POLICY IMPLEMENTATION NETWORKS: THE IMPACT OF ECONOMIC DEVELOPMENT ON NEW PUBLIC MANAGEMENT

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Abstract

Public policy implementation in the 21st Century often involves a complex web or delivery network that minimizes traditional direct service methods employed by governmental entities. These new delivery systems helped create New Public Management (NPM), a managerial approach significantly different from conventional public administration. The intellectual debate on NPM often lacks a systematic examination of its specific tools and techniques. This paper examines the roots of New Public Management instruments, demonstrating that shifts in intergovernmental relations (IGR) altered the mechanisms and processes of public service delivery, creating new approaches and tools for administrators to implement public policy. Citing programmatic changes in the delivery of economic development policy in one state as evidence of this shift, this paper shows the links between new implementation approaches and many New Public Management tools.

Introduction

The process of implementing public policy has changed, especially in domestic areas like economic development. Beginning in mid 1970s the delivery of large portions of domestic public policy gradually ceased being the exclusive and direct responsibility of employees on the government payroll. Instead, by the 21st Century, public service delivery often occurs in an indirect manner. Implementation in many cases, then, involves a collaborative effort

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linking public, private and non-profit organizations in a complex web that minimizes the use of direct service delivery methods by public or governmental entities (Anton, 1989; Kettl, 1993; Salamon, 1989). These collaborations and partnerships not only altered the basic structure of and approaches to implementation, they created new and complicated delivery mechanisms consisting of intersectoral networks often managed by public administrators.

This paper reviews the emergence of these new public service delivery mechanisms and systems and examines their links to the rise of New Public Management (NPM), a loosely connected set of methods with an over arching general philosophy that significantly departs from conventional public administration. Using evidence from the changing implementation of economic development (ED) policy, citing examples from one state's experience in this transformation, and employing concepts from the policy tools literature, this paper shows that shifts in the dynamics of intergovernmental relations (IGR) helped alter the formulation and subsequent delivery of many domestic policy areas, therefore contributing to the use of many of the delivery mechanisms associated with New Public Management. This paper argues, then, that NPM emerged and grew in part because of changes in the role of government in the implementation of domestic public policies like economic development.

New Public Management and Policy Tools

New Public Management generally emphasizes competition in the public sector, using corporate-like management methods and administrative structures that focus on quantitative performance measures (especially outputs) to improve the efficiency of public services and reduce budgets. Called by some a global reform movement in public administration, NPM strives to increase management autonomy by replacing bureaucratic rigidity with market-like competition (Kettl, 1997: p. 447; Lynn, 1998: p. 231).

While the specific mechanisms of the NPM approach often seems to be only briefly discussed by researchers and commentators, a review of the literature reveals that practitioners of NPM appear to employ a wide-range of administrative processes that blend public and private resources and processes in the implementation of public policy, including public-private cooperative arrangements and networks, strategic planning and management techniques, outsourcing and privatization of public services, and nonprofit service delivery organizations (Nagel, 1997: p. 350; Peters & Pierre, 1998: p. 231). Portions of public choice, principal-agent, and transaction cost theories combine to frame the foundation of this new approach to public management (Kaboolian, 1998: p. 190; Terry, 1998), relying heavily on market place factors and business oriented competitive strategies. Of the primary evaluative criteria for public service delivery: efficiency, effectiveness, equity, and responsiveness; the NPM approach, then, appears to focus on improving efficiency.

New Public Management, like most fundamental shifts in thinking and practice, understandably sparked lively discussions among practitioners and theorists, often resulting in controversy and the trading of accusations, warnings, and rebuttals; eventually developing proponent and opponent camps (Nagel, 1997: p. 349). Entrepreneurial management strategies and behavior, where public administrators take calculated risks using public resources and employing business-like strategies (e.g. strategic planning, privatization, public-private partnerships, etc.) within a competitive environment, probably generated the most controversy. Some see this aspect of NPM as essential to improving management capacity (see Frant 1999; Peters & Pierre 1998); others see entrepreneurial tendencies and the entrance of free market practices to public administration as a threat to the delicate balance of democratic governance, accountability and efficient service delivery (see Adams, 2000: p. 498; Kelly, 1998: p. 207; Terry, 1998: p. 197).

However, with few exceptions, most discussions of New Public Management focus on its implications to theory and practice, failing to systematically examine the roots or the characteristics of the specific mechanisms used by practitioners of the NPM. Policy tools theory, an alternative approach to implementation, however, offers a way to link New Public Management to issues relating to public service delivery practice. The policy tools theoretical approach examines public policy delivery in terms of sets of government action, characterizing policy actions by government as specific objects, much like formal legal tools, rather than a broad collection of management activities and processes (de Bruijn and Hufen, 1998). Nearly all policy initiatives, programs, and policy interventions, then, can be identified according to the structural characteristics of their basic public service delivery system. A limited number of policy structures can be classified according to these various characteristics (Salamon, 1989). Policy tools, or instruments, constitute the categories of the different classifications. According to tools theory, then, tools affect implementation patterns and policy outcomes in predictable and regular ways (Bobrow & Dryzek, 1987), constituting a "blueprint or template that shapes policy" (Linder & Peters, 1990: p. 51).

Critics of New Public Management, therefore, should also look at the tools and ask if specific public policies or programs initially encouraged the use of NPM? What factors encouraged administrators to employ these tools? What is the source of these tools? While increased use of New Public Management undoubtedly affects the practice of public administration, showing the potential for altering the delicate forces balancing administrators, political leaders and the populace, an examination of the nature of these new tools and their roots may be a fruitful and enlightening exercise. Maybe some insight into the threats and advantages of the NPM approach to public administration may be gained? B. Guy Peters (2000: p. 36), for instance, proposed that a policy instrument approach could “bridge the gap” to appreciating the advantages and limits of New Public Management, and help us better “understand the policy performance of government in contemporary political systems.” This paper takes Peters’ challenge and attempts to make that link.

Taking a basic political economy approach, much like Felts and Jos (2000) and Scott, Ball and Tony (1997) who postulated that environmental forces influenced the shape of administrative organizations, increasing the tendency to use NPM techniques, this paper argues that transformations in the policy environment, especially shifts in fiscal and policy relations between the national and state governments, changed the formulation and implementation of public policy. Looking at the delivery of a critical domestic policy area like economic development, this paper confirms these shifts and discusses its role in the rise of New Public Management.

A few scholars already empirically researched the impact of intergovernmental relations on the implementation of state and local economic development policy. Elkins, Bingham, and Bowen (1996), for example, verified that when the national government assumes a passive role states often adopt entrepreneurial economic development policy initiatives. Agranoff and McGuire (1998: p. 152) in their empirical study of the policy actions of cities found the delivery systems comprised of “public-private and state-local linkages” rather than “functional and agency driven” structures because of shifts in the intergovernmental context of economic development. And Clarke and Gaile (1998) determined that new and more innovative approaches to local economic development resulted from shifts in intergovernmental relations and changes in the nature of federal resources.

Evidence on the use of New Public Management tools for local economic development implementation continues to accumulate, helping transform the practice of public administration, most notably municipal management. In fact, one popular text on municipal administration declares that “entrepreneurship and competitiveness …are the slogans now being embraced by a growing number of city officials” when it comes to economic development (Morgan & England, 1999: p. 365). Others have identified the entrepreneurial methods and skills used by local governments engaging in economic development (Eisinger, 1988). (Entrepreneurial techniques, as discussed above, represent one of the more controversial methods of New Public Management.) Building on arguments first presented by Elkins, et al (1996), Agranoff and McGuire (1998), and Clarke and Gaile (1998) that the delivery systems for economic development policy created a market-like management environment for public administrators, encouraging them to function like entrepreneurs, this paper employs policy tools concepts to examine these new approaches to implementation, further showing how they contributed to the growth of New Public Management.

IGR and Economic Development Policy

Intergovernmental relations (IGR), the "various combinations of interdependencies and influences among public officials--elected and administrative--in all types and levels of governmental units, with particular emphasis on financial, policy and political issues" (Krane & Wright, 1998), understandably, constitute a critical element in the policymaking and policy implementation environment. The planning, formulation, financing and delivery of domestic public policy involves many governments at several organizational levels, and the dynamics of intergovernmental relations helped clarify the roles and responsibilities of each government unit. Through laws, procedures, practice and the framework of the federal system, the different levels of government generally understood their tasks and functions in the policy process. For example, for many years, the national government identified public problems, appropriated resources, and set the rules; and states, in order to receive these funds, followed the national guidelines, often delivering the programs developed and financed in Washington D.C.

However, beginning in the 1960s, the neatly sorted, dual, or "layer-cake" approach to national-state relations (Leach, 1970) began to fade. Shifts in the dynamics of IGR, especially the growing trend to devolve domestic public policies, contributed to the creation of a complex third-party government system, where public, private, and non-profit “agents” deliver public services for government (Anton, 1989; Kettl, 1993; Salamon, 1989). Devolution changed the nature of relationships among governments in America, altering the implementation of economic development policy.

Environmental factors resulting from these alterations in IGR include the changing role of the national government in economic development, the growing role of the state in economic development, the absence of a national economic development policy, the emergence of interorganizational and intersectoral implementation networks created by block grants and other financing mechanisms, and the increasing complexity of economic development strategies. The following discusses the implications of these IGR shifts in terms of the emergence of new policy tools and management strategies.

<u>The Devolution of Economic Development Policy</u>. One of the more important shifts in IGR in recent years resulted in a decreased role for the national government in the development and implementation of many domestic policy areas. From the 1960s to the late 1970s, in the era called "creative federalism" (Leach, 1970), the national government assumed primary responsibility for policy leadership in many policy areas including economic development. Washington D.C. provided substantial financial resources to the states and localities for various types of development projects, with significant policy guidance attached to funds. There were national goals for economic development. Many categorical grant programs, which outlined the fairly detailed objectives for implementation strategies, offered dollars for local development (Peterson, Rabe & Wong, 1986). States and communities followed the policy lead of the national government and got funding for economic development and community revitalization projects from federal programs like Model

Cities and Urban Renewal. States, then, generally played passive policy actors in the era of creative federalism.

Beginning in the late 1970s and crystallized by the Reagan interpretation of "new federalism" (Levine, 1983), the function of the national government in economic development and other domestic policy areas, though, began to shift. The national government deliberately and consciously began taking less responsibility in the formulating and final delivery of many public policy areas. Reagan began his first term as President in 1981 by vowing to reduce the role of the national government in American society, specifically turning over many policy responsibilities to state and local government.

Major administrative and legislative efforts significantly minimized that responsibility for national policy leadership. The reduced role of the national government in domestic policy can be measured by tracking the gradual slowing of the flow of resources for economic and community development from Washington D.C. to the state capitals (Luke, Ventris, B. Reed & C. Reed, 1988). In addition to reducing financial resources, national government officials began to encourage state and local officials to "make the most of [their own] existing resources" (Eisinger, 1988: p. 69). In general, then, national officials asked state and local government to take more responsibility for many domestic policy areas as the national government began attempts to withdraw itself from involvement in those same policy areas.

Naturally, this shift in IGR greatly affected economic development, identified by many as one of the more visible and critical policy domains in the 1980s (Blakely, 1989; Blair, 1995; Moriarty, 1980). Devolution, the gradual process where the national government turns back to the states some key policy responsibilities in an apparent attempt to return to a form of dual federalism, began to alter the planning, adoption, and implementation of economic development. A strong national-level policy statement in economic development, or at least one clearly articulated, never really existed for more than a few years (Dubnick & Holt, 1985; Rasmussen & Ledebur, 1983). Now it appears that a national policy in economic development will likely not be formulated in the near future (James, 1988). Because of devolution, then, states needed to react to changes occurring in their economic structure. As the following shows, Nebraska was one of the states that reacted early and aggressively.

A Growing Role for States in Economic Development. The devolving of the system of relationships between the national and state government changed the planning and implementing of public policy dealing with improving economic conditions. Probably the biggest change resulted in an increased role for the states in economic development (Brace & Mucciaroni, 1990; Levy, 1990). Many states stepped into the policy vacuum in economic development created by the withdrawal of the national government.

At the same time as the effects of devolution worked its way through the policy environment, economic development emerged as a critical public policy area because of major changes in the structure of the national economy. These changes include the transition from a goods producing to a service-producing nation, and the rise of a global economy, increasing competition among localities for business investment (Clarke & Gaile, 1998; Eisinger, 1988; Luke, et. al., 1988). National and world economic changes, then, seemed to indicate an increased and more important role for government. Because of the scope of these economic changes and their impacts on citizens, the power of the national government appeared to be needed to deal with these fundamental shifts. Jobs and industries, for instance, required protection from the adverse effects of economic restructuring. However, these critical economic changes occurred concurrently with important shifts taking place in the relationships between state and national levels of government.

State governments, then, assumed a much more critical function in economic development in part because "changes in the relationship between states and nation that began in the late 1970s have ushered in an era of greater state and local fiscal self-reliance" (Eisinger, 1988: p. 64). This new policy independence created a relatively new role for most states in economic development. The lack of a clearly defined framework for a national economic development policy, coupled with devolutionary trends in the federal system and major shifts in the structure of the national and world economy, clearly forced states to assume a more active policy role. Consistent with a federal system of government, some states for a variety of reasons reacted quickly and effectively to this shift in the intergovernmental policy environment.

The State of Nebraska, for example, when initially given a choice in the early 1980s, was one of the first states to seize the opportunity to coordinate the federally funded Small Cities Community Development Block Grant Program. The state take-over of this federal program, however, did not proceed without some criticism from local grant winners and losers (Jennings, Krane, Pattakos & Reed, 1986). Many states left the administration of this federal program to Washington D.C. as long as they could.

In addition to the effects of devolution, changes in the methods of allocation of federal resources also altered the role of states in economic development. The increased use of block grants by the national government transformed the role of states in formulating and implementing economic development policy, especially since less precise national policy guidelines permitted increased flexibility in establishing state priorities. States could now set their own policy objectives as long as they were consistent with broad national goals. For many states this added responsibility for developing public policy objectives in economic development represented a new frontier for elected officials and administrators.

The Nebraska Department of Economic Development used this new administrative responsibility in policy development, for example, to craft a locally delivered business and industrial development initiative from the Small Cities Community Development Block Grant program. Initially used to fund community infrastructure projects, employing CDBG as an economic development resource reflected the entrepreneurial policy perspective of Nebraska state officials, prompted by the election of an activist governor in 1983, a prominent businessman with a strong commitment to innovative business and economic development (Jennings, et al, 1986.) Instead of relegating economic development responsibilities to their area chambers of commerce, then, local officials in Nebraska could now tap CDBG funds for financing business development activities, representing a new function for municipal government.

Prior to the State of Nebraska opening up the CDBG program to economic development, cities' business assistance and industrial development tools only consisted of state laws permitting municipal publicity and industrial development bonds. Both of those tools tended to be coordinated by the local chamber of commerce or development corporation. With the expansion of CDBG, however, city officials suddenly found themselves economic developers. Before the mid 1980s, for instance, no city administrators joined the Nebraska Economic Developers Association, the professional support group for the state's economic developers.

Today, because of devolution, states and cities must be ready to use their political power and resources to strengthen and revitalize area economies. When industries begin to weaken, when branch plants reduce the size of their workforce, or when a company looks for a site for a new facility, most state governments must willingly and quickly use their resources to influence the business decision-making process (Eisinger, 1988; Luke, et al, 1988). The public also expects the same aggressive policy action from city officials (Morgan & England, 1999). Mayors and city administrators often call on their state capital to provide direct assistance in their local economic development efforts. Part of the growth in state and local government involvement in economic development, and their creative policy initiatives, then, results from devolutionary shifts in intergovernmental relations (IGR).

Local Sources of Financing Economic Development. Changes in IGR not only caused state and local governments to be more aggressive in policy development, they also made sub-national governments search for more and increasingly innovative ways to finance economic development, a key component of the development process. Since one of the outcomes of devolution and shifts in IGR reduced the flows of dollars from Washington D.C., it soon became obvious that new state and local sources for development dollars needed to be identified. Fewer federal dollars created a new context for domestic policy areas, like economic development, often dubbed "post-federalism," increasing "local strategies [for finding ED finance] undertaken in the absence of federal resources" (Clarke & Gaile, 1992: p. 188).

Nebraska, in 1991, as a way to provide more local resources, enacted the Local Option Municipal Economic Development Act, enabling cities to use local tax funds for economic development activities. Prior to this law local officials relied almost exclusively on federal CDBG pass-through funds for financing economic development projects. A dramatic departure for the role of local government in economic development, the Nebraska Constitution, in fact, needed to be amended in the late 1980s to enable municipal governments to use taxes for economic development or other business assistance efforts. The state constitution prohibited public funds to be used for private purposes.

Economic Development Implementation and New Public Management

As shown above, changes in intergovernmental relations, namely devolution, and the resulting post-federalism, affected the planning, organizing, and financing of economic development policy. The following describes the new implementation approaches and the structure of these delivery mechanisms, or policy tools, associated with them, highlighted with examples from Nebraska.

New and More Actors in the Delivery Networks. As shown above, IGR changed the structure of the delivery networks for implementing local economic development policy. In the past, administrators (usually employed by local development corporations) implemented programs by directing the work of people in a single organization. Today, economic development managers often work for local government, spending an increasing amount of time and energy forming and strengthening complex linkages among public agencies and various levels of government, nonprofit and private nongovernmental organizations, business enterprises, and educational institutions. An extensive network of service providers now collaborates to deliver economic development programs (see Agranoff & McGuire, 1998), often consisting of some type of public-private-nonprofit organizational partnership or structure.

An example of a local business development program, as operated in many Nebraska localities, outlines the complexity of the implementation networks, the actors involved, the structure of the delivery systems, and the interdependencies of levels of governments and organizations collaborating in economic development. Many city governments in the state, through their city administrators, for instance, directly manage revolving loan programs for small business development, providing financial assistance to existing and budding local businesses to develop new products, or enter new markets. Early in their administration of the Community Development Block Grant program the State of Nebraska provided local government recipients the opportunity to retain the proceeds from dollars repaid by private business participating in the direct loan program if the dollars were used to capitalize a local revolving loan program (Jennings, et al, 1986). Local governments, however, needed a plan approved by the State to set up the revolving loan program financed by these repayments. In some cases cities delegated this management task. Day-to-day responsibility for this program, then, rested not with city administrators but with a not-for-profit development corporation, possibly affiliated with an area development district. Many actors exist in this network, beginning with an award to the city by the state to finance this program. Nebraska awarded funds to the city following a competitive process involving other cities vying for the same state dollars. The U.S. Department of Housing and Urban Development, Community Development Block Grant Program, provided the source of funds for that state program. Three levels of government and a local nonprofit, then, constitute the actors in the network.

The U.S. Small Business Administration (SBA) 504 Program provides another example in Nebraska of the complex nature of the network structure for economic development. A state wide nonprofit certified development company, Nebraska Economic Development Corporation, functioning as the delivery agent for SBA, might partner with a city government in arranging financing for a small business assistance project in their community. Other participants in the deal might include a local nonprofit development corporation, a council of government, or the Nebraska Department of Economic Development. SBA issues a loan guarantee to a local financial institution providing the loan. The private business owner must also contribute equity to the finance package. This local business assistance project, then, involves a network of partners from government, a private financer, and nonprofit organizations.

As these Nebraska examples illustrate, a number of governments and mixture of private and nonprofit organizations cooperate in a network structure to deliver the benefits of economic development policy. However, the local government typically retains ultimate responsibility and reports to the state on the success of the project. The nature and type of involvement by the parties in the delivery network varies, including:

- The area development district, largely financed by a voluntary area council of governments, which actually delivers the project to recipients, possibly through an affiliated not-for-profit entity;

- Other area local governments that initially competed for funding for a different project, but may receive benefits because of the area impact of the project;
- An agency of state government that awarded grant funds to the city in the first place through a state-wide competitive process, and monitors the expenditure of funds for the project;
- An executive agency of the federal government, the primary source of funds allocated to the state, will eventually audit the state and examine the local project for effectiveness and efficiency.

How effectively these different governments and organizations interact and the nature of these interactions, of course, contributes to the critical success of local economic development programs.

Intergovernmental and interorganizational relations, then, constitute an important element of the framework of the delivery network of economic development programs. To successfully implement economic development public administrators need to examine and facilitate the relationships and interactions among levels governments and many types of public, private, and not-for-profit organizations. Public administrators, as these Nebraska examples and illustrations show, must employ some of the tools of New Public Management to make these complex implementation networks work, including public-private organizational arrangements, non-profit service delivery organizations, and strategic management methods for coordination.

<u>New Ways to Finance Economic Development</u>. Changes in intergovernmental relations also affected the financing of economic development projects and policy initiatives. The transfer of resources constitutes a key function of IGR. As mentioned previously, fewer federal dollars means states and localities need more local dollars and more innovative ways to generate development finance sources.

State and local officials need to identify at least three basic sources of funds for economic development projects (Clarke & Gaile, 1992). General tax funds, the first source, have become more important. States must identify or create their own sources for economic development finance. (Nebraska citizens, remember, amended the state constitution to allow communities to use local tax funds to assist companies in the interest of area economic development.) Federal funds, the second source, must be used more creatively to fund economic development activities. For instance, many states now permit the Community Development Block Grant program to fund economic development projects (e.g. job creation activities) as well as community development (e.g. infrastructure, housing, etc.) projects. Nebraska was one of the first states to do so. Thirdly, states and communities use loan paybacks from funded projects as revenues to finance other economic development projects, employing revolving loan fund programs to support area economic development activities. Also, in general, states and localities have learned to leverage public funds with private funds to expand economic development resources.

Economic development projects, like those involving local business investment decisions, new industrial locations, or local expansion projects often require access to capital. These projects may hinge on the ability of economic developers to leverage public funds and private resources. Often a project proceeds only if there is a sharing of financial risk by the company and the political jurisdiction. This risk sharing aspect of capitalizing economic development projects mandates that public administrators now must be more creative, and entrepreneurial, in discovering ways to use public resources to assist in the development of private projects that benefit the public. Legal and ethical issues complicate this task.

The financing role of state and local government changed partly in response to shifts in intergovernmental relations. In addition to new sources of finance, government also found itself paying for different aspects of economic development. For many years governments' contribution to a local economic development project often consisted of paying for infrastructure costs, such as sewer or water extensions, parking garages, transportation connections, etc. Governments' role, then, focused on reducing the supply side costs of the project to business. Now, in addition to minimizing the costs of supplies, government must also address and help reduce the cost of items that relate to demand side issues that affect the private enterprise. For instance, local economic development policies often include programs designed to improve the firm's competitive position by increasing demand through increasing productivity or developing new product lines.

These new kinds of responsibilities in economic development forced government to formulate new and more innovative strategies. For example, state and local government often initiated revolving loan programs to provide financially help to get entrepreneurs started, or help existing firms improve products to make them more competitive. Often public jurisdictions maintain direct or indirect equity positions in economic development projects, especially in revitalization projects located in the central or neighborhood business districts. Public administrators, then, need to be able to evaluate the financial viability of a company, judge the merits of new products or services, and be able to assess if a company will be able to repay a loan to the political jurisdiction.

In the 1980s, Nebraska started two government-sponsored enterprises to direct the state's efforts in these new economic development initiatives, especially those that related to demand side assistance to firms. The Nebraska Investment Finance Authority (NIFA) issued tax-free bonds to help reduce the interest rates for loans to private developers engaging in economic development, and community and housing development projects. The Nebraska Enterprise Funds used public resources to capitalize a venture capital fund, often maintaining equity positions, by providing start-up dollars to promising new companies that would help diversity the state's economic base and potentially employ Nebraska citizens in technical high paying jobs. In the 21st Century, NIFA continues to function as a viable and important organizational component of the state's efforts in community and economic development, while the Enterprise Fund struggles to meet its policy goals, undergoing a number of organizational transformations.

Public administrators, especially local government administrators responding to these changes in their responsibilities, needed to develop and sharpen skills to become business analysts in order to work with private firms needing capital for economic development projects in their community. For instance, often administrators need to judge the merits of market research studies submitted by firms requesting development assistance. City administrators now consider knowledge and skills in economic development essential to professional development. Advertisements for city administrator positions often require experience in economic development. Of course, many of the techniques and skills needed to administer economic development programs mirror those considered part of the New Public Management tool chest.

Accordingly, there has been a growth in supporting materials and professional programs for public administrators involved in economic development finance. Bingham, Hill and White (1990), for instance, comprehensively cataloged in a useful source the vast number of complex economic development financial tools. In addition, in recent years there has been a growth in professional education seminars in economic development finance for public sector administrators. These workshops help educate public sector professionals on how to work effectively with private businesses. The National Development Council, which sponsors a popular series of workshops resulting in the Certified Economic Development Finance Professional for eligible participants, typifies the trend in educational programming for the public sector in economic development. Public administrators, then, flock to these workshops to learn how to employ the New Public Management tool of entrepreneurial management to find ways to finance economic development projects.

<u>Growing Complexity of Economic Development Strategies</u>. In summary, then, there appears to be little risk in overstating that changes in intergovernmental relations transformed the fundamental nature and structure of economic development strategies, as well as its implementation. In the past most state and local economic development strategies focused on supporting place-specific projects (such as the provision of infrastructure, or roads or sewers connected to development projects) or improving business climate factors that benefited most local firms (such as reducing taxes, or providing tax incentives). In other words, local economic development historically strived to raise nearly all the boats in the community. Today, however, state and local development strategies tend to be more market-oriented and entrepreneurial, partly because of devolution and the less availability of federal dollars (Gaile & Clarke, 1992). Eisinger (1988) said that as a result of shifts in funding sources the focus of economic development strategies shifted from supply-side development, with an emphasis on reducing the cost to do business in an area, to demand-side strategies, with a concentration on ways to increase the productivity, improve the product, or expand the market coverage of a local firm.

Demand-side economic development strategies result in state and local governments taking a more creative and much different approach to implementing economic development policy than supply-side strategies. Instead of focusing almost exclusively on macro strategies, like building the economic development infrastructure or improving the climate for all businesses (or preferred groups of businesses), state and local governments now also employ strategies that take a micro approach, using development tools that influence the business development process itself. In other words, partly because of changes in intergovernmental relations and fewer development resources coming from Washington D.C., state and local economic development officials now often focus on assisting **individual businesses**, by providing low cost loans, for example, rather than strictly working to improve **broad industry groups**, by granting incentives to manufacturing firms, as a key strategy to improve area economies (Reese, 1993). Macro economic development policies assist groups of firms by reducing supply side costs, while micro economic development policies assist individual or smaller groups of firms by reducing demand side costs.

These more complicated economic development strategies required the employment of complex delivery systems and the formulating of new and creative ways to finance projects. As a result public administrators needed to learn how to work closer with businesses in an increasingly competitive public and private environment. Changes in a number of federal programs in the 1980s reflected this shift in policy emphasis, including the Economic Development Administration Title II and Title IX (Business Development Loans), and the Department of Housing and Urban Development (Community Development Block Grant and Urban Development Action Grants). Both programs introduced “market-oriented tools and financing techniques” to local officials (Clarke & Gaile, 1998: p. 59). Also, the Small Business Administration 504 program, previously discussed, a source of financial assistance to expanding small manufacturers, uses loan guarantees as the primary financing mechanism, requiring the participation of private lender, as well as the involvement of public agencies and nonprofit organizations.

Market-like tools, typical of New Public Management, emerged from the new delivery structures of economic development, enabling and encouraging public administrators to function in a competitive, more business-like mode. Public administrators, understandably then, need to understand and more greatly appreciate market forces and the impact of competition required by the new economic development policy implementation environment.

Challenges for Economic Development Program Managers

As the result of these shifts in intergovernmental relations (IGR) and changing implementation structures, public administrators now face a number of issues relating to the management of economic development programs. The following discusses some of the implications of those management issues for economic development. Nebraska developed a professional development program to address many of these issues.

Accountability and Control of Programs. Because of the complexity of the program delivery networks resulting from changes in IGR, public administrators encounter more difficulties in tracking the activities of a program. Because so many actors impact the success of a program, public administrators often struggle to manage activities, having difficulty meeting all the criteria for good public service delivery (effectiveness, efficiency, equity, and responsiveness.) Most importantly, the complex delivery systems greatly affect the ability to maintain program accountability--or who is responsible for what? Some researchers point to principal-agent theory, a foundation of many of the tools of New Public Management, as a way to ensure accountability, especially where complicated public-private delivery networks operate (Kettl, 1993). Management control and organizational communication continue to be a critical issue in the administration of these new implementation networks.

Responsiveness to Public Interests. Changes in the implementation of economic development policy also affected the way public administrators respond to or define the public interest. In the macro, or public-benefit approach to economic development, public administrators can justify how the policy meets public interests. For example, infrastructure improvements funded by government often benefit the whole community, as well as individual firms. However, in the new micro, or private-benefit approach to economic development (see, for example, Eisinger, 1988), brought in part by changes in intergovernmental relations, policies focus on individual firms. Economic development policy now often provides specific publicly funded benefits to a private firm, (e.g. a loan, grant, subsidy, etc.) It is much more difficult for administrators to show responsiveness to the public interest for these kinds of economic development efforts. The private-benefit strategies of economic development target the benefits to smaller groups of recipients. These particular economic development strategies employ New Public Management concepts and tools, raising questions regarding responsiveness to the public interest.

Program Evaluation and Assessment. One of the more important developments in public policy implementation in the past few years involves the legislative or administrative requirement to evaluate the success or outcome of a public program. Since many public programs contain social or human service goals, the quantification of their outputs and outcomes becomes a difficult task. Program evaluation methods approximate policy results at best. Therefore, because of the wide variety and complexity of many of the newer economic development programs and instruments, officials rarely attempt systematic program evaluation and measurement. The economic development research literature took many years to formulate a quality dialogue regarding the effectiveness of specific policy initiatives. A lack of agreement on many issues relating to measuring programs still slows evaluation research efforts. Public administrators, then, must manage complex economic development efforts, the efficacy of such efforts largely unknown, and with little guidance on methods to evaluate program efforts. Public administrators, it appears, use techniques of New Public Management to implement the programs of economic development not sure if the programs or tools work.

Managing Diverse Organizational Partnerships. In addition to the issue of accountability, effectiveness, and responsiveness, the new complex delivery systems spawned a growth in a variety of organizational linkages among the public, private, and not-for-profit sectors. The facilitation of inter-organizational cooperation for the planning and delivery of economic development programs requires a long-term and very complicated undertaking. Few researchers have systematically examined how such linkages among diverse organizations and networks affect implementation (see Alexander, 1995; Milward & Provan, 1998; Peters & Pierre 1998). Public administrators, as stewards of public resources, often take the lead in forming and monitoring these inter-organizational partnerships for economic development. Many times the leadership and control of these organizations rests in nonprofit hands. While the employment of New Public Management tools often result from the efforts of coordinating the activities and tasks of these implementation networks, many critical questions remain regarding the public's interest in these partnerships for service delivery.

To help ensure the responsiveness, effectiveness, and the accountability of these complex local delivery systems, and address many of the management issues discussed above, the Nebraska Department of Economic Development in the early 1990s began a Certified Community Development Block Grant Administrators program. The state required local grant administrators to attend continuing education workshops and seminars. The University of Nebraska at Omaha, Department of Public Administration, cooperated with the Nebraska Department of Economic Development in managing and delivering this certification program. In addition to providing information and testing basic competencies in grants management, the program also offered a number of workshops in community and economic development planning and administrative management, including program evaluation, collaboration, budgeting, strategic planning, small business assistance, financial analysis, and research methods. Other states have expressed interest in this undertaking. Nebraska continues to be a national leader in CDBG grants administration.

New Public Management and Policy Tools

This paper discussed the impact of the implementation of public programs, especially the growth in complex local economic development delivery networks, on the growth of New Public Management techniques and processes. Changing interpretations of federalism and the dynamics of intergovernmental relations, culminating in the 1980s, contributed in part to new patterns of policy implementation, creating new tools and methods, and ultimately affecting the nature of public administrators. Key changes include devolution, or shifting of critical responsibilities for many domestic policy areas from the national government to state governments, and the increased use of block grants, where the national government allocates large grants of funds to state governments designed to meet broad national policy goals and the state, in turn, sets specific state-level spending priorities and develops implementation strategies. These new intergovernmental funding relationships between the national and state governments played important roles in helping spark a revolution in methods of public service delivery. Nebraska's experience in this transformation was highlighted.

Devolution of policy responsibilities and the increased reliance on block grant funding formulas, then, fostered large-scale adoption of a new set of tools and techniques used by public administrators to implement public programs. Public-private cooperative arrangements, privatization of public services, competition among nonprofit service delivery organizations, strategic planning techniques, government enterprises, Total Quality Management, reinvention of government, and entrepreneurial management approaches comprise some of the more popular tools available in the new arsenal of public administration. This arsenal of "tools" constitutes what many call the New Public Management.

This paper examined the connection between intergovernmental relations (IGR), a key institutional factor that influences policy implementation, and economic development policy, and their combined impact on transforming the practice of public administration, helping foster New Public Management. Not enough of the NPM literature examines the causal roots of the New Public Management techniques. Namely, why do public administrators use NPM tools and instruments? This paper showed how intergovernmental relations, the changing nature of the relationship among different levels of government, in particular, the increase in devolution strategies and block grant funding mechanisms, dramatically altered the delivery of one of the more important and emerging domestic public policy areas, economic development. (This shift in IGR would also likely affect the formulation and delivery of other policy areas like health care, housing, social services, etc.) With a fundamental understanding of one of the roots of New Public Management, the debate could now address such issues as the best and proper uses of the tools and techniques of NPM.

Policy tools theory provides a useful framework for looking at New Public Management. As this paper showed, transformations in the policy environment created some new tools and techniques for public managers. Public administration teachers and researchers should first try to understand the nature of these tools and help the practitioner learn how to use them ethically and responsively, resulting in efficient and effective policy implementation. That is quite a challenge. Berman and West (1998) have already examined the link between entrepreneurial and risk-taking management practices and public administration ethics. Public administration researchers need to do more work in understanding the practice of NPM. This paper provided a start.

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