

C H A P T E R 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 polyarchy-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 2004a). 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 2004b). Quantitative expansion forced

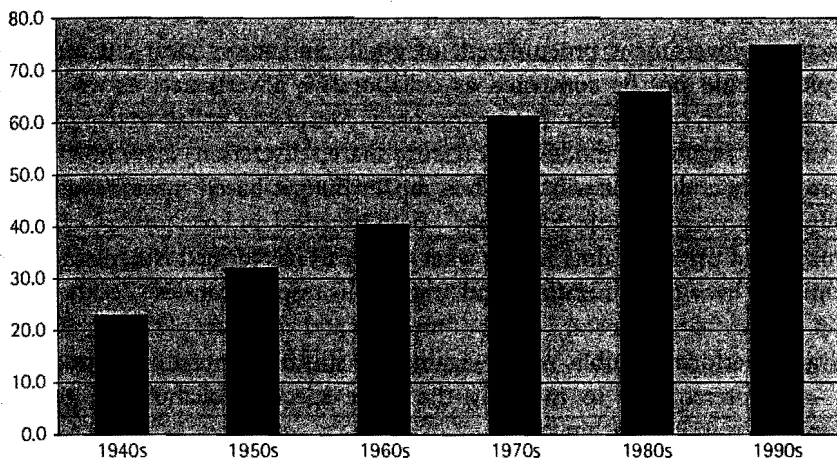


Fig. 24.1. Grants, benefit payments, interest, and other financial transfers as share of federal outlays: averages by decade, 1940–2000

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 2004c). 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 2004d) (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 counter-trend 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

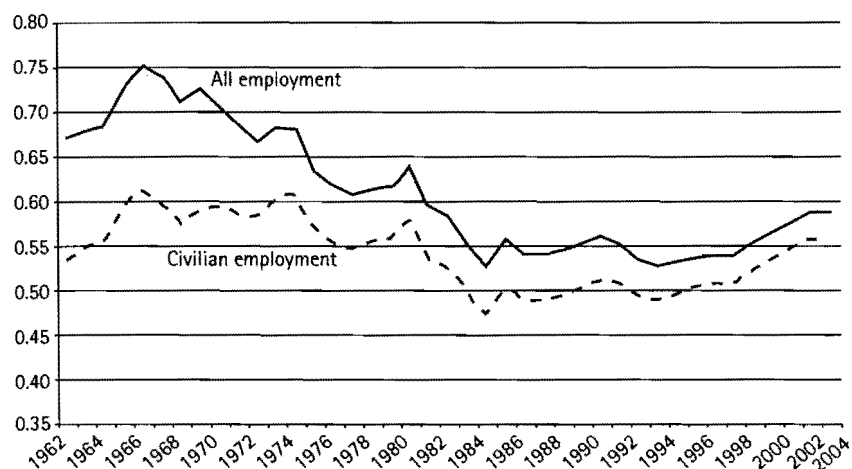


Fig. 24.2. Public employment (as share of total employment) relative to public spending (as share of GDP), 1962–2002

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 2004e). 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.

- *Higher spending.* Indirect production can sometimes prove more costly than anticipated, and can turn out to be more expensive than direct production. This can be because of an erroneous prediction of private productivity advantages; because of transactions costs; because the dilution of control leads to a different and more costly definition of the mission; or because private actors exploit and extract resources from their governmental partner. (Only the latter two categories are agency losses, strictly speaking, but all can show up as burdens on public budgets.)
- *Reputational vulnerability.* Most forms of indirect action expose the government to some risk that the actions of its agents will adversely affect its reputation. (Private partners, of course, face similar vulnerabilities with respect to both the government and other private participants in joint undertakings.) The overstretched US military has relied extensively on private contractors for logistical, security, translation, and other functions in Iraq during and subsequent to the 2003 invasion. In legal and budgetary terms there is a clear difference between a US soldier and a US military contractor. But Iraqis and Islamic observers of the conflict make no such distinction. The vividly publicized abuse of Iraqi detainees at Abu Ghraib prison seriously damaged the United States' image in the eyes of the Islamic world, probably for decades. Multiple reports have suggested that private contractors at Abu Ghraib were responsible for at least some of the abuses (Cushman 2004).
- *Diminished capacity.* In some cases opting for indirect production may discourage or even preclude the maintenance of capacity for direct governmental action. Any contractor knows that today's contract tends to build market power on a contract for tomorrow. To the extent that government becomes dependent on private capabilities, it puts itself in a disadvantaged position in future rounds of negotiation with its agents. Whether "path dependency" presents trivial or profound barriers to reverting to a direct delivery model, and whether reliance on external capacity entails minor or major future costs, will depend on the details of each case.

5. MAPPING COLLABORATIVE GOVERNANCE

Where does collaborative governance fit within the sprawling spectrum of models for structuring collective action? Our goal is to draw boundaries that impose precision without stumbling into obscurity or marginal relevance. One step toward anchoring collaborative governance is to read "governance" as dealing with public purposes that are conventionally associated with government. The orchestration of essentially individual purposes—however valuable, however far-flung and

intricate—is something different. (There is an element of circularity in this conception, of course, since “publicness” is defined in part by reference to the capacities and shortfalls of market-based collective action.) Beyond this imprecise boundary condition there are many potential dimensions along which collaborative governance can be defined. Here are six that we find instructive:

Formality. A collaborative relationship can be institutionalized on a spectrum ranging from formal contracts (or the equivalent) through informal agreements to tacit understandings. Many important collaborative governance relationships are informal. For example, the “military-industrial complex” identified by Eisenhower capitalizes on military contracts, but its principal instruments—e.g. lobbying efforts, historical precedent, personal relationships—do not appear on paper. While collaborations cemented solely by gentlemen’s agreements and implicit cultural codes may be important, they are hard to analyze, or even recognize. Hence, we focus on those characterized by some element of formality.

Duration. At one extreme are governance arrangements meant to be permanent (or at least indefinitely enduring); at the other extreme are ad hoc collaborations that dissolve as soon as a crisis is resolved or a goal achieved. Short-lived arrangements often arise in dramatic contexts and hence figure prominently in lists of familiar collaborations. Other things being equal, however, longer-lived collaborations seem more likely to prove consequential.

Focus. Collaboration can be narrowly structured to meet a single shared challenge, or can be more broadly designed to address a range of concerns common to the collaborating parties. The focus may be broadened chronologically, taking up new missions as old ones are fulfilled, or simultaneously with the pursuit of a portfolio of undertakings.

Diversity of participants. A minimum level of diversity among participating institutions—at least one public and one private player—is a threshold requirement for collaborative governance. Beyond this baseline, collaborations can display more or less internal diversity. For example, private players can be for-profit or non-profit, or (as with the US hospital sector) an assortment including both. A joint effort among “summit” institutions within a single country (the federal government, Wal-Mart, and the United Way in the USA, for example) features less diversity than, say, a collaboration among the Calcutta municipal authorities, Toshiba, and Médecins sans Frontières.

Stability. A collaboration will be stable if its members share objectives, and potentially volatile to the extent members’ norms or interests diverge. In less stable collaborations, tugs of war over the division of the pie may impede enlarging the pie, implying that significant energies must be devoted to maintaining the collaboration itself.

Discretion. Whose hand is on the tiller when it comes to validating the mission, assessing results, triggering adjustment, and so on? In other words, who is leveraging whom? A two-part test seems warranted here. First, to count as collaborative governance, a large share of discretion must rest with a player who is answerable to the public at large. While the specification of ends is a strategically complex matter, as later sections explore, authorized units of government will normally have the final word on the objectives to be pursued and the criteria by which progress is to be assessed. Where government is absent, weak, or undemocratic (not a clean criterion,

we recognize) this condition is unlikely to hold, so that our conception of collaborative governance is chiefly a phenomenon of relatively healthy polities. Second, each of the collaborating parties must possess a degree of discretion. If private participants merely carry out government's instructions—conveyed through fully specified contracts or other means—the relationship is something other than collaborative governance.

Indeed, the allocation of discretion is the most useful discriminant for separating collaborative governance from other forms of public–private interaction. Consider, on the one hand, corporate charitable contributions. Companies enjoy broad discretion over their philanthropic giving, and their choices are presumptively defined as “the public good” for tax purposes. There are limits, to be sure. Charitable deductions cannot, under current law, exceed 10 per cent of taxable corporate income (a constraint that rarely binds). No deductions can be claimed for gifts to political parties, or to the CEO's shiftless cousin. But while shareholders might quibble over grants to the chairman's alma mater, or the local polo league, or exotic religious sects, the government has no standing to complain short of trying to discredit the charity itself. The public sector is a party to the undertaking—surrendering revenue it would have otherwise received—but is a passive and silent partner. No doubt this arrangement permits occasions of waste or triviality, but there are strong reasons for protecting donors' discretion against governmental second-guessing on the merits of the mission—for example, so that government does not find itself in the position of declaring which religions are acceptable and which are not. (The Comptroller of Texas attempted to strip Unitarianism—one of America's oldest denominations—of its status as a tax-exempt church in 2004, on the grounds of excessive heterodoxy, but reconsidered after mild local protests and louder national ridicule (Herman 2004).)

Consider, conversely, a municipal government contracting with a private waste management company. The company's mission—to pick up the garbage and dump it at the landfill—is explicit, complete, and controlled by the government, and its motive is to maximize the revenue (less costs) it receives in return. If, upon contract renewal, the government wants the garbage to be collected on Fridays instead of Wednesdays, or incinerated instead of buried, it is at liberty to alter the mandate and the company's only legitimate claim is fair payment for the work. The private player is a pure agent, and discretion rests with the government. Denying the agent initiative—e.g. the right to shop for the cheapest disposal option—obviates some of the reasons for engaging private agents in the first place. But in many arenas of public–private interaction such one-sided discretion is both customary and prudent.

We do not address the myriad complexities that attend pure voluntarism or pure contracting. Nor do we suggest that binary assignments of discretion—wholly private or wholly public—are the normal case. Our goal is to demarcate the domain within which collaborative governance resides, and to underscore that the sharing of discretion both enriches the potential of public–private interaction and renders it much more complex, not just in application but analytically, in ways we will seek to describe once a few examples introduce somewhat more concreteness into the discussion.

6. ILLUSTRATIVE EXAMPLES

A virtually endless list of examples could be offered of arrangements that qualify as collaborative governance. We outline a few here, selected by the rather rudimentary choice criterion that they illustrate different aspects of collaborative governance.

New York City's Park Department. By the early 1980s New York City was losing the struggle to maintain its public parks. The Parks Department—while not particularly dysfunctional, by most accounts—was overmatched by its mission. As New York's mid-1970s fiscal crisis constrained the Department's resources, squalid and often dangerous parks became symbols of a city in decline. Improvisation under pressure eventually produced a strategy of enlisting private involvement in park upgrades, maintenance, and management.

Such involvement came in a wide range of forms, including conventional voluntarism ("friends of the park" groups clearing litter or supervising playgrounds in a neighborhood park) and conventional outsourcing (contracting out particular maintenance tasks) but also more complex arrangements featuring the sharing of discretion. In New York's most famous park, informal groups of concerned citizens coalesced—with the active encouragement of Department officials—into the Central Park Conservancy, a private non-profit that was given formal responsibility for managing the park in the late 1990s. The restoration and management of Bryant Park was delegated to a "business improvement district" authorized to collect special levies from surrounding businesses. Adrian Benepe, Parks Commissioner under Mayor Michael Bloomberg, declared such "partnerships" to be the linchpin of his management strategy. He and his senior staff often spent more time orchestrating the contributions of various non-governmental actors than they did managing the Department's workforce. While New York City did not cede formal ownership of any park, it delegated much of the responsibility for managing the system to private players (Donahue 2004; Rogers 1986).

Management-based regulation. Across a range of arenas the classic approach to regulation—in which government specifies what must be done to forestall safety, environmental, or economic harms—is yielding to approaches that grant regulated firms a degree of discretion. The trend is heterogeneous and carries various labels, but Cary Coglianese's term "management-based regulation" captures the central thrust (Coglianese and Nash 2001). Government regulators' recognition that they suffer a deficit of information, relative to regulated firms, is the fundamental motive for sharing regulatory discretion with firms' managers.

In the environmental arena, a conventional regulatory approach might specify the technologies for processing waste water before it can enter a river. A management-based approach would set maximum levels for each contaminant, but allow firms to decide the best way to meet the standards. In worker safety, the federal Occupational Safety and Health Administration (OSHA) has experimented with approaches that rely on companies to develop their own worker safety plans and tolerates technical deviations from OSHA rules in otherwise effective plans (Donahue 1999).

A comparable model for food safety regulation, the Hazard Analysis and Critical Control Point protocol released by the Food and Drug Administration in 2001, deals with the heterogeneity of the food-processing industry—and the FDA's scant familiarity with most firms' operations—by identifying generic "critical control points" but leaving it up to firms how to assure safety at each of these points (Coglianese and Lazer 2002). While flat generalizations about the broad and varied terrain of regulation are notoriously perilous, we perceive a widespread migration toward regulatory models featuring efforts to forge common goals, the sharing of discretion, and strategically charged interaction—in a word, collaboration.

Smallpox vaccinations for "first responders." The specter of "bioterrorism" surged to the forefront of American anxieties in the wake of the September 2001 terror attacks, and a deliberate release of the smallpox virus was a grim but conceivable scenario. Smallpox had been effectively eradicated roughly two decades earlier. Routine vaccinations had ceased, so most Americans were vulnerable to this highly contagious and devastating disease. Late in 2002 the Bush administration announced a plan of selective immunization to reduce the devastation should a smallpox attack occur. General immunization was rejected since vaccination carried a significant risk of complications. Instead, the administration planned to vaccinate military personnel bound for overseas conflicts and about ten million "first responders"—physicians, nurses, firefighters, police officers, and others who were both likely to be exposed early in a bioterrorism attack and whose services would be especially critical in limiting the extent of any smallpox outbreak. The short-term goal was a million vaccinations by the end of summer 2003.

The federal government took a direct approach to vaccinating the military: Service members selected for vaccination, including the commander-in-chief, met with military physicians or nurses and rolled up their sleeves. The civilian side of the effort was considerably more complex. Rather than delivering vaccinations through the Public Health Service, Centers for Disease Control, or some other federal entity, Washington relied on hospitals and other mostly private medical organizations to nominate half a million doctors, nurses, and emergency medical technicians for the initial wave of first responder vaccinations.

Within weeks half a million military service members had been vaccinated, but the civilian campaign was slow to start and quick to stall. Hospital directors and individual medical personnel compared the aggregate and abstract benefits of readiness to respond against the more immediate and focused risks of inoculation. A doctor or nurse receiving the vaccination would almost certainly suffer some discomfort; might miss some days of work; and faced an unknown but real risk of serious health complications. Moreover, recently vaccinated health workers could pass on the vaccinia virus—the mild but not innocuous relative of smallpox used to confer immunity—to patients or family members for whom this infection could be damaging or even deadly. As private players balanced the costs of vaccination (to themselves, their families, and the missions of their organizations) against the public benefits of preparedness against terrorism, many opted against it. Some hospitals explicitly and publicly declared they would not participate in the government's

campaign. Many more private institutions and individuals quietly opted out. By midsummer fewer than 40,000 civilians had been vaccinated. Within a few months the inoculation campaign was quietly halted.

Federal programs for worker training. The Workforce Investment Act of 1998 governs the use of federal funds for a range of job training efforts, including programs for young people, workers who have been displaced by technological change or foreign competition, and currently employed workers seeking additional skills. To an even greater extent than its predecessor legislation, this law envisages a collaborative approach to human-capital investment. It embodies the presumption that government has a strong interest in worker training, but tends to be badly positioned to carry out training itself. The usual public sector operational deficiencies—amply revealed in previous attempts at federal training programs—argue against setting up a network of government training centers.

But even if government were able to deliver high-quality, low-cost training on its own, it suffers from severe informational handicaps relative to private players. Effective workforce development requires fine-grained information about current and future skill requirements, and about the potential of particular workers, that government generally lacks. Thus the Act mandates the extensive involvement of private entities, both for-profit and non-profit. Each state and locality is required to establish a governing body, with a majority of business representatives, to oversee federally funded training activities. The private sector is extensively involved not just in governance but also in delivery. Community colleges and other non-profit educational institutions are eligible to deliver training, but so are for-profit training providers. Moreover, private firms are explicitly granted eligibility to deliver on-the-job training to individual workers and (under certain circumstances) to use public money to upgrade the skills of their overall workforce. While this collaborative approach to workforce development has its strengths and weaknesses, there is an apparently durable bipartisan consensus behind this general strategy (Donahue, Lynch, and Whitehead 2000).

Program for a new generation of vehicles. During his 1992 campaign for president, Bill Clinton called for increasing federal fuel economy standards from about 28 to 40 miles per gallon, within only eight years. Clinton's election—and that of his running mate Al Gore, whose best-selling book *Earth in the Balance* had called the conventional car "a mortal threat to the security of every nation" (Gore 1992, 325)—was greatly regretted, therefore, by US automakers. The industry had narrowly managed to block legislation in the previous Congress raising mileage standards, and braced for tougher rules under Clinton. Yet the new administration preferred to avoid a head-on confrontation with the auto industry. Moreover, once in office Clinton and Gore realized that reducing climate-damaging emissions (rather than just slowing their growth) would require mileage improvements far beyond what government could force upon an unwilling industry.

A series of overtures by technical experts in government and business led to high-level discussions over collaboration to reinvent the automobile, and early in the Clinton administration the president and vice president, along with the CEOs of the

three major US automakers, formally unveiled the Partnership for the Next Generation of Vehicles. The mission was to put into production within a decade cars with up to triple the fuel economy of 1993 models with no sacrifice in cost or performance (Clinton Administration et al. 1993). The means were thoroughly collaborative. An undersecretary of commerce and senior vice presidents from Ford, GM, and Chrysler were assigned to co-chair the initiative's steering group. Working teams of government and industry scientists and technicians, with full access to the national laboratories and research facilities of the Departments of Energy and Defense, the National Aeronautics and Space Administration, and other federal agencies, would push for breakthroughs in engine design, new materials, emissions control, and alternative fuels. A new unit in the Commerce Department—with a direct line to the White House, and in consultation with industry—would coordinate roughly \$300 million in annual federal research and development spending (Buntin 1997). While the Clinton administration did not promise to forgo seeking statutory increases in mileage standards, it made it clear that the Partnership was its preferred strategy for progress on clean cars.

By mid-2000 Washington had invested about \$800 million in PNGV, and the auto industry nearly \$1 billion. Ford, Chrysler, and GM had all developed "concept cars" that approached or exceeded the goal of 80 miles per gallon for a family sedan, though none were ready for mass production (Hyde 2000). But Honda and Toyota—which were not participants in PNGV—were preparing to market "hybrid" vehicles with mileage of around 60 mpg at a modest price premium over conventional cars. When George W. Bush defeated Al Gore in the 2000 election, the new administration announced its skepticism toward PNGV, and its first budget proposal cut funding sharply (Pickler 2001). Within a year the Bush administration cancelled PNGV, calling instead for a long-term effort to develop hydrogen-fueled cars (Garsten 2002).

We offer these illustrations not as authoritative type specimens, but simply as opportunistically selected samples from a very large population. Nor (for the moment) do we attempt to describe their dynamics or evaluate their success. Their chief purpose is to render somewhat less abstract the conceptual discussion to follow.

7. THREE FORMS OF DISCRETION

We now turn to a more detailed discussion of discretion, the most useful dimension by which collaborative governance is distinguished from other forms of collective action. We call it philanthropy when private players enjoy full discretion over the definition and pursuit of the public interest. We call it contracting when discretion rests with the government, and private players are simple agents. The murky middle ground, in which both parties exercise discretion, is the domain of collaborative governance. We distinguish among three kinds of discretion—involving production,

payoffs, and preferences—that shape the potential, the risk, and the strategic complexity of collaboration.

Production discretion. A fundamental motive for indirect governmental action is the realistic prospect of efficiency gains (relative to direct provision) through engaging private capacity. This motive does not on its own call for collaborative governance; government can harness private efficiency advantages, while avoiding the complexities of shared discretion, through simple procurement contracts. If government requires a truck, a bus route, or a software package, and recognizes that acquiring it from the private sector is likely to be more efficient than producing it internally, it can specify its requirements, invite competing bids, and choose the provider who promises to deliver on the best terms (Donahue 1989). The chosen contractor is permitted a good deal of latitude over how to meet the terms of the deal. Indeed, the expectation of efficiency through flexibility in production forms much of the rationale for outsourcing. But the definition of ends remains government's prerogative. Effective contracting is not a trivial task. The government runs the risk of error in determining its requirements; of mishandling the translation of these requirements into contractual terms, the choice among competitors, or the monitoring of a provider's performance; and of deceit or incompetence on the part of providers. The challenges, however, are relatively straightforward—more tactical than strategic.

Yet it is sometimes impractical, unwise, or flatly impossible for government fully to specify its goals. For example, the Department of Homeland Security has little understanding about what combination of ambulance drivers, nurses, and emergency room technicians would be most valuable to blunting a smallpox outbreak in Muncie, Indiana, so it lets administrators at Ball Memorial Hospital set priorities for vaccinating "first responders." The Occupational Safety and Health Administration may focus on trash compactors as the greatest danger in grocery stores, but the manager of the local Safeway may know that reducing the risk of loading-dock workers' slipping on spilled produce would deliver greater safety gains. A local job-training official might prescribe on-the-job training in statistical process control for Betty, but her employer may know that Betty is bad at math but good with people—and that in eighteen months the assembly line will be moved to Pakistan while the local office concentrates on marketing. No government agency is likely to match an automaker's judgement over the relative promise of innumerable changes in fuel, engines, design, and materials to boost mileage and hold down the costs of new-generation vehicles. In these and myriad other cases, public goals can be advanced more efficiently if private players are allowed some discretion not just over the means, but over the precise ends to be pursued.

When government yields a share of such discretion, it has crossed the line from simple delegation to collaborative governance. The boundary between "means discretion" and "ends discretion" tends to be imprecise, both in theory and in practice. The distinction is a useful one, however (also both in theory and in practice), and we suspect that a significant quotient of shared discretion characterizes many of today's more consequential areas of public-private interaction. In all but the most straightforward undertakings, private agents' participation in

specifying what is to be produced greatly enhances the potential for efficiency improvements. Yet it also amplifies government's challenge of ensuring accountability, in ways to be clarified through describing two other forms of discretion that tend to be unwelcome concomitants of production discretion.

Payoff discretion. Suppose that granting production discretion to private collaborators can frequently increase the efficiency of governance and create more value than either direct government production or contractual delegation with tightly defined goals. Dealing with the *distribution* of that augmented pool of value would still ensure that shared discretion remained a troublesome issue. The allocation of payoffs is a perennial problem of collective action, of course. But with both direct government production and ends-specified delegation it is a bounded problem. Government workers would prefer higher pay and more flexible schedules; their managers prefer leaner budgets and predictable staffing. Government contractors prefer rich profit margins and broad-minded evaluations; contract officers prefer low costs and rigorous compliance with specifications. The division of payoffs is a bargaining game, with the outcome dependent on each party's negotiating skill, will, and leverage.

Matters become far more complicated when collaborations feature a choice among alternative production points that lead to different distributions of value. An automaker, for example, would favor a new-generation car campaign that relies heavily on reformulated fuel (at the oil industry's expense) rather than redesigned engines. To the extent that new kinds of engines are part of the mix, the automaker would like to maximize the government's share of the research and development investment. For a given level of priority on new engines and a given share of the spending burden, a company that has already made progress on diesel-electric hybrids would like the campaign to anchor on that design. Similarly, it may be a good thing for Betty, her employer, and society at large for Betty to be trained in marketing. But her employer's share of the payoff will be larger if the government pays the entire cost, if actual marketing assignments as well as classroom work count as "training," and if the focus is on skills peculiar to the employer's market niche instead of more general capabilities that could tempt Betty to switch jobs if she doesn't get a big raise.

When production alternatives entail different immediate distributions of value, the inevitable entanglement of payoff discretion with production discretion renders government vulnerable whenever it lacks full information about the efficiency and payoff characteristics of each alternative. At best, government must expect collaboration to yield results that are better for the private players but worse for it than would be the case if all information were fully shared. At worst, collaboration may lead to a choice of ends and a net pool in public value that are inferior to what could be obtained through direct governmental production. This risk is not unrecognized, of course, and is why governments are usually chary about sharing discretion. Unfortunately, conventional tactics for limiting government's vulnerability to payoff discretion—such as tight performance goals, ceilings on agents' payoffs, or aggressive ex post auditing—frequently have the side effect of sacrificing efficiency gains available through production discretion. In theory, the government and private parties could contract around conflicts on the distribution of payoffs—agreeing to rebalance benefits through other deals—but in practice money tends to stick where it starts.

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 indiscriminating 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

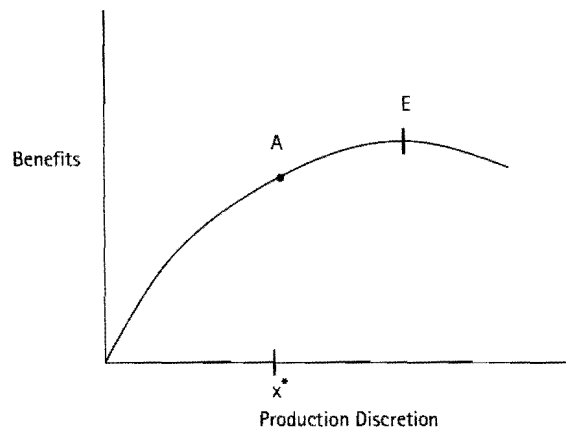


Fig. 24.3. Benefits of production discretion

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 intercepts 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

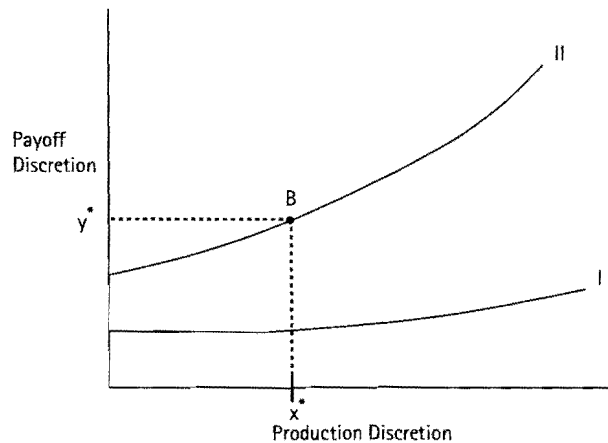


Fig. 24.4. Payoff discretion as a function of production discretion

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:

$$\text{MB of production discr.} = \text{MC of payoff discr.} + \text{MC of preference discr.}$$

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.

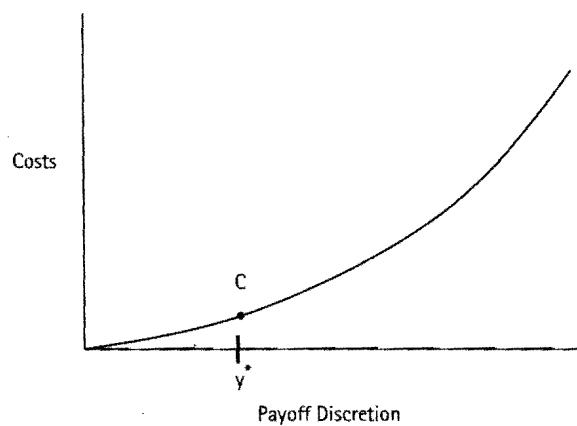


Fig. 24.5. Costs of payoff discretion

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.

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