Impacts of Institutional Rules on Public Management

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Abstract: Public management occurs within institutional contexts that are important because they define constraints and shape opportunities for public action and even more importantly, the creation, adaptation, and nurture of institutions is a socially valuable result of governmental action. Both analysis and practice of public management will be advantaged by systematic attention to institutional context. Analyses at the nation state level find government creation and maintenance of institutional rules supporting democratic polities and market-based economies are the most important factors in the long-term economic performance of nations. When considering institutional context at the regional and local levels, or in specific policy arenas, the “rules” definition of institutions needs to be expanded to include at least three other measures—(1) existing capacity for collective action, (2) complexity and (3) volatility. Estimating transaction costs of collective action can be a common entry point into analyses of institutional contexts.

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Public management occurs within an institutional context of rules facilitating and constraining collective action yet many writing about public management give little attention to institutional contexts. The conceptualization of institutions developed by North (1990), as humanly constructed rules facilitating and constraining action, is widely used and provides the starting point adopted here. This paper argues that institutional context is very important to the practice of public management and that developing theoretical approaches to more fully incorporate these variables into standard treatments is desirable and possible. Increased understanding of the roles of institutions is important to those interested in public affairs, public administration and public management for two reasons. First, creation and nurture of institutions is one of the most important results of governmental action and should be a major consideration in evaluations of governmental performance. Second, institutional rules vary, providing different contexts within which public managers act.

A group of colleagues and I are particularly interested in developing understanding of institutional contexts affecting ability for successful governmental action in regional and urban places. In this effort, it is becoming clear that analysis of institutions at

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1. I thank my colleague Sam Nunn for discussions about some of the issues in this paper and for comments suggesting improvements to a draft of the paper. My thinking about analyzing impacts of institutions on regions and local communities has also benefited from discussions over the past two years with my colleagues Greg Lindsey, John Ottensmann, Wolfgang Bielefeld and Joyce Man about strategies for analyses of regional public affairs. Any errors are my responsibility.

2. Under an award of general support from Lilly Endowment, Inc., the Center for Urban Policy and the Environment is analyzing investments by all four sectors—households, businesses, government and non
the regional level requires moving beyond formalized “rules” such as those used in analyzing nation states to include additional institutional factors are similarly powerful and durable. We focus on three institutional variables as potentially most useful for our analyses: (1) existing institutional capacity for collective action, (2) institutional complexity and (3) institutional volatility. Estimating transaction costs of collective action may be a useful entry point for summary comparison of institutional capacity in regions and specific public management contexts.

Two recent analyses focus on the roles of institutions in regions and localities. Clingermayer and Feiock (2000) analyzed institutional contexts of local governments, focusing largely on attributes associated with “reformed” institutions of local government (e.g., at large vs. district elections and council-manager vs. mayor-council) but also including analyses of the impacts of constraints imposed on local governments by the national and state governments. They found that institutional variables had statistically significant impacts on governmental activities such as adoption of zoning or use of selected economic development instruments (e.g., Urban Development Action Grants), with the reformed vs. unreformed character of local governments most often having a mediating effect. They also found that institutional variables affected how citizens approached elected city officials and how elected city officials performed their roles. Their analyses did not extend to assessing the impacts of institutional variations or resulting changes in behaviors of public managers on communities.

Lowery (2000) argues that fragmented governments increase the transaction costs of mounting policies intending to redistribute opportunities and assets among populations
defined by race and income. Policy choices that would be approached as “allocations” within government boundaries he favors become “redistributive” when they require moving fiscal resources across local government boundaries. The issue of city and county boundaries is central to analyses and collective action in metropolitan areas/regions in this nation, which are characterized by multiple local governments. He particularly critiques the public choice approach to such areas for an over emphasis on tax-service dimensions of local government and for ignoring the impacts of fragmentation on differences among groups defined by race and income.

Interestingly, he does not acknowledge that the motive behind several of the early consolidations (commonly folding existing cities into a county) was partisan advantage with a heavy racial exclusion element. (Erie, Kirlin and Rabinovitz, 1972) Unigov, often counted as a consolidation of the City of Indianapolis and surrounding Marion County, was an electoral, not service and financing consolidation. It created a Marion County-wide electoral base for the Mayor of Indianapolis, advantaging whites and Republicans who lived in greater numbers outside the old boundaries of the City of Indianapolis. However, as service delivery and financing were largely not consolidated with many of their important features remaining at the township level, the disadvantages of fragmentation to those who were poor or black continued. Moreover, important public responsibilities within Indianapolis-Marion County continue to be fiscally and politically isolated in boards and commissions only indirectly accountable to local elected officials (e.g., Capital Improvement Board, Airport Authority).

The Indianapolis-Marion County case also illustrates another difficulty in consolidation efforts—the relevant area of economic and demographic interaction was not
included within the original Marion County boundaries of Unigov and growth continues
to outstrip even the nine county Indianapolis MSA. For example, the Bureau of Eco-
nomic Analysis relies on commuting and media data to define the Central Indiana region
as encompassing 44 counties and six-MSAs. Whatever criteria are used to define the
relevant boundaries for a metropolitan or regional politics, those boundaries certainly
change over time. Accelerating spatial economic integration (even before “globaliza-
tion”), growth of populations and dispersion of people and economic activities over lar-
ger areas dooms hopes of adjusting jurisdictional boundaries to achieve a single encompass-
ning general purpose government in regions and most will have a great number of
such governments.

Lowery acknowledges that few consolidations occur in practice and also that few
have emulated the limited regional tax sharing undertaken in the Minneapolis-St. Paul
region. We believe the transaction costs of regularly adjusting the boundaries or signifi-
cant fiscal powers of cities and counties, the goal of advocates of consolidation, are so
high that they will occur only very rarely. The transaction costs of creating and using in-
struments of collective action must be a central part of our analyses and practice of public
management.

How we measure governmental performance at the regional and local levels is
important. Lowery (2000) advocates criteria based on relative access to opportunity and
assets. Clingermayer and Fieock (2000) do not explicitly address this issue, but one can
infer they prefer cities to effectively represent the interests of their citizens. As is more
fully developed below, we prefer broader criteria, which include both political and eco-
nomic dimensions, and especially include ability to adapt to changing circumstances over
time and for creation of desired futures. (Kirlin, 1996, 2001a, 2001c)

Institutions and public managers\(^3\)

At the nation state level, considerable attention has been given to development of
the two dominant institutions of today’s world, nation state polities (especially democracies) and markets. Brief discussion of these two institutions sets the stage for examination
of institutions of more limited scope. Markets are institutions, where rules regarding
property, contracts, currency, weights and measures, forms of business organization and
established processes for resolving conflicts facilitate and constrain human actions. Poli-
ties are also institutions, with rules regarding citizenship, structures for making collective
decisions, selection, power and removal of individuals exercising collective authority,
processes to resolve conflicts and sanctions for undesired behaviors. Nation states and the
governments within their borders are the dominant manifestations of polities today.
Spruyt (1994) concluded that nation states surpassed rival city states and leagues of cities
as the dominant modern form of political organization because wider geographical scope
for rules important to markets (specifically common currency and weights and measures),
combined with sufficient control over human actions within their borders to make credi-
ble commitments to other polities, gave them advantages in long term economic competi-
tion.

Governmental performance continues to be critical to economic performance,
primarily through creating favorable institutions for action by individuals, households,

\(^3\) Portions of this section are adapted from John J. Kirlin. 2001. “Measuring Public Contributions to
Valued Places.” Paper presented at the Annual Meeting of the American Political Science Association, San
business and other organizations. The World Bank (1997) organized persuasive evidence on the importance of capable, effective states (that is, governments) in economic performance. They argue that governments must first get five fundamentals right: establishing a foundation of law, maintaining a non discriminatory policy environment, investing in basic social services and infrastructure, protecting the vulnerable, and protecting the environment. Success in these areas of governmental action was judged to be the most important contributor to a nation’s economic success over time. When the World Bank discusses a foundation of law, they emphasize laws required for operation of a free market economic system, such as private property rights, and not law providing for operation of a democratic political system, such as rights of free speech and assembly or of systems of electoral accountability.

Hall and Jones (1999) conclude after a rigorous examination of output per worker in 127 nations that “social infrastructure,” most provided by government, is the single fundamental determinant of variations, far more important than capital intensity or human capital per worker. Their measures of governmental performance include: (a) law and order, (b) bureaucratic quality, (c) government corruption, (d) risk of government expropriation, and (d) risk of government repudiation of contracts. The first two measures focus on governments’ role in limiting private predation on productive activities (e.g., thievery) and the latter three measures focus on limiting government predation on productive activities. Hall and Jones (1999: 30) estimate that differences in social infrastructure account for a range of 25.2 to 38.4-fold difference in output worker across countries. “Differences in social infrastructure across nations cause large differences in capital ac-
cumulation, educational attainment, and productivity, and therefore large differences in income across countries.” (1999: 38)

Government performance at the institutional level is fundamental. Without strong government performance in the dimensions identified by Hall and Jones, increases in capital intensity or human capital per worker will yield disappointing gains in output per worker. Importantly, stronger governmental performance attracts capital investment and improvement in human capital, leading to increased worker productivity, and increased output per worker, a truly “virtuous circle” of increasing benefit as wealth is then available for more investment in physical and human capital, consumption, environmental improvements, arts and culture or other purposes.

The fact that important consequences of governmental action are achieved indirectly complicates both public discourse and academic analysis concerning governments. Individuals in households, businesses or nonprofit and civic associations can easily ignore or take for granted the institutional contexts and numerous indirect, even though identifiable, specific contributions provided by government that makes success in their endeavors possible. Analysts can focus on the internal processes of government or upon narrow measures of impact upon society and avoid consideration of larger impacts of governmental action upon society.

Similarly, analysts of “public management” can ignore the institutional contexts within which their subject matter unfolds. Moore (1995: 3) identifies his primary focus as public officials “…both held accountable for public sector performance and given direct authority over public resources…primarily those who hold line management positions in executive branch or independent agencies..” He acknowledges that “institutional struc-
tures” can be viewed as shaping public management but advocates focusing on actions within the scope of competence of practicing public managers as useful to those individuals.

Moore (1995: 4) argues that “one of the most important “institutions” that needs to be reformed is our current, conventionally held views on what public managers could and should do..Indeed, if we could change only that particular institution, I think we would discover that many institutions could be made to perform better.” This usage labels as institutions both ideas about public management and government organizations, very different uses than advocated by North or used here. As Moore develops his argument to advocate for public managers as “explorers” for public value, he defines the issues as ethical behavior of individual public managers “acting for a divided, uncertain society.” (1995: 293-309) His profiles of individual public managers provide very little generalizable guidance as to possible variation in the institutional context of public managers.

Moore is not alone in focusing attention on internal operations of public agencies. Barzelay, for example, defines the goal of New Public Management (NPM) as “..applying intelligence to practical questions involving the performance of the executive function in government” (1998: 20) and insists that the concepts of agency theory, emphasizing the controls of specific principals upon the actions of specific agents, provide the standard by which discourse and learning proceed.

This emphasis on operations within public agencies continues the emphasis upon organizational level phenomena and efficiency in use of inputs long common in public administration. (Kirlin, 1996, 2001a) These tendencies are only accentuated among those who emphasize public management and policy analysis, where even less attention is
commonly paid to institutional context and consequence. Radin (2000) analyzes how the field of policy analysis focused initially on informing choice making of single public executives. She argues that the field of policy analysis now seeks to accommodate the fragmentation and pluralism of interests contending to shape policy and the social interaction character of the enterprise, with policy analysts no longer “..speaking truth to power, [but] speaking truths to multiple powers.” (2000: 186) Increased complexity resulting from increased fragmentation is one of the institutional contexts of public management identified below.

Institutions Provide Varied Contexts for Collective Action and Public Management

What dimensions of institutional context are important for understanding and action? One barrier to making progress on incorporating institutional context into analyses and action is the challenge of doing so effectively. If institutional context is thought of as including political, legal, budgetary, organization structure, organizational context, and stakeholder relationship variables specific to individual public managers, or even single agencies, generalization is difficult. However, there is an important role for such analyses to assist public managers in performing their jobs and reformers in identifying strategies and mobilizing energy for needed change.

A recent report of the National Academy of Public Administration on environmental protection policies concluded that the current environmental regulatory system, including the United States Environmental Protection Agency and state and local environmental regulatory agencies, fails the nation because the system cannot address three pervasive problems (2000: 18-19). The first includes “policy problems,” where the domi-
nant approach of regulation of industrial sites cannot reach remaining sources of pollution, such as non point runoff from large and small users of fertilizers and household level decisions concerning energy use. The second pervasive failure involves “management problems,” such as those derived from separating and focusing EPA’s programs and offices exclusively on air pollution, water pollution, and hazardous wastes, making responses to environmental problems impacting two or more of these categorizations, or having a strong “place” character, such as ecological issues, very problematic. Additionally, environmental protection policies, programs and agencies are not designed to collaborate effectively with other significant governmental actors, including the Departments of Energy, Transportation and Agriculture, for example. The third category of “political problems” identified as pervasive include deadlock in addressing well-known policy and management problems such as those just listed, deadlocks between political parties, between Congress and the President and between EPA and state environmental agencies. Any mid or higher level “public manager” involved in environmental protection can expect to be buffeted by the conflicts engendered by these three pervasive failures and to make halting progress toward the presumed goal of improved environmental quality.

While this level of detailed knowledge is useful to those analyzing or managing in a specific context, simply accumulating specifics is an unpromising way to improve our general understanding and capacity. This example does illustrate two important dimensions of institutional context—existing institutional capacity for collective action (high when a few industrial practices can be changed; low for more dispersed sources of pollution) and complexity (high). Little institutional volatility is seen in this policy arena.
The institutional factors analyzed by the World Bank (1997) and Hall and Jones (1999) appear at first glance to be too distant from most policy choices and actions of contemporary public officials to provide guidance despite their powerful explanatory power at the nation state level. Upon examination, however, they provide two insights into institutional context that are valuable at “lower” levels of choice and action. The first is the societal value of simply having instruments of collective action and the second is the importance of transaction costs.

Let us first look at the issue of available instruments of collective action, illustrating the argument with evidence emerging in analyses of nine regions in which the authors are engaged. The argument is simple and has both analytical and normative dimensions. The expectation/hypothesis guiding analysis links three variables in a causal chain from institutions though governmental actions to societally relevant outcomes: (1) more (and more capable) instruments of collective action (2) result in increased public investments that (3) improve economic performance of regions over time (largely by eliciting/facilitating investments by households and private businesses). The instruments of collective action of being analyzed now are local governments, including public authorities, and their capacity to raise revenue and to issue debt and to plan for the future. We are also interested in the interactions among these variables and social capital (Putnam, 1993; Saguaro Seminar, 2001) and measures of civic and political engagement and satisfaction of citizens.4

4. Our colleague Wolfgang Bielefeld was the Indiana field representative for the social capital survey Putnam organized and an expanded sample was surveyed in Indiana. The Center is also supporting Professor Bielefeld’s analysis of nonprofit organizations in Central Indiana allowing a richer analysis within that region.
Table 1 reports the preliminary compilation of information about local governments in the Central Indiana region and five midwestern competitor regions (Cincinnati, Cleveland, Columbus, Kansas City and Nashville) and three national competitor regions (Austin, Raleigh/Durham and Sacramento). Variations in institutional context are seen in at least two areas in this simple compilation. The number of governments per capita varies among regions, as does the percentage of city governments within the region using the council-manager form of government. On the latter measure, Central Indiana is a clearly distinct case with only three percent of its cities having city managers and the proportions of cities with city managers among the midwestern competitors is less than among the national competitors.
Table 1. Structure of local governments in nine regions, 1997

<table>
<thead>
<tr>
<th></th>
<th>Number of Local Government Units, 1997</th>
<th>Measures of local governments, 1997</th>
<th>County Seat Municipal Governments by Type, 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>County</td>
<td>Townships</td>
</tr>
<tr>
<td>Austin</td>
<td>203</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Raleigh-Durham</td>
<td>177</td>
<td>18</td>
<td>-</td>
</tr>
<tr>
<td>Sacramento</td>
<td>569</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>Indianapolis</td>
<td>1,429</td>
<td>44</td>
<td>492</td>
</tr>
<tr>
<td>Cincinnati</td>
<td>525</td>
<td>22</td>
<td>159</td>
</tr>
<tr>
<td>Cleveland</td>
<td>836</td>
<td>23</td>
<td>344</td>
</tr>
<tr>
<td>Columbus</td>
<td>784</td>
<td>25</td>
<td>401</td>
</tr>
<tr>
<td>Kansas City</td>
<td>1,549</td>
<td>49</td>
<td>360</td>
</tr>
<tr>
<td>Nashville</td>
<td>467</td>
<td>54</td>
<td>-</td>
</tr>
</tbody>
</table>

*Type of special district, 1997

<table>
<thead>
<tr>
<th></th>
<th>Austin</th>
<th>Raleigh</th>
<th>Sacramento</th>
<th>Indianapolis</th>
<th>Cincinnati</th>
<th>Cleveland</th>
<th>Columbus</th>
<th>Kansas City</th>
<th>Nashville</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservation</td>
<td>15</td>
<td>23</td>
<td>116</td>
<td>93</td>
<td>28</td>
<td>26</td>
<td>34</td>
<td>101</td>
<td>66</td>
</tr>
<tr>
<td>Development</td>
<td>21</td>
<td>17</td>
<td>7</td>
<td>29</td>
<td>10</td>
<td>20</td>
<td>24</td>
<td>67</td>
<td>39</td>
</tr>
<tr>
<td>Health, education,</td>
<td>5</td>
<td>0</td>
<td>20</td>
<td>431</td>
<td>52</td>
<td>32</td>
<td>25</td>
<td>109</td>
<td>20</td>
</tr>
<tr>
<td>welfare</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other services</td>
<td>20</td>
<td>1</td>
<td>255</td>
<td>19</td>
<td>45</td>
<td>58</td>
<td>38</td>
<td>184</td>
<td>12</td>
</tr>
<tr>
<td>Power</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Transportation</td>
<td>1</td>
<td>7</td>
<td>37</td>
<td>0</td>
<td>8</td>
<td>28</td>
<td>21</td>
<td>101</td>
<td>13</td>
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<tr>
<td>Water and Wastewater</td>
<td>72</td>
<td>7</td>
<td>78</td>
<td>40</td>
<td>19</td>
<td>12</td>
<td>13</td>
<td>164</td>
<td>99</td>
</tr>
<tr>
<td>Totals</td>
<td>135</td>
<td>58</td>
<td>520</td>
<td>614</td>
<td>162</td>
<td>176</td>
<td>155</td>
<td>728</td>
<td>253</td>
</tr>
</tbody>
</table>

Legend:
Conservation = drainage, natural resources, flood control, irrigation, solid waste, reclamation, soil & water
Development = industrial development, mortgage credit, housing and community development
Health, education, welfare = education, health, hospitals, libraries, public welfare
Other = cemeteries, fire protection, parks and recreation, other miscellaneous services
Power = electric power, gas supply
Transportation = airports, highways, water transport/terminals, mass transit
Water and wastewater = sewerage, water supply

Additional understanding of the institutional context for public action in a place can be obtained through analyses of its economic structure and the spatial distribution of firms. Techniques to analyze and portray this information are widely used by regional economists, planners and geographers. Figure 1 shows economic clusters present in the Indianapolis MSA and Figure 2 shows similar information for the Kokomo MSA, an hour’s drive north. Significant inter-firm linkages define economic clusters and the data analyzed here are from 1997. Indianapolis has many more economic clusters than does Kokomo and this information suggests that it will have different demands for public action (e.g., in terms of transportation, environmental quality, education, etc.). The Indianapolis MSA is also likely to be more resilient in economic recessions and is more likely to experience significant growth pressures and this information also provides some clues as to the character of the issues that are likely to emerge on the public agenda.
Figure 1. Indianapolis MSA Economic Clusters

- **F.I.R.E.**
  - Mortgage banking
  - Insurance

- **MANUFACTURE**
  - Drugs
  - Electrical goods
  - HQ functions
  - Motor vehicles

- **HEALTH SERVICES**

- **HIGHER EDUCATION**

- **TRANSPORT**
  - Air, scheduled
  - Trucking & courier services

- **PRODUCER SERVICES**
  - Computer and data processing services
Figure 2. Kokomo MSA Economic Clusters

MANUFACTURE

- Metal forging and stamping
- Motor vehicles and parts

PRODUCER SERVICES

- Computer and data processing services
Figure 3 provides information about the spatial distribution of life sciences firms, classified into four categories. The map encompasses the 44 county Central Indiana region as defined by the Bureau of Economic Analysis. Again, the map suggests both resources and possible demands on the public sector. Scott (2000) uses similar techniques to analyze “image-producing” industries (film, TV, music) in southern California. Such analyses commonly find spatial concentration of industries and clusters with important consequences for the overlying political jurisdictions.
FIGURE 3: LIFE SCIENCES FIRMS LOCATED THROUGHOUT REGION BUT CONCENTRATED IN MARION COUNTY
The existing “institutional endowment” providing a context for public action is critically important both to individual public managers and to the collectivity they serve. A richer institutional context provides both demands and resources that are not available in a simpler context and such institutional contexts change relatively slowly. Stone, Henig and Jones (2001) focus on what they define as “civic capacity” to analyze efforts to reform public K-12 education in eleven cities. Civic capacity is related to the concept of social capital as used by Putnam (1993, 2000) and others, but differs significantly in focusing on capacity to mobilize, focus and sustain public action. Based on extensive field analyses of the eleven cities and assessments of success in reforming public education, the authors conclude that cities with dense social networks across diverse communities were advantaged when those networks could be activated and managed through politics. The cities analyzed and their ranking from high to low civic capacity regarding education reform are: Pittsburgh, Boston, Los Angeles, Baltimore, Houston, Washington, DC, Detroit, Atlanta, Denver, St. Louis, and San Francisco. Importantly, “political” capital is expended in these reform efforts—unlike the assumption of social capital analysts, mobilizing and focusing for significant policy objectives not only generates capacity, but also uses that political capital.

Five institutional context implications for public action and public managers emerge from the analyses of Stone, Henig and Jones (2001). First, the “density” of available networks matters, with denser networks providing resources. Second, the resources of whatever networks exist must be focused, mobilized and sustained through political leadership and actions. Third, formal governmental authority is critical in addressing sig-
significant societal problems and public officials play large roles in whatever actions are undertaken. Fourth, “reform” attention and energy in any community is limited to a very few issues at any time. Fifth, political capital is both gained and expended in mobilization of networks to address significant issues. Luke (1998) provides generalized analyses of similar issues regarding the necessity for “catalytic” leadership in complex, fragmented, integrated systems.

**Complexity and Volatility as Two Critical Variables**

Complexity and volatility affect collective action and public management in important and non-obvious ways. Simpler, stable contexts would appear to make collective action and the tasks of public managers easier. That certainly has been the presumption of many advocates of governmental reforms, who commonly advocate concentrating authority, reducing “overlap and competition” and presume that whatever reforms they advocated will never require reconsideration and further change. A common theme of efforts to reform the national government has been concentration of authority. (Rosenbloom, 2001: 161-162) Similarly, advocates of structural reforms to address “metropolitan” problems commonly advocated consolidation and integrative planning. (Committee on Economic Development, 1966, 1979) In practice, little consolidation or integrated planning occurred in regions.

Systematic critiques of the consolidation and integration planning metropolitan reform proposals have been available for nearly half a century. Erie, Kirlin and Rabinovitz (1972) found that the results of large scale, comprehensive reforms along the lines of those advocated by reformers increased costs of services and decreased political partici-
pation. Other empirical analyses showed that local governments used cooperative strategies ranging from reciprocity agreements for fire and police services, through mutual adjustment processes where decisions had cross border effects, to creation of special districts and other authorities that crossed governmental boundaries and contracting of services, to at least partially address problems reformers believed justified wholesale changes in governmental structures. The public choice perspective developed a rationale for polycentric, fluid government structures, derived from a perspective that emphasized the service provision roles of local governments and considered services as “industries” where decisions about levels of activity could be severed from actual production of services. While some who used this framework advocated “shrinking government” (Savas, 1982), the conceptual approach found use beyond advocates of smaller government. As discussed above, Loery (2000) assembles critiques of this approach and arguments in favor of consolidation that emphasize negative impacts of fragmented local government boundaries on the poor and blacks.

Another perspective on urban affairs looks beyond the service provision roles and distributional effects of local governments to encompass, or focus upon, their roles in economic development. Sonenblum, Kirlin and Ries (1977) analyzed service provision decisions of cities using an adaptive search model derived from March and Simon and found that California city officials studied strongly protected core activities related to control of land uses and finances critical to their economic futures. Much “contracting out” was of activities simply not central to city core missions as defined by city officials. Although starting with a focus on decisions about service provision, this perspective is strongly congruent with the line of research that considers cities to be “growth machines”
and analyses participation in decision-making and the differential impacts of decisions about growth, including distributional effects. (Stone, 1989)

These literatures on local/metropolitan/regional governance suggest that complexity is an important institutional variable for public managers. First, the environment of local government is not simple but complex—any single local government official exists in a context of many adjacent and overlapping governments. Second, efforts to address inter jurisdictional issues increase complexity because the “simplifying” reform strategies of consolidation into an encompassing political authority or comprehensive planning have not been widely adopted or always judged successful when adopted.

Moreover, local governments are an excellent example of volatility as an institutional factor affecting public management. Constitutionally subordinate to national and state governments, local governments and their managers are subject to rapid shifts in policies, programs and fund flows. Policies and programs developed and administered separately within agencies at the national and state levels are to be somehow integrated locally. Unfunded mandates (Nivola, 2001) are one example of such dynamics.

Fiscal limits imposed at the state level have also dramatically impacted local governments. Four types of fiscal limits exist: (1) reductions and limits in a specific revenue source, (2) limits on total governmental revenues or expenditures, (3) policy choices resulting in reduced fiscal resources, and (4) rules for decision making that effectively raise the barrier for increased revenues or expenditures. Passage of Proposition 13 by California voters in June 1978 ushered in the era of fiscal limits. Eighteen states had fiscal limits by 1986 (Stansel, 1994). Analysts of fiscal limits in California argue that fiscal limits have substantial effects on local governance, centralizing power in state policy arenas,

California’s experience with fiscal limits provides a well-documented example of volatility. At least four major transformations of the state-local fiscal relationship occurred in that state in 25 years: (1) passage of Proposition 13 in 1978, (2) creation of state rules to allocate property taxes in 1979, (3) permanent shift of property tax base and $3.6 billion of associated revenues from cities, counties and special districts to K-12 public education in the 1992-93 and 1993-94 legislative sessions (the amount of revenues shifted grows annually) and (4) passage of Proposition 218 in 1996, requiring voter approval of a variety of taxes, fees and assessments previously requiring action only by the elected local government governing board. (Kirlin, 1998)

Similar examples of increased complexity and volatility could be assembled for state and national governments and internationally. However, the point of increased complexity and volatility is sufficiently established and its character illustrated. Even if only affecting employees of counties, municipalities, townships and special districts, that still represents 11.6 million (59 percent) of the total 19.5 civilian governmental employees in 1997. (Census Bureau, 2000: Table 524, page 330) Complexity and volatility warrant inclusion in analyses of the institutional context of public action and public management.

The large shifts in fiscal systems of local government occasioned by fiscal limits suggest that models of “punctuated” organizational change may be useful in analyzing
the responses of local governments. Applications of this approach to private organizations often focus on firm survival, a measure less directly applicable to public organizations, few of which ever fail to survive. In addition, however, this approach includes analysis of “fit” between an organization and its environment and of “trials’ in which new routines are mastered, both useful in analyzing public organizations. For example, choice of strategy by cities (political or entrepreneurial) is plausibly related to fit with environment and the expansion in use of debt suggests trial periods of learning new routines. If city governments are limited in their statutory ability to issue debt, or if they have few opportunities for entrepreneurial activity, then opportunities for adaptations are limited.

Organizational theorists examining resource dependency expect organizations to engage in purposive strategic action. Such action is clearly seen in both the state and local political arenas in California. At the state level, public elementary and secondary schools sought advantage in competition for state funds with Proposition 98 and other local governments sought to “rebalance” the fiscal system more to their advantage with Proposition 111. Both efforts succeeded in attracting sufficient votes to approve statewide initiatives. At the local level, cities pursue different strategies to advantage themselves in competition for funds at the state level and to enhance the value of their local economy. San Francisco exploited its connections to members of the state legislature who have leadership roles to great advantage. Fairfield and Roseville were entrepreneurial in using city powers to develop their local economies. Emeryville aggressively used its city pow-


ers, including redevelopment authority and issuance of large amounts of debt to restructure the town’s economy from decaying industrial to vibrant bio-tech, retail and commercial economic sectors.

Related to purposive strategic action, the institutional context of public planning is also an important component of an effective system of governance. One objective of our analyses of the Central Indiana region has been investigation of how use of basic planning tools differs among the 44 counties and larger cities Central Indiana. Greg Lindsey and his colleagues have assembled comprehensive data on planning practices in this region. (Lindsey and Palmer, 2000) More complex planning institutions may have a positive impact on public and private investment patterns. As an example, the 44 counties of Central Indiana were into groups reflecting low, medium and high planning capacity (based on the type and number of planning instruments used, such as planning commissions, comprehensive plans and capital improvement plans). Use of more planning instruments was found correlate positively and strongly with both public and private built investment. (Nunn and Lindsey, work in progress, 2001)

Networks have been the focus of yet another group of organizational theorists.7 Two attractive features of this approach are explicit consideration of power relationships in the work of Burt (1992) and of a focus on effective performance of a whole system, as opposed to single organizations, seen in Provan and Milward (1995). States are in very powerful positions vs. local governments, and local governments have formal powers in relationship to other community institutions. Effective governance requires capacity of a

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whole system, and success of any single unit of government or category of governments, or of private firms vs. governments, is unlikely to result in success of the whole. However, analyses of networks in the public administration/public management literature have not yet done much to generalize how institutions, including formal governments, shape the form and evolution of networks. Provan and Milward (1995, 2001) suggest that existence of a strong “network administrative organization” (typically a public agency disseminating funds and coordination activities of organizations in the network) is critical to a tightly integrated network. They also suggest that greater “multiplexity” of relationships among network organizations can strengthen network capacity (2001: 419) and that differences can be expected between younger and more mature networks. Further development of such institutional variables should make network analyses more powerful analytically and more useful to those seeking to improve governmental performance.

Organization theorists also argue that organizations that are “embedded” and “autonomous” are claimed to be more successful over long time periods. These concepts appear particularly useful in explaining differences between cities and counties in adapting to passage of California’s Proposition 13. Cities have been much more successful in changing activities and developing new revenues sources than have counties. Cities, responsible for most land use decisions, police and local roads, reflect community values better than do counties, which emphasize services to low status individuals (jails, welfare and indigent health, for example). Additionally, cities have more autonomy in action than do counties, focusing on areas characterized by broader legal discretion (e.g., land use v. child protective services) and greater discretion in generating and allocating revenues.

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The patterns of interaction among local governments and the state over fiscal matters illustrate the economist Douglass North’s (1990) argument that “organizations,” here, local and state governments contending over fiscal resources, are constrained by but also change “institutions,” here, the constitutional menu of available governmental instruments and important fiscal powers of governments.⁹ One insight of this approach is that the fates of whole sets of local governments are affected by the changes in rules at the institutional level. Proposition 13 affected all California local governments receiving property taxes and Proposition 218 affects the revenue raising of all local governments. Similarly, invention of two new types of municipal debt--Mello-Roos Bonds to finance infrastructure for new development and Certificates of Participation to finance equipment and facilities--affect whole categories of local governments in that state.

Indiana state government collects all sales tax revenue generated within local jurisdictions and then redistributes those revenues under a complicated formula linked to jurisdictions’ property taxes. This is a very restrictive fiscal system. Other states provide more flexible fiscal systems to local governments. Texas, for instance, gives cities power to institute local option sales taxes to fund a variety of self-selected activities, addition to a universally available one-percent sales tax going to cities based on the point of sales. In California, cities impose a one-cent sales tax that is collected by the state on top of its sales tax and returned to cities on the basis of point of sale. Counties have the same power and receive sales tax revenues in the same manner for areas not within boundaries of cities. Cities and counties can also seek voter approval for additional sales tax levies for specified purposes.

⁹ North, op. cit., 73-82.
Transaction Costs of Collective Action as a Useful Summary Comparison?

The transaction cost of collective action could provide a useful summary measure relevant to the institutional context of individual public managers. To illustrate the point, imagine a single public manager in two polar opposite situations. In the first situation, the public manager has all the institutional instruments needed to achieve the desired action—all that is required is “management” of those resources. In the second situation, the public manager has none of the required institutional instruments—nothing is available to “manage”. As suggested above, the transaction costs we focus on include both those associated with making and implementing policy decisions, but also the transaction costs of creating institutional instruments in which collective choices can be made and implemented. These costs are very large and their inclusion into treatments of public management is very important.

What might be included on the list of “institutional instruments?” Following the analyses of the World Bank (1997) and of Hall and Jones (1999), the existence of functioning, competent, democratic government must be on the list, as must be all that they identify as required for a government to be judged competent, including the rule of law, nondiscriminatory policy environment and controls on governmental action and more as identified above. The chastening experiences of nation building among third world nations or of moving nations ruled under communist systems toward democracy and capitalism illustrate the huge investments required to reach the levels of institutional functioning of the established capitalist democracies. An accessible recounting of the difficulties in moving Russia toward democracy and capitalism is available in Tayler (2001).

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Evidence of differences in capacity for collective action in specific regional and local contexts is also available. Consider the case of California and Indiana cities facing pressures of population growth and/or desire to restructure their economies. Public managers of California cities, even after passage of fiscal limits, have a wider range of revenue sources and a wider range of debt instruments available than do Indiana cities. Moreover, California cities are advantaged by decades of professional administration of critical systems of collective action. For example, Indiana politics has been wracked for several years by the necessity to bring its property tax system into compliance with a court ruling finding the current system to be unconstitutionally discriminatory. The current property tax system has no defensible linkage to market values of properties and is implemented by over 1000 locally elected township assessors who often have little training and few resources, resulting in variations in property tax implementation.

Lowery (2000) limits his application of transaction costs in metropolitan governance to those associated with mobilizing to achieve redistribution among groups. These transaction costs are relevant, but analysts must include the transaction costs of reaching all decisions, including those associated with creating, nurturing, and modifying the local and regional arenas in which collective choices are made.

The issue of transaction costs arises also in the assessment of environmental protection policies undertaken by the National Academy of Public Administration (2000), discussed above. One consequence of failure to address the three pervasive problems identified in that report is higher transaction costs to achieve the levels of environmental protection obtained. In a particular telling example, parallel air quality policies are operated in California by the national EPA and California’s state Air Resources Board and
local air quality management districts with sufficient differences in the two systems so that they not only duplicate costs of mounting programs but also costs of compliance and reporting by regulated firms. (Silvern, 2000). This use of transaction costs returns to that of analyses at the nation state level, where the important transaction costs are those borne by individuals and organizations and government achieves beneficial results largely by reducing such transaction costs.

Qualitative assessments of transaction costs are likely to be all that is possible in many cases, but even those assessments can prove useful in guiding public managers and those who seek to improve performance of governments and their value to society.
Bibliography


