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Finer points of definition and distinction are developed below, but some basics are required at the outset. Collaborative governance is distinguished from simple contracting and from philanthropy in the allocation of operational discretion. A pure service contract vests all discretion with the government. Pure voluntary provision vests all discretion with the donor. Strategic interaction, at both extremes, is relatively sparse. In what we term collaborative governance, by contrast, each party has a hand in defining not only the means by which a goal is achieved but the details of the goal itself. This yields relationships that promise to augment the capacity (whether financial, productive, or both) available for public missions and to increase the flexibility with which such missions are pursued, but at the price of more ambiguous lines of authority and far greater strategic complexity.

While the evidence is spotty, arrangements involving non-governmental actors appear to account for a growing share of authoritatively designated public action in the United States, and there is reason to believe that the more narrowly defined category of collaborative governance is growing as well. Although the data for other countries are sketchier still, collaborative governance appears to be a widely shared trend in the developed world, and in some developing nations.

This chapter first offers a brief overview of relevant literatures, then documents the magnitude of private involvement in public undertakings—for present purposes construed, of necessity, more broadly than collaborative governance—using a variety of metrics. Next it more carefully distinguishes collaborative governance from other categories of public–private interaction to situate it on a spectrum of collective-action models. Finally, it probes some of the dynamics of shared discretion in the pursuit of public goals, and notes the implications for government's role, and in particular the analytical and managerial demands on the public sector, when missions are advanced through collaborative means.

2. A Brief Survey of Related Literatures

Though our conception of collaborative governance—and the specific term—may be unfamiliar, a good deal of work from several disciplines (including political science, economics, public management, and administrative law) illuminates the phenomenon. In political science, antecedent literatures include work on the dynamics of coalitions, as well as studies of political pluralism (Dahl 1961).[1] The concept of social

[1] Dahl's book with Lindblom (Dahl and Lindblom 1953) draws an interesting distinction between "polyarchy controlled" institutions and "price system controlled" institutions. Their treatment of poly archy controlled institutions deals with government agencies; collaborative governance imports private institutions into this domain.

capital has been invoked to illuminate the mechanisms of adhesion within collaborations and the features of cultural settings that improve or worsen the odds for joint undertakings. A well-developed literature on networks speaks to relevant themes.[2] Mancur Olson's *Logic of Collective Action* offers a simple though elegant analytical framework for the formation and evolution of collaborative efforts (Olson 1965). Robert Axelrod has examined conditions and behaviors conducive to cooperation (Axelrod 1984). In an article cited in several salient literatures, William Ouchi examines normative consensus among actors in collective endeavors and the resulting congruence of goals as a broad-spectrum (though far from universally available) remedy to the defects of both market-based and rule-based social coordination (Ouchi 1980). The extensive theoretical and empirical literature on corporatism is also germane.[3] Pathological forms of interaction between government and the private sector—from classic corruption to National Socialism and crony capitalism—warrant attention as well. The empirical record here is lamentably extensive, but fortunately well documented (e.g. Steffens 1904).

Legal scholars have extensively explored topics related to collaborative governance. Mark Freedland has attempted to impose some analytical discipline on the Public Finance Initiative, a British effort to enlist private capital into the provision of public services that began in the 1980s under the Conservative government of Margaret Thatcher and was embraced and extended under its Labour successors (Freedland 1999, 145–68). Jody Freeman has used the same term we employ (though her definition differs somewhat from ours) in a 1997 article that casts collaborative governance as a generic label for a range of regulatory reform initiatives that include the Environmental Protection Agency's Project XL and the Occupational Safety and Health Administration's Maine 200 experiment. The common characteristics of these initiatives include agency discretion, negotiation over rules and their application, and far more scope for conditional regulatory forbearance than is permitted by conventional administrative approaches. Yet Freeman sees the conventional insistence on clear-cut lines of political accountability as a shibboleth blocking bolder experimentation, and calls for greater tolerance of agency discretion and the development of a richer, more subtle repertoire of accountability mechanisms (Freeman 1997). Martha Minow has examined the involvement of both for-profit and non-profit private entities in education, health care, welfare, legal services, and other public undertakings. She calls on scholars to "make sure that our system displays … conflicts and tensions—between public and private, religious and secular, profit and non-profit—rather than papers them over" (Minow 2002, 171). (We endorse this goal, and aim to advance it.)

[2] A classic in this literature is Knoke and Kuklinski 1982; an influential recent contribution is Rowly 1997. In an example of the network literature with particular relevance to collaborative governance, McGuire (1993) argues that an informal network originating mostly in elite law schools (non profit), seasoned in court clerkships or stints in the Solicitor General's office (government), and currently or prospectively members of top DC law partnerships (private) holds special expertise and exercises special influence over the institution at the pinnacle of the judicial branch.

[3] The Carnegie Endowment's Marina Ottaway (2001) explicitly characterizes (and critiques) the Global Compact which stands as the poster child for collaborative governance on the international plane as a linear descendant of classic corporatism.

Pertinent intellectual traditions in economics include game theory (particularly analyses of coalitions and bargaining) and the transactions-cost-based theories of economic structure rooted in work by Coase in the 1930s (Coase 1937). A sophisticated and diverse literature on the principal–agent relationship clarifies both the definition of collaborative governance we offer (and its distinction from other collective-action models) and the dynamics of particular collaborations (Pratt and Zeckhauser 1985). The portfolio of concepts and analytical methods clustered under the label of "the new institutional economics," most closely associated with Oliver Williamson, illuminates the structure, function, and vulnerabilities of cross-sectoral productive arrangements. Julian Le Grand has employed Williamson's concept of "quasi-markets" to analyze the private provision of education, health, housing, and other social services in post-Thatcher Britain (Le Grand 1991, 1256–67). Work by sociologist Victor Nee crosses over into the economics arena, drawing upon and complementing concepts developed by Williamson and Olson, among others (Nee 1998).

The literature on corporate alliances and strategic partnerships—an area of enquiry by economists, business scholars, and organizational experts—is surprisingly rich in material related to collaborative governance arrangements (Olson and Zeckhauser 1966; Sandler 1992). This literature has been especially lively since the late 1980s, in parallel with the ferment of real-world experimentation with new models of interaction among firms. A 1988 volume edited by Farok Contractor and Peter Lorange marked an early effort to apply social science concepts to a private sector phenomenon, corporate alliances, that has some clear affinities to collaborative governance (Contractor and Lorange 1988). Bruce Kogut arrayed some key analytical frameworks for studying corporate alliances in a seminal journal piece from the late 1980s (Kogut 1988). A special edition of *Organization Science* has been devoted to contemporary work on the empirics and analytics of business collaborations and strategic alliances (Koza and Lewis 1998; Arino and De La Torre 1998; Madhok and Tallman 1998; Smith, Carroll, and Ashford 1995).

In the public management literature, concepts related to collaborative governance are now firmly wedged in the mainstream. The "new public management" centers on indirect, collaborative arrangements for accomplishing public work. Eugene Bardach has done extensive empirical and conceptual work on collaboration between government agencies, with some lessons applicable to cross-sectoral collaboration as well (Bardach 1998). Several decades of commentary on "public–private partnerships" offers antecedents for the study of collaborative governance (Brooks, Liebman, and Schelling 1984). Steven Rathgeb Smith and Michael Lipsky have examined in detail the contractual enlistment of non-profits in the implementation of social welfare policies in the United States (Smith and Lipsky 1993). Donald Kettl, in a recent *Public Administration Review* piece, summarizes a generation-long transformation by which "to a large and growing degree . . . governments share responsibility with other levels of government, with private companies, and with nonprofit organizations" (Kettl 2000). Lester Salamon's ambitious edited volume, *The Tools of Government: A Guide to the New Governance* is predicated on the notion that arrangements of the sort we term collaborative governance are becoming the norm. "What is distinctive about

many of the newer tools of public action is that they involve the sharing with third-party actors of a far more basic governmental function: the exercise of discretion over the use of public authority and the spending of public funds" (Salamon 2002; Kelman 2002; Posner 2002; Groenbjerg and Salamon 2002).

3. Direct and Indirect Government Action

Private engagement in governmental undertakings is neither new nor rare. Indeed, it is difficult to imagine any plausible blend of state and market organization that has not been applied in practice at some time and place. Those inclined to view public affairs as (until recently) the state's exclusive domain might contemplate imperial Roman tax administration, for example (which was delegated to private revenue agents) (Finer 1999), or the fabled history of the British East India Company (which frequently functioned as an extension of the British government), or J. P. Morgan's personal crusades against financial panics (which anticipated those of Alan Greenspan by roughly a century) (Means 2001, 128–30). The less familiar story of the St Louis Missouri River Fur Company is also instructive. This private company was formed in 1808 with William Clark, the former co-leader of the Voyage of Discovery, as a lead partner. The following year Meriwether Lewis (previously Clark's compatriot, and then governor of the Louisiana Territories) hired the company to carry out a mission of armed diplomacy to the Mandan Indians. The contract—with the explicit authorization of President Thomas Jefferson—featured performance incentives that seem remarkably up to date (Ambrose 1997).

Virtually every nation's armamentarium of collective-action models is forged from a blend of state and market components, but the preferred alloy varies substantially by place and (our point here) by time. Prominent private roles are the historical norm, but they seem novel against the backdrop of the extraordinary consolidation of central state authority, particularly in the United States, in the mid-twentieth century.

US federal government spending accounted for less than 4 per cent of gross domestic product in 1930. Within fifteen years, the New Deal and the Second World War had driven the federal share to over 44 per cent. But even after this wartime surge ebbed, federal spending rarely fell below 15 per cent of GDP, and the average for the second half of the century was 19.8 per cent (Office of Management and Budget 2004*a*). This was not merely a matter of the armed forces (and their civilian entourage) expanding to fight wars hot and cold. Excluding the military and the entire civilian defense establishment, the number of executive-branch workers roughly tripled (from around 400,000 to around 1.2 million) between 1940 and 1978 (Office of Management and Budget 2004*b*). Quantitative expansion forced

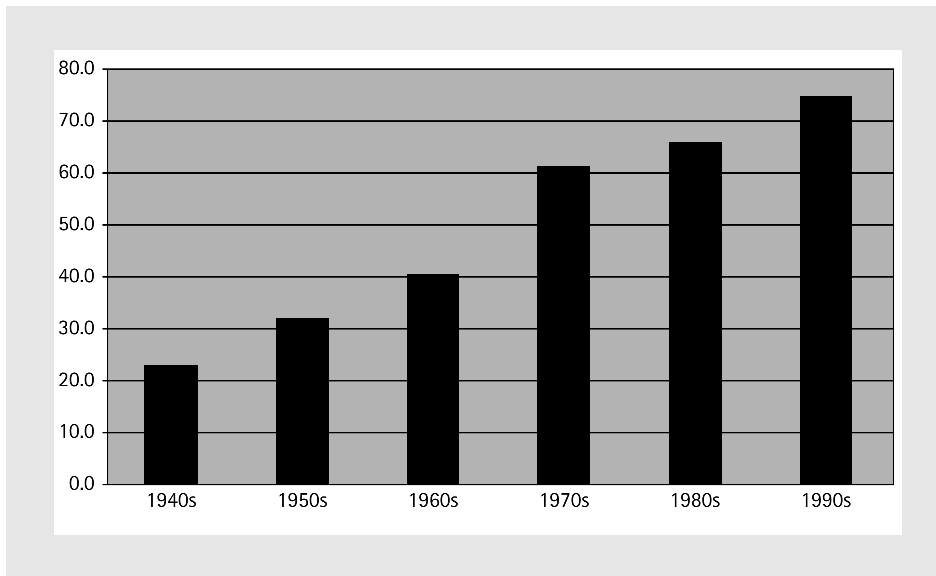

Fig. 24.1. Grants, benefit payments, interest, and other financial transfers as share of federal outlays: averages by decade, 1940–2000

qualitative evolution as the mid-century heyday of the central state etched enduring patterns into organizational structures, administrative procedures, and the mindsets of scholars and practitioners.

The central state's ascendancy was relatively brief; a counter-trend was apparent well before the end of the last century. While total US government spending has retreated only modestly from early 1980s levels which approached a third of GDP, this relative stasis in the *level* of public spending concealed the erosion of the mid-century model. The ideological counter-attack spearheaded by Thatcher and Reagan is too familiar to warrant review here, but other factors were at work. Some aspects of the central state's eclipse cannot easily be calibrated. Public trust—and with it, government's moral authority—suffered in the wake of Vietnam and Watergate, for example, and the end of the cold war undercut (briefly, it now appears) the rationale for maintaining a massive defense capacity. Other aspects, though, are fairly clear. One was a shift in government power away from Washington and toward the cities and states. Federal outlays constituted around three-fourths of US public spending from 1947 through 1960, but from 1999 onward accounted for less than two-thirds (Office of Management and Budget 2004*c*). Another was the escalating share of financial transfers—as distinct from concrete programmatic activities—within federal budgets. Social insurance payments, intergovernmental grants, debt service, and other rearrangements of purchasing power grew from just over 20 per cent of federal spending during the 1940s to reach an average of around 75 per cent in the century's final decade (Office of Management and Budget 2004*d*) (Fig. 24.1).

Growing private roles in undertakings that remain public responsibilities have further whittled down the role of the central state. Many instances of public–private interaction (government procurement of goods and many clear-cut services, for example) should not be construed as collaborative governance, as we will argue below. Moreover, some areas that are properly considered collaborative governance (for example, regulatory models that feature shared discretion) leave no clear financial footprints and hence will not show up in budget-based measurements. More broadly, there are systematic difficulties—both practical and conceptual—in delimiting public and private realms within what one of us has termed America's "mongrel economy" of hybrid organizations and ambiguous responsibilities (Zeckhauser 1986, 73). Yet it is useful to seek some sense of the scale and contours of the broader terrain of privately performed public work—against the shifting context of the public sector itself—as a prerequisite to mapping the more specific collaborative governance relationships standing within it.

Government employment relative to public spending. Consistent data series on public employment and spending are available from 1962 through 2002. Total public sector employment (federal, state, and local) including uniformed members of the armed services peaked at nearly 20 per cent of economy-wide employment in the late 1960s. (When the armed services are excluded from both public and overall payrolls the peak comes lower and later—around 17 per cent of the workforce in the mid-1970s.) The government's share of the workforce broadly declined in later decades. In the late 1990s it was just over 16 per cent or, excluding the military, just over 15 per cent. (Its share increased somewhat by both measures in the early 2000s.) Government employment is much more useful as a gauge of indirect production, however, in combination with government spending. If government is relying less on its own workers to accomplish public missions, the public share of employment should decline relative to the public share of the economy.

Total government spending was around one-quarter of GDP in the mid-1960s, but rose to more than 30 per cent for most years from the mid-1970s through the mid-1990s. Spending slipped to 28 per cent of GDP in 2000 and 2001. So the size of the public workforce relative to the government's weight in the economy indeed has been somewhat lower in recent decades. Figure 24.2 tracks the trend. If the public workforce moved in lockstep with public spending, Fig. 24.2 would feature two flat lines (one for all public employment, including the armed forces, and the other for civilian employment alone.) Through most of the 1960s each 10 per cent of the economy claimed by government required over 7 per cent of the workforce. Since the early 1980s government's share of the workforce has been less than 60 per cent as great as its share of the economy, representing a fall of 15 per cent in the ratio of the public workers to government's share of the economy. This offers a coarse indicator of the rise of indirect governmental action, though the shift is modest and a mild countertrend seems to have been at work since the mid-1990s.

Government outlays for employees and outside services. The relationship between public employment and spending provides only a crude gauge of indirect governance, since the relationship is affected by changes in government's missions, not just

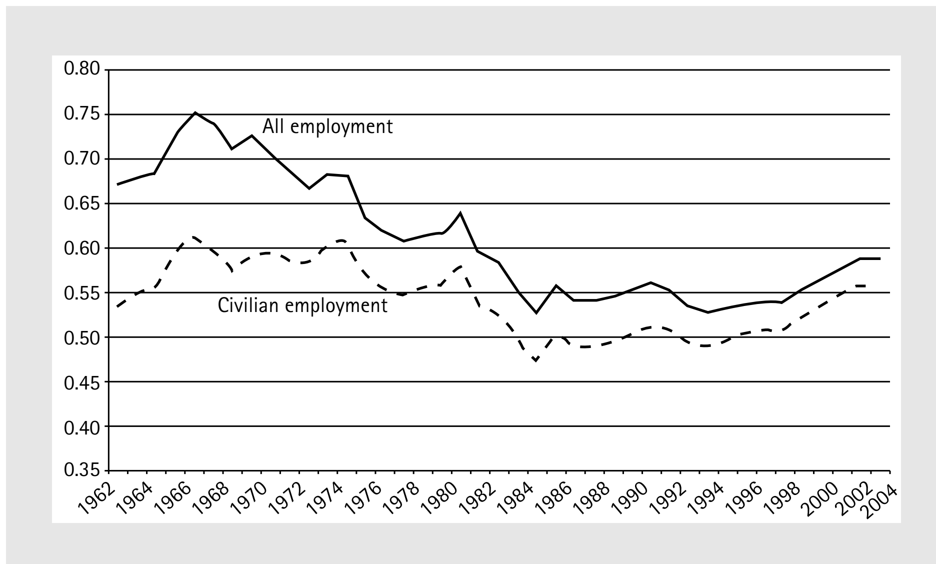

Fig. 24.2. Public employment (as share of total employment) relative to public spending (as share of GDP), 1962–2002

Source: OMB Fiscal 04 budget, historical tables 17.5 and 15.3; CEA ERP table B 36.

how government pursues those missions. In particular, the relative growth of "check-writing" activities (especially social security, Medicare, grants to other governments, and debt service) should depress the workers-to-spending ratio because check writing requires few workers per dollar of expenditure. Such a shift would not signal a rise in indirect governance. A more precise measure would be to compare governmental spending on employee compensation with spending (through grants or contracts) to acquire the services of agents outside government. Unfortunately, no official data series tracks this relationship, even in the densely documented United States.

A recent study attempts to estimate the share of governmental spending on services devoted to the procurement of external services (rather than to employee compensation) over the last four decades of the twentieth century (Minicucci and Donahue 2004). It employs National Income and Product Account (NIPA) data from the Commerce Department's Bureau of Economic Analysis to make its estimates. The NIPA figures require extensive refinement to permit valid inferences about direct and indirect service spending. They do, however, allow discrimination between activities under the control of state, federal, or local governments and transfer payments or intergovernmental grants for which the choice of direct or indirect production is not generally meaningful.

The results of the study indicate a tilt away from direct governmental production. However, the trends differ over time (with a mild shift *toward* direct government service delivery in the 1960s and 1970s, and toward outside providers thereafter) and by level of government. The state and local sectors rely less on outside service suppliers than does the federal sector, but their reliance grows more rapidly

over time. More importantly, the estimated non-employee share of public service spending was close to one-fourth in 1959. By 2000 it had risen—but remained just under 32 per cent. In other words, the conventional view that the late twentieth century witnessed a transformative shift toward outside suppliers of public services in the United States is correct about the sign of the change, but overstates its magnitude.

Tax expenditures. As an alternative to either hiring employees or paying non-governmental organizations, governments can seek to advance a mission by manipulating the tax system to induce individuals or private organizations to alter their behavior in service of the specified public goal. For example, charitable contributions, employee health insurance premium payments, and student-loan interest are all subsidized at a taxpayer's marginal rate. "Tax expenditures"—the term of art for such provisions—form an important category of indirect governance (Howard 2002). There is a good deal of controversy surrounding tax expenditures. Some critics challenge the terminology, which tends to imply that government has a prior and unlimited claim on citizens' resources. Others observe that if a legally binding obligation is cancelled, conditional on the debtor's undertaking some specified action, the transaction is indeed equivalent to spending. At a less epistemological level, the efficiency, transparency, and fairness of tax expenditures also engender lively debate. We do not address these debates here—though we endorse their importance—but concern ourselves merely with matters of scale.

In the United States, the president is required by law to identify and estimate the scale of tax expenditures, including preferential tax rates, credits, deferrals, exclusions, exemptions, and deductions. The Office of Management and Budget (OMB) presents such an account as part of the Analytical Perspectives addendum to each year's budget (OMB 2003). The staff of the Congressional Joint Tax Committee prepares its own annual tally of federal tax expenditures, using generally similar concepts and data (Joint Committee 2002). For most purposes and most years the two reports differ little; the OMB data are employed here. OMB presents estimates of specific tax preferences—for example, allowing members of the clergy to exclude parsonage allowances from their taxable income—and groups them into general purposes (such as "National Security," "Energy," and "Education") roughly analogous to the accounting categories OMB employs for direct spending. Tax expenditures are measured both in terms of their estimated revenue loss and in terms of their "outlay equivalent."[4]

For five civilian agencies—the Departments of Commerce, Education, Energy, Health and Human Services, and Housing and Urban Development—it is possible to compare direct departmental outlays with concurrent tax expenditures directed to

[4] The chapters in *The Tools of Government: A Guide to the New Governance* (Oxford University Press, 2002) by Ruth Hoogland De Hoog and Lester M. Salamon "Purchase of Service Contracting," pp. 319 39; Steven J. Kelman, "Contracting," pp. 282 318; and Paul L. Posner, "Accountability Challenges of Third Party Government," pp. 523 51 are particularly germane to our topic. Also see Kirsten A. Groenbjerg and Lester M. Salamon, "Devolution, Marketization, and the Changing Shape of Government," in Salamon, ed. *The State of Non Profit America* (Brookings Institution Press, 2002), pp. 447 70.

parallel missions. We have developed scale comparisons of outlays and tax expenditures, at five-year intervals, for 1975 through projections for 2005. As recently as 1975, tax expenditures for these five major areas of federal activity were only 38 per cent as great as direct outlays. By 1980 tax expenditures had risen to 92 per cent of direct outlays, and they have stayed at rough parity ever since (OMB 2004*e*). In Fiscal Year 2000 (when the weighted average for the five departments was 90 per cent) tax expenditures were 18 per cent as large as direct outlays for the Department of Energy, 38 per cent for Health and Human Services, and 49 per cent for Education. At the Department of Housing and Urban Development, tax expenditures exceeded outlays by a factor of four; at Commerce, by a factor of seventeen. Again, we do not address the merits of using the tax code as a lever for collective action, but merely observe that in at least some domains of the US federal government this approach is quantitatively significant.

4. Rationales and Risks of Indirect Government Action

4.1 Motives for Private Involvement in Public Missions

Non-governmental actors are appropriately enlisted into public undertakings to improve performance in the creation of public value. This core rationale applies whether the mode of engagement is collaborative governance or more familiar forms of contracting and voluntarism. Private entities may offer advantages over governmental organizations in several (partly overlapping) dimensions.

Resources. Perhaps the simplest rationale for collaboration with the private sector is invoked when government itself lacks the resources—or the ability to mobilize the resources—required to accomplish some mission. In principle, to be sure, "governmental resources" is both an imprecise and an elastic category. At least in liberal democracies government "owns" things only as the citizens' steward, rather than on its own account. Its command of resources is not measured by its net worth or collateral available to support debt (as for a family or a firm) but rather in terms of the citizens' tolerance for taxation, including the future taxation implicit in public debt. So a declaration that government's resources are inadequate to realize some public goal translates to one or more of the following:

- Citizens are unwilling to provide, through taxation, revenues to fund this particular undertaking—a situation that, if it strictly applied, would raise questions about whether the mission is accurately labeled as a "public goal."
- Citizens are not asked to provide designated resources for this particular goal, so we cannot assess their willingness to pay for it, but their tolerance of

taxation in the aggregate is exhausted, or nearly so. That is, they do not want to spend more government dollars the way those dollars will likely be spent. If it cannot be established that this enterprise should take precedence over alternative and pre-existing claims on funds, or if such a judgement does not result in the reallocation of tax revenues, then a ceiling on overall taxation can be a binding constraint against this undertaking.

- Procedural impediments (budget rules, debt limits) preclude incremental funding for this goal independent of its merits and resources cannot be or are not diverted from other purposes.
- Citizens *are* willing to devote resources to the mission, but not enough to accomplish it with public funds alone. Only if costs borne by government can be lowered through an infusion of non-governmental resources, or by improving operational efficiency through private involvement, does it meet the net benefits test from the public perspective.
- Some aspects of a public project provide benefits that are so narrowly directed to particular groups that the electorate believes the prime beneficiaries should pay at least a share, and is unwilling to fund the endeavor except on these terms.

Productivity. A second generic rationale for indirect government production is that external agents command productive capacity that government lacks. No one proposes the government build its own trucks. The same logic may apply to operating nursing homes. By collaborating with firms or non-profit organizations, government can tap their efficiency edge to improve performance or lower costs or both, relative to acting alone. One variant of this rationale emphasizes particular instances of technical know-how, proprietary intellectual capital, or other potentially transferable capacity that happens to reside in the private sector instead of in government. The more interesting variant emphasizes productivity advantages inherent in the private form of organization. Potential reasons for such advantages are familiar—the focused incentives of the profit motive (with respect to for-profits) and procedural flexibility (with respect to both for-profits and non-profits), the ability to harvest economies of scale and scope by operating beyond jurisdictional boundaries, and the prospect that the quality of performance will affect the odds of expansion, merger, or extinction. The more important and more "embedded" are private productivity advantages, the stronger the rationale for delegated, collaborative, or otherwise shared production.

Information. Even if government's resources are no more constrained, and its productivity no lower, than the private sector's, private involvement may be warranted when it is impossible or prohibitively costly for government to acquire pertinent information (Coglianese, Zeckhauser, and Parson 2004). The types of information needed to carry out public tasks—such as the cheapest way to reduce pollution from a particular industrial process or the most effective way to endow workers with a particular skill—are often embodied in private organizations and cannot simply be purchased like a computer, a truck, or a software program.

Legitimacy. Private involvement may enhance the perceived legitimacy of an undertaking if a particular task is seen as inappropriate for government to pursue on its own. Suppose we had irrefutable evidence that persuading substance abusers to seek the aid of a higher power in overcoming their addictions would yield significant public benefits. We might still prefer government to encourage and even fund groups such as Alcoholics Anonymous to do this work, rather than establish a Department of Prayer. The legitimacy may flow in the opposite direction. A grant from the National Endowment for the Arts—while unlikely to be munificent—helps non-profit arts organizations demonstrate their gravitas to potential donors. Of course, government activities that might be quite acceptable in one culture or at one time may seem beyond bounds in another time or place. If government is held in systematically low esteem by the citizenry—as say in failed states or corrupt regimes—collaboration with the private sector can shore up legitimacy independent of any task-specific factors.

As these examples illustrate, the rationales for private involvement shift with time and locale. The potential gains from sharing responsibilities with firms or non-profits are contingent on the government's relative weaknesses, whether in resources, productivity, information, or legitimacy. As rewards at the top of the labor market have soared in the United States, for example, government has had increasing difficulty recruiting and retaining talented employees for most of the past generation, particularly for technically trained and higher-level positions (Donahue forthcoming). Were this personnel deficit somehow to be reversed, it would substantially reorder many metrics of relative capacity. The potential payoff from contracting, collaboration, or other forms of delegation will vary across tasks, over time, and from one polity to another.

4.2 Risks of Private Involvement in Public Missions

Indirect government action can expand the resources, improve the efficiency, or boost the legitimacy of an undertaking (compared to the baseline of purely governmental activity). However, it also introduces a range of potential losses, which are commonly called "agency costs." That is, the private sector agents supposedly acting at government's behest may not faithfully fulfill the public's mission. We emphatically do not mean to suggest that direct government action escapes agency costs—elected officials and government workers can and do pursue their own agendas at the expense of citizens' interests—but relationships that reach across sectoral boundaries summon distinctive categories of agency costs:

- *Diluted control.* With the exception of the simplest forms of service contracting, indirect action explicitly diminishes government's monopoly of authority for defining the mission, directing the means, or both. Beyond this open and accepted dilution of autonomy, indirect action also involves the risk of unanticipated or unrecognized losses of control.