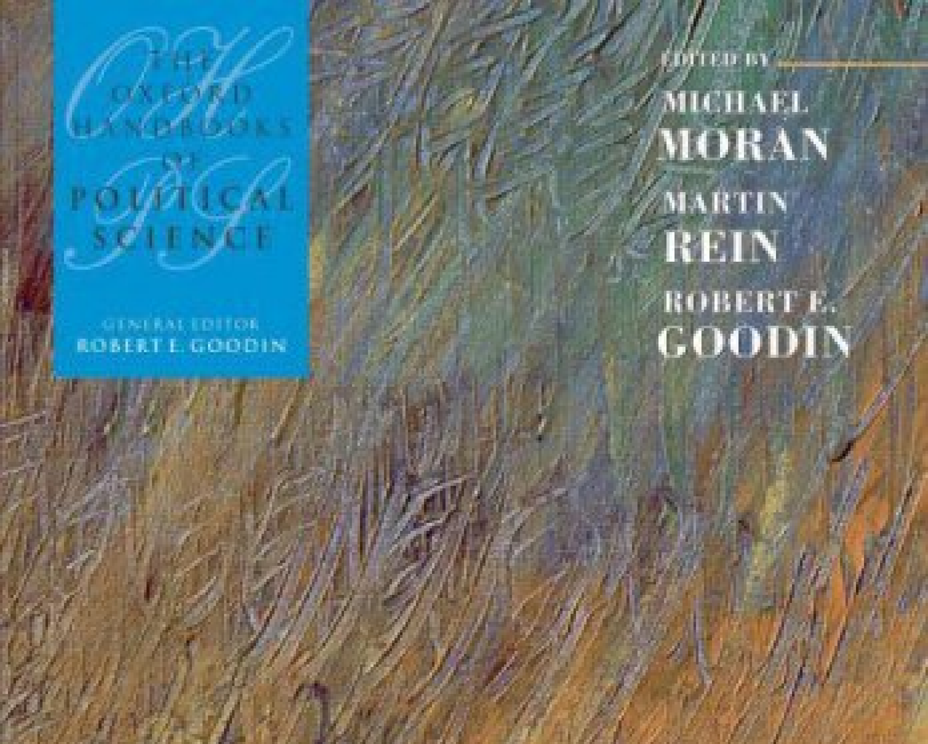

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normative argument that democratic accountability requires that democratic legislative processes should formulate policy. However, as a practical matter there are agencies outside of government that seek social change, that innovate and design policies in line with their own views, and in so doing affect the social policy environment.

In a democratic process, program adoption depends on majority rule. A minority can achieve some of its objectives by forming alliances, logrolling, or other political maneuvering, but it may not get all the programs it would like. A strictly democratic process serves the needs of minorities imperfectly, but pluralistic interests can be met if minorities can develop their own programs outside of government. Is it feasible for groups to organize outside of government? If not, the case for government action would be practical more than normative. Government has strong advantages as a provider of social programs, given its power of compulsion and especially taxation. Many public programs can be considered public goods or else services provided publicly because of positive externalities. A market would underproduce these services, and one response is public provision. The standard argument is that in the presence of positive externalities, a free-rider problem is likely, and individuals will not contribute to the service voluntarily. It would take the compulsion powers of government to make sure that the service is provided. This would suggest that government is needed as the provider. Of course, the government decision to provide the service and the level of support depend on a democratic decision.

In fact, however, the free-rider problem is not insurmountable. There is a long tradition of non-profit organizations successfully mobilizing resources to pursue a mission not funded by government. Religious and other affinity groups and cultural organizations may not win majority support and would not work in the market, but are able to organize as non-profits. There have long been charities that provided hospitals or orphanages without direct support from government. Many succeeded as non-profits in spite of potential free-rider problems. Although government has a clear advantage in organizing and funding social programs, experience suggests that it is not a necessity. Determined minorities can organize to get services they want. One factor strengthening the determination of organizations to develop programs has been the attempt by governments in some countries to cut back on the services they provide. In a time of government cutbacks, the minorities that succeed tend to be those that believe in a service even though it does not get a legislative majority. Normatively, it is not clear why the government should have a monopoly in deciding on social services. Practically, a government monopoly is not necessary as long as the free-rider problem is not important. Governments also have weaknesses as providers (Ostrom and Walker 1997, 36). However, for private organizers to succeed, they need good management skills. The design of overall social policy, public and private, depends on the behavior of the thousands of private organizations that initiate and provide their own services.

For the traditional charity, a key skill for survival is fundraising. This in turn depends on strategic management skills including the ability to define a mission that would appeal to donors. It also depends on the marketing skills to sell the concept to those who might contribute. The growth of government programs opened new opportunities. An agency could obtain funding by contracting with government, provided it was willing to provide the kind of service the government prescribed. But it could also leverage off the funding base from the government contract to pursue its own mission and develop its own services. An agency could turn to the market to sell services or to sell a product that could cross-subsidize a service that did not pay for itself. Social entrepreneurship has become a growing movement in which organizations seek profits to be used to pursue social goals (Dees, Emerson, and Economy 2002). Some social enterprises are non-profits with for-profit subsidiaries, and some are organized outright as for profits. And non-profit agencies get indirect support from government in the form of tax exemption and deductibility for donors if they satisfy basic requirements. Strategic and financial skills are necessary to decide among all these possibilities.

Although data on privately initiated social services are not currently available, a few figures can illustrate the extent of the private and public parts of the US social system. In 1994 (more recent data are under revision), social welfare expenditure of government amounted to 21.8 per cent of GDP and private expenditures were 13.5 per cent (US Social Security Administration 2002, 132). Of the private expenditures, 80 per cent are employee benefits. These include the pensions and health insurance provided by employers. The remaining private expenditures include education and welfare services of non-profits. Within the non-profits, data are available on the "independent sector," organizations covered under sections 501(c)(3) and 501(c)(4) of the Internal Revenue Code, or over 75 per cent of the whole sector. In 1996 it produced 6.7 per cent of GDP (including an imputation for the value of volunteer time estimated at one-third of the total) or $434 billion. It owned about 5 per cent of the wealth of the private sector. It employed almost 12 per cent of the labor force, including volunteers (Steuerle and Hodgkinson 1999, 77). Of course, some of the product of the sector comes from contracts with government. Considering the sources of revenue of the independent sector, in 1997, 31 per cent came from government contracts and grants; 20 per cent from private contributions; 38 per cent from private payments for dues and services; and 11 per cent from income on investments (Urban Institute 2002, xxxii). One further source of financing that does not appear in these figures comes from the fact that private giving is tax deductible, so that the government indirectly finances a portion of it. It is estimated that the tax expenditure on charitable giving deductions is nearly 10 per cent of the amount of the contributions themselves (Brody and Cordes 1999, 145).

This analysis suggests an area for policy analysis that originates in organizational analysis. Among the issues to consider, the first is to assess what is being done privately. The data available currently are limited. What is the extent of social policy initiated by private actors? What kinds of services are being provided privately? There are areas where government would seem to have a clear advantage such as income maintenance programs. But even here, there are private counterparts coming not so much from non-profits as from the employee benefits of all employers, and this area of private provision is large. Programs to monitor behavior such as child protection services are established by government even when contracted out, but an agency contracting with government may also choose to initiate on its own other services for children. On the other hand, community development programs are a natural area for innovation by non-profits, and job training and development programs for disadvantaged workers are a favorite of social enterprises.

Another area is to determine why the private services develop. This involves looking into the organizations initiating services and understanding their behavior, their financing opportunities, their evaluation of social needs, and their ability to mobilize support and to organize and sustain services. Many organizations try, but do not succeed, so what distinguishes successes from failures? Another issue is evaluative. With so many social decisions dispersed over so many actors, each with their own values and priorities, how effective is policy overall? Would it be better to rely on larger government programs instead? In dealing with this question, the issue of democratic accountability is one evaluative stance among many. Of course, this question must deal also with the political reality of what government is willing to do.

3. Organizational Challenges and Responses and Policy Analysis

Much literature has focused on the challenge to policy of organizational discretion. This may be the most important, but there are other challenges that can also affect policy. Another challenge comes from the information problems that arise in the many services that have outcomes that are complex and difficult to measure. This problem is a challenge for managers, clients, funders, and policy makers, and the responses of all these parties can affect policy outcomes. Another challenge that can interact with the information challenge results from managing the multiple services that organizations choose to offer. Diversification clearly serves the business and mission interests of many organizations. The last section considered the diversification by agencies that wanted to innovate into areas to further their vision of social change. Some non-profits use one service to cross-subsidize another that does not pay for itself (James 1986), and many agencies provide multiple services in an attempt to meet the multiple needs of their clients. But the way organizations manage their multiple services can have adverse outcomes in an area like pricing. After introducing information problems, this section considers the responses of organizations to the combination of information problems and diversification in two areas, pricing and quality control. Government also may respond to the information problems. The section concludes by considering implications for policy analysis.

Information problems. Many information problems are asymmetric where one party, for example the provider, has information that the other, the client, lacks.

A parent leaving her child in day care does not see what happens after she drops off her child, and a person placing an older relative in a nursing home does not know how the relative is treated if the relative cannot communicate. There is a potential market failure, allowing the provider to take advantage of the client. But there is also an information problem for services when the lack of information is symmetric and both sides lack the information. In this case, it may be difficult for all parties to specify, measure, and agree on the outcomes of a service. It also may be difficult for all parties to assess the contribution of the provider to the outcome. Whether the information problem is asymmetric or symmetric, it may create organizational challenges.

Hansmann (1980) argued that the contract failure resulting from asymmetric information provided a rationale for the existence of non-profit organizations. He argued that the non-profit structure, which does not allow for the distribution of profits, could allay the fears of clients that providers would take advantage of them. However, even he acknowledged that in many services 'for-profit' and 'non-profit' organizations coexist, and clients do not automatically opt for the non-profit choice. The information problem is inherent in the services, and is usually not solved by organizational form alone. No matter what the organizational form, managers need to respond to it in a number of areas. We consider responses related to pricing and quality control.

Pricing. Although some non-profit services are funded by donations, many services of non-profits and for-profits alike are purchased either by clients or third-party payers and so need to be priced. In an ordinary market where there are no information problems, buyers can assess the output and pay for it. However, in many service markets, there is uncertainty about the outcome. For example, the desired outcome from health services is health, but health is a concept so broad and so difficult to specify that it does not provide an easy basis for pricing. Moreover, not everyone treated will get healthy, or the improvement may come slowly. The client and provider may not agree on whether the healthy state has been achieved. Similarly with education, one intended outcome is higher earnings and a better career. But it may take years after graduation before the outcome is known. Providers have a strong interest in charging for services delivered rather than for outcomes.

Because it is difficult to define an outcome unit that can be priced, agencies tend to seek other units instead. Common measures are numbers of visits or hours or months of service. These are concrete and can be measured and priced. Organizations tend to call these their "outputs" which are distinguished from outcomes. Of course, in a production sense these outputs are really more like inputs that go into producing the ultimate outcomes. The pricing problem is more or less resolved by input-based pricing in principle. Operationally, however, there are problems also in defining the inputs. For example, the US Medicare program pays one price for all the inputs needed to provide a complete service that it defines (diagnostic-related group), while many hospitals charge uninsured patients separately for each detailed input.

One factor affecting both the definition of input and the level of the pricing is market power of the payer relative to the provider. In the presence of multiple payers, those with the least power are at a disadvantage. Government has the power to define the input package and set the price it will pay for the clients it covers, and some large insurers do the same. However, US hospital patients without health insurance have no market power, and hospitals pass on to them the highest rates. Another pricing problem is that payers focused on inputs try to control specific costs such as indirect cost rates. For a diversified agency with multiple funders, its cost accounting may have to focus on managing the differing indirect rates, perhaps to the extent of expanding activities with higher rates at the expense of those with lower rates. Not only may this deflect attention from assessing the costs of each activity accurately, but it may also begin to affect the strategic direction of an agency if it decides that it must limit sales to payers with restrictive indirect cost rules. Thus, there is interplay between mission, accounting, financing, and pricing that affects the behavior of provider agencies.

Quality control. Difficulties in measuring outcomes matter for provider organizations, clients, funders, and public policy. All of these parties may take actions to improve information about the outcomes. For the provider, measuring actions and outcomes is a standard task in operations management. If more complex information is needed, the agency can conduct an evaluation, often calling on an outside evaluator for help. If the agency can measure a problem, it may be able to find ways to manage it and improve performance. Performance and accountability have also become major concerns of donors and of government agencies contracting for services. They conduct evaluations or encourage the provider to do so. Government agencies and others conduct research on measuring outcomes in particular service areas. They use the results to rate providers and to set regulations. In any one service area, quality improvement can be viewed as a process of trial and error. There are initiatives from both government and the organizations themselves, with the possibility of some missteps, but also an opportunity for improvements in quality over time.

One illustration shows also initiatives from clients when providers and public policy both fall short in meeting needs. Personal care services for people with disabilities were designed without considering the preferences of those receiving them. Both providers and government policy focused on the services themselves rather than on their effects on the lives of the consumers, an outcome not measured and not recognized. The impetus for change came from a movement for consumer direction among the consumers themselves. The solution in this case was a new structure allowing consumers who wanted to do so to hire, pay, and fire their own workers.

Implications for policy analysis. One lesson is that policy analysis needs to consider not only what government does, but also what it does not do. A gap analysis is often relevant. Organizations enter the analysis to the extent that they provide services to those not covered in government programs, for example the hospitals or clinics that provide care to the uninsured, since their behavior can affect the outcomes for the uninsured. But government can also affect the outcomes for those it does not cover, as when its pricing policies induce hospitals to shift costs to others, including the uninsured. Another lesson is that organizational analysis may have to go into detailed aspects of management such as pricing and quality control in order to find behavior that matters for policy analysis. And one more lesson is that in the presence of information problems, both policy and organizations may not get it right initially, as illustrated in the cases of pricing and quality control. Subsequent responses may involve missteps, but also the possibility of learning leading to improved outcomes. In the presence of uncertainty, an action does not always have a unique, predictable outcome. Rather, the organizational analysis provides the tools for searching for those areas where organizational actions have a consequence for public policy.

4. Conclusion

Some early policy analyses began with a single government program and, of course, found that implementing organizations could affect the outcomes. As policy formulation itself came under the purview of policy analysis, there was recognition that organizations could play a role in this also. This chapter has emphasized that in addition to feedback effects, private organizations are playing an innovating role in developing programs to further their vision of social change. As government has attempted to cut back social programs, private organizations have stepped in to meet needs. Policy analysis cannot be restricted to activities originating only in government. Influences run both ways: not only does the private sector innovate, but government programs can affect social programs run privately, sometimes adversely, because of the responses of organizations. Thus, a complete policy analysis must consider social policy innovations in and out of government as well as the influence of both government and organizations on policies, whether initiated by government or privately.

To study organizations, the literature focused on discretion by organizations as a major challenge in implementing public policy. Various organizational and policy responses to this challenge have been examined, including looking inside organizations at street-level bureaucrats and across organizations at the networks formed by multiple organizations. While discretion may be the most important challenge, there are others, and this chapter looked in particular at the information problems that arise in the many services that have outcomes that are complex and difficult to measure. For organizational analysis the task is to identify how organizations respond to the information problem. They may do so in many detailed ways that can influence policy outcomes, and we illustrated the case of pricing and quality control operations. Since government also responds, the outcome depends on the interplay between governmental and organizational actions.

Organizations implement governmental policies at the same time that they innovate, manage multiple programs, and respond to various challenges. While they need to cooperate with government on the services they contract with it, they often do not act as servants of government. Rather, organizations and government are intertwined in the design and implementation of policy. To recognize this, policy analysis must also be intertwined with organizational analysis.

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CHAPTER 24

PUBLIC–PRIVATE COLLABORATION

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1. Introduction

Economists most frequently contribute to public policy analysis through efforts to identify government's proper goals (the domain of welfare economics) and to guide the allocation of resources across competing claims (the domain of cost-effectiveness analysis). Yet a complementary and equally important analytic task is to inform the choice and management of *means*. Once retraining for trade-displaced workers is identified as a goal that warrants major spending, for example, the analyst's job is by no means done. Should government run training programs itself, contract with a community organization, issue vouchers to displaced workers, or use a tax incentive to induce firms to provide training? What principles tell us whether direct government supply, delegation to private non-profits, or for-profit provision is the best approach to park management, foreign aid, or renal dialysis?

Good governance requires choosing the right implementation model as well as the right ends. The richer the repertoire of alternative models, the more important is analytic work to guide the assignment of tasks. As government increasingly shares the collective-action stage with private actors, both for-profit and not-for-profit, addressing this assignment problem—who should do what?—becomes both more complex and more consequential. This chapter examines a particular form of public–private collaboration that we term "collaborative governance," here defined as:

> The pursuit of authoritatively chosen public goals by means that include engaging the efforts of, and sharing discretion with, producers outside of government.

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.