some degree of coercion, there are considerable differences among tools in the extent to which they rely on it. This is apparent in Table 6 below, which groups the various tools of public action in terms of the degree of coercion they utilize. Thus:

- At the low end of the coerciveness scale are tort liability, tax expenditures, and public information campaigns. All of these essentially rely on the voluntary cooperation of individuals and groups for their effects, though even information tools can involve considerable coercion if information crosses the border into indoctrination.
- In a "medium" category are a variety of tools that deliver subsidies of various sorts. The least coercive of these are vouchers, which deliver subsidies directly to consumers and leave it to them to do (or not do) what the program is seeking to encourage. Somewhat more restrictive are grants-in-aid, loan guarantees, direct loans, and contracting, which tend to exact more requirements in return for the subsidies that they offer. On the outer border of this category are mandatory labeling and corrective fees and charges, which impose potential burdens on those who fail to comply. These fees are still in some sense voluntary, however, because the citizen is still permitted to engage in the penalized behavior but has to pay a fine or tax on it.
- Finally, in the "highly coercive" category are social and economic regulations, both of which impose formal limitations on activities considered undesirable.

TABLE 6: POLICY TOOLS GROUPED BY DEGREE OF COERCIVENESS

Degree of Coerciveness	Illustrative Tools	Likely Impacts				
		Effectiveness	Efficiency	Equity	Manageability	Legitimacy/ Political Support
Low	Tort Liability Information Tax expenditures	Low	Moderate	Low	Moderate	High
Medium	Vouchers Insurance Grants in aid Government corporations Loan guarantees Direct loans Contracting Labeling requirements Corrective fees & charges	Moderate	High	Moderate	Moderate	Moderate
High	Economic regulation Social regulation	High	High/Low	High	Low	High/Low

Based on the implementation literature reviewed earlier, it seems reasonable to hypothesize that, other things being equal, the more coercive the tool the more effective it is likely to be, and the more likely to yield redistributive results, as shown in Table 6. These consequences flow from the clearer authority these tools give governments to act, the limited leeway they allow private actors to deviate from specified program purposes, and the limited costs that governments incur in operating them because much of the burden is imposed on external actors. Because of this, these tools are also more likely to generate political support among those most eager to engage government in a particular form of social action.

These features may help to explain why the consumer and environmental movements of the 1970s in the United States insisted on command-and-control regulatory arrangements even though most academic economists cautioned against the use of this tool. After years of political struggle against often powerful, entrenched interests, advocates of protection typically wanted tools that provided the maximum certainty that the goals they sought actually would be achieved. Less coercive tools, even when backed by sophisticated economic theories, often were not able to provide this assurance.

The problem, however, is that coercive instruments purchase these advantages at a relatively high price, as Table 6 also shows. For one thing, they often entail a loss of efficiency for society at large if not for government. This has been a central theme of economic critiques of social regulation: that the apparent efficiency this tool enjoys from the point of view of government is misleading since

it focuses exclusively on the government's costs, which are trivial, and overlooks the far more substantial costs such regulations impose on the private sector. Critics argue, in fact, that these social costs are likely to be higher than necessary under regulation, because, by replacing market decisions with administrative ones, regulation surrenders the market's efficiencies. The solution, economists like Charles Schultze therefore have argued, is not improved regulatory management but a change in the basic tool being used: in particular, a shift to less coercive tools that utilize market-like incentives and thus make "public use of private interest."

Coercive tools also can be more difficult to manage since they impose on administrative agencies the difficult job of keeping abreast of literally thousands of decisions made by hundreds of private entities in widely disparate settings. As Schultze has put it, under social regulation "[s]ocial intervention becomes a race between the ingenuity of the regulatee and the loophole closing of the regulator, with a continuing expansion in the volume of regulations as the outcome."

Finally, because they restrict human freedom, coercive tools are presumptively suspect in liberal political regimes and are therefore vulnerable to political attack. As the political movements leading to the enactment of these tools subside, as they frequently do, the agencies administering them often find themselves face-to-face with hostile vested interests determined to use the full panoply of legal protections available to them to rein in public authority. To avoid being totally hamstrung, agencies often find it prudent to reach some modus vivendi with the affected interests. The result is the well-known phenomenon of "agency capture" by those it is seeking to control.

b. Directness

Although the degree of coerciveness is by far the most common basis for differentiating policy tools in the literature, it is by no means the only possible basis. To the contrary, the implementation literature of the 1970s and 1980s points our attention to another dimension that may be equally, or more important, as the discussion above has already suggested. This dimension has to do with the nature of the delivery system that a tool utilizes, and particularly its degree of directness.

Directness measures the extent to which the entity authorizing, financing, or inaugurating a collective activity is involved in carrying it out. Underlying this concept are two crucial observations: first, that any effort to cope with a public problem is really made up of a number of separate activities; and second, that these different activities need not be carried out by the same entity. Thus, for example, it is possible to distinguish between the financing of a public service and its delivery. Each of these, moreover, can be handled either publicly or privately. This creates a minimum of four possible combinations, as shown in Table 7: (i) public finance and public delivery; (ii) public finance and private delivery; (iii) private finance and public delivery; and (iv) private finance and private delivery. The first of these, depicted in Cell A in Table 7, represents the stereotypical view of how government operates: government raises revenues through taxes and uses them to support the delivery of services to citizens by a government agency. As we have seen, however, this turns out not to be the most common pattern at all, certainly not at the national level in the United States. For one thing, even when the public sector is involved in both finance and service delivery, it is often not the same level of government that performs both functions. Rather,

the federal government may raise the revenues, but it then often shifts them to state or local governments to finance the actual delivery of the services. Cell A thus itself becomes subdivided into four sub-cells. Alternatively, the public sector--either national or local--can raise the revenues but then contract with the private sector to deliver the services (Cell B). What is more, the private entities involved can be either for-profit or nonprofit firms. Finally, any of these delivery mechanisms can be connected to a private system of finance. Thus, for example, a public agency can charge a user fee for the services it provides, in which case the finance is private but the delivery public (Cell C). Alternatively, special tax advantages can be provided for private purchases of services such as day care (Cell D). All of these are forms of public action in the sense that they engage governmental authority, but each utilizes this authority in a different way and for a different part of the process.

TABLE 7: PATTERNS OF PUBLIC PROBLEM-SOLVING

DELIVERY	FINANCE	
	Public	Private
Public (1) National (2) State/local	A	C
Private (1) Nonprofit (2) For-profit	B	D

Even this does not exhaust the range of combinations that is possible, however, since raising revenues and providing services are hardly the only actions that public problem-solving can involve. Some tools--such as regulations--do not involve services or finances at all, but rather restrictions. In others, the services themselves are financial (e.g., the provision of mortgage finance for housing purchase). Imposing charges, creating inducements, providing information, delivering benefits--all of these as well can be used to promote public purposes. As a result, an extraordinary range of possibilities exists for combining public and private institutions in public problem-solving.

Given these possibilities, it should be clear that "directness" is a matter of degree and that different tools can vary greatly in the degree of directness they embody. Generally speaking, the more the various functions involved in the operation of a public activity are carried out by the same institution, the more direct the tool. Thus, a direct tool is one in which authorization, funding, and/or delivery are all carried out by essentially the same governmental entity. Indirect tools parcel these various functions out to various other parties--semi-autonomous agencies, other levels of government, community groups, nonprofit organizations, commercial banks, hospitals, and others. The more extensively functions are performed by "third parties," the more organizationally distinct and autonomous these third parties are from the authorizing body, and the greater the discretion the third parties enjoy in the conduct of their functions, the more indirect the tool. Thus, for example, tax expenditures are typically more indirect than contracts since they leave more discretion in the hands of citizens; but grants are more indirect than tax expenditures because they surrender authority to other sovereign units of government, and these units typically have greater powers to resist. All three of these, however, are more indirect than service provision by government agencies.

Table 8 illustrates this point by ranking tools in terms of their relative degree of directness. Thus, at the low end of the directness continuum are tort liability and grants while at the high end are direct government service provision, government corporations, and information campaigns that governments conduct themselves. In between are tax expenditures (which leave considerable choice to recipients but are nevertheless administered by the enacting government), contracts, and, in the American context, social regulations that make extensive use of state and local governments.

TABLE 8: POLICY TOOLS GROUPED BY DEGREE OF DIRECTNESS

Degree of Directness	Illustrative Tools	Likely Impacts				
		Effectiveness	Efficiency	Equity	Manageability	Legitimacy/ Political Support
Low	Tort Liability Grants Loan Guarantees Government sponsored enterprises Vouchers	Low	High	Low	Low	High
Medium	Tax expenditures Contracting Social regulation Grants in aid Labeling requirements Corrective taxes/charges	Low/ Medium	Medium	Low	Low	High
High	Insurance Direct loans Economic regulation Public information Government corp.s Direct government service provision	High	Medium	High	High	Low

As the grouping of tools here suggests, there is some overlap between the degree of coerciveness and the degree of directness of a tool. This is so because the more coercive tools are difficult to implement through indirect delivery systems. However, this overlap is far from complete. For example, information campaigns, one of the least coercive tools, are typically operated directly, though social regulation, the most coercive, often leaves ample opportunity for involvement by lower levels of government. Clearly these two tool dimensions tap different facets of tool operations.

In classical public administration, a distinction between direct and indirect tools makes little sense because it is taken for granted that a publicly authorized and funded program should be carried out by a duly constituted, and staffed, public agency. Yet as we have seen, much of the growth of government action over the past half-century, especially in the United States, has taken place through

indirect tools--grants, loan guarantees, tax expenditures, vouchers, indirect regulation, and many more. The result, as noted earlier, is an elaborate system of "third-party government" that vests a substantial portion of the discretionary authority over the spending of public funds and the operation of public programs in the hands of a variety of third- party partners. Indeed, many tools that operate directly in other countries take a more indirect form in the American context. Thus, for example, many European countries rely on public enterprise to handle the natural monopolies that often exist in public utility industries (e.g., electricity, telephones) whereas the United States tends to leave these businesses in private hands and subject them to economic regulation. The United States also has used more indirect approaches in its social regulatory programs in such areas as the environment, worker safety, and health. Although establishing national standards, these programs leave much of the responsibility for implementation in the hands of state and local governments and those being regulated.

One reason for the popularity of third-party government appears to be the political advantages that indirect tools enjoy. In particularly, indirect tools provide important opportunities to cut affected interests into a "piece of the action" when government programs threaten to infringe on their fields. The more fragmented political power is in a country and the more controversial the issue, therefore, the more likely it will be that indirect devices will be used. Thus, for example, in recent American experience:

- By using a cost-based reimbursement "voucher" whose proceeds flowed to existing hospitals, it was possible to defuse the medical community's opposition to the creation of the federal Medicare program in the 1960s;
- By relying on loan guarantees instead of direct loans, it was possible to neutralize commercial bank opposition to federal involvement in home mortgage lending in the 1930s; and
- By using grants and purchase-of-service contracts, it was possible to enlist research universities to support the expansion of federal involvement in scientific research, and private nonprofit organizations to support the expansion of federal involvement in social services for the poor.

Federal constitutional structures also contribute importantly to the widespread use of indirect forms of action. For much of American history, for example, the federal government's authority to act on a wide range of domestic policy issues has been contested thanks to constitutional provisions limiting the federal role and a political structure and system of representation firmly anchored at the state and local level. Use of indirect tools-- particularly the grant-in-aid--thus has often been a political and constitutional prerequisite for any federal involvement. State and local officials have frequently resisted federal involvement unless that involvement is channeled through state and local government hands, and a meaningful degree of discretion is left to state and local authorities in the definition of the policy substance. Interests opposed to federal involvement also have often used their influence at the state and local level to insist on a significant state and local role as a way to retain some degree of influence over the implementation of policies with which they disagree. Use of indirect tools thus becomes the basis for political compromise, shifting the battle over the definition of policy from the enactment stage to the implementation stage in which state and local officials, and the interests that are more powerful at the state and local level, can play a more

meaningful role. The use of indirect tools for federal environmental policy is probably attributable in substantial part to this factor.

These political advantages of indirect tools are hardly unique to the American context, however. Reliance on indirect instruments of public action is increasingly common in other countries as well, driven by historical traditions of "subsidiarity," by a growing diversification of social and political power, by deepening doubts about the capabilities of state action alone to cope with complex social and economic problems, and by a resulting inability of governments to secure sufficient authority to act on their own.

The political advantages of indirect tools are not their only benefits, however. At least three other benefits often are claimed for them:

- First, indirect tools can inject a useful degree of competition into the provision of public services, breaking the monopoly of governmental agencies and thereby potentially improving service quality and "customer-orientation."
- Second, indirect tools can provide access to talents and resources that are desperately needed to cope with complex public problems, but that public agencies may not command. These include technical talents (e.g., university researchers, private service providers, loan officers) as well as financial and physical resources (e.g., existing facilities, charitable contributions). Indirect tools therefore can extend the reach of public agencies, making it possible for them to avoid costly start-up problems and maximizing the energies that can be brought to bear on public problems.
- Finally, indirect tools offer a greater degree of flexibility, making it easier for government to experiment, to change course when needed, and thus to remain responsive to new needs. This is so because the authorizing government does not have to create the entire administrative structure to operate an initiative.

Although indirect tools may have important political and operational advantages, however, they also carry with them offsetting liabilities. For one thing, as Table 8 also notes, they can be far less effective and far more difficult to manage. This certainly seems to be one of the central conclusions of the implementation literature of the 1970s and 1980s. In his 1979 study of the implementation of three human service programs in Massachusetts, for example, Gordon Chase found that the most serious implementation problem was the presence of "some player or players in the implementation process whom the program manager does not control but whose cooperation or assistance is required." Pressman and Wildavsky similarly found that even clear specification of goals and general concurrence on desired outcomes are no guarantee of success when multiple actors are involved in executing a program. The sheer mechanics of securing agreement at each stage of the process can still inject debilitating delays. No wonder "more direct means for accomplishing . . . desired ends" is their recommended "first rule in program design."

Experience with indirect tools of public action thus has ironically provided new reason to value bureaucracy. "The costs of bureaucracy--a preference for procedure over purpose or seeking the lowest common denominator--may emerge in a different light," Pressman and Wildavsky thus

note, "when they are viewed as part of the price paid for predictability of agreement over time among diverse participants." By internalizing transactions, minimizing the legalisms involved in complex contractual negotiations with external actors, and providing a more stable framework for bargaining, direct government offers distinct advantages for accomplishing complex tasks.

These conclusions find considerable support, moreover, in the new economic theories of organization. According to these theories, the "principal-agent" problems that inevitably arise within organizations are even more severe in cross-organizational relationships. This is so because having all of the factors of production in a single entity creates certain advantages:

- It permits a more creative reward structure to induce agents to pursue the principal's objectives;
- It helps convey the expectation that all involved should work to a common purpose; and
- It may help diminish the losses associated with breakdowns and delays in bargaining.

When multiple organizations are involved in a given task, the chances increase that the interests and values of the principal and the agents will diverge. The more dispersed the authority, therefore, and the less the coincidence of interests and perspectives between principals and agents, the greater the risk of goal displacement and principal-agent difficulties. Not just the extent of indirectness but also the type of third-party partner a tool engages can thus affect the extent to which public purposes are achieved. Public sector managers of human service programs thus have traditionally shown a preference for nonprofit contractors over for-profit ones when service contracting has been employed on grounds that nonprofits are more likely to share the objectives of the public sector. When principals and agents lack a shared set of values or worldviews, the task of ensuring that the principal's objectives are being served grows more complex and more problematic.

Not only does the directness of tools have implications for the overall effectiveness of programs; but it also may have particular implications for their ability to promote equity and redistribution goals. This is especially the case when the partners brought into the operation of a public program by a tool lack incentives to achieve these equity goals. Yet this is often the case with private businesses. As management theorist Regina Herzlinger has pointed out, "when resources are given to providers who in turn have the discretion to allocate the goods and services they produce . . . [the] providers will try to attract consumers who will improve their measurable performance." In the process, however, redistributive goals may be sacrificed as producers engage in "creaming" to attract better-off clients. Although public agencies themselves are hardly immune from these pressures, the risks appear greater with indirect tools.

Finally, although enjoying important immediate political advantages, indirect tools also suffer from certain longer-term political limitations. In particular, they weaken the perceived link between citizens and government by channeling services financed by public revenues to recipients through private intermediaries or other levels of government. In the process, the connection between the taxes citizens pay and the services they receive can become dangerously attenuated.

In short, despite their advantages, indirect tools are especially difficult to manage. Far from easing the public management problem, as is often supposed, they significantly complicate it instead.

c. Automaticity

A third key dimension in terms of which policy tools can be differentiated is the level of automaticity they embody. Automaticity measures the extent to which a tool utilizes an existing administrative structure for its operations rather than creating its own special administrative apparatus. Tools that utilize the market, for example, are highly automatic. This would include corrective fees and charges or the "tradable permit" system authorized by the 1990 Clean Air Act Amendments. Vouchers are another example of a market-based tool: by placing purchasing power in the hands of program beneficiaries rather than the institutions that serve them, vouchers equip these beneficiaries to make use of the market rather than an administrative mechanism to select the quantity and quality of services they will receive.

The market is not the only existing system that can be mobilized to carry out public purposes, however. Others include the tax system, the private credit system, the court system, and, to lesser extent, the networks of local governments and private, nonprofit agencies. Where these existing systems are operational, important options exist for structuring public interventions in ways that build on them rather than having to establish separate administrative structures. A certain overlap exists, therefore, between the automaticity dimension and the directness dimension of tools. However, not all automatic tools are indirect and not all indirect tools are automatic. For example, tax expenditures are automatic but not wholly indirect, whereas contracting is indirect but far from wholly automatic.

Table 9 below arranges various tools of public action in terms of their reliance on automatic, non-administered processes. As this table shows, tools embodying fees and charges, vouchers, or tax expenditures are relatively automatic, as is the use of the existing tort law system to control environmental damage or ensure workplace safety. By contrast, social regulation, direct service programs, and government information campaigns are at the low end of the automaticity spectrum. In between are tools such as grants and contracting, which have some automatic features but operate within essentially administered systems.

TABLE 9: POLICY TOOLS GROUPED BY DEGREE OF AUTOMATICITY

Degree of Automaticity	Illustrative Tools	Likely Impacts				
		Effectiveness	Efficiency	Equity	Manageability	Legitimacy/ Political Support
Low	Economic regulation Social regulation Direct governement Government corp.s Information Direct loans Insurance	High	Low	High	Moderate/ Low	High
Medium	Grants Contracting Loan guarantees Labeling requirements	Moderate	High	Moderate	Low	Moderate
High	Vouchers Tax expenditures Corrective fees/ charges Tort Liability	Low	High	Moderate/ Low	High/ Moderate	Moderate

Like the other tool dimensions I have examined, there is reason to believe that the automaticity dimension has significant implications for the performance of programs. Indeed, in a 1972 book on the preconditions of public program success, economist Robert Levine identifies this dimension as the single most important determinant of public program success. Programs are most likely to fail, Levine argued, when they rely on "highly administered system[s]." Instead, more reliance should be placed on "market-like and bargaining systems that combine the workable features of decentralization, self-administration, personal economic or political motivation, and the gross application of public policy rather than systems administered in detail by public officials to private clienteles according to plans laid out in detail by public planners."

Economist Charles Schultze reached a similar conclusion in his pioneering 1977 analysis of regulatory programs, criticizing prevailing regulatory approaches as inherently inefficient because they utilize command and control techniques rather than relying on the automatic mechanisms of the market to promote public objectives. Instead of prescribing what anti-pollution devices polluters must install to clear the nation's rivers, for example, Schultze recommends making "public use of private interest" by imposing effluent charges that would give polluters an economic incentive to find the lowest cost way to meet environmental goals.

Because they make use of existing mechanisms, such as the market, automatic tools also can be expected to be more manageable. In a sense, they reduce the amount of public management that is necessary, substituting for it the control systems already built into these existing systems--the market, the tax system, the court system, or the private banking system.

For all their appeal, however, automatic tools have proved in practice to fall significantly short of their promise. For one thing, there is reason to question how effective they are. The great advantage of automatic tools is that they make it possible to enlist existing systems in the pursuit of new objectives. But this advantage is also the source of serious problems because these systems typically have their own objectives and dynamics. There is always a question, therefore, whether the public objectives will redirect the existing system or the existing system will co-opt, and distort, the public objectives. After all, it is the failure of the existing systems that often necessitates public involvement in the first place. For example, the demands for environmental and safety regulation grew directly out of disappointments with the effectiveness of tort law and the court system to handle consumer and environmental problems.

The effectiveness of automatic tools thus depends on identifying the incentives that can turn existing systems to desired public purposes. In practice this has proved to be more difficult than often assumed. Economist Robert Levine, for example, acknowledged "the hard barrier of our lack of knowledge about what incentives work for officials of local government." The incentive structures of for-profit businesses are presumably easier to fathom, but even here complications arise. Contracting, for example, is assumed to be a fairly automatic tool because of its reliance on the private market. However, this assumes that a competitive market actually exists for the goods and services needed to address public problems. In fact, however, this critical prerequisite is often lacking in government contracting because government is often in the position of purchasing goods and services that are not generally available on the open market (e.g., military aircraft) in markets in which the number of suppliers is highly constricted. Complicating matters further is the fact that the desired outputs in public programs are often difficult to specify and then to achieve (e.g., getting the most disadvantaged welfare recipients into permanent jobs). As management specialist Regina Herzlinger has noted, this makes it extremely difficult to "structur[e] enforceable contracts with the private sector" and to exercise the control function that such contracts require.

Similar problems have arisen with voucher programs. The effectiveness of vouchers depends critically on the responsiveness of markets to the kind of demand that voucher recipients will make, and on the ability of voucher recipients to make wise decisions. Both of these are often problematic, however, potentially making vouchers a source of windfall profits for providers without making recipients significantly better off.

Perhaps because of these problems, automatic tools also have political problems. On the one hand, their reliance on existing structures lends them a certain political legitimacy. However, because they enlist institutions and processes that have somewhat different objectives, such tools rarely can attract the enthusiastic support of those pushing for a policy initiative. Thus, environmental advocates have been reluctant to embrace the concept of tradable pollution permits for fear that this would legitimize the right to pollute and create "hot spots" of heavy pollution in less desirable neighborhoods. Consumer advocates similarly have resisted the idea of weighing the value of a human life against the cost of protection in structuring approaches to workplace or consumer safety. Despite their claims to greater efficiency, therefore, automatic tools often have lacked a political constituency.

Finally, experience with automatic tools has raised some serious questions about how easy

they are to manage. Automatic tools turn out to be far more cumbersome to administer than advocates assume. Tradable permitting schemes, for example, still require the establishment of initial threshold pollution levels, the estimation of pollution charges that are consistent with prevailing technology and industry incentive structures, the collection of detailed information on actual pollution levels, and the maintenance and operation of a market in pollution rights. As with the other tool dimensions, therefore, this one, too, involves difficult trade-offs in terms of the criteria outlined earlier.

d. Visibility

The fourth tool dimension that seems likely to be important is the degree of visibility a tool exhibits in the normal policy review processes, particularly the budget process. Obviously, this dimension is highly sensitive to the structure of these processes. Thus, for example, countries that do not utilize a capital budget, like the United States, tend to put direct lending programs at a competitive disadvantage. They require that the full value of a loan show up on the operating budget as an expenditure the year in which the loan is made. Until changes were made in 1990, this gave a real advantage to loan guarantee programs over direct lending programs since the value of loan guarantees shows up on the budget only if and when they go into default. Similarly, until the 1970s in the United States, no official record was kept of tax expenditures, making them largely invisible in the annual budget process. Not until the 1990s, moreover, were such tax expenditures considered in the normal budget decision-making process.

Although the visibility of tools may be affected by the accounting processes in place, however, there are still some general structural features of tools that affect their standing along this dimension. Table 10 thus offers a tentative grouping of tools in terms of their degree of visibility. As shown there, insurance and regulatory tools are still relatively invisible whereas direct government grants, contracts, and vouchers tend to be more visible. Loan guarantees and tax expenditures are examples of tools that were once largely invisible in normal budget processes in the United States but have become more visible in recent years as a result of accounting changes designed to bring them into better view. Changes similarly have been under way for more than a decade to increase the visibility of social regulatory programs by requiring economic impact analyses before regulations go into effect.

TABLE 10: POLICY TOOLS GROUPED BY DEGREE OF VISIBILITY

Degree of Visibility	Illustrative Tools	Likely Impacts				
		Effectiveness	Efficiency	Equity	Manageability	Legitimacy/ Political Support
Low	Economic regulation Social regulation Labeling requirements Insurance Tort Liability	N.A.	Low	Low	Low	High
Medium	Contracting Information campaigns Loan guarantees Tax expenditures	N.A.	Moderate	Moderate	Moderate	Moderate
High	Direct governement Government corp.s Grants-in-aid Direct loans Vouchers Corrective taxes/ charges	N.A.	High	High	Low	Low

Visibility has perhaps its greatest impact in the political realm. At a time of budgetary stringency, invisibility is a tremendous political asset. Invisible tools are therefore the easiest to pass. This may explain why regulation, loan guarantees, and tax subsidies grew so massively in the 1970s and 1980s. Though different in many respects, all of these tools shared a low level of visibility in the normal budgetary process. In the case of loan guarantees, for example, until passage of new credit budgeting procedures in 1990, only the projected losses from loan guarantee defaults were carried on government budgets while the face value of the contingent liabilities were relegated to a special annex. A similar procedure is used with insurance programs. In the case of regulation, only the direct cost of the regulatory agency personnel show up in the government's budget, whereas the indirect costs imposed on businesses and households are largely invisible. Finally, in the case of tax expenditures, until the adoption of the Budget and Accounting Act in 1974, these were largely invisible as well in the budget process, and it was not until the early 1990s that lawmakers were required to take explicit account of such tax expenditures in making annual budget decisions.

This dimension also may explain why corrective fees and charges have made rather limited headway as vehicles for environmental control despite the advantages claimed for them as efficient mechanisms of public action. Unlike tax expenditures, which are essentially invisible, corrective taxes and fees are highly visible and therefore harder to enact.

The very feature that makes invisible tools so attractive politically, however, makes them problematic along other dimensions. Most obviously, the less visible the tool, the more difficult it

is to hold accountable. This can have implications for the efficiency of programs embodying this tool. One of the central criticisms of regulatory programs, for example, is that by keeping their true costs hidden, they impose burdens on the economy that are far greater than are needed to accomplish their purpose. Similarly, tax expenditures are sometimes accused of delivering windfall gains to taxpayers who would engage in a particular activity even in the absence of the subsidy. Programs embodying tax subsidies, therefore, may be highly inefficient, paying unnecessarily for behavior that would have occurred anyway. This same concern applies to insurance programs. Far from preventing activities that entail risk--such as locating houses in flood plains--insurance programs may inadvertently encourage them. But their relative invisibility keeps the inefficiencies of these tools from being recognized and addressed.

Because of these accountability problems, those opposed to public spending tend to resist the use of invisible tools. On the other hand, those on the receiving end of public largesse naturally prefer to have their benefits delivered in the least visible form. What this means in practice is that the stronger the constituency, the less visible the tool it is likely to be able to use for any benefits it receives. This may explain why low income welfare recipients receive their benefits through highly visible grants-in-aid whereas middle class homeowners receive theirs through far less visible tax expenditures.

The visibility of tools also may have implications for the extent to which they are used to pursue equity goals. This is so because of the legitimacy attached to equity goals in the political arena. The more visible the tool a program uses, therefore, the more likely the program will be used to serve redistributive goals. Conversely, the more special subgroups of the population, such as oil well owners or large investors, are being targeted for benefits, the more attractive less visible tools will be.

* * *

The four dimensions identified above hardly exhaust the bases for classifying different tools of public action and analyzing their effects. Further fruitful distinctions can be drawn, for example, between tools that deliver their benefits in the form of cash versus those that deliver them "in kind," and between those that operate through producers and those that deliver their benefits directly to consumers. What is more, at this stage of research, the relationships between tool dimensions and tool consequences are more in the nature of plausible hypotheses than proven facts.

Notes and Questions

1. The foregoing excerpt represent one informed observer's effort to categorize policy tools according to various criteria and evaluate their effectiveness in terms of various factors. How useful and helpful is this analysis in the abstract? What criteria would be useful to a legislator?

2. How should we weigh the various trade-offs involved in choosing among regulatory tools? Should we trade greater effectiveness for more equity? Efficiency for legitimacy?