In 1999, Donald F. Kettl chaired the Priority Issues Task Force for the National Academy of Public Administration (NAPA). The Task Force was charged with defining a research agenda for governance in the coming years. This article builds on the discussion of Task Force members: Mark Abramson, Donald Borut, Jonathan Breul, Peter Harkness, Steven Kelman, Valerie Lemmie, Naomi B. Lynn, David Mathews, David Mathiasen, Brian O'Connell, and Susan Schwab. During the 2000 NAPA Fall Meeting (November 16–18, 2000), the Priority Issues Task Force report and, in turn, Kettl's article will serve as a basis for conversation concerning the presidential transition. A decision was made to publish the article here so that ASPA members and PAR readers could join this important conversation. — LDT

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The Transformation of Governance: Globalization, Devolution, and the Role of Government

Over the last generation, American government has undergone a steady, but often unnoticed, transformation. Its traditional processes and institutions have become more marginal to the fundamental debates. Meanwhile, new processes and institutions—often nongovernmental ones—have become more central to public policy. In doing the peoples' work to a large and growing degree, American governments share responsibility with other levels of government, with private companies, and with nonprofit organizations.

This transformation has had two effects. First, it has strained the traditional roles of all the players. For decades, we have debated privatizing and shrinking government. While the debate raged, however, we incrementally made important policy decisions. Those decisions have rendered much of the debate moot. Government has come to rely heavily on for-profit and nonprofit organizations for delivering goods and services ranging from anti-missile systems to welfare reform. It is not that these changes have obliterated the roles of Congress, the president, and the courts. State and local governments have become even livelier. Rather, these changes have layered new challenges on top of the traditional institutions and their processes.

Second, the new challenges have strained the capacity of governments—and their nongovernmental partners—to deliver high-quality public services. The basic structure of American government comes from New Deal days. It is a government driven by functional specialization and process control. However, new place-based problems have emerged: How can government's functions be coordinated in a single place? Can environmental regulations flowing down separate channels (air, water, and soil) merge to form a coherent environmental policy? New process-based problems have emerged as well: How can hierarchical bureaucracies, created with the presumption that they directly deliver services, cope with services increasingly delivered through multiple (often nongovernmental) partners? Budgetary control processes that work well for traditional bureaucracies often prove less effective in gathering information from nongovernmental partners or in shaping their incentives. Personnel systems designed to insulate government from political interference have proven less adaptive to these new challenges, especially in creating a cohort of executives skilled in managing indirect government.

Consequently, government at all levels has found itself with new responsibilities but without the capacity to manage them effectively. The same is true of its nongovernmental partners. Moreover, despite these transformations, the *expectations* on government—by citizens and often by government officials—remain rooted in a past that no longer exists. Citizens expect their problems will be solved and tend not to care who solves them. Elected officials take a similar view: They create programs and appropriate money. They expect government agencies to deliver the goods and services. When problems emerge, their first instinct is to reorganize agencies or impose new procedures—when the problem often has to do with organizational structures and processes that no longer fit reality. The performance of American government—its effectiveness, efficiency, responsiveness, and accountability—depends on cracking these problems.

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Consider the case of Wen Ho Lee, arrested in December 1999 for mishandling classified nuclear secrets on his computer. Intelligence analysts concluded the Chinese government had captured the secrets of the W-88 warhead, America's most advanced nuclear device. Either intentionally or by sloppy handling of secret data on his computer, the experts believe the Chinese had obtained the secrets from Lee. For two decades, Lee was an essential researcher at the Department of Energy's (DOE) Los Alamos nuclear laboratory. As an analyst in the secret "X Division," he had access to the top secrets and moved massive amounts of data—806 megabytes—to unsecured computers.

Federal agents could not implicate Lee in leaking the data. In fact, they could not even demonstrate that data had leaked—or whether the Chinese had somehow managed to replicate the design on their own. The investigation itself was sloppy. It prematurely focused on Lee, precluding a close look at other suspects. At the very least, however, the agents concluded Lee had mishandled the data and might well have been the source, inadvertent or deliberate, of a leak of key weapons designs to the Chinese.

Congress responded in typical fashion. In a series of hearings, members of Congress expressed outrage at the problem and resolved to take firm action. They concluded the DOE could not be trusted to plug the leaks on its own. Members asked pointedly, "What can we do to solve this problem?" Their answer: Split off the security issues into a new, quasi-independent National Nuclear Security Administration. If the DOE could not ensure the security of nuclear secrets, Congress resolved to create a new agency that could.

However, there was little evidence the restructuring would solve the Lee problem—if there was a problem, and if the problem were structural within the DOE. Lee himself was not a federal employee. He did not even work for a federal contractor. Rather, he was an employee of the Los Alamos National Laboratory, a subcontractor to the University of California–Berkeley, which has conducted nuclear research there since World War II. Any disciplinary process was not a matter for the DOE but for the University of California. More important, to the degree that there was a problem, it lay in the DOE's ability to manage its vast contractor organization—not in the way its headquarters was organized. Paul Light, for example, has estimated that there are 35 contract employees for every DOE worker (Light 1999).

Congress responded to the problem in traditional, reflexive fashion. It misidentified the problem—government's management of its nongovernmental partners—and it solved the problem poorly, by reorganizing instead of strengthening the department's leverage over nongovernmental partners. Suggestions that the solution failed to fit the problem were ignored. Congress did what it was used to doing. What it was used to doing, however, increasingly failed to match the way the federal government was doing its work.

Government had quietly been transformed, and Congress—along with the rest of government—struggled to get a handle on governmental programs. The transformation has followed two courses: globalization and devolution. On the international level, state and even local governments are working directly with other nations to promote trade or attract foreign investment. Organizations like the World Trade Organization (WTO), the World Bank, and the International Monetary Fund (IMF) have taken a strong hand in shaping international relations. Ad hoc international structures have managed the world's response to recent ethnic conflicts, from the Kosovo peacekeeping operation to the intense bombing campaign in Serbia. Foreign (or shared) command of American troops proved a hot domestic issue, but it has become increasingly common in the deployment of military forces. Other policy arenas that used to be domestic, from telecommunications to the environment, now have major international components. More decisions have flowed from the national to the international level—and at the international level, to both ad hoc and multinational organizations. Permanent organizations like the State Department have struggled to build the capacity to cope with these changes, while ad hoc ones never institutionalize. Maintaining national sovereignty while effectively pursuing international policy has become an increasingly difficult problem.

On the national level, more responsibility for both making and implementing policy has flowed to state and local governments. In environmental policy, the federal Environmental Protection Agency (EPA) has increasingly shifted into the role of service purchaser (through contracts with private companies to clean up Superfund sites) and service arranger (through partnerships with state governments). The EPA's success—and the success of environmental policy—hinges on how well EPA serves as orchestra conductor. Moreover, in many communities, small-scale quasigovernments are managing everything from education to arts districts. Some governance mechanisms have become computer based, neighborhood based, or both.

In short, America's preeminent policy strategies have tended to grow beyond the nation-state, to linkages with international organizations, and to focus below it, to partnerships with subnational, for-profit, and nonprofit organizations. Supranational organizations have grown to new but poorly understood functions. Subnational partnerships have transformed the role of state and local governments. As we have debated privatizing government, they have paradoxically also governmentalized a substantial part of the for-profit and nonprofit sectors. The federal government's institutions, political and administrative, find themselves with yet more challenges, from orchestrating these partnerships to shaping the national interest. The roles of all of these players have changed dramatically. Managing these roles requires capacity that lies far beyond the standard responses, structures, and processes that have gradually accumulated in American government.

Globalization

Debates about "globalization" have ranged from French complaints about McDonald's "burger imperialism" to agricultural giant Monsanto's decision to withdraw "terminator" seeds (which yield large crops without pesticides but cannot be replanted) from the market (Rubin 1999). London School of Economics director Anthony Giddens (1999) notes that globalization "has come from nowhere to be almost everywhere." In the early 1990s, the term was little used. By 2000, no speech was complete without it—even if those who used the term agreed on little more than the fact "that we now all live in one world." "Globalization" is poorly defined. Most often, the term is synonymous with the galloping expansion of the global marketplace. However, globalization is much more. It includes political, technological, and cultural forces. It is more than a description—it is an ideology that defines basic expectations about the roles and behaviors of individuals and institutions. Giddens suggests, in fact, that globalization is about "action at a distance": the increasing interpenetration of individual lives and global futures.

The ideology of globalization sprang quickly from disparate roots (Held, McGrew, Goldblatt, and Perraton 1999). The end of the Cold War left the United States as the world's remaining superpower. By uprooting generations of ideologies and power relationships, it also scrambled relationships among all the world's nations. The major conflicts since the end of the Cold War have been not international but subnational and ethnic. These conflicts have posed tough dilemmas: How much do internal conflicts threaten international stability? How can the world's nations respond to such conflicts? The United States—and other nations—have delicately picked their way through these battles, and, when they have responded, they have forged multinational alliances. In the bombing campaign against Serbia, nearly 30 nations negotiated which targets to bomb and when to bomb them. American pilots found themselves under the de facto command of a loose, ad hoc coalition. The coalition shored up international support but made it far harder to fight the war. Multinational peacekeeping operations have struggled to reduce conflict in places as different as Somalia and Bosnia. In each case, the essential strategy was surrender of national autonomy in exchange for (more or less) international unity. Nations acted awkwardly together because no nation could—or desired—to act alone.

Behind the notable military actions, however, lies the rampant globalization of world markets. Manufacturers debate "global sourcing," where manufacturing and marketing know no national boundaries. Indeed, Nike manufactures and markets its shoes around the world. The company has reduced its market presence to a single, universally known symbol. Hungry travelers can enjoy Burger King in Australia or Pepsi in Moscow. The French resent the spread of Disney and McDonald's, but visit anyway. Street-corner cafés in Berlin feature "genuine American pizza" from Pizza Hut. Global trade, of course, does not flow one way. Corporate mergers have sometimes become mania, especially in the consolidation of communications industries across national borders. Scandinavian companies manufacture two of the fastest-selling cellular phones in the United States, Nokia (Finland) and Ericsson (Sweden). No American television factories exist any longer, and classic American clothing from the Lands' End catalog might come from North Carolina, Scotland, or Thailand. Some analysts have gone so far as to suggest that globalization "is increasingly forcing us to live in an economy rather than a society"—with shrinking national political power and "with government's role in economic affairs now deemed obsolete" (Smadja 2000).

While that might be going a bit too far, it is impossible to ignore the fact that it is at least a debatable proposition. With online trading, futures and options trading, and the world's rotating time zones, the stock market never closes, and no nation can insulate its finances from the world economy. Capital markets are global and hiccups in one region can quickly spill over to everyone else, as the "Asian flu" in 1997 and 1998 painfully proved. The Clinton administration's much-vaunted campaign to wipe out the national debt has had surprising spillovers, in fact. The U.S. Treasury's 30-year bond has long been the world's interest rate benchmark. If the national debt declines sharply—or even disappears—so too will the bedrock of investor security. While is it surely better to develop a new touchstone than to lean too heavily on an old one, the worldwide implications of the Treasury's decision show how tightly linked the world's economic finances have become.

The markets have become more important than national governments in setting the economic rules. Nations can choose to go their own way, but the markets exact retribution for policies that run afoul of the global marketplace. No country is exempt. It was a U.S. policy decision to rescue the Mexican peso in 1995, for example. But once the United States made the decision, it lost control over *how* to do so. The bond markets, not national governments, set the terms for the rescue (Mathews 1997). Corporations are outgrowing the world's governments, some observers suggest (Gelbspan 1998).

At the core of the globalization movement, however, are lightning-fast communication systems—especially the Internet—that have developed over the last decade. The communications revolution has made it possible to spread information around the world easily and cheaply. Not only has it fueled the 24-hour financial markets, it has, just as importantly, transformed governance. For the price of a local telephone call to connect to the Internet, organizations around the world can instantly exchange information. Jessica Mathews argues in *Foreign Affairs* (1997),

> Widely accessible and affordable technology has broken governments' monopoly on the collection and management of large amounts of information and deprived governments of the deference they enjoyed because of it. In every sphere of activity, instantaneous access to information and the ability to put it to use multiplies the number of players who matter and reduces the number who command great authority. The effect on the loudest voice—which has been government's—has been greatest.

The result—so far, at least—has been rampant fragmentation of norms, ideologies, values, and institutions. "We are at the beginning of a fundamental shake-out of world society," Giddens bluntly suggests, "and we really do not know where it is going to lead us" (quoted in UNRISD 1996).

Instantaneous communication has already fueled an important transformation. Nongovernmental organizations—NGOs, for short—have quickly acquired great influence, in the United States and around the world. (In the United States, they are better known as nonprofit organizations, for their tax status.) When nations debated trade liberalization in the 1986 Uruguay round of talks, 12 NGOs registered to follow the proceedings. Seattle's 1999 World Trade Organization meeting drew so many NGO representatives that they crammed the city's symphony hall to plot strategy. About 1,500 NGOs signed an anti-WTO protest declaration created online by Public Citizen. The Internet allowed organizers to share ideas and tactics instantly. They overwhelmed the Seattle police, who found themselves using 1970s-era crowd-control strategies to try to tame twenty-first-century organizers (*Economist* 1999; Mallaby 1999).

How many NGOs exist is unknown. These organizations are powerful engines for organizing and driving policy change, and their influence has been impressive. At the 1992 Earth Summit in Rio de Janeiro, they raised public pressure for governments to commit to reducing greenhouse gases. In 1994, they dominated the World Bank's fiftieth-anniversary meeting and forced the Bank to rethink its goals and techniques. In 1998, a coalition of environmentalists and consumer rights activists pressed for the end of the Multilateral Agreement on Investment, a draft treaty under the auspices of the Organisation for Economic Co-operation and Development to improve foreign-investment rules. In the late 1990s, Princess Diana's much-publicized campaign to outlaw land mines was part of a broader movement that, in just a year, led to substantial success. The Jubilee 2000 campaign helped shape a new policy of reducing the debts of the world's poorest countries. The number of international NGOs behind these and other movements grew from 6,000 in 1990 to more than 26,000 at the end of the decade. The total number of NGOs around the world, from neighborhood-based groups to large international organizations, surely numbers in the millions (Mathews 1997). Moreover, these NGOs have been important not only in political organizing; in many countries, including the United States (as we shall shortly see), they have become important in delivering public services as well.

Add to this the widely recognized and growing power of formal, quasigovernmental, international organizations like the World Bank, the IMF, the WTO, and the European Union. The IMF played a powerful (and much-criticized) role in steering Asian nations through their brutal but short-lived flu. In Seattle, the WTO stumbled into a vicious political crossfire as it attempted to transform international trade. The United Nations has had intermittent success in launching peacekeeping missions. The European Union has become a major force in reshaping everything from environmental policy to drug manufacturing in Europe. Its policies are spilling through America's back door via international companies that do business in both places.

Amid this galloping globalization, the United States has found itself squarely in the middle of an international paradox: It has become the world's only superpower but has found itself unable, for political and pragmatic reasons, to act alone. It has struggled to craft a policy to accommodate these new realities—and to organize its governmental apparatus to cope with them.

In struggling with this paradox, American government faces two tough challenges. First, what is the federal government's role at a time when international organizations—formal organizations like the WTO and the United Nations; informal organizations like the NGOs and multinational corporations—have become far stronger? Policy makers have found their discretion over *what* to do and, more important, *how* to do it diminished by the rising power of supranational organizations. National sovereignty, even for the world's remaining superpower, has eroded. At least in relative terms, the federal government has become more marginalized in the international debate.

Second, what capacity does the federal government need to play this emerging role? Following a 42-year career in the State Department, outgoing Assistant Secretary of State

Phyllis Oakley worried in 1999 that America's ability to conduct foreign policy in the globalized age had become "threadbare." The State Department itself lacked people skilled in dealing with these issues. Its budget stagnated while the CIA and Pentagon budgets grew. Special envoys took important jobs that previously would have gone to senior career foreign-service officers. "The only thing we have left is the military," she complained, "so we use it in Iraq and Kosovo." Consequently, the nation tends toward "using military means for diplomatic purposes" (Perlez 1999).

Oakley's comments could be dismissed as the parochial complaints of a long-term State Department official who had lost too many budget wars. Her worries about the nation's capacity to cope with new issues, however, strike at the heart of the globalization movement. Globalization is not the province of any cabinet department. Indeed, on top of the usual suspects in the State, Defense, and Treasury departments, no cabinet department is untouched by globalization. Its implications strike at issues ranging from the Department of Health and Human Service's health care programs to the EPA's clean air standards, from the Labor Department's job security programs to the Commerce Department's efforts to help American businesses compete. Ad hoc White House and interagency teams have sprung up to deal with crises, but they have failed to build long-term capacity to anticipate and cope with tough problems. Congress, for its part, has scarcely proven equal to the task of framing policies to cope with this trend.

Globalization has helped to homogenize cultures. The phenomenon is far broader than the spread of American fast food and movies. The Internet has helped to cement English as the global language and has fueled rapid communication. Governments, including American government, cannot hope to manage this trend. At best, they can learn to cope and take advantage of the synergies it offers. They can also devise policies to ensure that the rampant spread of electronic communications does not create an underclass without the knowledge of or access to the communication system.

In many ways, however, globalization has sparked an emerging system of governance without government, management, or control. Shared values, which shaped governmental policies in the past, have yet to emerge. National sovereignty has shrunk along with government's capacity to understand and shape the emerging issues and the conflicts that underlie them. European concerns about American "Frankenstein foods"—produced with genetically modified organisms like disease-resistant corn—have shaped a new generation of public-policy problems (Rubin 1999). So, too, have the rise of ethnic conflicts, international currency flows, and multinational business mergers. The puzzle is building the administrative capacity, in sustained rather than ad hoc fashion, for tackling these problems. It is also strengthening the ability of our political institutions, especially Congress, to frame the policies the nation will need to negotiate the problems and potential of globalization.

Devolution

At the same time that globalization has internationalized much of American policy, devolution has localized other arenas. As much of the work in public administration over the last two decades has shown, the federal government's work is carried out through an elaborate network of contracting, intergovernmental grants, loans and loan guarantees, regulations, and other indirect administrative approaches (Mosher 1980; Salamon 1981, 1989; Kettl 1988). My doctor's office, for example, has a sign reading, "Patients receiving medical assistance must show their card before receiving service." My pharmacist fills prescriptions for private-pay, group subscriber, HMO, and medical-assistance patients.

The federal government manages most of its domestic programs through such indirect partnerships. It mails entitlement checks directly, steers air traffic control, and runs the national parks. From Medicare to Medicaid, and environmental to transportation policy, the federal government shares responsibility with state and local governments and with for-profit and nonprofit organizations (Kettl 1993). Indirect tools have gradually and subtly risen in prominence. In part, this represents a conscious strategy to avoid increasing the size of the federal government while expanding its programs. In part, it represents an unconscious strategy to wire civil society ever more directly into public programs. As Paul C. Light shows (1999), the federal government's "shadow" employees, in the state and local governments as well as in the for-profit and nonprofit sectors, outnumber federal workers by nine to one.

Welfare reform is a case in point. The federal government "ended welfare as we know it" by passing the job to the states. The states, in turn, have typically devolved the task to their counties, and the counties in turn have contracted for-profit and nonprofit organizations to deliver welfare reform and, in some cases, to serve as managing contractor for the entire effort. Moreover, welfare reform is really a multi-faceted connection among job assessment, job training, job placement, and family support programs. Effectively managing welfare reform requires tightly coordinating these different programs—each often managed in turn by nongovernmental contractors.

The result is an extended chain of implementation. A vastly complex network produces the program, and no one is in charge of everything. At ground zero of welfare reform in Milwaukee, the typical welfare recipient does not even encounter a government employee—federal, state, or local—in the journey from welfare to work, except for workers who qualify recipients for Medicaid and food stamp programs. The county divided the city into regions and contracted with separate nongovernmental organizations—some nonprofit, some for-profit, and some not even based in Wisconsin—to manage the job. Milwaukee County had to determine which contractors were equipped to do the job. It had to maintain competition among them to prevent criticisms of government monopoly, which plagued traditional welfare programs, from visiting themselves on the new program. They had to devise new systems of oversight, especially of auditing contractors' financial records. They had to determine what level of profits was acceptable. Reports of excessive profits produced criticisms that the contractors were squeezing the poor. The effort enjoyed remarkable success in its first years, with far more welfare recipients moving to jobs than the program's advocates had dared hope. That, in turn, led to questions about appropriate benchmarks: What level of performance was expected and desirable in welfare reform?

In short, welfare reform turned the existing system on its ear. Government workers found themselves managing contractors instead of delivering services. Contractors, many of whom had substantial experience managing social services but did not have a track record of running such a broad or ambitious effort, had to find employees and develop mechanisms for the new program. The success, driven by a rapidly growing economy with low unemployment, helped to disguise the underlying management issues that Milwaukee and the state struggled to resolve. Other local governments hired private companies to serve as general contractors to manage the entire program. These contractors, in turn, hired subcontractors to conduct front-line operations.

Contracting out for urban social services is, of course, nothing new. The practice dates from the 1960s, when Model Cities and other antipoverty programs supported neighborhood organizations around the country. The federal government worried that cities were unresponsive to the needs of their citizens, especially their poor. They gave local governments grants with the expectation that the communities would develop service-delivery partnerships with neighborhood groups. The funding helped to institutionalize these groups, as well as the pattern of service partnerships. Nongovernmental organizations have become partners with local governments in managing federal- and state-funded programs.

Welfare reform marks the maturation of a generation-long trend that fundamentally transformed community governance. It is a trend with great political attraction: It wires local nongovernmental groups directly into the service system, and it allows government to increase its reach without increasing its size. It spreads administrative responsibility, and hence political risk. It provides a way to tailor broad programs to community needs. Having forged partnerships that serve so many interlocking purposes, it will be hard for governments to undo them.

Similar forces have transformed environmental policy. The U.S. Environmental Protection Agency does very little itself. The Justice Department litigates on its behalf. Private contractors clean toxic waste sites in the Superfund program. State governments do much of the enforcement. Congress mandates the EPA to set national environmental standards, and the EPA conducts some enforcement activity. Despite its image in the popular (and sometimes congressional) mind, most of the EPA's important functions occur through partnerships with the states and private contractors.

To some degree, of course, the EPA has relied on such partnerships since its creation. As it has moved on to tougher environmental problems—especially problems that cross the lines among its traditional air, water, and soil offices—these partnerships have become far more important to its operations. Indeed, the EPA faces a second generation of environmental problems, such as non-point-source pollution and global warming, for which its first generation tactics, including inspection and litigation, have proven weak (Kettl 1998; Graham 1999).

Meanwhile, the states have asked for more flexibility in fulfilling their responsibilities under federal laws. They have sought to integrate federal requirements with their own policy goals and, in many cases, to tailor environmental approaches to individual watersheds and other place-based approaches. American multinational companies, driven to compete with companies based in the European Union, have sought to level the regulatory playing field so they do not face widely different rules in different countries. They have been especially eager to import the ISO 14001 approach from Europe, which gives companies greater flexibility to create environmental management systems in exchange for agreements to meet environmental standards. Thus, the EPA has found itself pulled toward more devolution while its policy strategies have faced increasingly global pressures (NAPA 1997, 1995).

The Health Care Financing Administration, located within the U.S. Department of Health and Human Services, is responsible for managing the federal government's two most important health programs, Medicare and Medicaid. It is a tiny shell of just 4,300 employees, compared with the vast network it supervises: $221 billion for Medicare and $108 billion for Medicaid (in fiscal year 2001). The nation's hospitals and physicians deliver Medicare and Medicaid services. In Medicare, they deal with nongovernmental financial intermediaries, especially Blue Cross/Blue Shield, which processes claims. In Medicaid, their relationship is with state governments, who often add their own benefits to the federal base. The states have followed the federal government's course in contracting with financial intermediaries, often the same ones used in the Medicare program, to manage the reimbursements. The government has thus built an extensive publicly funded health care system without making it publicly run. The HCFA sets basic standards and monitors the programs, while state governments tailor Medicaid to local tastes and account for about 43 percent of total Medicaid spending. Large data-processing organizations manage the paper flow, while private and nonprofit health care providers actually deliver the services. It has grown rapidly and works remarkably well. But as in welfare, responsibility is broadly shared, and no one is fully in charge.

At the state and local levels, more partnerships have developed. Mayor Steve Goldsmith launched major reforms of Indianapolis's government through his "yellow pages" test. If the local yellow pages contained at least three entries for a service the city provided, the city would contract it out (Fanaras 2000; Potapchuk, Crocker, and Schechter 1998, 213; Jeter 1997). Phoenix won an award as one of the world's best-run cities by pursuing an aggressive contracting-out approach (Flanagan and Wigenroth 1996; Flanagan and Perkins 1995). In addition to Medicaid, state governments tend to manage their highway construction programs through contracts. Driven by the legacies of the federal Model Cities, Comprehensive Employment and Training Act, Community Development Block Grant program, and Title XX block grant programs, state and local governments have contracted out most of their social service programs. Local "smart growth" initiatives have led to new partnerships among local governments.

In general, the lower the level of government in the United States, the more the government is engaged in direct service delivery. At every level, however, partnerships, with both governmental and nongovernmental partnerships, have proliferated at an accelerating rate. That has made government both *horizontal*—in search of service coordination and integration with nongovernmental partners in service provision—and *vertical*—through both traditional hierarchical bureaucracies and multilayered federalism. It is not so much that the horizontal relationships have supplanted the vertical ones; rather, the horizontal links have been layered on top of the vertical ones. That, in fact, was one of the implicit precepts of the "reinventing government" movement of the 1990s.

Therein lies the central challenge for domestic governance: More than a century's worth of administrative theory, since Woodrow Wilson's classic paper on public administration (1887), shapes the theory and practice of vertical relationships. Since the New Deal, this approach has defined the analytical and normative orthodoxy of American government. Reformers have focused on reorganizing administrative structure and reshaping organizational processes (especially budgeting and personnel). Elected policy makers have seen in these vertical relationships the cornerstone of bureaucratic responsibility: delegation of authority to administrators in exchange for accountability for results. The hierarchical chain, driven by authority, provided the critical linkage between front-line workers and policy makers.

The spread of horizontal relationships muddies that accountability. They replace hierarchical authority with networks—sometimes formally constructed through contracts and other legal agreements, sometimes informally drawn through pragmatic working relationships (Kickert, Klijn, and Koppernjan 1997; Milward and Provan 1998; Provan and Milward 1995; Nohira and Eccles 1992; Chisholm 1989). It is impossible to dispute the existence and importance of these networks. It is easy to bet on their permanence. Since the maturation of traditional administrative theory in the 1930s, interorganizational networks have been steadily growing in importance, and they show no sign of fading away. Welfare reform, Medicaid, and Medicare cement their continued existence.

For public administration, the challenge is reconciling the management and accountability challenges of these networks with the bedrock that hierarchical authority has long provided. How can government ensure accountability in extended service networks where administrative responsibility is widely shared and where no one is truly in charge? How can government, structured and staffed for an era when vertical relationships dominated, build the capacity to manage horizontal partnerships effectively?

The Federal Emergency Management Agency (FEMA) shows one way to make this transition. FEMA at one point was the butt of constant jokes. Wags suggested that every natural disaster was in fact two: one when the tornado, hurricane, earthquake, or flood occurred, and the other when FEMA's case workers arrived. In 1993, administrator James Lee Witt led a radical turnaround, restructuring FEMA's work to get checks into the hands of victims faster. He built a fast-track claim process and upgraded the information systems that process forms. Even Florida officials, enraged by FEMA's handling of Hurricane Andrew, had little but praise following storms in 1998. Senator Bob Graham (D-FL) hailed FEMA's response as "a 180-degree turnaround" from the Hurricane Andrew disaster.

The kernel of Witt's success lay in redefining FEMA's function. Traditionally, FEMA arrived after a disaster to provide emergency relief and financial assistance. Under Witt, FEMA officials focused more on preventing the damage from disasters, though an intergovernmental and public–private effort. FEMA developed a "life-cycle" model of disaster management. Disasters—and their costs—were the product of planning and mitigation that needed to begin far in advance of disasters and continue long after to prevent their recurrence. Instead of waiting for a hurricane to hit and dealing with the aftermath, for example, FEMA officials worked closely with state and local officials to improve evacuation plans. They built partnerships with the construction industry to design and build more houses that are hurricane resistant. FEMA, in short, moved from a limited form of direct service delivery to a complex, network-based approach that stretched from the federal government into state and local governments and the private sector. He saw FEMA more as a catalyst than as a service deliverer. Witt redefined FEMA's role and rebuilt its capacity to deal with that role.

Implications for Governance

These two trends—globalization and devolution—define the agenda for governance in the early twenty-first century. They chart the challenge for government. Not only must government devise new strategies for managing public programs effectively in a globalized and devolved policy world, it must also build the capacity for doing so. Most government bureaucracies remain structured and staffed to manage traditional direct programs through traditionally structured and staffed bureaucracies. As the government's strategies and tactics have changed, its structures and process—especially its personnel systems—have not. Governance of twenty-first-century American government is more likely to resemble the catalytic strategy that Witt developed than the New Deal models that dominate administrative orthodoxy. This certainly does not mean abandoning the traditional model. That model is the keystone of democratic accountability. It does mean adapting it to deal effectively with the horizontal networks that have been layered on top of the traditional vertical system. Thus, the first governance problem is adaptation: fitting traditional vertical systems to the new challenges of globalization and devolution, and integrating new horizontal systems to the traditional vertical ones.

The second governance problem is capacity: enhancing government's ability to govern and manage effectively in this transformed environment. For a century, hierarchical authority has provided the intellectual foundation of public administration. It has also provided the foundation for delegation of power to the bureaucracy in exchange for a mechanism of accountability. Because both globalization and devolution scramble these foundations, they demand that government create new strategies for effective management and accountability. The federal civil service system, for example, is built on the assumption of direct service delivery. It performs more poorly in developing and rewarding a cadre of skilled contract managers (Kettl, Ingraham, Sanders, and Horner 1996). The federal budget system simply does not track well the number and dollar volume of contracts awarded. The data that are available are rudimentary and require great interpolation. Government's structure is function based, at a time when more of its problems are area based. There is sound logic, as Luther Gulick argued in 1937, in organizing by function. The strain between the *vertical* processes of government (represented in function-based departments) and its *horizontal* problems, however, has been growing. How can government strengthen its ability to govern and manage while maintaining democratic accountability?

This is also a problem of education. Many, perhaps most, of the nation's schools of public affairs, public administration, and public policy have not adjusted themselves to cope with the challenges well under way in public institutions. Consequently, future public servants, who will pursue the public interest both within and outside the government, might well fail to receive the education they need. Increasingly, the pursuit of public value occurs in the nongovernmental institutions that manage many of government's programs. It is also increasingly the case that the careers of many public affairs program graduates take them, at least for part of their professional life, into nongovernmental organizations. Public affairs education needs to broaden its perspective to the emerging tools of government action—and to the transforming environment in which managers use them.

Closely related is a third governance problem, scale: sorting out the functions of different levels of governance and, in particular, redefining the role of the federal government. As Daniel Bell argued in his prescient 1988 forecast, "Previewing Planet Earth in 2013",

> The common problem, I believe, is this: the nation-state is becoming too small for the big problems of life, and too big for the small problems of life. It is too small for the big problems because there are no effective international mechanisms to deal with such things as capital flows, commodity imbalances, the loss of jobs, and the several demographic tidal waves that will be developing in the next twenty years. It is too big for the small problems because the flow of power to a national political center means that the center becomes increasingly unresponsive to the variety and diversity of local needs. In short, there is a mismatch of scale.

Some problems, like welfare reform, are better suited to devolved systems. Other problems, like international capital flows and regional security policy, might best fit globalized systems. The federal government, along with other national governments, risks finding itself in a squeeze for relevance. The rise of global pressures in international (and even domestic) policies, coupled with the increasing importance of state and local governments and nongovernmental partners in implementing domestic programs, raises sharp questions about what role the federal government should play.

Washington politics already show the strain of these questions. The executive establishment has increasingly relied on ad hocracy, especially in the executive office of the president. Decisions have leaked away from the executive departments, with two costs. It is harder for their expertise to find its way into major decisions. Their machinery for coping with cutting-edge issues risks atrophying from disuse. Whatever capacity accumulates in the ad hoc machinery can quickly leak away when crises end. Most major policy issues cannot be the province of any single agency or department, so ad hoc mechanisms tailored to important problems are inevitable. The ad hocracy, however, has not yet been accompanied by attention to building the capacity to make ongoing ad hocracy work.

Congress finds itself trapped in gridlock, unable to take more than a symbolic stand on a host of important issues. Some of this undoubtedly flows from the bitter politics of divided-party government and, in particular, the fallout from the Clinton impeachment battle. The tensions and inaction on Capitol Hill are a sign of the mismatch of congressional behavior and the mission that twenty-first century asks of it. There is indeed a mismatch of scale. Its symptoms show up regularly enwrapped in Washington's dysfunctional politics.

Government in the United States has thus become increasingly intertwined in the world's governance. The federal government shares domestic policy with state and local governments and with nongovernmental organizations—and state and local governments do the same. These changes are not the result of an explicit policy decision; rather, they grew gradually and imperceptibly from hundreds of tactics decisions over two generations of public policy. They have cumulated, however, into a fundamental transformation of governance—a transformation that poses substantial challenges for public institutions and how we manage them.

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