

# **Beyond Good and Evil in Policy Implementation: Instrument Mixes, Implementation Styles, and Second Generation Theories of Policy Instrument Choice**

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## **Abstract**

Dichotomous sets of policy alternatives – like market vs state – and metaphors – like carrots vs sticks – lend themselves to blunt thinking about instruments and their modalities. Administrators and politicians need to expand the menu of government choice to include both substantive and procedural instruments and a wider range of options of each, and to understand the important context-based nature of instrument choices. The paper illustrates the origins of the deficiencies of simple models of instrument choice and suggests that, ultimately, both scholars and practitioners are interested in the same thing: designing and adopting optimal “mixes” of instruments in complex decision-making and implementation contexts.

## **1. Introduction: Policy Instruments, Instrument Mixes, and Optimal Policy Design**

Policy instrument choices are often viewed through an ideological or conceptual lens which reduces choices to a “one size fits all” motif or, more commonly, to a struggle between “good and evil” in which an existing range of instrument uses is condemned and the merits of some alternative single instrument trumpeted as the embodiment of all that is good in the world. The unfortunate consequences of such approaches, if adopted, is usually to wield that instrument – be it state-driven public enterprises in the case of socialist and developing countries in the first two-thirds of the 20<sup>th</sup> century, or the virtues of privatization, de-regulation and markets in the last third – less like the scalpel of a careful surgeon working on the body politic, and more like the butcher’s cleaver, with little respect for the tissue of the patient falling under the knife.

Theorists and practitioners both need to move beyond simple dichotomous zero-sum notions of policy instrument alternatives – like

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market vs state – and metaphors – like carrots vs sticks. These blunt choices lend themselves to blunt thinking about instruments and their modalities. Administrators and politicians need to expand the menu of government choice to include both substantive and procedural instruments and a wider range of options of each, and to understand the important context-based nature of instrument choices. Scholars need more empirical analysis in order to test their models and provide better advice to governments about the process of tool selection and how to better match the tool to the job at hand.

This article illustrates the origins of the deficiencies of simple models of instrument choice and suggests that, ultimately, both scholars and practitioners are interested in the same thing: designing and adopting optimal “mixes” of instruments in complex decision-making and implementation contexts. As Gunningham and his colleagues have suggested, thinking about tools as bundled into “policy mixes” is a promising direction in scholarly research.

This raises several questions for analysts, however, including : (1) why specific mixes exist at present and (2) whether and to what extent mixes can be designed to be optimally effective or, to put it another way, understanding what are the constraints and impediments blocking optimal instrument use. This article sets out some of the background in instrument choice theory needed to address these questions.

### **2. From First to Second Generation Instrument Theory**

“First generation” instrument choice theories tended to simplify the political world of instrument choices in order to try to arrive at some generalizations about instrument use and design. In so doing they unwittingly contributed to some of the misunderstandings about the nature of instrument use cited above.

Since policy instruments are techniques of governance which, one way or another, involve the utilization of state authority or its conscious limitation to provide services to the public and governments, they properly fall within both the domain of both political science and economics. Not surprisingly, therefore, the study of policy instruments has long been characterized by the existence of two virtually independent streams of literature.<sup>1</sup>

Both sets of investigators, however, are guilty of over-simplifying instrument use and selection in their early works. “First generation” economists studying the tools of government were concerned largely with the study of business-government relations, and with the effects of state regulation and economic policy formation on business efficiency. Although internecine debates between neo-classical and welfare economists over the concept were sharp, first generation instrument choice economists concentrated their efforts upon identifying the “market failures” which would “justify” government “intervention” in market exchange.<sup>2</sup>

First generation political scientists rejected the deductive approach to instrument choice put forward by economists, preferring to develop their theories inductively from the empirical record of actual government decision-making processes. Welfare models were viewed as deriving rationales for policy instrument choice based on the discussion of what governments ought to do, rather than on the basis of empirical investigations into what they actually do. Political scientists, as a result, never simply assumed that policy-makers chose governing instruments in order to fine-tune the economy, but attributed a political rationale to instrument selection (Salamon 1981; Balch 1980).<sup>3</sup> Although it was acknowledged that, in some circumstances, governments might well choose particular instruments based on their technical efficiency and theoretical appropriateness it was argued that this was likely to occur only in very specific circumstances; such as when economists controlled the decision-making process and had a relatively free hand in so doing – for example in areas such as fiscal and monetary policy (Markoff and Montecinos 1993).

First generation studies of policy instruments conducted by political scientists thus tended to be motivated precisely by the desire to understand what economists assumed: the rationale for policy instrument choice. Public policy makers were not generally thought to be driven by questions of theoretical purity – especially when, as is the case with economic theory, the theory is contested – but rather by a more overt political calculus of electoral or ideological cost and benefit.<sup>4</sup>

Both these currents in early, first generation work led to simplistic, clever-like, recommendations for tool selection and promoted a Manichean view of instrument options. This was especially true for

economists, as most neo-classical accounts consider many governing instruments to be inherently inefficient since they are viewed as distorting production and consumption decisions in the marketplace. As a result, proponents of this view would restrict governments to the direct provision of pure public goods through government departments and agencies (Wolf 1988; Wolf 1987; and Le Grand 1991). Although the recommendations of political scientists were less sure, they too tended to caution against the use of “too much” government authority and expressed a definite preference for the use of “less coercive” instruments (Hood 1983; Doern and Phidd 1988). Both these kinds of early instrument analyses had two problems. First, they tended to promote a misleading view of the technical nature of instrument choices; as pointed out above, thus undermining the need to carefully examine the contexts of instrument use. Second, they tended to portray instrument choices in stark, “good and evil” terms, embracing “good” pro-market choices and “evil” non-market ones (Woodside 1986).

Not all early studies shared these characteristics, of course, and some scholars presented more complex and nuanced models and analyses (Bressers and Klok 1988). Building on the base of case studies and insights developed in these works, “second generation” students of instrument choice have attempted to address the issues of both context and mixes in their work (van Nidpen and Ringeling 1998; de Bruijn and Hufen 1998; Bressers and O’Toole 1998). Promising new work on instruments has attempted to apply different models of economic thinking to instrument choices – such as transaction costs (Wood and Bohte 2004) – and to assess the question of the potential to develop optimal policy mixes (Grabosky 1994; Gunningham and Young 1997). In the area of regulation in particular, second generation authors have noted the increasing evidence of mutual exhaustion and stalemate in the long-running debate between the defenders of traditional regulatory approaches and the advocates of deregulation. They have pointed out that, while the push for deregulation has been extremely influential in shaping public policies in many countries across different policy sectors, there is also a growing unease with simple-minded hostility to government and faith in market-based solutions to every policy problem. Proponents of “smarter” regulation such as Neil Gunningham and his colleagues propose the development of sophisticated policy instrument mixes in which government

intervention continues to take place “but selectively and in combination with a range of market solutions and public and private orderings” (Gunningham, Grabosky, and Sinclair 1998).

This second generation literature, while moving discussion of instrument choices forward beyond the distorting dichotomies of most first-generation work, remains at present somewhat idiosyncratic, with the central concepts required to analyze instrument mixes somewhat poorly defined. In the following section, one potential central organizing concept – that of an “implementation style” – is developed and its relevance to the study of instrument mixes set out.

### **3. The Concept of an Implementation Style: The Calculus of Instrument Choice and the Importance of Choice Context**

In a perfect world, there would be little trouble choosing the appropriate tool for the governmental task at hand. Most policy objectives can, in a technical sense, be accomplished by a number of instruments; in other words, most instruments are to some degree ‘substitutable.’ Thus, in theory, a government seeking to promote health care for the population could leave it entirely to the family to provide health services, with the competence and availability of family members determining who gets how much and at what cost. Or the government might go to the other extreme and provide health services through its own administrative agency, paid for directly out of its general tax revenues, leaving no room for the market or other private organizations. In between the two extremes lie a range of other instruments, including exhorting the population to keep healthy, subsidizing those who are poor, and regulating doctors and hospitals.<sup>5</sup>

If all the costs and benefits of a tool were context free and known, and the goals of a policy clear and unambiguous, then a decision on which instrument to use in a given circumstance would be a simple maximizing one, and mistakes would not be made. However, in real world situations, as information difficulties arise in determining instrument effects and as the clarity and precision of goals diminishes, it becomes more and more likely that policy means and ends will be mismatched and policy failures occur.

Moreover, it has become more and more apparent to many observers that the kind of precision required for such maximizing

instrument choices will never be achieved, not just because of poorly defined, ambiguous, decision-making circumstances and information asymmetries but, more fundamentally, because the utility of the instruments themselves, and hence the calculation of their attractiveness, is heavily context dependent. That is, although instruments may be, in some technical or theoretical sense, “substitutable,” in the sense that any one could achieve any end – albeit at differing levels of cost – in practice they differ in a number of ways which makes the choice of instrument a complex matter.

Salamon and Lund, for example, suggest that different instruments involve varying degrees of effectiveness, efficiency, equity, legitimacy, and partisan support, and changes in a particular situation affects their appropriateness (Salamon and Lund 1989). Thus some instruments are more effective in carrying out a policy in some contexts than others. Efficiency, for example, in terms of low-levels of financial and personnel costs, may be an important consideration in climates of budgetary restraint, but is a less significant aspect in free-spending times. Legitimacy, is another critical aspect of instrument use which varies with context (Beetham 1991; Suchman 1995). The ability of an instrument to attract the support of the population in general and, particularly, of those directly involved in policy-making in the issue area or sub-system involved must also be taken into account. A relatively heavy-handed approach to regulation of the financial dealings of industry, for example, may be anathema in normal times in many sectors, but in the wake of bank failures or scandals such as the Enron affair in the U.S. or Parmalat in Europe, may find sudden popularity among both the public and policy elites. Abstract notions of efficiency and effectiveness may also find themselves less important criteria in some contexts, like wartime, when the use of government departments or public enterprises, simply because they remain under direct government control (Borins 1982; Vining and Botterell 1983), or because administrators may be more familiar with their use and risks, are preferred tool choices (May 1993; and Hawkins and Thomas 1989). Moreover, cultural norms and institutional or political arrangements may accord greater legitimacy to some instruments than others. Thus it is possible that in liberal democracies citizens and policy-makers desiring high levels of individual autonomy and responsibility may prefer instruments that are less coercive rather than other equally or perhaps

more effective or efficient alternatives which do not promote these values. Such societies can be expected, for example, to prefer voluntary and mixed instruments to compulsory instruments on philosophical or ideological grounds (Doern and Wilson 1974; Doern 1974; Howlett 1991). Moreover, instruments have varying distributional effects, and so policy-makers in such societies may need to select instruments that are, or at least appear to be, equitable. Tax incentives, for example, are inherently inequitable because they offer no benefit to those (the poor) without taxable income. Their use, therefore, will vary to the extent that (a) societies are bifurcated along socio-economic or class lines, and, (b) individuals are aware of their advantageous and pernicious consequences.

In addition to these “external” contexts, there are also “internal” constraints on instrument choices that must be considered. That is, while instrument choice is clearly not a simple technical exercise and must take into account aspects of the social, political and economic contexts of instrument selection, it is also the case that the internal configuration of instrument mixes alters the calculus of instrument choice in significant ways. That is, some instruments may work well with others – as is the case with “self-regulation” set within a regulatory compliance framework (Gibson 1999; Graosky 1995; Trebilcock, Tuohy and Wolfson 1979; Tuohy and Wolfson 1978) – while other combinations – such as, notably, independently developed subsidies and regulation (de Moor 1997; Myers and Kent 2001) – may not.

Both these “internal” and “external” contexts of instrument behaviour and selection must be taken into account in efforts to theorize optimality in the design of policy mixes (Minogue 2002). Moving from a focus on single instruments, second generation analysis looks instead at complementarities and conflicts within instrument mixes and adopts a much more flexible and less ideological approach to instrument use. For second generation scholars a key question is no longer so much “why do policy-makers utilize a certain instrument?” as it was for their first generation counterparts, but “why is a particular combination of procedural and substantive instruments<sup>6</sup> utilized in a specific sectoral context?”<sup>7</sup>

Moving well beyond considerations of “good and evil,” second generation scholars have emphasized the need to design appropriate instrument mixes. As the concept has evolved, second generation

theory has come to focus on a small number of key precepts which embody the “scalpel” approach to instrument use:

1. The importance of designing policies that employ a mix of policy instruments carefully chosen to create positive interactions with each other and to respond to particular, context-dependent features of the policy sector.
2. The importance of considering the full range of policy instruments when designing the mix rather than assuming that a choice must be made between regulation and markets (Sinclair 1997).
3. In the context of continuing pressures on governments to do more with less, to suggest the increased use of incentive based instruments, various forms of self-regulation by industry, and policies that can employ commercial and non-commercial third parties to achieve compliance, such as suppliers, customers and a growing cast of auditors and certifiers.
4. Finally, the importance of the search for new network-appropriate procedural policy instruments to meet the challenges of governance is stressed. “Next generation” policy instruments, such as information instruments, and various techniques of network management such as the use of advisory committees and public consultations are particularly important here (Gunningham and Sinclair 2002).

These insights stress the importance of context in understanding instrument choices and designing optimal, or at least non-counterproductive instrument mixes (Bressers and O’Toole 2004). An important aspect of this choice context is the set of previously existing arrangements and any long-standing preferences for particular instruments that may exist in a specific sector. In the literature on comparative public policy, this is usually referred to an existing “implementation style.”<sup>8</sup> An examination of how this issue been addressed in the comparative literature promises to make a substantial contribution to the development of second-generation instrument choice theory.

### *3.1. Defining and Modeling Implementation Styles*

Scholars such as Linder and Peters have noted that variables such as political culture, and the depth of social cleavages have had an



important impact on policy implementation and instrument selection. They also found instrument choices to be circumscribed by the organizational culture of the concerned agencies and the nature of their links with clients and other agencies (Linder and Peters 1989; and Linder and Peters 1990b).

This analysis suggests that the choice of policy instruments is shaped by the preferences of state decision-makers and the nature of the constraints within which they operate (Bressers and O'Toole 1998; and Bressers 1998). States must have a high level of administrative capacity, for example, in order to utilize authority, treasure and organization-based instruments in situations in which they wish to affect significant numbers of recalcitrant policy targets. When it has few of these resources, they will tend to utilize instruments like incentives or propaganda, or to rely on existing voluntary, community or family based instruments (Howlett and Ramesh 2003). Similarly, a key feature identified by students of procedural instrument use is the governments' capacity to manipulate policy subsystem membership and activities (de Bruijn and ten Heuvelhof 1991; 1997; 1995). Undertaken in order to retain the political trust or legitimacy required for substantive policy instruments to be effective, implementation effectiveness is affected by whether a government faces sectoral de-legitimation or more widespread "systemic" problems. Such contextual factors affect the choices made between, for example, creating a sectoral advisory committee or using funding to enhance the overall interest articulation system found in society (Mueller 1973; Mayntz 1975).

These observations and findings lead to the model of ideal-typical implementation styles found in Table 1 below. In this model, context is crucial and instrument preferences are linked to relatively long-term aspects of the policy-making context. Instruments are not seen and being chosen on, for example, ideological or technical grounds, but on the basis of the empirical situation on the ground in the sector or issue area concerned, especially pertaining to the nature of the constraints and capacities of the political regime in which the decision is being taken. Since the factors that affect styles – such as state capacities and the nature of societal targets – are relatively long-lasting, implementation styles can be expected to change infrequently.

**Table 1**  
**A Model of Basic Implementation Styles as Combinations of Procedural and Substantive Instruments**

	Nature of the Policy Target (Exchange or Policy Actors)	
Severity of State Constraints (Resources and Legitimacy)	Large	Small
High	<p><i>Institutionalized Voluntarism</i></p> <p>Exhortation based manipulation of market actors and institutionalization of policy networks.</p> <p>(e.g. “next-generation,” “steering” models of state behaviour in healthcare – promotion of “compliance” cultures)</p>	<p><i>Regulatory Corporatism</i></p> <p>Regulation of market actors and financial manipulation of interest articulation systems.</p> <p>(e.g. “corporatist” style economic planning models in industrial policy-making)</p>
Low	<p><i>Directed Subsidization</i></p> <p>Extensive use of financial instruments to influence market actors coupled with the use of authority to preferentially recognize networks actors.</p> <p>(e.g. industrial development promotions models in new high-tech sectors – biotechnology, aquaculture, internet etc.)</p>	<p><i>Public Provision with Oversight</i></p> <p>Use of governmental organization (personnel and structural) resources to provide goods and services, combined with manipulation of network actors through information release and distribution.</p> <p>(e.g. wartime production, rationing and mobilization models)</p>

Source: Adapted from Howlett and Ramesh 2003.

### 3.2. Understanding Implementation Style Dynamics

An emphasis on long-standing patterns of instrument choices is not to say, of course, that specific choices are inevitable or immutable, or that substantial shifts in implementation styles do not occur. These can happen as the nature of the constraints governments face changes or if a governments decides to broaden or narrow their focus on specific policy targets. Assessing how likely it is for existing implementation styles to change, therefore, is an important question for second generation analyses of policy instrument choices.

Certainly shifts in fundamental implementation styles have occurred in many governments over the past century due to the influences of activities like colonization and de-colonization, war, and

other events which have wrought changes to the organizational capacities of states and their societies. Even in governments less affected by such dramatic events, such as those in North America, implementation styles have moved from, for example, a preference for directed subsidization in the 19th century and then to the regulatory corporatism associated with the progressive movement in the 1920s and 1930s (Raadschelders 1998; 2000; Eisner 1994; Lowi 1966). Understanding why these changes occur and what they imply for instrument choices remains a key research question for second generation theorists (Eliadis, Hill and Howlett 2004).

#### **4. Conclusion: The Need for Nuance and Precision in the Analysis of Policy Instruments**

It is time for both practitioners and academics to move beyond good and evil in their assessments of instrument choices and their recommendations for instrument selection. Both practitioners and academics need to move beyond simple dichotomous and zero-sum notions of instrument alternatives (such as “market vs state”) and beyond even trichotomous notions of instrument categories (such as “carrots, sticks and sermons”) when considering the relationship between alternative policy tools.

This is especially the case as new governance arrangements are needed in many sectors as increased governmental and societal use of capacity-enhancing information technologies, coupled with the increasing sophistication of networks of citizens and clients allow experimentation with non-traditional means of policy implementation (Kooiman 1993; and Lehmruch 1991). Innovative policy design, however, requires that the parameters of instrument choice be well understood, both in order to reduce the risk of policy failure and to enhance the probability of policy success (Linder and Peters 1990a; Schneider and Ingram 1997). There is a need to expand the menu and appreciate the nuances and complexities of implementation styles and their effects on instrument choices, in order to ensure that the scalpel triumphs over the cleaver in instrument design and use.

## Notes

1. For early works which sharply display the contrasting approaches taken to the subject in the two disciplines see Dahl and Lindblom 1953; Kirschen et al. 1964; Edelman 1964.
2. Welfare economists argue that numerous market failures exist and legitimize extensive government regulatory activities while neo-classicists tend to restrict such “failures” to the provision of pure public goods. On the concept of market failures see Bator 1958; and Zerbe and McCurdy 1999. On its application to instrument choices see Breyer 1979; and Zeckhauser and Schaefer 1968.
3. On the aims and ambitions of these studies see Salamon 1981; and Balch 1980.
4. See Lowi 1966; and Wilson 1974. Many of these insights were extended by ‘public choice’ economists working in the area. See Trebilcock and Hartle 1982.
5. On the range of available instruments see Salamon 1989; Bemelmans-Videc, Rist, and Vedung 1998 and Appendix I.
6. A list of examples of policy instruments is contained in Appendix 1. *Substantive instruments* are those directly providing goods and services to members of the public or governments. They include a variety of tools or instruments relying on different types of governing resources for their effectiveness such as public enterprises, regulation, subsidies, loans or advertising campaigns. For a comprehensive review see Salamon 2002. *Procedural instruments* are different from substantive ones in that their impact on policy outcomes is less direct. Rather than affect the delivery of goods and services, their principle intent is to modify or alter the nature of policy processes at work in the implementation process. See Howlett 2000; and Dunsire 1993.
7. Hence, for example, the well-known implementation style found in many U.S. policy sectors, dubbed “adversarial legalism” by Robert Kagan, is composed of a preferred substantive instrument – regulation – and a characteristic procedural one – judicial review – based on wide-spread, easily accessible, legal procedures. See Kagan 1991.
8. Generally speaking, comparative implementation studies have shown that governments tend to develop distinct styles in areas which they regulate. See Knill 1998; Kagan and Axelrad 1997; and Kagan 1997.

## Appendix – Examples of Substantive and Procedural Policy Instruments

A useful way to classify policy instruments is according to the type of governing resource upon which they rely: nodality or information; authority, treasure or financial resources, or administrative or organizations ones.\*

**Figure 1**  
**A Taxonomy of Substantive Policy Instruments**

		<i>Governing Resource</i>			
		<b>Nodality</b>	<b>Authority</b>	<b>Treasure</b>	<b>Organization</b>
<i>Principle Use</i>					
<b>Effectors</b>	advice training	licences user charges regulation certification	grants loans tax expenditures	bureaucratic administration public enterprises	
<b>Detectors</b>	reporting registration	census-taking consultants	polling policing	record-keeping surveys	

Source: Adapted from Hood 1986.

**Figure 2**  
**A Resource-Based Taxonomy of Procedural Policy Instruments**

		<i>Governing Resource</i>			
		<b>Nodality</b>	<b>Authority</b>	<b>Treasure</b>	<b>Organization</b>
<i>Principle Use</i>					
<b>Positive</b>	education exhortation advertising training	agreements treaties advisory- group creation	interest- group funding research and intervenor- funding	hearings evaluations institutional- bureaucratic reform	
<b>Negative</b>	misleading information propaganda	banning groups and associations	eliminating funding	administrative delay information suppression	

Source: Adapted from Howlett 2000.

\* On the origins of this 'resources' approach to classifying instruments see Anderson 1977; and Baldwin 1985.

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