THE OXFORD HANDBOOKS OF POLITICAL SCIENCE

GENERAL EDITOR ROBERT E. GOODIN

EDITED BY

MICHAEL MORAN

MARTIN REIN

ROBERT E. GOODIN

The Oxford Handbook *of* PUBLIC POLICY

For example, if an automaker gets what turns out to be an unduly generous tax incentive to develop its new-generation car, it is unlikely to lose most of that advantage in other dealings with the government.

Preference discretion. Payoff discretion describes leverage over the distribution of value where that value is manifested in, or can be translated into monetary terms. Preference discretion is a related but broader concept, rooted in the recognition that payoffs come in various forms that collaborators may value differentially. Preference discretion arises more commonly with non-profit collaborators but is not unique to them (nor are non-profits immune to manipulating collaborations to reap narrow material payoffs.) Collaborators' preferences are rarely aligned in all respects. Even in a fond marriage you may prefer to go out to a Mexican place while your spouse would rather have sushi. It is in the very nature of the *public* missions to which collaborative governance applies that there be multiple definitions of the good and varying preference differences among collaborators, whether on the margins or at the core. Such differences come in many forms, including:

Focused philanthropy. Few lovers of mankind are wholly undiscriminating in their ardor. Even when motives are sincerely altruistic, the satisfactions of selflessness are likely to be more intense for some benefits, or some beneficiaries than for others. A donor may be more inclined to support research on a specific disease that has claimed a parent than to donate to medical science in general. A community organization may be zealous about offering effective, low-cost training to those who need it most, conditional on their belonging to the neighborhood or ethnic group that stirs the founder's loyalties. A park volunteer may be willing to devote endless hours to nature programs for preschoolers, while athletic programs for teenagers leave her cold.

Semi-private goods. Economists recognize that the notion of a "public good" is a convenient but potentially misleading shorthand. Even apparent public goods—that cleanly meet the standard criteria of non-rivalry and non-exclusivity—rarely spread their benefits uniformly. Forestalling global warming through cleaner cars is good for everyone, but benefits today's kindergarteners more than today's octogenarians. At the margin, a plant manager crafting a pollution reduction plan might care more about curbing the soot that befouls his town and his company's image than the chlorofluorocarbons that invisibly degrade stratospheric ozone. A benefactor of Central Park might esteem flower beds in general, but think most highly of those visible from her terrace.

Divergent values. Preferences can be not just different but antagonistic. It may be integral to a training provider's mission that trainees absorb religious tenets along with workplace skills, even if government funders insist on separating church and (however mediated) state. Since a recent recipient of a smallpox inoculation risks transmitting a dangerous or even fatal vaccinia infection to immuno-compromised patients, such as transplant recipients or the HIV-positive, many medical personnel saw their duty to prepare for a hypothetical smallpox attack to be in conflict with their core value of protecting their patients. Robert Goodin has observed that steadfastness with respect to value preferences can be considered the core "asset" of non-profit organizations, one that they cannot lightly compromise in joint undertakings with the state (Goodin 2003, 359–96).

Preference discretion would not impede accountable collaboration were it not entangled with production discretion. Government cannot be sure that a collaborator is guided by his expertise, or by his interests, as he seeks to shape the ends of the collaboration. For example, as the Central Park Conservancy matured from an adjunct to the mainstay of park management, ball-fields were sodded over and impromptu football throwing restricted in favor of "passive recreation" on well-tended grounds. This may be because the Conservancy recognizes that it is inefficient to squander space within Olmstead's urban jewel on activities that can be pursued elsewhere. Or it may be because the Conservancy's managers—like the Conservancy's major donors, and perhaps unlike many other New Yorkers—place a higher value on strolling along manicured paths than on playing ball. This is not a disagreement about the most effective means to reach consensual ends—such as whether low-fat or low-carb is the better watchword for lowering weight—but a disjuncture in underlying preferences.

The central task for government officials attempting to create public value through collaborative arrangements is to maximize the efficiency gains of production discretion, net of the losses associated with payoff and preference discretion. Figure 24.3 offers a graphic illustration of this task. In Fig. 24.3, the value gained through collaboration (relative to direct production or discretion-free contracting) rises as private players are granted more production discretion. That discretion is exercised by choosing superior means for reaching a particular point, or by achieving production points unavailable to government acting on its own or through agents bound by tight contractual specifications. The gains of production discretion flatten out as the potential of agents' productive and informational superiority is progressively exhausted. At that point, E—as discretion expands into areas where agents are less deft and worse informed than government—payoffs begin to diminish.

Beneficial production discretion, alas, generally brings with it undesirable payoff and preference discretion. To simplify, we illustrate solely with the losses from payoff

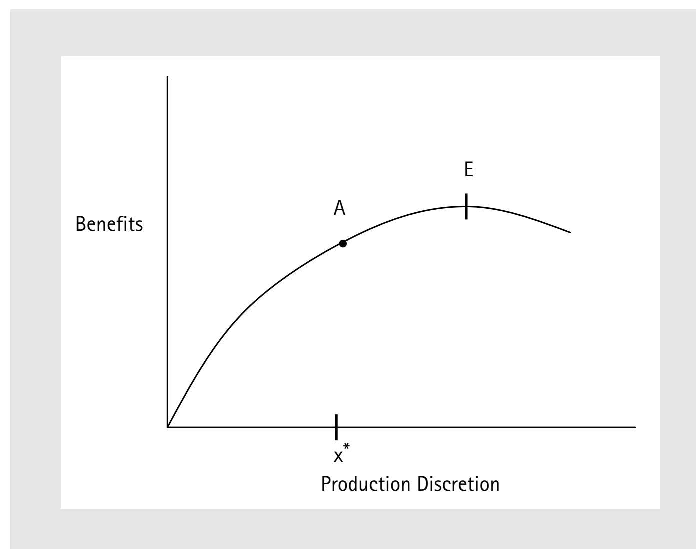

Fig. 24.3. Benefits of production discretion

discretion. Losses from preference discretion (when scaled to represent net departures from government's preferred position) would be additive. The ratio between production and payoff discretion is by no means a constant. Figure 24.4 shows two different trajectories of the relationship between these two types of discretion. Some payoff discretion is unavoidable, as shown by the vertical interecepts of the production possibility curves. Curve I illustrates a situation in which relatively little additional payoff discretion is incurred at the early stages of the range. The balance becomes somewhat worse as government continues to loosen constraints on private collaborators. Curve II illustrates a less fortunate marginal relationship between production and payoff discretion; it rises more steeply than does curve I.

Figure 24.4 might be thought of as illustrating two different arenas of collaborative governance, one with an inherently favorable relationship between good and bad discretion and the other a more troublesome entanglement. Curve I might illustrate an "adopt a highway" program in which local businesses take responsibility for clearing litter from a stretch of road in exchange for signs that publicize their civic-mindedness (as well as their donuts or pet-care services.) Curve II might depict an on-the-job training program in which rightward movement corresponds to weakening restrictions on employers' discretion to choose which workers to train, in which skills, and by what means. In the one case, the nature of the task presents private agents with limited opportunities to expropriate payoffs or insinuate preferences as they are given progressively more production discretion. In the other case, such temptations are pervasive.

Alternatively, and just as validly, Curves I and II can be thought of as referring to the same collaboration, but with more- and less-sophisticated governmental efforts to structure and manage the relationship. Curve II, in this version, would represent a feebly designed adopt-a-highway or on-the-job training program. Curve I would represent the same endeavor, but with more astute measures to harvest the gains while avoiding the losses that come with private discretion. In the highway case, for

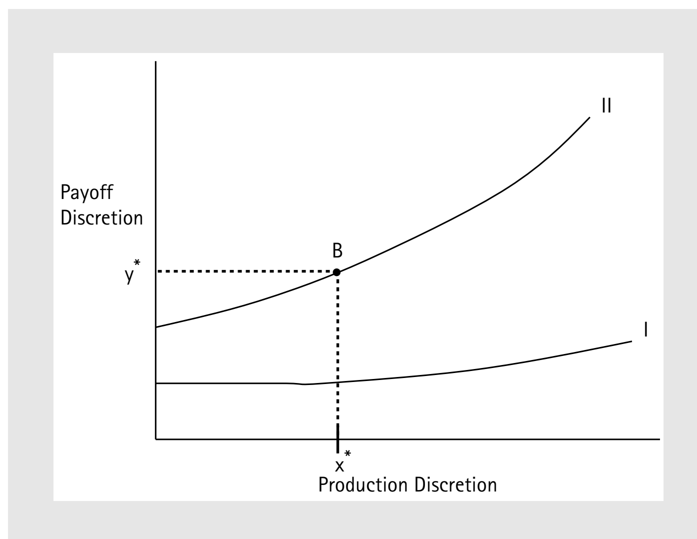

Fig. 24.4. Payoff discretion as a function of production discretion

example, signs identifying benefactors might be smaller but more frequent to solidify the link between a company's image and the condition of a given stretch of roadway. In the training case, government might gauge the outcomes of employers' discretion by measuring trainees' before-and-after test scores or hourly earnings.

Figure 24.4 showed how payoff discretion rises with the level of production discretion. Figure 24.5 shows how much this costs. The value lost through payoff discretion grows as government loosens the reins, with the rate of loss accelerating as government exercises less control over collaborators' ability to claim larger payoffs or substitute their preferences for the public's.

The optimum is derived from the three functions represented on Figs. 24.3, 24.4, and 24.5. It is found at x^*, implying that payoff discretion will be at y^*, and that the program will operate at points A, B, and C. The technically minded reader will note that the marginal benefit (MB) of greater production discretion, the slope at A in Fig. 24.3,just equals the marginal cost (MC). The latter is the product of the slopes at points B and C in Figs. 24.4 and 24.5. That product represents the increase in payoff discretion from a unit increase in production discretion times the marginal cost of that increase.

In general, we would also expect preference discretion to enter the picture, and its level will be positively related to production discretion. The efficiency condition would then be:

MB of production discr. = MC of payoff discr. + MC of preference discr.

As these illustrations hint, the outcomes for the public of collaborative governance can range from spectacular to calamitous, depending on government officials' ability to determine when collaboration is a promising approach; to judge how much discretion to cede to private agents; and to fine-tune the terms of the collaboration to maximize the benefits less the costs associated with shared discretion.

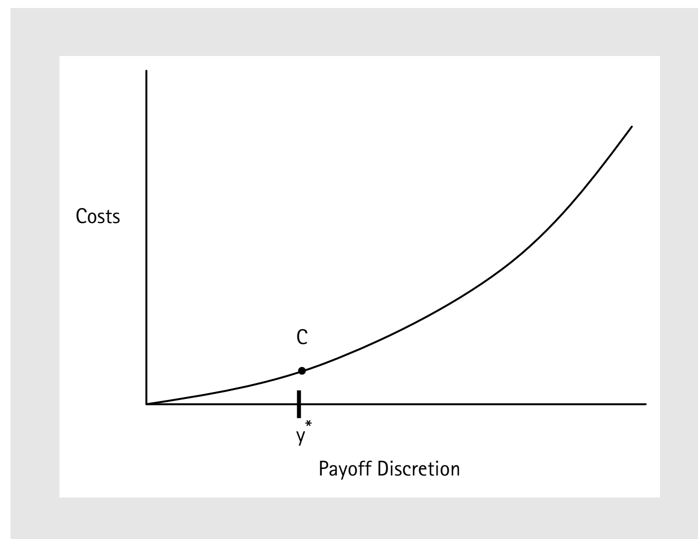

Fig. 24.5. Costs of payoff discretion

8. Collaborative Governance and Government's Analytical Imperatives

Not only is the orchestration of collaborative governance a challenge of a high order, but it is also a fundamentally different sort of challenge from those posed by managing bureaucracies, and distinct as well from writing and monitoring clear-cut contracts. To fulfill the functions that we rather casually summarize in the preceding paragraph, government officials must:

- gauge the expected efficiency differential between direct government performance and delegation to the private sector of a particular function;
- evaluate the net public benefits of different levels and variants of an undertaking;
- estimate the probable balance between value gained and value lost for each increment of private discretion, in order to judge how fully specified the terms of a delegated task should be;
- appreciate the objectives, constraints, and internal dynamics of potential collaborators in sufficient detail to predict the gains from production discretion and the degree and nature of risks associated with payoff and preference discretion;
- discriminate among potential collaborators according to how they are likely to employ any discretion granted, and how likely they are to comply with measures to curb their discretion;
- structure, implement, and uphold a regime of rules that loosely constrain productive discretion and tightly constrain payoff and preference discretion;
- alter the terms of the collaboration as public priorities change or new evidence comes to light;
- and do all of this even when, as will frequently be the case, the private parties in a collaboration outmatch the public parties in resources, political influence, and popular esteem.

We do not mean to imply that government must be confident of performing all of these tasks with uniform perfection before contemplating collaborative arrangements. The parallel requirements of public management for direct governmental action, after all, are seldom realized in full. We conclude with three observations relevant to our prospects for collecting the benefits while avoiding the risks of collaborative governance.

First, the growing practical importance of collaborative governance has outstripped our capacity to understand, categorize, make predictions about, and prescribe improvements to such arrangements. Our analytical apparatus—anchored in traditional, more crisply defined concepts such as market failure and public goods—lags behind practitioners' exuberant improvisation. This intellectual lag has ample precedent; governments were improvising policies to enhance public welfare, for

example, before welfare economics was invented to steer such efforts. With the recognition of this new category of collective action, scholars once again have their work cut out for them.

Second, orchestrating collaborative arrangements calls upon skills that are frequently found among corporate executives, venture capitalists, or senior consultants, but less so among front-line public managers. We are not currently accustomed to selecting, compensating, or evaluating government workers on the basis of such competencies. The requisite skill set, we emphasize, is predominantly *analytical*. The functions described above have relatively little to do with classic public administration and a great deal to do with economics, institutional analysis, game theory, decision analysis, and other relatively advanced tools for predicting and influencing outcomes. The need for analytical sophistication, moreover, extends quite deeply into government. It applies at the level of implementation (not just policy making) and continuously (not just at the start of an initiative). When the menu of implementation models was short and simple, government could get by with a small pool of analytical talent near the top. Collaborative governance confronts the public sector with different analytical imperatives—fine-grained, ongoing, distributed deeply through government—for which we are not yet ready.

Finally, although there are major gaps in the data, it seems inescapable that collaborative governance is an increasingly consequential category of collective action wherever there is a public entity robust enough to hold up government's side. Our empirical references have been anchored on the United States, with which we are most familiar, but parallel developments appear to be under way in nearly all OECD countries and in many developing and transitional nations as well. As demands for the creation of public value outpace governments' capacity to deliver it unaided—in health care, education, environmental preservation, employment and social welfare, and even security—the collaborative impulse intensifies. This form of governance (though it entails undeniable risks) promises great benefits, on balance, when employed advisedly and managed adroitly. This presents scholars and practitioners with an urgent agenda—to develop analytical frameworks and management tradecraft that can bolster the benefits and curb the costs of the collaborative approach to governance.

References

Ambrose, S. E. 1997. *Undaunted Courage: Meriwether Lewis, Thomas Jefferson, and the Opening of the American West.* New York: Touchstone.

Ariño, A., and Torre, J. D. L. 1998. Learning from failure: towards an evolutionary model of collaborative ventures. *Organization Science*, 3: 306 25.

Axelrod, R. 1984. *The Evolution of Cooperation.* New York: Basic Books.

Bardach, E. 1998. *Getting Agencies to Work Together: The Practice and Theory of Managerial Craftsmanship.* Washington, DC: Brookings Institution.

Brooks, H., Liebman, L., and Schelling, C. (eds.) 1984. *Public Private Partnership: New Opportunities for Meeting Social Needs.* Cambridge, Mass.: Ballinger.

Buntin, J. 1997. From confrontation to cooperation: how Detroit and Washington became partners. Kennedy School of Government Case Study. Cambridge, Mass.: Harvard University.

Clinton Administration and US Council for Automotive Research 1993. Partnership for a new generation of vehicles: a declaration of intent. Joint Press Release, Sept.

Coase, R. 1937. The nature of the firm. *Economica*, 4: 386 405.

Coglianese, C., and Lazer, D. 2002. Management based regulatory strategies. Pp. 201 24 in *Market Based Governance: Supply Side, Demand Side, Upside and Downside*, ed. J. D. Donahue and J. S. Nye, Jr. Washington, DC: Brookings Institution Press.

and Nash, J. 2001. *Regulating from the Inside.* Washington, DC: Resources for the Future Press.

Zeckhauser, R. J., and Parson, E. 2004. Securing truth for power: informational strategy and regulatory policy making. Kennedy School of Government Working Paper RWP04 021, May.

Contractor, F., and Lorange, P. (eds.) 1988. *Cooperative Strategies in International Business.* Lexington, Mass.: Lexington Books.

Cushman, J. H. 2004. Private company finds no evidence its interrogators took part in abuse. *New York Times* (13 Aug.): 8.

Dahl, R. A. 1961. *Who Governs?* New Haven, Conn.: Yale University Press.

and Lindblom, C. 1953. *Politics, Economics, and Welfare.* New Brunswick, NJ: Transaction.

Donahue, J. 1989. *The Privatization Decision: Public Ends, Private Means.* New York: Basic Books.

1997. *Disunited States.* New York: Basic Books.

(ed.) 1999. *Making Washington Work.* Washington, DC: Brookings Institution Press.

2004. *Parks and Partnership in New York City A: Adrian Benepe's Challenge.* Cambridge, Mass.: Harvard University, Kennedy School of Government Case Program.

forthcoming. *The Problem of Public Jobs: American Inequality and the Warping of Government Work.*

Lynch, L., and Whitehead, R. W., Jr. 2000. *Opportunity Knocks: Training the Commonwealth's Workers for the New Economy.* Boston: Massachusetts Institute for a New Commonwealth.

Elster, J. 1989. *The Cement of Society: A Study of Social Order.* New York: Cambridge University Press.

Finer, S. E. 1999. *History of Government.* New York: Oxford University Press.

Freedland, M. 1999. Public law and private finance: placing the private finance initiative in a public law frame. Pp. 145 68 in *Regulation and Deregulation: Policy and Practice in the Utilities and Financial Services Industries*, ed. C. McCrudden. Oxford: Clarendon Press.

Freeman, J. 1997. Collaborative governance in the administrative state. *UCLA Law Review*, 45 (1: Oct.): 1 99.

Garsten, E. 2002. Bush abandons high mileage program for hydrogen fuel cell. *Associated Press State and Regional Wire Service*, Business News section, 9 Jan.

Goodin, R. E. 2003. Democratic accountability: the distinctiveness of the third sector. *Archives européennes de sociologie*, 44 (3): 359 96.

Gore, A., Jr. 1992. *Earth in the Balance.* New York: Houghton Mifflin.

Groenbjerg, K. A., and Salamon, L. M. 2002. Devolution, marketization, and the changing shape of government. Pp. 447 70 in *The State of Non Profit America*, ed. L. Salamon. Washington, DC: Brookings Institution Press.

Herman, K. 2004. Unitarians get religious status after intercession. *Austin American States man* (25 May): B 1.

Howard, C. 2002. Tax expenditures. Pp. 410 44 in *Tools of Government*, ed. L. Salamon and O. V. Elliot. New York: Oxford University Press.

Hyde, J. 2000. GM says Precept concept car achieves 80 mpg in tests. *Associated Press State and Regional Wire Service*, Business News section, 20 Oct.

Joint Committee on Taxation of the US Congress 2002. *Estimates of Federal Tax Expenditures for Fiscal Years 2003 2007*. Report prepared for the Committee on Ways and Means and the Committee on Finance, US Government Printing Office.

Jones, C., Hesterly, W., Fladmoe Lindquist, K., and Borgatti, S. 1998. Professional service constellations: how strategies and capabilities influence collaborative stability and change. *Organization Science*, 9 (3): 396 410.

Kelman, S. J. 2002. Contracting. Pp. 282 318 in *The Tools of Government: A Guide to the New Governance*, ed. L. Salamon. Oxford: Oxford University Press.

Kettl, D. 2000. The transformation of governance: globalization, devolution, and the role of government. *Public Administration Review*, 60 (6: Nov. Dec.): 488 97.

Khanna, T., Simester, D., and Anderson, E. 1988. The scope of alliances. *Organization Science*, 9(3): 340 55.

Kogut, B. 1988. Joint ventures: theoretical and empirical dimensions. *Strategic Management Journal*, 9: 319 32.

Koza, M. P., and Lewis, A. Y. 1998. The co evolution of strategic alliances. *Organization Science*, 9 (3: Mar.) 255 64.

Le Grand, J. 1991. Quasi markets and social policy. *Economic Journal*, 101 (127: Sept.): 1256 67.

McGuire, K. T. 1993. Lawyers and the U.S. Supreme Court: the Washington community and legal elites. *American Journal of Political Science*, 37 (2: May): 365 90.

Madhok, A., and Tallman, S. B. 1998. Resources, transactions and rents: managing value through interfirm collaborative relationships. *Organization Science*, 9 (3: May June): 326 39.

Means, H. 2001. *Money and Power: The History of Business*. New York: Wiley.

Minicucci, S. M., and Donahue , J. D. 2004. A simple estimation method for aggregate government outsourcing. *Journal of Policy Analysis and Management*, 23 (3: Summer): 489 508.

Minow, M. 2002. *Partners, Not Rivals: Privatization and the Public Good*. Boston: Beacon Press.

Nee, V. 1998. Norms and networks in economic and organizational performance. *American Economic Review*, 87(4): 85 9.

Office of Management and Budget 2003. Analytical perspectives. *The Budget of the United States, Fiscal Year 2004*, Section 6. Washington, DC: Government Printing Office.

2004*a*. Fiscal 2004 budget, Historical Table 1 2. At: www.whitehouse.gov/omb/budget/fy2004/sheets/hist01z2.

2004*b*. Fiscal 2004 budget, Historical Table 17.1. At: www.whitehouse.gov/omb/budget/fy2004/sheets/hist17z1.xls.

2004*c*. FY 2004, Historical Table 15.3. At: www.whitehouse.gov/omb/budget/fy2004/sheets/hist15z3.xls.

Office of Management and Budget 2004*d*. FY 2004, Historical Table 6.1. At: www.white house.gov/omb/budget/fy2004/sheets/hist06z1.xls.

2004*e*. Outlays by agency: 1962 2008. *Budget of the United States, Fiscal Year 2004*, Historical Table 4.1. At: www.whitehouse.gov/omb/budget/fy2004/sheets/hist04z1.xls.
Olson, M. 1965. *The Logic of Collective Action: Public Goods and the Theory of Groups.* Cambridge, Mass.: Harvard University Press.
and Zeckhauser, R. 1966. An economic theory of alliances. *Review of Economics and Statistics*, 48 (3: Aug.): 266 79.
Ottaway, M. 2001. Corporatism goes global: international organizations, NGO networks and transnational business. *Global Governance*, 7(3): 265 92.
Ouchi, W. G. 1980. Markets, bureaucracies, and clans. *Administrative Science Quarterly*, 25 (1: Mar.): 129 41.
Perry, J. L., and Rainey, H. G. 1988. The public private distinction in organization theory: a critique and research strategy. *Academy of Management Review*, 13(2): 182 201.
Pickler, N. 2001. Partnership may not reach goals for affordable "super car" by 2004. *Associated Press State and Regional Wire Service*, Business News section, 13 Aug.
Posner, P. L. 2002. Accountability challenges of third party governance. Pp. 523 51 in *The Tools of Government: A Guide to the New Governance. Accountability Challenges of Third Party Government*, ed. L. Salamon. Oxford: Oxford University Press.
Pratt, R., and Zeckhauser, R. (eds.) 1985. *Principals and Agents: The Structure of Business.* Cambridge, Mass.: Harvard Business School Press.
Putnam, R. 1993. *Making Democracy Work: Civic Traditions in Modern Italy.* Princeton, NJ: Princeton University Press.
2000. *Bowling Alone: The Collapse and Revival of American Community.* New York: Simon and Schuster.
Rogers, E. 1986. *Rebuilding Central Park: A Management and Restoration Plan.* Cambridge, Mass.: MIT Press.
Rowley, T. 1997. Moving beyond dyadic ties: a network theory of stakeholder influences. *Academy of Management Review*, 22(4): 887 910.
Salamon, L. M. (ed.) 2002. *The Tools of Government: A Guide to the New Governance.* Oxford: Oxford University Press.
Sandler, T. 1992. *Collective Action, Theory and Applications.* Ann Arbor: University of Michigan Press.
Smith, K. G., Carroll, S. J., and Ashford, S. J. 1995. Intra and interorganizational cooperation: toward a research agenda. *Academy of Management Journal*, 38 (1: Feb.): 7 23.
Smith, S. R., and Lipsky, M. 1993. *Nonprofits for Hire: The Welfare State in the Age of Contracting.* Cambridge, Mass.: Harvard University Press.
Steffens, L. 1904. *The Shame of the Cities.* New York: McClure, Philips.
Williamson, O. 1975. *Markets and Hierarchies.* New York: Free Press.
2000. The new institutional economics: taking stock, looking ahead. *Journal of Economic Literature*, 38 (Sept.): 595 613.
Zeckhauser, R. J. 1986. The muddled responsibilities of public and private America. P. 45 76 in *American Society: Public and Private Responsibilities*, ed. R. Zeckhauser and W. Knowlton. Cambridge, Mass.: Ballinger.

PART VI

CONSTRAINTS ON PUBLIC POLICY