THE POLICY SYSTEM APPROACH TO
PUBLIC ORGANIZATIONS

DISSERTATION

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By

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*****

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DEDICATION

This work is dedicated to three people:

My father, Hendree Milward, who gave me my love of learning and questioning attitude. He is the finest teacher I have ever had.

My father-in-law, Dr. Joseph Young, who showed me the road and how to travel it. He provided intellectual sustenance at the beginning of my academic career. He has made the journey much easier through his good advice and keen analytical mind.

My wife, Jane, without whose help this dissertation would have been impossible. Not only was it due to her understanding and patience while I was writing, but she introduced me to housing policy as a topic. Her expert knowledge of housing aided this dissertation greatly. Without Jane's practical experience to test abstract notions against, this dissertation would be much the poorer.
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Chapter I

INTRODUCTION

Public Policy Research

During the last decade, public policy as a focus for research has been a major growth area of political science and public administration. The lack of catholicism in regard to approaches used and perspective applied to the research is exceptional even according to the eclectic standards of social science. There seems to be no slackening of interest as journals increase the number of policy articles they run; five new journals have appeared in the last few years with policy as their explicit focus--The Policy Studies Journal, Policy Analysis, Policy Science, Public Policy and The Public Interest.

The interest in policy and the demand for publishable work has not been without cost. It has resulted in a welter of different "disciplines," none of which is totally distinct from the others--policy analysis, policy science, public choice, public policy and most recently policy choice (Wright, 1975). Perhaps worse than the intellectual fragmentation has been a sloppiness of definition, method and theory.¹

... There is considerable intellectual unease about the published work, which has been characterized by inadequate conceptualization and the concomitant failure to develop meaningful and useful taxonomies and theories, as well as the unwillingness of researchers to question their methodology and to critically evaluate their findings in the light of existing theories of politics. (Schaefer, 1974: 331)

¹The only exception is public choice which is rigorous in all respects. However, some political scientists and economists challenge the fundamental premises that it rests upon (Burkhead and Miner, 1971: 163-171).
It was out of this frustration with these deficiencies that this attempt at conceptual reformulation was begun. In particular it stemmed from the difficulty of analyzing, with any degree of conceptual rigor, the vertical and horizontal patterns of decisionmaking in the implementation of intergovernmental grant-in-aid programs.

One of the great problems that accounts for the empirical difficulties, if not the conceptual, is the problem of dealing with a unit of analysis which is a relationship. What you are interested in is the intensity of that relationship. Secondly, correlation models really are not applicable to problems involving different levels of analysis. This is why it is only used in this research at what I will define as the organization-set level within a policy domain--state housing finance--that has few intergovernmental connections. There is as yet no math, save the undeveloped potential of catastrophe theory, that can handle both discontinuous, nonlinear events and dynamic relationships between different levels of an interorganizational or intergovernmental system.

In the conceptual realm, correlation and factor analysis are not the ideal tools with which to build a model. There is no substitute for having assumptions about the data. In this research the method of procedure has been what Kaplan (1964) calls "reconstructed logic." I have immersed myself in an area of policy and then have tried to inductively construct a model of the policy system. Given the inadequacies of current methodology for multi-level phenomena, I have tried to studiously avoid letting my methods determine the questions that I believed to be critical. I believe that methods such as regression and mathematics in general are no substitute, at this stage of the development
of the social sciences, for an informed belief, based on research and experience, of what causes a phenomena.

The Conceptual Problem

One of the problems that continually arises in public policy analysis is that of conceptualization. Unless one views policy analysis simply as policy alternative selection on narrow economic grounds, conceptualization is the downfall of many otherwise well conceived and sophisticated studies. There is great difficulty in conceptually dealing with a nightmarish web of conflicting public and private organizations and entangling webs of professional and personal relationships in intergovernmental policy studies. This difficulty in dealing with what once was the ubiquitous "black box" of systems theory may explain political scientists' predilection for policy formulation and policy impact studies.

This research is intended to clarify and extend the concept of the political or policy subsystem which I term policy system. Thus far this concept has been explored by political scientists primarily at the national level. The exploration has been more descriptive than empirical and partial rather than holistic. By the term partial it is meant that the studies did not deal with all of the empirical units or levels involved in any particular policy subsystem. When the problem of levels of analysis was confronted it was either ignored or handled by a resort

---

2The term policy analysis is ambiguous and ill-defined. Here it refers to the analysis of the impact of intergovernmental/interorganizational policy implementation. This is a broader view of policy analysis than policy alternative selection on the basis of the cost-benefit ratio.
to metaphor. An example is the term "marble cake federalism" to refer to functions shared by federal, state and local governments. While appealing from a literary perspective, it does not aid the researcher in determining who performs what type of function and why.

The Empirical Problem

To deal with the policy subsystem one must study specific outcomes in order to determine both who the relevant actors are in a policy domain and whose interests actually prevail in the decision-making process.

Nothing is assumed a priori about the distribution of power within a policy subsystem. This is treated as an empirical question. In particular it is important to study the policy subsystem over time as the balance of power is not assumed to be fixed.

Power may be tied to issues, and issues can be fleeting or persistent, provoking coalitions among interested groups and citizens ranging in their duration from momentary to semipermanent. There is a clear gain in descriptive accuracy in formulating power distributions so as to take account of the dimension of time. . . . (Polsby, 1963: 115)

Polsby (1963: 120-121) gives four recommendations for the study of power in our society which I have adopted for this research.

1. The researcher should pick policy domains as the focus of his study.

2. There must be clear defensible reasons as to why the chosen area is salient to the research conducted.

3. The researcher should study actual behavior, either at first hand or by reconstructing behavior from documents, informants, newspapers, etc.

4. Researchers should study the outcomes of actual decisions. The reason for the fourth caveat is that each separate policy domain is assumed to have a "decision center" which exists because a policy domain
implies that the government has legitimized someone or group to do certain things in its name. Thus those actors in the "decision center" are invested by the rules with the formal authority to legitimize decisions. Since these decisions impact differentially upon groups within society, it is assumed that one will discover "a constellation of related 'satellite groups' seeking to influence the authoritative issuances of the core group" (Kaufman, 1960b: 5).

It is always difficult to study behavioral phenomena when there is neither adequate conceptualization nor standard measurable unit. In the case of policy subsystems this is complicated by the fact that the interaction occurs across levels of government and between governmental and nongovernmental actors and organizations. Despite the fact that it is difficult to treat subsystem politics empirically, a compelling case can be made for the existence of these political subsystems and for their influence on policy outcomes in different functional policy domains from the descriptive, largely case study literature which will be reviewed in the second chapter.

Models of Politics

The conceptual part of this research utilizes systems theory which has been the dominant model of politics in recent years. While not empirically operational it is analytically useful and of course has empirical referents.

The classic formulation of the systems model is that of David Easton (1957, 1965). In his formulation (Figure 1) public policy is viewed as a response of a political system to forces from the environment. These forces are viewed as inputs. Inputs are received into the
political system in the form of both demands and support. Demands occur when individuals or groups, in response to real or perceived environmental conditions, act to affect public policy. Support is rendered when individuals or groups accept the outcome of elections, obey the laws, pay their taxes, and generally conform to policy decisions. The environment is anything external to the boundaries of the political system. The political system in turn is that group of interrelated structures and processes which functions authoritatively to allocate values for a society. Outputs of the political system are authoritative value allocations of the system, and these allocations constitute public policy. The system preserves itself by:

1. Producing reasonably satisfying outputs,
2. Relying upon deeply rooted attachments to the system itself, and
3. Using, or threatening to use, force.
Also the outputs (public policies) have a modifying effect on the environment and the demands that result from it. Thomas Dye (1975: 37) has stated that the value of the systems model lies in the questions that it poses:

1. What are the significant dimensions of the environment that generate demands upon the political system?

2. What are the significant characteristics of the political system that enable it to transform demands into public policy and preserve itself over time?

3. How do characteristics of the political system affect the content of public policy?

4. How do characteristics of the political system affect the content of public policy?

5. How do environmental inputs affect the content of public policy?

6. How does public policy affect, through feedback, the environment and the character of the political system?

Systems theory then is a macro, analytic model of the political system. The major problem that has often appeared in the eastonian formulation of it in political science is that the subsystems of the political system--rule-making, rule-application, and rule-adjudication (Almond and Powell, 1966)--have often been identified and confused with institutions--the legislature, bureaucracy and courts--rather than being seen as functions that can be performed in any of these institutions or perhaps the private sector in some instances. This misinterpretation of general system theory allows artificial boundaries to stand unexamined. The essence of systems theory is the interrelatedness of parts in the performance of a function. To identify institutions with a system or subsystem is to destroy the major comparative advantage of systems theory over other models of politics. In this research an argument will be made for the existence of policy systems in various areas of public
policy which cut across all of the eastonian subsystems and connect with identifiable components of the economic system. This raises the question of whether "the political system" is distinct in any meaningful way from "the economic system." The assumption has been that they are--largely due to our private enterprise heritage--but many nonmarxian scholars now question whether in an era of administered prices and administered wages this is a useful distinction (Robinson, 1969).

An additional critique of the systems model arises from a new stream of analysis (Warren, Rose and Burgunder, 1974) that views policy subsystems as connected to "the political system" but that the arrows of the systems model are reversed. It is the policy subsystem, not groups in the environment, that create demands. The policy subsystem through its control over resources and authority now has the power to structure its own environment or negotiate its own order and create its own demand. Cobb, Ross and Ross (1976: 135) refer to this as the "inside access model" of agenda setting.

In this model policy originates within a governmental agency, or within a group which has easy or frequent access to political decision makers. . . . [T]he issue reaches the formal agenda relatively easily because of the position of the initiating group. . . . [T]he initiators try to limit issue expansion to the public because they do not want the issue on the public agenda. Instead they seek a more "private" decision within the government, and generally stand to be defeated when the issue is sufficiently expanded to include public groups that might be opposed to it. Bureaucrats are also often afraid that the public will misunderstand a technical problem if it becomes a matter of public debate.

There are a wide variety of different models of politics that have been developed along with the systems model. Group theory and elite theory, in addition to systems theory, are the two other macro models of the political process. Others like incrementalism, game theory,
rationalism and institutionalism (Dye, 1975) are decisionmaking models which are either descriptive or prescriptive. They do not attempt to describe how the political system operates in its totality.

The systems model is analytic; particularly when joined with structural functionalism, it attempts to understand relationships and why certain structural patterns exist to perform certain functions.

Both elite and group theory are different. Both purport to describe how policy is determined in the political system. Mills (1955) in The Power Elite viewed public policy as the outcome of elite preferences. Dye and Zigler (1970) currently carry this tradition forward with their popular introductory American Government text--The Irony of Democracy. It gained a great many adherents during the Vietnam War since it seemed to describe the way policy was made in that situation very well.

Figure 2
The Elite Model
Source: Dye, 1975: 21
Basically elite theory suggests the following:

1. The people are apathetic and ill-informed about public policy.

2. Elites shape mass opinion on policy questions.

3. Policies and communications flow downward from elites to masses.

4. Conservative, elites are interested in preserving the status quo and thus their advantage.

5. It deals with policy in an incremental, reactive fashion, since generally change is not desired.

The other major descriptive model of the political/policy process is Group Theory. Here Bentley (1908), Truman (1951), and Dahl (1961) are the major formulators and interpreters. They view policy as the result of the pulling and hauling of self-interested associations of individuals in groups or organizations devoted to that interest. Specifically it states that:

1. Individuals with common interests band together formally or informally to press their demands upon government.

2. Individuals are important in politics only when they act in groups which pursue their interests.

3. The group becomes the essential bridge between the individual and his government. And likewise all people are at least potentially efficacious through groups.

4. Public policy is the equilibrium reached in the group struggle which is then legitimated by the government acting as a legitimator and scorekeeper.

5. This equilibrium is determined by the relative influence of interest groups.

As Dye (1975: 21) notes

... The task of the political system (in Group Theory) is to manage group conflict by (1) establishing rules of the game in the group struggle, (2) arranging compromises and balancing interests, (3) enacting compromises in the form of public policy, and (4) enforcing these compromises.
At this point it is possible to offer six statements concerning the models of politics we have discussed.

1. There is no single model of public policy.

2. There are a wide variety of models that are difficult to choose between.

3. Which model is descriptively correct may depend upon the policy area and the stage of the policy process being examined.

4. There are two models of the policy process at the macro level which are the central paradigms of political science/public administration.

5. One, Group Theory, is ideologically conservative.

6. One, Elite Theory, is ideologically radical.

What is most interesting is that these paradigms or world views are not theories. In political science/public administration we get paradigms without theory. Neither Group nor Elite Theory is explanatory and the hallmark of theory is explanation where causation is implied (Schumaker, 1976).
Kuhn (1962) says theory is a world view. We seem to have developed paradigms without theory. Here theory is defined as a systematic inter-related set of explanations of something like policy that has received a large amount of empirical verification (Schumaker, 1976).

In this dissertation an attempt will be made to take the two major categories of political theory and resolve the differences between them into one model of the policy process.

The two major categories of political theory seem to be the following:

1. How people outside political organizations can affect those inside the political organization. In general both Systems and Group Theory have concerned themselves with this.

2. How policy makers can affect people outside of political organizations. Here policy is viewed as a mechanism for social control. Elite Theory has concerned itself with this topic.

In this research I will attempt to show how Group Theory and Systems Theory are both compatible with Elite Theory if all three are slightly reformulated. What is suggested is that social control can subsume all three in a descriptive sense for a certain class of political behavior--subsystem politics.

**Public Policy**

If one is writing a dissertation on policy systems, it is essential to define the concept of public policy which a type of social system, the policy system, organizes around.

Policy is used in many different ways in the literature of the social sciences. In common parlance it is often used to refer to a goal or objective. "Full employment with no inflation is our policy."
Aside from the two policies in the preceding example perhaps being incompatible, they are not policies in themselves, rather they are ideal states that are desired. "For if no distinction is made between policy and the goals of policy, it is impossible to say whether a given policy achieves its stated goals or purposes" (Eulau and Prewitt, 1973: 474). Without the distinction between policy and goal or objective, it is difficult to tell if the consequences of the policy are in conflict with the desired goals.

Policy as a concept also needs to cope with nondecisions as well as decisions (Bachrach and Baratz, 1963). In Lawrence, Kansas, there is a comprehensive plan for the development of the city. The land-use provisions are explicit and rigid. This is the formal policy of the city commission on urban development. However, in the last year only two requests for variances from developers have been completely turned down. One can argue that the real policy is one of unhindered development for those who apply for variances. It is also no accident that outsiders are not granted variances (one of the two denied was for a mall to be developed by out-of-town interests), so that the local developers' interests are protected. The banks, real estate and development firms are by far the largest contributors to council campaigns (Lawrence Journal World, January 10, 1978). Also, many of the councilmen have direct or indirect ties to the major banks or development firms.

Therefore, if policy is to be a useful organizing concept it must cope with both the formal decisions of a governmental body and the informal "nondecisions."

... [P]olicy is not a synonym for particular events in the policy process, such as decisions or actions of the governing body. Decisions or actions may occur in the
pursuit of programs or goals, but they are not themselves policies, even though they may be authoritative or sanctioned. . . . The distinction between policy and decisions or actions "making for" policies is necessary because policies result not only from events but from nonevents. . . . Policy may be the outcome of a failure to make decisions or allocate values. Such failure may be intentional and, if verbalized, constitute a program; or it may be inadvertant, due simply to the policy makers' inactivity. The consequences are the same. (Eulau and Prewitt, 1973: 475-476)

There are five properties of policy. The first is domain. An example would be housing policy. Scope is a second property. Adding to our first example, we have state housing policy. Content refers to the mechanism embodied in the policy; for example, the establishment of a state housing finance agency to lend money for low and moderate income housing constitutes the housing policy for the state of Ohio. Eulau and Prewitt (1973: 477) suggest two additional properties. Policy must "refer to consistency in behavior with respect to what is being done and how it is done in a given domain of public activity." This property would allow us to say that variances to the Lawrence development plan is the actual development policy of the city. For example, a simple way to empirically operationalize this is to divide the number of variances granted by the number of requests. Let us assume that in Lawrence this shows that 97 percent of the variance requests are eventually granted. Since this is consistently done, this is the operational policy of the city council in regard to development. The fifth component of policy is repetition. This allows the element of time to be added. The Lawrence city council's policy of granting variances is consistent in that it reoccurs time after time, but it is also behavior of relatively lengthy duration spanning the time in office of several different city councils with a changing cast of commissioners. If over
the last 10 years, the city council's policy toward zoning has been consistently the same as in the past year, then the policy is well established and we can reasonably predict what the council will do in a particular case.

Cyclical patterns which are consistent and repetitive are also a type of policy pattern or cycle. The alternating pattern of inflation and unemployment in our society may be a direct result of the government's policy to manage the economy.

It is the actual norm of conduct in a specific substantive area of governmental action, then, that constitutes policy. Observation of consistent and repetitive behavior patterns in the governmental decisionmakers' conduct allows us to define policy as a "standing decision." (Hilau and Prewitt, 1973: 478)

To say that policy, to be operational, must be consistent and repetitive is not to deny that policy changes, sometimes in fundamental ways such as the 1964 Civil Rights Act. It says nothing about whether incrementalism is the dominant mode of policymaking behavior. What we are concerned with here is what constitutes policy, not how that policy is made.

The Context: The Policy Process

There are two major problems in analyzing the policy process. The first problem is how to accurately delineate the environment within which policy is made. This is the "boundary" problem. The second problem is to explain the dynamics of the policy. To solve this, one must account for the decisions or nondecisions of the actors. The systems approach that is used in the construction of the literary model is very helpful in solving the first problem, that of the boundary. I have not, however, found it useful in solving the second, the dynamics of the process. That is why this, and much of policy research, is
multimethod in nature. This is because through policy research we are inevitably driven back to the traditional concerns of political philosophy. If we wish to explain variations in system performance, we have to study the relationship between the value judgements of those involved in the policy-making process and the relationship between these and the social structure (Klein, 1977: 404-405). To merely reify these concerns into an abstract system does not solve the problem but it is a good place to start.

Disciplinary and Ideological Factors: The Role of Political Science

Political science as a discipline began in the reform era. However, it drew norms and values from Madison's earlier formulation of the political system in The Federalist Papers. Political science drew from Madison in conceiving of politics as the clash of self-interested voters. The political system was portrayed as the analog of the market. In the free market model numerous buyers and sellers establish prices. Because of the numbers involved, none of them can materially affect the price or quantity of a good offered for sale; and it is their individual self-interested decisions which lead to markets that are in equilibrium. This mirrored the Madisonian model in which the individual decisions of self-interested citizens would sum to the decisions that would reflect the equilibrium of the political system and therefore represent the public interest at that time. The point was never made that equilibrium positions are affected by the distribution of money or power and are therefore sometimes inadequate measures of system stability.

The rise of organized interest groups clearly vitiated this simplistic view of political reality. Though descriptive study of the political behavior of groups started relatively early in political science (Bentley, 1908) the discipline transformed the results of empirical investigations into a normative framework (Truman, 1951; Dahl, 1962). In this view the machinations of organized and even nascent groups played the role previously held by the individual. For many political scientists the theory was the same only the unit of analysis had changed. In other words, pluralism based on individual political actors was now transformed to a pluralism based on groups as the relevant political actor. Whether there was a fallacy of units and levels of analysis was not raised at this point. Figure 4 contrasts the Madisonian view of democratic policy-making with the pluralist view of policy-making.

\[
\text{CITIZEN} \rightarrow \text{VOTER} \rightarrow \text{REPRESENTATIVE} \rightarrow \text{POLICY}
\]

\[
\text{CITIZEN} \rightarrow \text{GROUP} \rightarrow \text{REPRESENTATIVE} \rightarrow \text{POLICY}
\]

Figure 4

The pluralists believed that the public interest resulted from the group struggle because the outcome (policy) would reflect the political equilibrium of the moment. While the pluralists traced their own roots to The Federalist Papers, specifically James Madison in Federalist 10, they had a very different view of groups (factions) than did Madison. In The End of Liberalism (1969: 296) Theodore Lowi pointed out that:

Madison in Federalist 10 defined the group ("faction") as "a number of citizens, whether amounting to majority or minority of the whole, who are united and actuated by some common impulse of passion, or of interest, adverse to the right of other citizens, or to the permanent and aggregate interests of the community." (Emphasis added.) David Truman (1954) uses Madison's definition but cuts the quotation just before the emphasized part.
This meant the pluralists, such as David Truman, had a normative view of groups which stood Madison on his head. To the pluralist the contemporary polity was, and should be, the battleground of group conflict with government agencies merely one type of organized group (Latham, 1952). Legislators were seen as referees who would weigh the strength of various groups and decide issues in line with the might of the contestants.

This outcome and view again contrasts with those of Madison. As Lowi concludes:

Immediately following his definition in Federalist 10, Madison went on to say: "The regulation of these various interfering interests forms the principle task of modern legislation. . . ."

The normative version of pluralism is what Lowi calls "interest group liberalism," that is a group struggle for the power of the positive state which results in the public interest. This view has three major flaws:

1. It fails to take into account the fragmented and particularistic nature of Congressional power;

2. It does not provide an understanding of the impact of public organizations on public policy. It views the bureaucracy as somehow apart from these groups and as a neutral implementor of the results of the group struggle;

3. It conveniently ignores the dark sides of group conflict; that is, their monopoly of political resources and their skewed representation of "the public."

One of the most damaging results of "interest group liberalism" comes from the giving away or parceling out of policy-making power to the most interested and efficacious groups. Because it is assumed group competition results in the public interest, that groups are representative, and the process is automatic and self-correcting, it has seemed in the democratic tradition to devolve policy making to policy subsystems
(Ostrom, 1972). In effect we have seen the abdication to policy subsystems of the power to answer Lasswell's (1936) pertinent question of "who gets what, when and how?"

The results could be labeled the "McDonaldization" of American government or the franchising of public policy. For example, the U.S. Civil Service Commission has repeatedly delegated certification matters to professional groups. This has been done through job classifications requiring certificates that only the professional group can bestow. The state has thus delegated its gatekeeping function to a profession and reinforced professional claims to special access in certain areas of public policy.

The franchising of public policy severely erodes one of the main bulwarks of pluralist logic: that group competition keeps access to government open. What we see instead is the elimination of competition, the reduction of competitors, the submergence of conflict and the consequent conversion of regulation to self-regulation. We find the highway building policy subsystem fighting to protect "its" trust fund from encroachment by those who would "misuse" it for development or urban mass transit; or cosmetologists certifying some beauty shops and excluding others, thereby driving some out of business in the name of the state.

William F. Buckley has finally pushed the franchise metaphor to its logical conclusion by suggesting that one solution to balancing the U. S. budget would be to sell the policy-making franchises to the highest bidder (Edsall, 1974).

The end result of franchising is a decline in the moral authority of government. The effect is much like Lowi's metaphor of "universal ticket fixing."
Suppose, that as the automobile population increased a certain city faced a traffic crisis and the system of ticket fixing came into ill repute. Suppose a mayor, victorious on the Traffic Ticket, decided that, rather than eliminate fixing by universalizing enforcement, he would instead reform the system by universalizing the privileges of ticket fixing.

The results are doubly calamitous because the traffic problem grows worse at the same time the moral authority of government is irretrievably debased. The current situation is not much different than Lowi's allegory. We are treated to the spectacle of former President Ford who ran for President against his own bureaucracy. The net result of this is a continuing loss of legitimacy in the eyes of the electorate and the loss of the sense of public purpose in governmental undertaking which gives life to the rhetoric of responsible political action.

There are two terribly pernicious political effects associated with "interest group liberalism" and the loss of legitimacy. First, you have the cooptation of legitimate interests (Selznick, 1948). This is where interest organizations are put on the dole. The grant-in-aid device is often used to secure the compliance of the leaders of these groups. This is currently happening with the public interest groups of public officials. The International City Management Association, U. S. Conference of Mayors and the National League of Cities are just a few of these groups receiving a substantial portion of their funds from the federal government. While it is pure speculation, it is hard to imagine these groups taking positons that are greatly at variance with those of their patrons. Secondly, representation of persons only occurs through those interest organizations that have been so legitimated. While only 20 percent of the American work force belong to the AFL-CIO, invariably they are the ones asked to represent the interests of the working man and woman before the government.
While its effect on representation is negative, the programmatic effect of "interest group liberalism" is also destructive to representative institutions. Most of the major social programs of the New Deal and Great Society years, whether for the good of the few or the many, were initially adopted by broad coalitions appealing to general standards of justice or the public interest. Obvious examples are Medicare, Social Security, Aid to Education and later Environmental Protection (Stockman, 1975). However, over time as a program supplies particular benefits to an existing or newly-created interest, public or private, it creates a set of political relationships that make it very difficult for majority coalitions to alter. So, what was originally created in the name of the common good is maintained in the name of special interests. As Allen Schick (1969) has pointed out, what economics writes off as a sunk cost, politics rewards as a vested interest. And with every new action of the positive state, new clients are created. Thus, over time all policy tends to become distributive even though its original intent was redistributive or regulative.

One wonders at first why Congress seems powerless to act against even the most undeserving of these programs. The answer lies in the grant-in-aid pipeline that runs from the federal treasury to each of the 435 congressional districts. These grants create constituencies in each congressional district with a salient interest in the maintenance of the existing program. Also with the awarding of individual grants, Congressmen can take credit for their distribution in their home district. The announcements of these grants by the Congressman are one of the things that the bureaucracy handles most efficiently (Fiorina, 1977). It is for this reason that Revenue Sharing and its variants--special revenue
sharing and block grants--are not well liked by most congressmen (Haider, 1974).

**Bureaucratic Demand Creation**

Beginning in the 1960's, the Federal government, at the initiative of the President and his advisors, increasingly came to define the purposes of the grants-in-aid. While this was not done over the objections of the states, it was often without any initiative from them. Grants were to be spent on poverty, planning and other national goals. Until these laws were passed, there were few, if any, well-organized constituencies, as distinct from political coalitions, that pressed for the adoption of these priorities as national goals.

So before the 1960's, with the exception of the items left over from the New Deal agenda, we saw one kind of interest group liberalism or pluralism. This is the pluralism of Schattschneider (1960) where federal money was spent in response to the claims of distinct and organized groups such as those lobbying for aid to highways. Those groups with the most power, prestige, and political skill received the most benefits.

The post-1960 brand of pluralism was greatly different. Here federal money has increasingly been spent in ways that have created clients rather than responded to existing interests. This begins with bureaucratic demand creation. National goals, such as community mental health treatment, are often created at the bureau level and then move on to the public agenda.

Once these "goals" are enacted and implemented, they are rarely cut-back or abolished. The only program of this type to really decline
was the Office of Economic Opportunity which was abolished. But its
demise is the exception that proves the rule. To do this took the
steadfast and deliberate attention of Richard Nixon and the gentle
ministrations of Acting Director Howard Phillips before the agency died
and its programs transferred to other departments. In the process of
closing down this and other social programs in the impoundment struggle
of 1973, Nixon was bitterly assailed in Congress and lost 63 out of 64
lawsuits that were brought against the Administration for trying to
terminate these programs (Milward and Bayha, 1974).

In a recent article by Samuel Beer (1976) bureaucratic demand
creation was illustrated by the adoption of the Community Mental Health
Facilities Act of 1963. The legislative history of this act illustrates
how key officials in the Federal bureaucracy "found" a problem or recog-
nized a performance gap and then proceeded to fund research which would
develop a technology that would address the problem which would justify
the government's intervention to solve the problem. Once this was
accomplished they built a constituency that shared the goal of the
officials which then successfully lobbied for the legislation. The
legislation was then administered through an intergovernmental network.

Dr. Robert Felix of the National Institute of Mental Health was the
key figure in the passage of the legislation. Felix and his colleagues
were committed to a program of deinstitutionalization of patients in
state mental hospitals. They favored a system of community based mental
care to integrate the patients into society as much as was possible given
their illness. However, much as these scientists in NIMH favored this
as a policy, it would have been impossible to implement without techno-
logical breakthroughs in the treatment of mental patients which NIMH
had funded. This illustrates a phenomena which is little recognized in public policymaking--technological coupling--an interest with a technology.

In Congress these administrators were allied with Senator Lister Hill and Representative John Fogarty, chairman of the respective appropriation subcommittees that controlled the budgets of the National Institutes of Health. A broad array of professional interest groups then were mobilized to support the legislation. These same groups would be the beneficiaries of any legislation that was passed since mental health professionals would administer the community mental health centers. It would also increase the demand for people in these occupations. With John F. Kennedy's election there was a President who was sympathetic to public provision of mental health services due to his family's involvement in charities supporting mental health.

What differentiates this pattern from older responsive models of policy-making such as the "triple alliance" or "the iron triangle" is that in these formulations groups in the private sector initiated the policy demands and the bureaucratic officials and congressional committee chairman responded. However with cases like Community Mental Health we find a professional-bureaucratic complex which reverses the initial sequence of causality (Beer, 1976: 159-160). The program the legislation establishes creates the constituency rather than the reverse as in the responsive models of policy process. The constituency can include clients, suppliers, policy specific intellectuals who become a policy community in the same sense as an invisible college functions in academia. But perhaps the most important organized group in the constituency is the
professional associations made up of the public sector professionals at all levels of government who will implement the program.

Thus this research will focus in its empirical part on bureaucratic demand creation. The actors in this process are not all members of government agencies. Some may be experts, consultants, commercial entrepreneurs, trade or professional association heads or members of committee staff of Congress; but they all share an interest in and knowledge of a particular domain of public policy which is handled by one or more public organizations at one or more levels of government. This grand montage is termed the policy system which I develop as a conceptual model and view as the emerging core unit of the political economy of the United States.

Design of the Research

Various approaches can be used in the study of public policy. This research utilizes systems theory as an analytic model. My purpose is to rigorously tie the policy system into its sociological context.

It is often alleged that social system analysis, particularly of the structural-functional variety, is an inherently conservative enterprise given the built-in tendency of a social system toward equilibrium or self-preservation. To attack an analytic approach as ideologically supportive of the status quo seems as intelligent as blaming the messenger for the message. The study of social systems using structural-functional analysis is not an inherently conservative activity. How can one plan change without an understanding of the forces working for stability? (Mayer, 1972: 138)
Regardless of whether one uses systems or any other theory to guide one's research, there are certain problems which continually manifest themselves. Any time a theorist constructs either a partial or holistic model of a social system there are certain limitations that simply cannot be overcome (Mayer, 1972: 138).

1. Reification—As with all theoretical constructs, social systems are not real facts. They are merely useful ways of looking at real facts to identify meaningful relationships.

2. Variability—The social behavior depicted as social systems may fit the model better or worse at a given time.

3. Restricted determinacy—Social system models do not completely account for social behavior. They must be melded with theories of individual systems (psychological and physiological) and physical systems (economic and natural environmental) if they are ever to do so.

The Problem

The general question this dissertation addresses is how policy systems affect governmental decisionmaking and choice activities in a federal system? The general problem will be factored into two major subproblems—one theoretical and one empirical—which will be investigated by this dissertation.

The theoretical problem is to develop an empirically useful and conceptually rich model of a policy system. It is defined as the behavioral interaction patterns of actors, organizations and institutions relating to policy outputs in a functional area over an extended period of time.

I view a full blown policy system as a collectivity with shared goals and values expressed through boundary maintenance, unlike an ecological or exchange system. The degree of "entitiveness" or collectiveness is of course a continuous variable. As Farkas (1971: 7) says:
The regularity, the intensity, and the content of their interactions will determine whether these participants form a coherent, or even a discernable, political subsystem within whose boundaries a particular type of policy is produced.

It should be noted that this applies to day-to-day interaction more than to conflictual situations that expand both the arena and the actors involved.

The empirical problem is to investigate the factors leading to the adoption of housing finance agencies by states. The central question here is to examine the factors which led most states to assume a function previously left to the private sector, local authorities and the federal government. Another problem is to determine if the conceptualization of the policy system as a collective unit of analysis is useful in explaining the adoption of housing finance agencies (HFA's) as a public sector innovation. Aggregate data on innovation will be provided for all states which have adopted HFA's. The case of the adoption of the Ohio HFA will be explored in depth from documentary data.

This then is the approach that will be developed in this dissertation. I will develop and partially operationalize a model of the policy system of housing in both an empirical and a case study context. Before this is undertaken, however, we must first assess the state of the art in policy research and establish the justification for discarding the mainstream approaches to public policy at the subsystem level of analysis. In addition, I must justify, in a historical and literary sense, the construction of a new unit of analysis for political and social research.
Chapter II

SUBSYSTEM POLITICS

The Problem of the Public Sector

The growth of the public sector in the United States has increased faster than the Gross National Product (Table 1). In 1975, total public expenditures constituted 34.2 percent of the Gross National Product (ACIR Perspective, 1976: 9). Between the years 1902 and 1959, the ratio of public expenditures to Gross National Product increased on the average one-third of a percent per year. Starting in 1964, with the beginning of the Great Society programs in health, welfare, community development, housing and education the ratio began to increase one-half a percent a year (Beer, 1977: 7). The current estimate then of the size of the public sector is a bit over 36 percent.

This is not an isolated phenomena as the same thing is happening in other western countries as well. A reason for this may be related to the evidence in economics which suggests that as income rises, individuals' preference functions shift from goods to services and since government is largely a provider of services, the demand for the government's services will inexorably increase. In the short run, distributional questions seldom are asked as it is the nature of the policy process to avoid these questions so as to assure passage of a bill. In the long run the question arises of who bears the burden? However by this time the political sinews of the grant or program are strong and extremely difficult to disconnect. This led Alice Rivlin (1971) to comment that where we are analytically strong, we are politically weak. Those programs which have been around for many years and which we can prove have outlived their usefulness are often
Table 1

The Growing Public Sector, 1954-1974
(The Relative Decline in Defense Expenditure Is More than Offset by Dramatic Growth in Domestic Federal, State, and Local Spending)

Expenditures
As
Percentages
of GNP
%

Source: Advisory Commission on Intergovernmental Relations (1975: 3).
the most difficult to terminate. Thus the growth of the welfare state is one prime reason for the increase in the size of the public sector. The second major cause has been war and national defense spending.

As the public sector grows larger, the government becomes either a substitute for or a viable alternative to the market as a means of allocation and distribution in a society. The government will generally do more than redistribute the wealth of a society; it will provide either directly or through performing agents a host of services to the population of the country such as transportation, health care, education, welfare or housing.

As the size of the governmental sector has increased this has naturally generated demands for increasing the centralization of government to coordinate the efforts of the various agencies of the federal, state and local governments to eliminate waste and overlap. Herein lies as interesting paradox. In this country we find our federal system organized geographically along federal, state, and local lines. At the same time, the federal government itself--both the congress and the executive--is organized along functional lines which, along with the federated or holding company model of most public organizations (departments), allows a fragmented system of nonelectoral politics to flourish. This in itself creates a complex set of dynamics for intergovernmental relations and sets the stage for the public sector politics which has assumed increasing importance as the federal government has moved in the direction of a national definition of problems with the states and cities as the performing agents.

If politics is the "authoritative allocation of values" (Easton, 1953) then equally important is Aristotle's assertion that "Man creates
values." In the national definition of problems this is exactly what is occurring. To create these values embodied in governmental programs one must have a necessary but not sufficient condition for government action--a large public sector. Once the public sector reaches a certain size--30 to 40 percent of Gross National Product--a new dynamic for centralization takes over. It is no longer just political parties, organized groups or mass coalitions pressuring the government for certain policies which will be embodied in programs. The new dynamic is "technocratic centralization" (Beer, 1973).

This springs from two sources. First, the increasing complexity of the knowledge which is used in identifying and solving contemporary problems means an increasing reliance on experts in policy-making. Secondly, the public sector and those associated with it have become so large as a percent of the total work force that the public sector generates within itself powerful forces leading to further governmental action. Centralization thus inexorably leads to more centralization (Beer, 1973). In practice this works like an institutional version of Parkinson's Law. Governmental programs create problems which are dealt with by the addition of further government programs down through all levels of the federal system. These spillovers, or what Beer terms "engrenage," would seem to be a principal mechanism in increasing the activity of the federal government. If this interpretation is correct, it is now possible under certain conditions for government to create its own demand. This gives rise to the politics of function or, as it is commonly called, subsystem politics.

Subsystem Politics: Definition and Dimensions

Subsystem politics is a term familiar to most researchers in political science and public administration. Recent texts in the two fields even
have subsystem politics as an explicit focus (Ripley and Franklin, 1976; McCurdy, 1977). A political system or subsystem is defined by systems theorists as a persistent pattern of relations involving power and authority which results in the allocation of values (Farkas, 1971: 31). The classic definition comes from Emmette Redford who defined subsystem or intermediary politics as "... the politics of function, involving the interrelations of bureaus and other administrative operating agencies, the counterpart congressional committee structure, and the interest organizations, trade press, and lobbyists concerned with a particular area of program specialization" (1969: 83).

Lee Fritschler in *Smoking and Politics* (1969) further clarifies the concept by indicating that a particular subsystem cuts across institutional boundaries and in general functions with a high degree of autonomy from the larger political entity to which it is tied and ultimately depends upon for legitimacy. Douglas Cater sums up the essential characteristics of this form of politics as "... a complex problem to be dealt with and the coalescing of power among those who have the interest or the yen to deal with it" (1964: 20). The fundamental point about a particular subsystem is that the participants must think of themselves as such.

First, most major decisions affecting that area must be made by the interaction of certain "hard core" participants, those with the deepest and most continuous involvement. Second, identifiable linkages and communication patterns must exist among the actors. These interconnections must form the basis for shared attitudes and the participants must address themselves to the same policy agenda. They must speak the same language, understand it in the same terms, and think of themselves and each other as participants in a continuing dialogue. In short, a political subsystem must exist in the consciousness of its participants as well as from the perspective of an outside observer or according to a definition by systems theorists. (Farkas, 1971: 31)
This then is the definition and description of subsystem politics in the literature of political science. One of the complicating factors is that in the literature this form of politics goes by many names. Cater (1964), Edelman (1964), and Ripley and Franklin (1976) call subsystems subgovernments. Subsystem politics is used by Wamsley and Zald (1973), Fritchler (1969), and Redford (1969). Perhaps the two most distinctive monikers for the phenomenon are "the triple alliance" and the "iron triangle" (Freeman, 1956; Wood, 1970; Wilson, 1967; Seidman, 1970). Both the triple alliance and the iron triangle stem from the suggested geometric shape of the essential elements-interest groups, executive bureaus and legislative subcommittees and their staff. The strength of the sinews of this arrangement led James Q. Wilson (1967) to term the arrangement "the iron triangle of influence."

![Figure 5](image)

"The Iron Triangle"

The first instance of this mode of analysis being used came in 1939 in Ernest S. Griffith's *The Impasse of Democracy* with the following statement:

One cannot live in Washington for long without being conscious that it has whirlpools or centers of activity focusing on particular problems. . . . It is my opinion that ordinarily the relationship among these men-legislators, administrators, lobbyists, scholars-who are interested in a common problem is a much more real relationship than the relationship between congressmen generally or between administrators generally. (182)
Since Griffith wrote, many political scientists have tried to explain behavior in specific subsystems such as Indian Affairs, tobacco and sugar (Freeman, 1955; Fritchler, 1969; Cater, 1964). While there were many useful insights in these and other studies there was little that was generalizable except that similar types of actors and organizations were involved and that subsystems could maintain a high degree of autonomy because of fragmentation of power in American governmental institutions. These analyses of subsystems were focused on horizontal patterns of interaction which cut across institutional boundaries between actors at the same level of government. The action centered around policy formulation decisions or continued funding for ongoing programs. However if one sifts this literature carefully there are a significant number of important insights, propositions and in some cases empirical findings which help one deal with subsystem politics in a systematic fashion as well as to lay the base for the later development of the concept of the Policy System.

Largely overlooked in C. Wright Mills' *The Power Elite* (1956: 266) was a prescient description of what he called the "governmentalization" of the lobby. He debunked the pluralist notion of the government's simply performing the function of balancing the various interests of society and serving as a scorekeeper in the policy process. He observed that the powers of decisionmaking in the United States were more and more becoming concentrated in the state. The old lobbies were, through interchange of personnel, contracts and grants becoming part of the government.

This "governmentalization of the lobby" has proceeded in both the legislative and the executive domains, as well as between them. The executive bureaucracy becomes not only the center of power but also the arena within which and in terms of which all conflicts of power are resolved or denied resolution. Administration replaces electoral politics; the maneuvering of cliques replaces the clash of parties. (Mills, 1955: 267)
In the same year *The Power Elite* was published, Leiper Freeman (1955) studied the subsystem of Indian Affairs. This particular subsystem was characterized by considerable autonomy for bureaus, committees and interest groups. The subsystem took on a unique quality with the chief participants interacting with and to one another to some degree independently of the larger political world of which the system is a part.

As Emmette Redford (1969: 96-97) pointed out there was in Freeman's study on the whole, disunities within the system. There was lack of unity in each of the three types of participants. This belies the cohesiveness that one would expect of participants who share an interest in common.

Conflicting evidence was found by Arthur Maass (1951) in *Muddy Waters* a study of the river developments subsystem. He found a subsystem characterized by a great deal of unity among the participants over how river development policy should proceed.

A third study which focused on civil aviation (Redford, 1960) falls between that of Freeman and Maass. This leads to the proposition that the degree of cohesion and policy homogeneity among the participants varies significantly from subsystem to subsystem. Factors contend within them for power to set policy in that domain and, as a consequence, the balance of power within them changes over time. The unresolved empirical task is then to see what factors lead to unity at one end of the continuum and to disunity at the other. The answer to how cohesive a particular subsystem is may lie in the degree to which contiguous subsystems overlap and conflict with one another. Therefore the degree of interaction with the relevant environment (other subsystems) and the ease with which issues move from the subsystem to the macropolitical sphere are two important determinants of subsystem cohesion.
Whatever cohesion a subsystem exhibits is a result of the general problem of fragmentation of governmental policymaking. Fragmentation in turn arises precisely from a key function of government—to respond to diverse demands from interests which are mutually incompatible. This leads directly to contradictory policies which tend to be directly contradictory (Alford and Di Tomaso, 1975: 38).

Where this is perhaps most apparent is in the area of tobacco. The Federal Trade Commission, Federal Communications Commission and the Surgeon General in the Department of Health, Education and Welfare have all actively tried—through warnings on cigarette packs, banning cigarette advertising on television and issuing voluminous studies linking cigarette smoking to cancer—to discourage smoking by Americans. At the same time the Department of Agriculture has supported the tobacco producers by supporting a minimum price for tobacco by government purchases when the market will not clear above the support price. The Department of Commerce is almost an arm of the tobacco industry overseas, helping the tobacco manufacturers to sell their product without the warning that is required on all packs in this country—as if cigarettes only gave American's cancer.

The explanation for these and many other contradictory policies that we pursue lies of course in the response of the government to a welter of different and contradictory interests. The fragmentation of policy is legitimized in both Congress and the executive branch through the organizational structure of both. This is because there is a concentration of decisionmaking in strategic positions within areas of program specialization—committees and subcommittees in Congress and Bureaus in the executive branch (Redford, 1969: 96).
Ralph Huit (1968: 272) has given one of the most lucid and penetrating analyses of the dimensions of the political subsystem. He notes that the organization of Congress around specialized concerns shapes the entire system that makes legislation. He deepened the understanding of the dynamics of subsystem politics by saying that the "triple alliance" needed fleshing out and was more accurately a policy subsystem which focused about each pair of committees that shares similar if not identical jurisdiction in both the House and the Senate. "There are interest groups that have commitments ranging across a broad sweep of the legislative spectrum, and there are executive departments with similarly large responsibilities" (Huit, 1968: 272). At the same time however no interest group is likely to deal regularly with more than four or five committees in either house.

But a more common pattern than interest groups with several interests like the AFL-CIO, National Association of Manufacturers or the NAACP are groups with a broad, single interest like higher education. Also more common than executive agencies with large responsibilities is the executive agency that administers one or only a handful of bills and all of whose business is done with a single committee in each house.

Huit emphasizes the relative isolation that develops around each of these policy subsystems. "They are like planes that cut each other only at points of decisionmaking such as roll call votes on the floor" (1968: 272). This sense of isolation is not as apparent in the Senate, where each member belongs to at least two committees and perhaps several subcommittees, but the result is the same as in the House where a member specialized in usually one area and has membership in only one committee because the burden of many assignments in the Senate forces the Senators to rely heavily on their committee staff.
There is a difference between the types of behavior exhibited by the Senators and Representatives. Policy entrepreneurship is much more widespread in the Senate than in the House. For example, Edward Muskie (D, Maine) is known as an environmentalist and an arbiter of intergovernmental relations while William Proxmire (D, Wisconsin) has made his reputation as "guardian of the public fisc." In the House, committee specialization as opposed to policy specialization is the norm. The result of these differing patterns is to make the Senate the voice of demographic and policy oriented clientèles such as the National Governors Conference, National Council of State Legislatures, U. S. Congress of Mayors, Friends of Earth, and Public Citizen, Inc. On the other hand, the House committee members are more responsive to the technical constituency within a particular subsystem. As a consequence the Representatives are more likely to reflect the thinking of professionals and experts in the field (Davidson, 1974: 96).

Institutionalization signifies both differentiation and specialization, thus the increasing institutionalization (Selznick, 1957) of Congress, signified by the growth of a sizable congressional bureaucracy to serve the committees, individual congressmen and the newly created congressional agencies such as the Congressional Budget Office have served to deepen the fissures between the congressional policy systems (Haider, 1974: 84).

The executive bureau milieu also contributed to the fragmentation and isolation which allows policy subsystems to flourish. Many public organizations at the departmental level are like holding companies which perform a host of more or less related functions whose only common link is the statute or executive order which created them (Wamsley and Zald, 1973: 65). Departments such as HEW and HUD are really loose federations
representing a conglomeration of functions with no cohesive purpose. The lack of cohesive purpose means that conflicts between bureaus or programs can only be settled by a political process. Each bureau or program will try to mobilize as much support as possible among suppliers, clients and congressmen to press their case for a larger allocation (Wildavsky, 1964). In response the central "offices" in the department will attempt to internalize the conflict and to press their set of priorities upon the competing subunits. But the process is the same—political coalitions fight both these battles (Cyert and March, 1963; Thompson, 1967).

An example of this type of conflict is found in the budgetary data analyzed by Natchez and Bupp (1973). The conventional wisdom states that agencies only increase their share of the budget at an incremental rate (Davis, Dempster and Wildavsky, 1966; Fenno, 1964). Natchez and Bupp concluded that the agency was the wrong unit of analysis. Instead of a federative agency they proposed the "program" (usually a subunit of a federative organization) as the correct unit of analysis. Using the program as their unit of analysis they found that there was a great variation in the size of budget share received by a subunit on a year-to-year basis. They had no explanation for this finding other than to posit the existence of a "program entrepreneur." If this is the case then this may account for the type of micro-political behavior that one finds in the anecdotal literature of public organizational life (Heclo, 1977) but which rarely finds its way into the empirical studies of organizations.

No one, certainly not the President, has the time, power or the expertise to coordinate all of these decisionmakers. This fragmentation of power then adds to the power of those members of the subsystem who
are formally outside of government who provide information, draft legislation and have relatively clear goals--to maximize the governmental resources or favors received by their interest (Cater, 1964: 21).

Donald Haider (1974: 84-85) notes that to the extent that larger and broader policy, organizational and fiscal concerns are raised with these policy subsystems, it comes from outside: from cabinet secretaries, The Office of Management and Budget, the President and staff, and state and local chief executives. The Advisory Commission on Intergovernmental Relations' Annual Report of 1968 (January, 1969: 8) concluded that "Feudalism in the federal system is on the rise with middle management administrators at all levels, congressional subcommittees and pressure groups which coalesce around individual grant programs carrying the day more than top policymakers."

The reason they often carry the day is that once a program is established, its authors, implementors (through their bureau chiefs and professional associations), clients and suppliers (such as the makers of teaching machines) comprise a lobby dedicated to the perpetuation of the particular program (Davidson, 1974: 87). Mancur Olson (1965) has cogently explained the reasons for this influence. Because each individual consumer--taxpayer typically bears only a small portion of the costs and enjoys only a small portion of the benefits from public programs, he rarely has the incentive to devote the time or resources necessary to effectively influence public policy.

For organized actors like trade associations or professional associations the prospective benefits and possible costs of government action are sizeable enough to make political involvement a rational strategy. "The consequence is a gross disparity in the incentives for political
involvement that works to induce the citizen-taxpayer toward passivity while stimulating the large corporation toward political activism" (Salamon and Siegfried, 1977: 1029). Not only are the incentives unevenly distributed between the organized corporate/professional complex and the citizen-taxpayer but so are the resources necessary for political action-expertise, money and access to government officials. "These resources are frequently direct outgrowths of the enterprises regular economic activities, which in the age of the new industrial state, frequently put the enterprise in intimate contact with scores of government officials on a day to day basis" (Salamon and Siegfried, 1977: 1029).

The only resource the citizen-taxpayer has—the vote—is a rather blunt instrument. The tendency of campaigns to obscure policy choices, the difficulty of determining majority preferences from election results and the difficulty of assuring accountability of elected officials makes the vote a weak policy resource (Dye and Zeigler, 1970: 42).

The fragmented character of both the institutions and process of by which policy is made tend to accentuate this unequal distribution of incentives and resources. The institutional fragmentation is caused by the constitutional provisions which establish "separated institutions sharing powers" (Neustadt, 1960: 42). The informal fragmentation grows out of the behavioral dimension of the policy subsystem which is shaped by the organizational structure of the Congress and the executive branch.

Behavioral Patterns

To understand the organization of the executive branch one must first understand the organization and culture of the Congress and the high degree of congressional involvement in administrative decisions" (Seidman,
1970: 37). The organization of the Congress and the bureaucracy of the executive branch are intimately related and constitute two fundamental components of a single system. "Congress provides the legislative authority to create new departments, agencies and programs. It establishes these agencies missions, defines their goals, investigates their behavior, and allocates funds for their operations" (Haider, 1974: 84). This has resulted in the balkanization of Congress through its committee and subcommittee structure. Each separate jurisdiction (committee or subcommittee) then is intimately tied to the administration of the program through executive branch agencies.

In the executive branch there are civil servant chiefs of bureaus, divisions or offices who are professionals and who by virtue of civil service protection can last out any administration. "They are not prone to risk taking or problem solving. They go by the book, ignore the citizen, protect their organizations, conserve their programs. The net result is parochial, single purpose bureaucracy, oblivious to the side effects that are often an affront to the constitutional responsibilities of the system" (Wood, 1970: 41). Emnet Redford says (1969: 102-103) that there is in general a continuity in strategic positions. The occupants of roles in the subsystem are socialized into the roles they play. New occupants of these positions are assimilated or made ineffective. In the Nixon Administration there were many complaints about political appointees--charged with subduing these policy subsystems in the executive departments--going off and "marrying the natives" (Nathan, 1975).

In Congress, seniority and socialization in committees have the same net results as civil service tenure in the bureaucracy. One finds the same process in the independent regulatory commissions. The volume of
work a commission is responsible for, high turnover among commissioners, the shared administrative authority of the commission form leads to a heavy dependence on staff. There is also a darker side of the commission and that is the oft noted mobility of commissioners and staffers between the commission and the industries they regulate. This is precisely what C. Wright Mills meant when he referred to the "governmentalization of the lobby" (1955). Those with a private interest are now cloaked in the mantle of state authority with the ability to regulate an area of the economy in the interests of the regulatee, rather than with some concern for the general or public interest.

The consequences of this pattern of governmental decision making are profound. Instead of a single integrated policy process, what emerges is a series of individual, and largely indepen-dent, "policy subsystems" linking portions of the bureaucracy, their related congressional committees, and organized clientele groups in a symbiotic state of equilibrium. The key to policy-making power, therefore, is access not to the political system generally but to these well-insulated and highly structured subsystems. (Salamon and Siegfried, 1977: 1030)

This leads to the proposition that "subsystems provide stability for existing equilibriums among interests" (Redford, 1969: 102).

Douglas Cater (1964: 17) lucidly described the dynamics of this equilibrium producing process. "These subgovernments (policy subsystems) are not to be confused with factions. Within them, factions contend to a greater or lessor degree. The power balance may be in stable or highly unstable equilibrium. But the . . . tendency is to strive to become self-sustaining in control of power in its own sphere." This tendency toward self-sustenance is modified only by contextual variables such as constitutional and statutory provisions, financial mechanisms and the historical relationships in a particular policy domain. The results of this differential pattern are that policy subsystems such as those in agricultural products are almost completely self-sufficient while others, like
corrections with prisoners their only clients, find it extremely difficult to establish a stable constituency based on balanced power relationships. These relations within the policy subsystem change over time. Freeman (1965: 60) suggests that "... the influence of groups expressing certain orientations waxes and wanes and shifts its focus from one part of the subsystem to another."

The Structure of Consent

The way groups channel their influence into political subsystems is also a matter of concern. In at least one domain--housing--it was found that the congressional leg of the "iron triangle" preferred not to get conflicting policy proposals from the various housing interest groups and professional associations. The groups were employed as conflict managers whose skills was deployed to allow formal governmental institutions to avoid having to structure consent (Farkas, 1971: 16). The Housing Subcommittee of the House Banking and Currency Committee simply did not want the various interest groups fighting in public over housing legislation. They let the groups know that they wanted them to agree on any housing proposals before they were introduced in Congress. This way it would appear that the groups in the subsystem were all supportive of the legislation. So the result was the franchising of public policy with the logrolling, bargaining and conflict occurring among the interest groups rather than on the floor of the Congress.

The one thing that is common in every subsystem is either a pipeline to the federal treasury or the authority to franchise public policy through regulatory activity. Davidson (1974: 105-106) has captured the essence of the policy subsystem phenomena in his study of manpower training programs. He notes that internal complexity is one hallmark. Those
numerous interests both within and without the government compete for a piece of the action, which comes in the form of discrete units called programs.

The second distinguishing feature of policy subsystems is functional autonomy. Their autonomy comes from technical complexity of the issue area together with a shared, consistent, proprietary interest in the program over a long period of time. "As a result of relative autonomy, subsystems are highly resistant to change. Only a widespread public outcry can penetrate the stout defenses they erect; ... for most of the time (their) operations ... excite little interest or attention" (Davidson, 1974: 106) unless a crisis occurs which injects other conflicting interests into the fray which has the effect of raising the issue to a higher level of generality where other actors such as the President, Department Secretaries and Congress (as an institution) can make their weight felt. It should be noted however that the tendencies toward equilibrium are great as is the urge to recreate the status quo ante. Only continued intervention from the highest levels of the political system will prevent this occurrence.

The last distinguishing feature of the policy subsystem is vertical integration. This means that government programs bind the program professionals and their professional associations together through all layers of government into what the Advisory Commission on Intergovernmental Relations called "vertical functional autocracies." This phenomena helps to explain why coordination is so difficult to achieve at the federal level by either the President or Congress, which itself reflects the myriad of programmatic interests through its committee structure (1974: 105).
This is the end of the section dealing with the literature concerning policy subsystem interaction at the national level. For a phenomenon that has been recognized since the 1930's the evidence is sparse. One reason is that just when you think the parameters are known, the patterns change or disappear into an intergovernmental labyrinth. These specialized policy subsystems span the public and private sectors, the branches of government and the different levels of the federal system. They cross agency jurisdictions at will and even include private individuals. In the case of policy subsystems, political and organizational self-interest has done what the Planning, Programming and Budgeting System could not; it has organized those interested in a particular policy along program lines. The difference is that control does not accrue to the chief executive but rests as always with those most interested in that particular class of policy outcome.

**The Intergovernmental Dimension of the Policy Subsystem**

There are many reasons for the high degree of interdependence that one finds in the American Federal system. For example one can cite the tendency of professionals who have similar norms and values to support one another regardless of the level of government that they work for—what Morton Grodzins (1966) calls "sharing by professionalism." However, the keystone of interdependence of one governmental jurisdiction with another is financial. It is the cement that binds the two together. If finance is the bedrock upon which Intergovernmental Relations (IGR) rest, the grant-in-aid device, especially the categorical grant, has been the linchpin. With the adoption of Revenue Sharing in 1971, every general purpose unit of government in the country was put on an annual dole; these not only included the states and cities but also counties, special
districts and authorities, many of which became eligible for federal aid for the first time (Haider, 1974: 93).

Table 2

Federal Aid Outlays in Relation to Total Federal Outlays to State-Local Expenditures, 1930-1974

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount (Millions)</th>
<th>Total Federal Outlays</th>
<th>Domestic Federal Outlays*</th>
<th>State-Local Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>$200</td>
<td>4.9</td>
<td>5.8</td>
<td>2.7</td>
</tr>
<tr>
<td>1945</td>
<td>901</td>
<td>1.0</td>
<td>6.0</td>
<td>8.9</td>
</tr>
<tr>
<td>1952</td>
<td>2,393</td>
<td>4.3</td>
<td>11.2</td>
<td>10.0</td>
</tr>
<tr>
<td>1960</td>
<td>7,040</td>
<td>7.6</td>
<td>16.4</td>
<td>13.5</td>
</tr>
<tr>
<td>1965</td>
<td>10,904</td>
<td>9.2</td>
<td>18.4</td>
<td>14.6</td>
</tr>
<tr>
<td>1967</td>
<td>15,240</td>
<td>9.6</td>
<td>19.5</td>
<td>16.3</td>
</tr>
<tr>
<td>1969</td>
<td>20,255</td>
<td>11.0</td>
<td>21.3</td>
<td>17.4</td>
</tr>
<tr>
<td>1971</td>
<td>29,844</td>
<td>14.1</td>
<td>23.5</td>
<td>19.8</td>
</tr>
<tr>
<td>1972</td>
<td>35,940</td>
<td>15.5</td>
<td>24.5</td>
<td>21.3</td>
</tr>
<tr>
<td>1973 (est.)</td>
<td>45,008</td>
<td>18.0</td>
<td>27.0</td>
<td>23.8</td>
</tr>
<tr>
<td>1974 (est.)</td>
<td>44,825+</td>
<td>16.7</td>
<td>24.8</td>
<td>21.3</td>
</tr>
</tbody>
</table>

* Excludes outlays for defense, space, and international programs.
+ Excludes $1.7 billion representing direct federal payments to adult public assistant recipients starting January 1, 1974, under Public Law 92-603. Taken from Haider (1974: 92).

Source: Special Analyses, Budget of the United States, Fiscal Year 1974, Table N-5 217, and Special Analyses, Budget of the United States, Fiscal Year 1970, Table 0, p. 209.

Too often in the past this has led to the conclusion that since finance was paramount, then political concerns were secondary. As Daniel Elazar has noted "... it is too easy when dealing with fiscal questions to substitute economic for political answers" (1972: 471). The reason for this tendency is the fallacy of assuming that the source of funds also indicates the locus of political control.
The share of federal funds in state and local budgets is not in itself an indicator of the degree of federal control over programs. The southern states have continually ranked high in proportion of their budgets derived from federal sources (averaging 21.1 percent in 1968), yet they have been willing--and generally able--to resist "federal control" more forcefully than states that derive far less of their revenues from the federal government. . . . (Elazar, 1972: 472)

If economic factors do not determine political control then it is plausible to assume that to a large extent the degree of federal control is determined through the political process, and it is through this process that economic factors, among others, make their influence felt.

While the degree of federal control over intergovernmental relations is determined by the political process, it is the institutions of the federal government that determine the boundaries and make and enforce the rules of the game. The national government does this in formal terms receiving informal inputs from many sources including the components of political subsystems. As the Commission on Intergovernmental Relations found that (1955: 59) "... the policy-making authorities of the National Government are for most purposes the arbiters of the federal system."

Along with politics determining the shape of IGR, the second emphasis in the IGR literature is concerned with the consequences of the financial "linch pin" between the national and subnational levels of government. The "vertical integration" mentioned earlier by Davidson (1974) in Manpower subgovernment is what is emphasized by this strain of the literature. The beginning of this line of analysis starts with former Governor Terry Sanford of North Carolina who in Storm Over the States (1967) used the metaphor of "picket fence federalism" to describe the system of federal grants-in-aid to cities and states which had mushroomed during the 1960's.
Figure 6

Picket Fence Federalism: A Schematic Representation

Source: Deil Wright (1974: 15)

The various federal programs were like vertical pickets in that lines of authority, the concerns and interests, the flow of money, and the direction of programs are the pickets, the most visible part of the fence. Federal, state and local governments, specifically the elected officials, make up the connecting cross slats, which holds the pickets in line rather than helping to support the fence. Above all it does not bring the pickets together, it holds them apart (Davidson, 1974: 82).

While the pickets are apart there is still competition between and among the professionals who run the programs for funds, domain and interest group support. This usually occurs at the national level through professional associations of the program officials.
While political scientists had been dealing with political subsystems for two decades, it took Sanford (1967) together with Grodzins (1966) to make scholars in intergovernmental relations aware of vertical functional policy systems which seemed largely confined to the bureaucracy of all levels of government. After this a number of scholars produced a variety of works dealing with these vertical functional subsystems (Wright, 1974; Edner, 1974; Walker, 1972; Derthick, 1971).

The type of decisions that these vertical functional subsystems were involved with concerned the implementation of federal grant-in-aid programs. Political scientists viewed these two phenomena as distinct. The connection was not made that the vertical subsystem was the operational and managerial arm of the horizontal subsystem which was engaged in setting policy for the subsystem and extracting funds from the larger political system. The strength of the vertical alliance depends on the strength of the national level iron triangle and vice versa. The reason the two types of subsystemic phenomena were viewed as distinct was because to have viewed it in a holistic manner would have required a multi-institutional and multi-level unit of analysis.

This together with a well developed body of empirical theory is precisely what IGR does not have. The IGR literature that does speak in the language of behaviorism often does so in a metaphoric rather than empirical fashion. "Marble cake federalism" and "picket fence federalism" are just two of the numerous examples. As Van Horn and Van Meter (1975: 41) point out:

This body of literature has failed to provide an analytic framework promoting tests of significance of particular variable clusters, an examination of the importance of the degree of cooperation and conflict between governmental units, or the policy implications of a change in the form of federal aid. These works all
lack a coherent theoretical perspective (e.g., "picket fence federalism"), the results of the analysis are not generalizable. This strain of metaphoric behaviorism perhaps started with Morton Grodzins who was one of the first to note that at all levels of government, functional specialists allied themselves against elected or appointed chief executives and their staffs. This was viewed benignly as "sharing by professionalism." He used it to buttress his metaphor of "marble cake federalism" (1966). The result of these shared attitudes and program priorities among bureaucrats generated hostility on the part of mayors, city managers, and governors. They often felt that they had little or no control over programs that were being administered by their own jurisdiction.

The links of dependence and control did not run from national elected officials to elected officials in the cities and states. It ran among the people who implement the programs—the professionals.

<table>
<thead>
<tr>
<th>Political</th>
<th>Professional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Elected Officials</td>
<td>Federal Administrators</td>
</tr>
<tr>
<td>State Elected Officials</td>
<td>State Administrators</td>
</tr>
<tr>
<td>Local Elected Officials</td>
<td>Local Administrators</td>
</tr>
</tbody>
</table>

Legend

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Traditional controls of responsible government. Emerging patterns of interaction.

**Figure 7**

Political Control Versus Professional Interactions

Source: Glendening and Reeves (1977: 263)
The high-water mark of professional dominance was recorded in the late 1960's. The Advisory Commission on Intergovernmental Relations observed that with few exceptions, all of the Great Society grant programs were "... functionally oriented, with power, money, and decisions being vertically dispersed from program administrators in Washington to program specialists in regional offices to functional department heads in state and local governments." The Commission went on to state that "Cabinet officers, governors, county commissioners and mayors were less and less informed as to what was actually taking place and making effective horizontal policy control and coordination increasingly difficult" (ACIR 11th Annual Report, 1970).

Two larger issues emerged from this expansion of grants-in-aid. The first was the issue of coordination. Each of these grants dealt with a small part of the problem it was meant to alleviate. This resulted in program fragmentation, duplication of effort and led to nonstandard availability of services to those who were eligible for the program. This raised questions of both target efficiency and target effectiveness in regard to many of these new domestic programs. David Stockman has recently concluded that these social programs, which were viewed as redistributive in effect, actually redistributed funds from the middle class to specific groups of middle class beneficiaries (1975). The second issue was that of program control. Who should control these programs, elected officials or functional specialists and their allies in interest groups made up of both beneficiaries and suppliers?

In the middle of President Nixon's first term, the reaction set in against these policy subsystems. The elected and appointed generalists were to be put back in control by what was called The New Federalism.
The package that the Nixon Administration put together included revenue sharing, special revenue sharing, block grants, executive reorganization of federal domestic agencies to the regions and a general reliance on income transfers for massive administrative problems like welfare (Nathan, 1975).

Congress, which has historically shared the administrative function with the President, refused to acquiesce to most of these proposals. President Nixon acted unilaterally, and some argue illegally, to bring about the demise of the domestic programs that he disapproved of by a strategy of massive impoundments and vetoes (Fisher, 1975; Milward and Bayha, 1974). This attempt to establish strong executive control at all levels of government seemed to be succeeding in what some have called the Battle of the Budget (Stockman, 1975). However, as the Watergate Scandal unfolded in the Spring of 1973, all the priorities of the Nixon administration were forgotten except self-preservation. Policy subsystems in the domestic arena survived this onslaught and continue to exist and in many cases flourish.

**Historical Factors**

How did this occur? Three factors seem to have been of great importance in the full-blown development of policy systems. First, the grant-in-aid expansion of the 1960's and 1970's, extended or created functional subsystems which existed mostly at the national level in areas of regulatory policy such as Sugar (Cater, 1964). The new intergovernmental grants-in-aid created vertical functional networks of officials, suppliers, clients and interest groups (including professional associations) which drastically changed the shape of intergovernmental relations in the United States.
The second factor was the process of professionalization (Hall, 1968) which increases with specialization and the division of labor in a society. The grants for programs created groups, who because of the similar function they performed sought to become professions. This is a further force making policy systems more integrated and autonomous as professionals at all levels tend to identify with their profession rather than their level of government (Weidner, 1955).

In 1965 the Senate subcommittee on Intergovernmental Relations conducted a survey of federal aid officials. Administrators in 109 federal programs providing fiscal aid to the states were surveyed. The findings were that, "In the administration of these programs, counterparts tend and prefer to deal with counterparts." (Edner, 1974: 10)

The third causal factor was the development of national goals. The major pieces of domestic legislation of the 1960's--the Economic Opportunity Act, Aid to Education, National Housing Act, etc.--created these policy domains as areas of national concern and transformed the states, cities and some non-profit agencies into performing agents for federally mandated and financed programs. This leads to the paradox of control, where the controller becomes dependent on the controlled. "The greater the degree of detailed and technical control the government seeks to exert ... the greater must be (the) degree of consent and active participation (of the parties to be controlled)" (E. P. Herring quoted in Beer, 1976: 164).

Summary and Conclusion

Together the national and subnational elements form a policy system which tends to control both policy initiation, implementation and evaluation in very many areas of public policy. The strengths of this vertical and horizontal alliance have been succinctly summarized by Deil Wright (1975: 113).
1. The highly specialized nature of most administrative agencies insulates the policy system from public scrutiny.

2. The resistance by functional specialists to policy initiatives that will diminish effective control.

3. The protective or paternalistic view taken by a congressional committee or subcommittee toward an agency under its jurisdiction.

4. The strength of congressional tradition in deferring to committee judgement.

5. The links between the functional specialists at all governmental levels through (a) grantor-grantee relationships or (b) contacts and similar outlooks generated by common professional training and/or associations.

This last item is a relatively new feature which has greatly increased policy system autonomy. "The existence of professional associations norms and standards provides additional insulation for the policy making sub-system. It reinforces subsystem autonomy through ... (peer group) forces" (Wright, 1975: 113). This has been solidified by federal grants to both specialist and generalist professional associations. The net result of these developments has been the unintended consequence of centralization by policy area while the administrative structure at all levels has been or has remained decentralized and uncoordinated. Thus economic and political authority is diffused and fragmented.

In this chapter the literature in both subsystem politics and intergovernmental relations has been reviewed both critically and for insights, description and propositions that can be used to build a rigorous model of the policy system phenomena.

Much of the literature in this area is descriptive and should be read to give one a "feel" for how policy subsystems and intergovernmental relations actually operate. This appreciation cannot be summarized and can only be acquired by reviewing the literature or participating in the
public sector. This perhaps explains the paucity of propositions we have derived from the literature.

Proposition 1: The degree of cohesion and policy homogeneity among the participants varies significantly from subsystem to subsystem (p. 35).

Proposition 2: While a policy subsystem's balance of power may change over time, the subsystem provides stability for existing equilibriums among interests (p. 43).

Proposition 3: As professional associations of public officials develop norms and standards the autonomy of the policy subsystems will increase due to peer group forces (p. 55).

While the propositions from this literature are few, this is not the case with the insights gained into why these policy subsystems exist. The following are some of the answers most often given.

1. Tenure in Congress, the bureaucracy and interest groups gives them greater staying power than a president who serves for a maximum of two terms. This makes policy control difficult to establish.

2. Technical complexity and size lead to functional specialization in program administration.

3. The President and Congress as a body display little interest in policy/program implementation until an issue reaches the national agenda (e.g., welfare reform in Nixon's first term).

4. Program fragmentation which allows subsystems to exist is a product of 1) agency rivalries and 2) more importantly, the way policies are formulated and sustained in a pluralist system (Davidson, 1974).

5. The system of categorical grants that has developed to fund many domestic programs has created a "Federalism of balkanized bureaucracies, segmented legislative committees, and fragmented program administration" (ACIR 10th Annual Report, 1969: 10).

6. Professionals have become the beneficiaries of government programs. It is pointed out somewhat facetiously that if we eliminated poverty then all of the social workers in the welfare bureaucracy would lose their jobs. Related to this is the growth of professional associations as interest groups promoting the activities that they handle (Walker, 1974; Haider, 1974).
7. It is almost impossible to get any degree of control and coordination in a loosely joined federal system where the states and cities are the performing agents and the federal government provides the funds and sets the policies.

8. In the United States, administration is a joint function of both the President and the congress. The existence of a plural executive leads to a fragmentation of power.

Thus there are a variety of reasons for policy systems but at base they are behaviorally traceable to interest groups and decentralized liberalism's tendency to fragment power. As Lowi (1969: 92) put it

As programs are split off and allowed to establish self-governing relations with clientele groups, professional norms usually spring up, governing the proper ways of doing things. These rules of the game heavily weight access and power in favor of established interests. . . .

These are the rather standard reasons advanced for the power and longevity of policy subsystems. One recent argument for their existence and relative autonomy is that they are caused by the trend toward centralization inherent in the process of modernization. At the social system level, centralization and growth of government are the results of the bureaucracy and its allies generating a response to programs with negative externalities. These externalities are dealt with by creating still more programs to correct for their negative effects. In this way it is possible for the bureaucracy to create its own demand (Beer, 1973: 74-80).

Thus far we have reviewed the literature dealing with both policy subsystems and intergovernmental relations. We have tried to make the case that these two phenomena are causally linked and in fact are the same. The "vertical functional autocracy" being merely the implementation stage of the policy subsystem which deals in policy formulation at
the national level. Public sector politics is a term coined by Samuel Beer (1976) which accurately describes the entire phenomena. Public sector politics is nonelectoral, micropolitical behavior by governmental and nongovernmental elites at all levels of government. It includes both program professionals and elected and appointed officials, both as actors in there own right and through their associations.

The literature reviewed in this area of public administration and political science is fragmented and unsatisfying. All of the approaches are partial in that they only account for a limited class of political behavior; they do not subsume either each other or the total set of possible interactions. It is only recently that we have seen any attempt to join the vertical and horizontal subsystems. The connection thus far has been made only in the context of case studies or theoretical a priori treatments of the nature of the public sector (Beer, 1973, 1976; Stockman, 1975; Gregg, 1975). In Chapter IV we will attempt to integrate the insights derived from these works with the more systematic empirical but generally theoretically impoverished studies in organization theory--specifically those related to organization-environment interaction and interorganization theory which will be reviewed in Chapter III.

In this research it is my purpose to systematically develop this model of politics in both theoretical and empirical terms. No claims are made for its universal appliability to all policy-making in the United States. However, it is of a type that is gaining in importance and which is little understood.

This literature review has hopefully pointed out that anyone who would do either applied or academic research in the area of public policy
must in some way come to grips with the policy subsystem in terms of its impact on political behavior and policy outcomes. The purpose of this research is to begin to build and partially test a conceptual framework that will be of use to empirical and normative theorists as well as to those who wish to understand how to implement policy or program change in the American Federal System.
Chapter III

INTERORGANIZATION THEORY AND THE POLICY SYSTEM APPROACH

In the previous chapter I have reviewed a number of partial approaches to policy system analysis in the literature of political science and public administration. In this chapter I will attempt to integrate a number of the concepts discussed previously with a set of eclectic works in a number of fields that at the least make an attempt to approach what I call policy systems in a holistic manner. These two sets of literature will then be synthesized along with my own contribution to form the policy system approach which is theoretically, empirically testable and which I will partially attempt to operationalize in a later chapter.

Most of the literature discussed in this chapter falls into what is generally known as interorganization theory. The disciplinary background of the authors is as varied as their approaches. Some use the term policy system such as Friend, Power and Yewlett (1974) and Schon (1971). Public service industries is a term used by Public Choice theorists such as Ostrom (1974) and Gregg (1975) and it is analogous to the policy system. Most of the work in interorganization theory uses the terms interorganizational networks and interorganizational fields to deal with the same phenomenon.

In the first attempt to classify this diverse interorganizational literature, Howard Aldrich (1976a: 2) says that a major problem is how to cope with the seemingly unmanageable complexity of the phenomenon.
"...[I]nvestigators face an overwhelming analytic problem--they must deal with a population of organizations as a whole, where the appropriate place to begin appears completely arbitrary." The hypothesis of the paper is that "... things are not quite as complex as they seem, that networks (which Aldrich assumes to be the standard empirical form of inter-organizational relations) can be disaggregated into organization sets, action sets, and partial networks without a loss of theoretical coherence."

In trying to classify all of the work in interorganizational theory Aldrich states the obvious but sometimes overlooked point that all studies of organizational aggregates focus on a relation or transaction between two organizations or between individuals residing in two different organizations. Techniques that he mentions for representing that relationship include diagrams, matrices, or sociograms but each technique is "merely a symbolic representation of an abstract set of relationships and in order to use it analytically we need to be able to specify what the lines actually represent and in what way they are deemed isomorphic with reality" (Aldrich, 1976a: 2).

The network concept is the dominant metaphor of interorganization theory. But the type of relationship and the content of the transaction establishing the relationship must be specified. For analytic purposes there are three networks in the model of the policy system which if operationalized could handle this problem. There is a decision network which transmits the flow of information and communication in a policy system. These "manifest functions" (Merton, 1968) could be measured by the interaction of boundary personnel in the organizations that constitute the policy system. The second network is the political economy which deals with the flow of resources or "latent functions" (Merton) of the
policy system. It is the connecting link to the opportunity or market structure of the interorganizational field and eventually to the macro-political level of the polity. The flow of resources between organizations might be a good measure of the entitity of the policy system. The last network is the "institutionalized thought structure" (Warren, Rose and Burgunder, 1974) through which flow the values and sentiments of the policy system. A measure of this network would obviously have to deal with data of a more subjective nature. Interpersonal evaluations of decisions might be one way to capture the "institutionalized thought structure" of a policy system. Support for the existence of the three hypothesized networks comes from Cook (1977), Michell (1969, 1973) and Aldrich (1976a). The major point all of these authors make is that any one interorganizational relationship may have a content which has import for all three of these networks.

Aldrich (1976a) identifies one other crucial problem for those doing interorganizational research; this is the choice of an appropriate level at which to measure the relationships because choice of level may affect one's findings. This research adopts Talcott Parsons (1956) structural levels of a social system--institutional, managerial and operational--to try to force specificity on the researcher. For example, a policy system may be richly joined at the operational level of service delivery but may be very loosely joined at the managerial and institutional levels. To further complicate the problem the three levels of the policy system may be richly joined or tightly coupled at each level in horizontal fashion, but vertically the levels may be very loosely joined with one another. As has been stated previously, the mathematics to handle multi-level relationships is in its infancy so that the critical task at this
time is to specify the level at which the research takes place and to make sure that the actors you are studying actually are of the same level of a policy system hierarchy.

The last problem common to all interorganizational theorists is to find ways to set meaningful limits to the scope of an interorganizational aggregate (Aldrich, 1976a). Many researchers including myself have adopted a functional focus, housing for example, or a functional/contextual focus such as state housing policy. Schon (1971: 182) speaks of the primacy of functional systems as the units around which institutions define themselves.

In our society, the institutional map displays, in the foreground, organizations defined at high levels of specificity. More general functional systems exist, as it were, only in the background; no individual existing organizations correspond to them. In the foreground is the textile company, the lumber firm, or the hospital; in the background is the system for keeping clothes clean, the building industry or the health care system.

These functional systems are generally only loosely joined, appearing only loosely integrated and inefficient in terms of overlap, duplication and lack of coordination. This aside, the long established ones are very stable and resistant to change (Aldrich, 1973a). The level of the functional system is beyond that of the network. It is the field level of analysis within which the network is embedded in the context of the functional system.

**Organizations and Environments**

Before dealing with the functional system in the field context it would be useful to review the stages that organization theorists passed through before reaching the field level. Organizational research has progressed to greater levels of complexity than simply the organization
in the past 20 years. The early concern with efficiency and internal control gave way to a concern for effectiveness. If this is a concern then the environment, at least an organization's clientele, must be considered. This is a critical contingency if the nature of the environment is constantly in flux. At the same time size and specialization brought the concern of adequate resources to the fore. Organizations depend on other organizations for raw materials, referrals, and personnel. This increased interdependence of organizations on each other increased attention to the importance of resource supplying organizations in a focal organization's environment.

With these concerns on the minds of managers, it was not long before administrative scientists of all types began to research the relationship of the organization to the environment. The conceptual innovation that allowed this work to proceed was the open systems approach (Katz and Kahn, 1966; Emery and Trist, 1965). The underlying assumption of this approach is that organizations operating under norms of rationality seek stability and certainty in their dealing with the organizations that constitute their environment (Thompson, 1967). Inherent in the open systems approach is the recognition that the relationship between an organization and its environment is both problematic and one of mutual dependence. Levin and White (1961) found that health organizations maintained cooperative relationships with one another because of resource dependency. A year later Litwak and Hylton (1962) found reciprocal dependence whereby the organization attempts not only to adapt to its environment but to structure it to its advantage. This was explored at length by Karl Weick, in an often overlooked book called The Social Psychology of Organizing (1969). In it he dealt with how organizations "negotiate order" in their
environment. In an attempt to classify environments, Dill (1958) and Thompson (1967) differentiated the environment into the relevant or task environment of a particular organization. Duncan (1972) and Milward and Swanson (1978) explored the internal organizational environment. Other scholars (Halpert, 1975) called attention to the contextual environment of the organization, including not only its location but also its history. Lawrence and Lorsch (1967), Burns and Stalker (1961) and Aiken and Hage (1968) found that aspects of the environment could explain differences in internal organizational characteristics. In an attempt at taxonomy, Emery and Trist (1965) classified organizational environments according to their fluidity and complexity.

Beyond Organization and Environment: Four Models of Interorganizational Relations

(1) The Organization Set

William Evan (1966) proposed the organization set as a model of interorganizational relations that would move organization theorists beyond the level of analyzing the environment of a particular organization and focus attention on the environment of organizations in a particular area. This came from the rather obvious observation that it was other organizations that tended to compose the environment of a particular organization.

The organization set model called upon the researcher to determine which organizations formed the environment of the focal organization, such as suppliers, customers, unions, distributors, trade associations, governmental agencies, and client groups. He then proposed that these organizations be differentiated into an input and output set based on whether they supply resources or take the output—product or service—of
the focal organization. The concept was adapted from the role set of Merton (1968) in sociology. In organizational terms it means the total set of relations between the focal organization and the other organizations that it interacts with. Since it falls upon the researcher to construct the set, the model is an analytic construct. While the organization set has empirical referents, it, as an interorganization, does not exist in nature.

The organization set like the role set is useful as a classifying device, but because an organization set does not have boundaries fixed by formal authority, it is subject to the arbitrariness of the observer. It is not a corporate body or a coordinating mechanism. It has been used in trying to understand how an organization may modify its environment. Most analysis has been pair-wise (focal organization and particular interacting organizations) and not involving the whole organization set (Aldrich, 1976a: 6).

(2) Action Sets

Action sets are a form of interorganization that has not been studied by organization theorists. Anthropologists have used it explicitly (Boissevain, 1974) and political scientists implicitly (Farkas, 1971). The focus here is on purposeful, goal directed behavior of an organizational aggregate. What we have is a coalition of organizations who have created a new organization through which they can focus on some desired outcome. Trade associations, the Urban Coalition, the National Housing Conference are all examples of action sets.

Aldrich (1976a: 6-7) specifies the attributes of the action set.

1. An internal division of labor.

2. Clear behavioral norms vis-a-vis other organizations.
3. Clearly defined principles of recruitment of new members.

4. May be centered around (dominated) by one organization, however that is an empirical question.

5. May be either a temporary coalition or one that has existed for many years.

The problem for the researcher is to identify and isolate a given environment into specific clusters of interdependent organizations that join together and act as a (formal) collectivity to achieve a special purpose, with inclusive objectives. Membership may overlap but like organizations, action sets are not distinguished by their membership, but rather their functional goals, role structure and behavior as a social action system (Van de Ven, Emmett and Koenig, 1974: 122).

Action sets emerge when two or more parties discover that they have more to gain by collaboration on an issue than by pursuing independent courses of action (Mayer, 1972: 135-136). They usually start as coalitions and then they will either dissolve or develop into a more differentiated form such as the federation (Warren, 1967). The federation is a group of organizations that have assigned some limited functions to a centralized body.

Figure 8

Source: Mayer (1972: 136)
"The integrating mechanism of the federation therefore is the centralized resource or leadership subsystem, which pursues inclusive goals and tries to maximize the domain of the federation and its existence" (Mayer, 1972: 136). Examples of federations are councils of governments, health systems agencies, and planning councils.

(3) Networks

Networks such as the decision network of the policy system are defined as the totality of all units connected by a certain type of relationship. One establishes the existence of a network by finding the ties between people in all the organizations under examination. It makes no difference whether the population is organized into action sets or some other configuration. The network is the construct of the researcher and not a corporate body. This focus assumes that a network constrains or facilitates the interaction of organizations or action sets. It is also assumed to be more than the sum of the individual links that comprise it (Aldrich, 1976a).

Networks can be defined through the nature of their elements (for example, persons, departments, organizations), the nature of the channels connecting them (formal lines of authority, information or decision; interpersonal bonds) and the nature of the transactions that can occur through these channels (in this sense, there may be "referral"; "early warning," "distribution," or "money-lending" networks). Schon, 1971: 190-191)

Aldrich (1976a: 8-9) points out two areas where network analysis may be potentially helpful. (1) The most obvious case is that of diffusion of innovations. This is because interorganizational networks often facilitate adoption (Downs, 1976; Rogers and Shoemaker, 1971; Havelock, 1973). This is demonstrated in a later chapter in the case of Housing Finance Agency adoption in Ohio. (2) Network concepts help to clarify the interorganizational environment. This will be shown in this research
through the use of the decision network, political economy and institutionalized thought structure, all of which are networks of the policy system.

There is a relationship between the network and the action set which needs explaining since it will assume a critical importance in the Ohio Housing Finance Agency case. The empirical referents of networks are not boundary maintaining but they may well by their actions create the preconditions for the formation of action sets. This occurs because powerful organizations can make use of their central position in a network to mobilize coalitions around specific issues (Aldrich, 1976a: 9).

(4) The Interorganizational Field

The highest level of complexity that will be introduced is the interorganizational field. It is here that one sees policy system interaction. Warren (1967) and Warren, Rose and Burgunder (1974) viewed the interorganizational environment as a field; a structured field which is composed of organizations. Turk (1970, 1977) empirically demonstrated that at the community level the field is composed of a network or networks which exhibit social integration. Schon (1971) argued that these networks exhibited a functional focus. Crozier (1973) and Crozier and Thoenig (1976) utilized case studies of the French administrative system to establish the case for the network to be viewed as a system which was to a certain degree structured and organized. Howard Aldrich (1974) has adopted the same perspective. Berne and Levine (1977) view the network as the static version of the field or system that one gets with empirical data which is nonlongitudinal and which utilizes measures of exchange and resource flows. Benson (1975) agrees that it is only at the field level that the dynamics of the system can be captured and the question of
change confronted. What causes policy systems to develop in an inter-
organizational field? How do they expand or what causes their contrac-
tion? In addition it is only at the field level that the question of the
relationship between the policy system and the macropolitical structure
can be explored.

Aside from a few extremely interesting and rich case studies
(Selznick, 1949; Clark, 1965; Crozier, 1973; Crozier and Thoenig, 1976)
which treat the social and political contexts, Zeitz (1975: 131-132)
points out that "when it comes to formulating general models (Warren,
1970; Evan, 1966; Guetzkow, 1966) the tendency has been to adopt an
atomistic approach to interorganizational relationships." Organizations
have been assumed to be functionally autonomous. The exploration of the
Housing Policy System in Ohio will attempt to refute this claim.

James D. Thompson (1974: 16-17) introduces the notion of "infra-
structure management" to describe this connection. He reintroduces the
concept of manipulated field control" (Dahl and Lindbloom, 1953) which
is defined as deliberate action on another's field in order to get a
definite response, by manipulating signals about rewards and deprivations,
or manipulating rewards and deprivations themselves. It is through the
incentive structure of the field that the macropolitical structure, the
national government, can have the most impact on policy system behavior.
However, the results of manipulation of the incentives have often been
unintended (Baer, 1975). Regardless of this fact, the "manipulated field"
approach rather than organizational reorganization or decentralization
may point the way to controlling complex functional systems in a federal
context with a public/private admixture. This approach of course assumes
that under norms of rationality these systems will seek their own self
interest (that is, that they will be responsive to the incentive) and that they will prefer certainty in their interorganizational dealings.

The interorganizational field is the behavioral setting for the policy system. The various networks are the connections within the system. The policy system is the interorganizational and panorganizational unit of analysis. The assumption is that the whole is greater than the sum of the parts. As Schon (1971: 43) says, "To call this a 'system' is not to imply that it has well defined, consensual goals and coordinated programs for reaching them." In a policy system what is shared is an interest in a certain class of public policy outcomes and not a goal. Each system, whether in health, housing or education, has multiple constituencies and vested interests among providers and other related beneficiaries; but no one controls all of the essential elements. An overt effort to intervene in a hierarchical manner in the affairs of the system may be the one action that is capable of forcing the policy system to act in a coordinated, goal seeking manner. For this reason "infrastructure management" may be the only desirable alternative to regulation.

The concept of a complex and more or less organized system seems preferable to the idea of an interorganizational network. For a system means regulation, integration, and homeostasis. To claim that an organization is part of a larger system is to require sociological proof that the system means more than the sum of its parts, and that there is a collective game which exists independently of the individual games played by each of the organizations. (Crozier and Thoenig, 1976: 548)

This will be explored in the case of the adoption of a housing finance agency in Ohio. This shows, as Crozier and Thoenig did, that collective public decisionmaking is managed by a complex, relatively stable and organized system of organizations, groups and individuals.
Here the focus is on regulation which is the basic mechanism of organizations. Thus we concentrate on the "strategies of the partners, the collective games to which these strategies correspond, and the rules of regulation which govern these games" (Crozier and Thoenig, 19 : 562).

Exchange, Power and Resource Dependency

In the broad literature of interorganization theory which spans the fields of sociology, political science, social psychology, and business and public administration, three basic explanations have emerged which are relevant to the development of the policy system as a unit of analysis.

The first approach is that of exchange. Here the explanation for the dyadic interaction of organizations is based on the expectation of mutual benefits to be derived by the organizations involved and the rational desire to maximize their utilities. This interaction typically is initiated when resources are declining relatively or absolutely and the behavior of the interacting organizations is marked by a high degree of cooperation and problem solving. Several authors who have taken this approach to interorganizational relations are Levine and White (1961), Tuite (1972) and White (1974). While some unequal exchange relationships exist most investigators assume that

\[\ldots\] exchange theory postulates a basic functional autonomy of the actors. \ldots\] It is intrinsic to exchange theory that actors have a basic functional autonomy, such that they may evaluate exchange alternatives and (rationally) select the most optimal ones in terms of their own values. (Zeitz, 1975: 132).

In addition as Jacobs (1975: 46) points out, most of these studies assumed an equality between organizational actors. A reason for this was that they concentrated on all interactions which can be counted with little attempt to evaluate the quality or importance of the relationships
to the participating organizations. For this reason the question of control and dependency is not addressed in these studies. In general exchange theory seems to have serious limitations when one tries to explain "... bureaucratic encrustations which may dominate behavior (and) for explaining power and resource structures which may determine individual values" (Zeitz, 1975: 133). The general problem is that most works in exchange theory have not viewed interorganizational relations in the context of the social, economic and political structure of the society.

This does not apply to the theoretical formulations of Thompson (1967), Benson (1975), and Cook (1977) which utilize the exchange approach. However, an unsolved problem with the approach is whether or not it can be applied to public sector organizations which have by law, mandated relations with other organizations. For example, the relationship between the courts and the office of an attorney general raises this question. Here it is difficult to separate exchanges from mandates (Hall, Clark, Giordano, Johnson, and Van Roekel, 1977; Cook, 1977). This is particularly true of horizontal relations at the same level of government. The situation may be different in intergovernmental relationships in a federal system where the actors are located in agencies exercising concurrent powers. Gregg (1975: 64) hypothesizes that semiautonomous officials will coordinate their activities to the extent that they calculate mutual interdependencies in their interdependence.

The second and third approaches view interorganizational relations as the result of power and dependency. There is motivation to initiate relations on the part of only one organization. The relationship forms when the motivated party is powerful enough to force or induce the other
to interact. Bargaining and conflict are the natural forms of interaction in this relationship since each party seeks to attain its goals at the expense of the other. Authors who use this approach are March and Simon (1958), Geutzkow (1966), Schmidt and Kochan (1972), Aldrich (1976a), Benson (1975), and Wilson (1973). Analytically the power/dependency approach is separable into two parts--one based solely on power, the other solely on resource dependency. However, the category of interorganizational relations is really determined not by the form of the relationship in any pure sense, but rather the organization's perception of the nature of the relationship. If the perspective is that of the dependent organization then the resource dependency question is paramount. From the perspective of the dominant organization, the reason for interaction is seen as the ability of the focal organization to force interaction on its own terms. The reasons for the power or dependency of a particular organization may be due to side-payments, resource scarcity, value expectancy ("It's a good thing") and/or coercion (Schmerhorn, 1973: 2).

As an analytical aid in clarifying the type of interorganizational unit of analysis, the reasons for the interaction and the social system level of the intervention the following three dimensional cube may be of utility to organizational analysts (Figure 9).

This ends the general discussion of the various approaches in inter-organizational theory which have contributed to the concept of the policy system. In the next chapter we turn to the specific discussion of the model and its components.
IV. Social Choice
III. Institutional
II. Managerial
I. Technical

Organization-Environment
Organization-Set
Action Set
Network
Field

Exchange Power Resource/Dependency

Reason for Interaction

Figure 11
Social System Level
Chapter IV

THE POLICY SYSTEM

The Concept of the Policy System

The term policy system may prove confusing to political scientists. In terms of Eastonian systems theory, a policy system would be called a policy subsystem or a political subsystem. The view adopted here is that of General Systems and organization theory. The system being examined, the focal system, is the relevant unit of analysis. In eastonian systems theory, one gets an endless chain of subsystems from "the political system." The concept of focal system is easier to use and the meaning is clear. If subsystems are used, they refer to the empirical policy system under examination. In addition, it eliminates the possibility of confusing the subsystems of the political system with particular political institutions.

This is a major difference between the policy system as a perspective for analysis and the way systems have previously been used for political analysis. Policy systems do not interact constantly with identifiable institutional elements of the political system, such as the executive, legislature and bureaucracy, whose main function is the conversion of inputs (demands and support) from the environment of the system into outputs (policy). A policy system refers to a set of elements that stand in a network of relationships or transactions which comprise a system, or which can be viewed theoretically as comprising a system which deals with a policy domain (Schaefer, 1974: 331). A policy system does not serve as simply a black box conversion mechanism but actively seeks to influence agenda setting and policy formulation.
as well as to control policy implementation and evaluation of a policy mandated and legitimated by the central political institutions of a polity.

Components of a Policy System

The objects which make up a policy system may overlap in membership, just as membership of personnel in different organizations may overlap in what James D. Thompson calls "boundary spanning" (1969: 110-111). But policy systems, like organizations, are not distinguished by membership but by their functional goals, role structure and behavior as a social system (Van de Ven, Emmett and Koenig, 1974: 122).

In analyzing a policy system the first empirical task is to develop a conceptual map of all of the actors and organizations involved and determine how they interact in the policy space. Each policy system is "... comprised of individuals, individuals in relationship to one another, relationships within organizations and interorganizational relations" (Heatwole, Keller and Wamsley, 1975: 16-17).

To use a policy system as a unit of analysis the following components must be accounted for and put into a conceptual map:

1. Elements--individuals, organizations
2. Levels of a policy system
   a. Geographic scope
   b. Inclusiveness of membership
   c. Range of functions
   d. Relationship of authority (Young, 1968: 110)
3. Domain--a legitimated claim to carry out programs of a certain kind, dealing with a broad problem area or focus
4. Spatial and temporal interaction pattern within a policy system
5. Spatial and temporal interaction pattern with contiguous policy systems which might be functional or allocational rivals
0 = individuals
0--0 = relationship between individuals
0 = organization
0--0--0 = interorganization

![Figure 10](image)

An Empirical Policy System

(Adapted from Heatwole et al., 1975: 17)

6. The relationship between a policy system and the macro-political structure—the collective choice institutions of a polity

7. The political economy of a policy system, that is, the way scarce resources and authority are distributed in and between policy systems and the macropolitical structure, and how the terms of exchange are set.

**Policy System Domain**

The concept of the domain of a policy system needs specific explanation as it is quite different than that conventionally used in organization theory. Kronenberg (1969: 16) defines it as the "specific goals
an organization wishes to pursue and the functions it undertakes in order to implement its goals." Levine and White (1961) define domain in similar terms and then operationalize domain in the health field as claims that an organization stakes out for itself in terms of (1) disease covered, (2) population served, and (3) services rendered. However, Levine and White consider organizational interaction from the standpoint of the individual organizations as discrete units rather than from the interorganizational field. Putting domain in interorganizational terms, it is "... the organization's locus in the interorganizational field, including its manifest goals and its channels of access to task and maintenance resources" (Warren et al., 1974: 27). The interorganizational field embodies the institutionalized thought structure which establishes both constraints and supports for the organizations' respective organizational rationales and a set of ground rules for their interaction. Therefore, "... domain is not sui generis, an organizational characteristic, as it were, but a position within the highly institutionalized network of organizations" (1974: 150) in the same or similar policy domains (such as the professional social services complex).

A key variable in interorganization theory is domain concensus (Levine and White, 1961; Akinbode and Clark, 1976). It is useful to examine this in relation to the policy system. The reason it assumes such importance in the literature is due to the fact that domain concensus is a prerequisite to exchange.

Domain concensus generally involves bargaining and negotiation among the actors and organizations involved. Thus it is a process that is constantly in a state of flux. The more incompatible the functions of the interacting parties the more difficult it will be to achieve domain
consensus. The reverse is also true as well. The more complementary the functions performed by the interacting parties the more domain consensus is attained simply by orientation (Levine and White, 1961: 354). This only occurs if the actors share the same professional norms and values—what is called the institutionalized thought structure.

In the public sector domains are established by "legitimation" or mandates. This occurs by the specific act of a legislative body which mandates the establishment of a governmental presence in a particular functional area. This flows from the government's monopoly of legitimate coercive power in the state (Weber, 1948). The power of coercion is then delegated to an organization to act in the name of the state in that particular area. The process can be further delegated to other organizations, some of which may be in other levels of government or in what passes for the private sector. The mechanism of grants is a favored technique in this subdelegation of state authority. Theodore Lowi cuts to the heart of the matter when he says that "Administration is a means of routinizing coercion. Government is a means of legitimizing it" (1970: 314).

The process of delegation is seldom neat. "Legislative definitions and descriptions of organizational boundaries and domains are usually broad and imprecise, so that the question of who has right over what is often left ambiguous" (Akinbode and Clark, 1976: 104). The ambiguity is often purposeful as the more specific legislation becomes, the greater the difficulty one has in building a legislative coalition that will support it.

The implication of the subsequent discussion is that organizational domain can in no way be viewed as the property of a particular organization.
In a very important sense, the domain is prior to the organization, in that there exists in the institutionalized thought structure not only an area of concern and activity that the organization comes to claim, but also a whole definition of social reality which indicates this area as one for which activities are appropriate and which also provides the basic outline of the manner in which the individual . . . organization will carry on activities within its functional field. The domain also includes the kind of legitimation and support that sustain the organization's claim to special prerogatives within its own field of activities, including access to federal, state, and private foundation funding, and afford it a substantial degree of protection from both competitors and attackers. (Warren et al., 1974: 26)

As will be argued subsequently, the domain is the product of a policy community seeking to create a demand for governmental action in a specific functional area of public policy. The example of community mental health cited in Chapter I provides an excellent illustration of the dynamics of the process of demand creation.

Boundaries

It is the contention of this research that spatially, boundaries are eroding. The existence of externalities which lead to private and public interorganizational arrangements such as the Northeastern Power Grid tend to confirm this contention (Warren and Weschler, 1975). Spatial boundaries like cities, counties, and states are, like legal and constitutional factors, constraints and nothing more. They can be modified by intelligent strategy like any other constraints. In this research I do not propose eliminating boundaries from organizational research, only the replacement of spatial boundaries with domains which have functional boundaries and political resource boundaries which retain a great degree of flexibility.

Boundary threats to policy systems occur at the level of the inter-organizational field. In established policy systems they are rare
occurrences since most people's socialization makes them likely to defer to professional norms. This means that such threats arise infrequently. When they do arise they are dealt with by means of two different strategies (Warren et al., 1974: 61-65).

(1) Blunting: This is the first response to boundary penetration. The actor here is usually an individual organization in the interorganizational field. If blacks demand community control over social service programs which serve them, the organizational response is that a given program must be under the technically competent supervision of a professional physician, social worker, or educator. The socialization process of professional legitimation is so strong in our society that the mere invoking of professional norms is enough to blunt a threat to a policy system's boundary.

The effect of this strategy is to filter new proposals through the organizational rationales of existing organizations which has the effect of enabling them to define the problems, define the issues, and impose their desired resolution on those issues.

(2) Repelling: This is joint concerted action by the organizations and individuals in a policy system against a threat which an individual organization was unable to blunt. This joint action is triggered by attacks on the interorganizational field which threaten the very existence, rationale and legitimacy of a policy system to deal with a particular functional policy area. The demand for community control of the schools in New York City by blacks in Ocean Hill-Brownsville was this type of threat to the educational policy system. The action taken by the policy system to repel this threat was to try and keep the policy discussion within their accepted definitions of social
reality and social problems as well as within the accepted, protective "live-and-let-live" norms of policy system interaction with other systems in the interorganizational field. As Aldrich (1976b: 12) points out: In defining the problem of poverty, medical care, or legal services as strictly a problem of coordinating the behavior of interacting organizations, this enables the affluent and influential sectors of the population to avoid fundamental change. It enables the privileged to retain their positions. Establishing ad hoc groups or coordinating councils to achieve "better coordination" is a way of coopting protesting clients and interest groups. It gives the appearance of change and responsiveness without requiring major changes in the traditional definition of problems or their solutions.

The Policy Community

A axiom central to the concept of the policy system was developed by Jack Walker (1974: 4). He posited that "... people working in America on policy problems such as (housing) have enough regular contact or interaction to be regarded as members of a community or organized social system, even though they may work in hundreds of agencies spread over the whole country." It is the policy community which predates the formation of the policy system and which continues to function as part of it after governmental action legitimizes it.

Don K. Price (1965) was one of the first to recognize that policy communities are not solely a product of the last few decades. Rather than being the product of an ever growing bureaucracy, they often precede government intervention in a functional area. At the present time the negative externalities created by the actions of other policy systems
in their domains may be the impetus for the formation of new policy communities which will later evolve into full blown policy systems with their own policy domain. Thus they are created by governmental action in another. Fritschler (1969) explores this symbiotic relationship in regard to health and tobacco interests.

Once established as a function of government the relationship between the policy community and the government becomes reciprocal.

...[S]cientists (and in some fields, the economists) were the major organized communities of professional opinion with a continuous interest in specific public programs. This has been the pattern of the development of many new federal programs. You can trace it in agriculture, in natural resources, in the regulation of business, in labor and welfare, and now . . . in the support of education. (Price, 1965: 63)

The members of a policy community "... include those primarily engaged in studying the policies and procedures being employed in an area, as well as administrators of the major agencies with operating programs" (Walker, 1974: 4-5). So the policy community includes bureau chiefs, administrators of line agencies, academics, consultants, publishers of professional publications, representatives of suppliers who are vendors of goods and services employed in the area (such as bond lawyers specializing in housing and development bond issues), members of legislative agencies or committees, and even national legislators, such as Wilbur Mills, who specialize in a policy area, subnational elected officials responsible for implementing the policy and of course, lobbyists for interest groups or professional associations with a deep and abiding interest in the policy area.

The influence of the policy community on decision-makers is substantial although a priori one would expect it to vary greatly according
to the saliency of the policy area to groups outside the government. Health policy has great saliency; federal personnel policy has much less.

The "cream de la cream" of the policy community are what Robert Wood calls "intervening elites" (Wood quoted in Farkas, 1971: 30) which he believes are challenging the traditional pressure groups for dominant influence in the policy community. These "intervening elites" often enter the policy process in a formal fashion through advisory committees or ad hoc task forces. Wood says they are a "fairly numerous, recurrent species, holding some skills or positions certified through some gateway procedure, possessing political influence, and though not formally or highly organized exhibiting empathy." When these actors are combined in the organized, sanctioned form of a task force or government committee they are usually viewed as an expert group "... marshalled to bring enlightened, impartial and politically unencumbered expertise to bear on an issue while at the same time representing broad sectors of society. Such intervening elites are called into government to offer high-level policy (advice) supposedly as a counterweight to bureaucracy and interest groups" (Farkas, 1971: 30). This allows the policy community sustained and high level access to the development of policy in their area of interest. Suzanne Farkas (1971) provides strong support for this contention by tracing the development of the Urban Policy System (which includes housing). She clearly shows the movement over time of the chief actors in this policy system from interest group to membership in urban task forces to high level government positions and finally back to interest groups or professional associations. There is even an intergenerational aspect to the process. Carl Coan, Sr.,
was the staff director of the Housing Subcommittee of the Senate Banking and Currency Committee while his son, Carl Coan, Jr., was a lobbyist for the National Association of Home Builders which is one of the largest and most effective lobbies in Washington (New York Times, September 20, 1972).

Policy communities stand as a growing para-bureaucratic element in our society which with the growth of the professions and the positive state will increase in power and influence. Their impact can be either beneficial or destructive depending on one's values. However, policy communities, in the absence of empirical research, will in all probability "vary greatly in their commitment to social learning" (Walker, 1974: 13).

Ideas in Good Currency

There is a direct connection between the policy community of a policy system and the concept of "ideas in good currency." It is the existence of "ideas in good currency" which gives the policy community its power. It is this which allows its members to avoid the stigma of self-interest which taints all economic interest groups.

"Policy entrepreneurs" are the source of much of the early dynamism behind the diffusion of ideas in good currency. Because ideas in good currency obey a law of limited numbers (there is a societal saturation point for good ideas at any one time) and because entrenched interests have made careers based on these ideas, new ideas in good currency do not emerge without a struggle. Another problem in the public sector is that agencies or agency subunits are created to administer programs based on an idea in good currency. Affirmative Action offices are a case in
point. Veterans Affairs offices which administer services and benefits based on the notion of a civilian army based on universal conscription is a case of an idea in good currency whose time ended with the new idea of the volunteer army but whose organizational embodiment is preserved by the interest groups which are controlled by veterans of World War II.

Schon (1971) is the only author who mentions the connection between ideas in good currency and the policy process. Therefore much of the following will depend on his conceptual model.

New ideas in good currency usually emerge from a disruptive event or a series of events. These perceived crises set up a demand in society for new ideas to solve these problems. It is at this point that ideas which were beyond the mainstream of the public agenda begin to surface. This occurs through a process of diffusion which depends upon interpersonal networks and upon the communications media, which in turn shape the ideas to their needs.

The ideas become powerful as centers of policy debate and political conflict. They gain widespread acceptance through the efforts of those who push or ride them through the fields of force created by the interplay of interests and commitments. Inquiry now becomes a political process in which the movement of ideas to power goes hand-in-hand with bids for dominance. When the ideas are taken up by people already powerful in society this gives them a kind of legitimacy and completes their power to change public policy. After this, the ideas become an integral part of the conceptual dimension of the social system and appear, in retrospect, obvious. (Schon, 1971: 127)

The place where the policy community as a whole plays a key role is in the legitimation of the ideas that are contending for acceptance. This step precedes the passage of legislation from the systemic to the institutional agenda (Cobb and Elder, 1972) where it becomes the subject
of legislative consideration. To reach this state ideas must gain entry to the limited set of channels through which formal policy agendas are set. "[T]hey require, in the approval of administrators, commissions, notable personages, legislators and the like, a kind of benediction" (Schon, 1971: 140). This power is used sparingly and the decision to do so comes usually from a shared calculation of the idea's relation to personal and political interests and of the support the idea has already gathered (Schon). As Feller, Menzel and Engel (1974) found in the case of federal legislation, the adoption of a new technology by a state was directly traceable to the passage of a new highway or air quality act. "Although federal legislation seldom mandates the adoption of specific technology, the 'choice' may be narrowly defined" (Feller et al., 19: 31). Thus policy communities can effect diffusion patterns throughout the intergovernmental network by their activities in the area of agenda setting.

Members of the policy community may also be members of the decision network. It is their expertise which grants them access to formal positions in government. It is formal position in a public agency or body which makes them a formal member of the decision network.

To this point the focus has been mainly upon actors who constitute the policy community. While those in formal positions may be analytically distinct from those in the informal positions of the policy community, they overlap in practice and over time. For example, Daniel Moynihan, as United States Ambassador to the United Nations, clearly embodied both roles in his official capacity. Informally he contributed to shaping foreign policy through his writing and speeches, articulating
the government's official position. Since his resignation and before his recent election as United States Senator from New York he was still a member of the policy community but did not occupy a formal position in the decision network.

The policy community of a given policy system does not consist solely of intellectuals contributing to ideas in good currency. It also includes interest groups, professional associations and others with an interest in a particular policy. Both the decision network and the policy community constitute a form of social network in the sense used by social anthropologists in that it is shaped by patterns of relations in which each individual has developed a communications linkage with at least one other member of the network, but is not necessarily fully connected to every other member.

According to this definition, people working in America on policy problems such as housing have enough regular contact or interaction to be regarded as members of a network even though they may work in hundreds of agencies spread over the whole country. The policy community predates the formation of the policy system and continues to function as a part of it after governmental action legitimizing it (Walker, 1974). Thus while there are two classes of individual actors in the policy system, one, the policy community, subsumes the other, the decision network. Thus if a scholar has accurately "mapped" a policy community he has by definition determined the boundaries of the policy system.

From our discussion of the role of the policy community in the development and maintenance of the policy system there are several propositions which can be formulated.
Proposition 4: The size of the policy community of a policy system is directly related to both the degree of heterogeneity and the degree of permeability of the policy system.

This is due to factors such as professionalization which can have an impact on the degree of both heterogeneity and permeability of the policy system. If one must have a professional degree in medicine or engineering to be recognized as a peer, then the size of the policy community will not be great, although because of the relative degree of exclusivity it may be more prestigious.

Analytic capacity of a policy system also plays a role in the development of the policy community.

Proposition 5: The development of a policy community is positively related to the degree of support in bureaucratic agencies for a separate research function (Farkas, 1971).

This is because analytic capability increases the importance of the policy community as this is the source of professional expertise. Thus this leads to the policy community being a major determiner of how problems in its domain are defined and how they should be addressed by the government.

Proposition 6: The ability of a policy system to create its own demand is partly a function of its analytic capacity.

In turn this also depends on the degree of uncertainty concerning the policy domain that exists in the minds of those outside the policy system. In the area of welfare there is little uncertainty in the minds of citizens. Since the need for welfare is viewed as a sign of personal deficiency, it should only be given grudgingly. On the other hand people know little about housing finance. The less is known about a policy area the easier it is for policy systems to create their own demand.
Proposition 7: The ability of a policy system to independently determine policy is contingent on the degree of uncertainty that surrounds a policy area.

The Decision Network

The imagery of the network is a key concept in policy system analysis but it is largely unfamiliar to scholars in public administration and political science. It is a concept that is extensively used in anthropology and to a lesser extent in sociology. The industry as a unit of analysis in economics is somewhat related to the network concept. In political science and public administration we have assumed the government is somehow different from other institutions and processes in society and therefore the network concept has not received serious attention. They have generally viewed politics, especially decision-making processes and political institutions as the dependent variable which must be explained. They have then attempted to explain the impact of socioeconomic and political variables upon the dependent variable.

... [J.K.] Galbraith and others have suggested that it might be more appropriate to view society as a network of social actors of which government is only one (albeit an important one) which through their interactions shape and determine the nature and quality of life. If so we are accepting a central assumption of the system-theoretical perspective. For instead of speaking of independent and dependent variables, it is appropriate to use such terms as network, and social actors that interact within this network. We are speaking about "elements" of a system and of relationships that obtain between them. (Schaefer, 1974: 332)

There is a process of decisionmaking that is embedded within the social context of a policy system (Friend, Power and Yewlett, 1974: 55-56). This gives rise to two classes of actors operating in the role structure of the policy system. There are members of the decision network who occupy formal positions in the organizations that compose or are partially connected to the policy system. The second group is the
policy community. They may greatly influence policy decisions but they occupy no formal role in the decision network.

Within governmental organizations especially, it is usually regarded as important that actions which have significant external impacts should carry the formal authority of some publicly identifiable and accountable individual or group. Thus, a distinction can be drawn between (those) who must ultimately endorse the outcomes of the decision process, and (those) who may contribute to the selection of these outcomes. This distinction is an important one, for it is very easy to make implicitly, that the actors within a policy system must all owe allegiance to a single corporate organization. In some cases . . . even those contributing to the formal endorsement of actions may act as representatives of two or more corporate agencies. (Friend, Power and Yewlett, 1974: 27)

There is a key distinction to be made between decision-making and policy making which highlights the distinction between the policy community and the decision network. Decision-making refers to a discrete choice, in this case relating to a particular policy domain. Policy, according to the definition offered in the first chapter, refers not to choice but a pattern of behavior that persists over time with regularity and consistency.

The decision network consists of those actors who hold positions in governmental organizations dealing with a particular program or policy area. Those who "act" on a particular policy issue constitute the decision network at that point in time. The rest of the actors in formal positions are, for the purpose of that issue, members, along with those not in formal positions, of the policy community.

A policy community should then be defined as everyone in a policy system. Those who are also members of the decision network varies with the issue and whether an individual actor happens to hold an official position at that time.
On the whole this distinction may be somewhat labored and difficult to determine in an operational sense as obviously members of the policy community influence policy whether they are members of the decision network or not. However, I feel that in both analytical and normative terms, the distinction is important.

**Internal Relations**

Both the decision network and the policy community are empirical phenomena. The members of each can be determined by observation if the context is specified. Thus they are not analytical constructs. This being the case the internal relations between actors in the role structure of the policy system is very important.

As in any complex system, no decision is made by only one actor. Interdependence is the hallmark of the policy system, therefore actors must reach compromises which take into account the existence and strategies of other actors (Crozier and Thoenig, 1976: 551).

One or two particular individuals cannot arbitrarily impose their personal will and dictate their own rules to others. The game is collective and does not depend on the strategies of particular persons; it is a consequence of a system which imposes its general rules and norms on all individuals, even the most powerful. Its regulation depends on the stability of a set of relationships between units and not on the control over specific individuals. Therefore, oppression is impersonal and diffused. Consequently it is tolerable. (Crozier and Thoenig, 1976: 557)

If one wishes to concentrate on the analysis of the decision network, the metaphor of equilibrium may be helpful. "An interorganizational network is equilibrated to the extent that participant(s) ... are engaged in highly coordinated, cooperative interactions based on normative consensus and mutual respect" (Benson, 1975: 235). Thus the four dimensions for the analysis of the degree of equilibrium are:
1. Domain Consensus: Agreement among actors regarding their appropriate role and scope.

2. Ideological Consensus: Agreement among actors regarding the nature of the tasks confronted by them and the appropriate approaches to these tasks.

3. Positive Evaluation: The judgement by actors of the value of the work of other actors.

4. Work Coordination: The pattern of collaboration and cooperation between actors. (Benson, 1975: 235)

If we are focusing on actors who are elements of a system we can formulate the following proposition which deals with the degree of stability the policy system will exhibit.

Proposition 8: The stability of a policy system decreases as the connectedness of its elements increase (Schaefer, 1974).

This is because, within a policy system, factions contend to a greater or lesser degree. The power balance may be in stable or highly unstable equilibrium. But the tendency is to strive to become self-sustaining in control of power in one's own sphere. This tendency toward self-sustainability is modified only by contextual variables such as constitutional and statutory provisions, financial mechanisms and historical relationships in a particular policy domain. Thus policy systems provide stability for existing equilibriums among interests. This in turn leads to the following proposition.

Proposition 9: If the relations among the elements of a policy system change over time then so will the equilibrium.

The Political Economy of a Policy System

The policy community and decision network of a policy system are empirical phenomena. As such, they exist in an interorganizational field which is dynamic and which has embedded in it an incentive
structure, or as Cook (1977) terms it, an opportunity or market structure. She says that the opportunity or market structure determines the incentive structure and thereby the strategies of the actors in the policy community and decision network. This is termed the political economy of the policy system. It is the market or incentive structure of an interorganizational field.

Thus within a policy system there are two types of networks. The one embodying both the policy community and the decision network was concerned with the structure of relations between people acting in roles. The second type of network is the political economy of the policy system. It is concerned with the structure of relations between situations of choice involving authority and scarce resources. Authority here is defined in weberian terms; governmental authority stems from the government's monopoly of the sole legitimate means of coercion in a society.

Thus a policy system's decision network and policy community exist in a particular political economy. These are networks which are related but are functionally and analytically distinct. The political economy consists of actors in roles concerned with the nonmarket distribution of money or other valued resources which can be purchased by money (e.g., personnel) and authority. This system resource perspective assumes that decisionmakers in a policy system are generally concerned with the acquisition and defense of an adequate supply of resources and their claim to them. This becomes for decisionmakers an operational definition of the purposes of the policy system and thus of their responsibilities as decisionmakers (Benson, 1975: 231; Yuchtman and Seashore, 1967).

It is obvious that there is a good deal of overlap between actors in the two networks. However, the distinction is made to illustrate
functional role differences, not to illustrate that there are two different sets of actors. The fundamental difference between the decision network and the political economy of a policy system is analogous to Robert Merton's (1968) distinction between his concepts of manifest and latent functions of social systems. He defined manifest functions as the objective consequences of a social practice or belief which contributes to the adjustment or adaptation of a social system and which are both intended and recognized. This is precisely the function of the decision network of a policy system. The decisions here deal with housing policy, welfare policy, etc. In other words the decisions deal with the very reason for the existence of the policy system in the public sector.

Latent functions, conversely, are objective consequences contributing to the adjustment or adaptation of a social system which are neither intended or recognized (Merton, 1968). This accurately describes the role of the political economy of the policy system. The survival instinct of a policy system, even in the face of objective evidence that it is no longer needed, is an example of how this latent function affects a policy system.

The interaction of the decision network and the political economy do not take place on equal terms. In a marxian sense the economic relations determine the political relations. This is the underlying dynamic of a policy system. Benson (1975: 231) describes the two levels of analysis in network relationships.

Superstructural level--Analysis is focused on interaction patterns with the actual performance of core functions of the policy system.
Substructural level--The analysis at the superstructural level is ultimately dependent upon deeper more fundamental processes. Analysis at the substructural level is focused upon the process of resource acquisition.

The organizations and individuals (actors) comprising a policy system may interact or be linked in many different ways. Some many be coupled directly or loosely. "Some networks . . . may consist of a series of organizations linked by multiple, direct ties to each other. Others may be characterized by a clustering or centering of linkages around one or a few mediating or controlling organizations" (Benson, 1975: 230). This is the configuration one finds in policy systems linked to intergovernmental grant-in-aid programs. Here the controlling organization is the fund dispensing agency and state agencies perform the mediating role.

The decision network thus operates to facilitate the manifest functions performed by the policy system. For example, in housing, the efforts to develop a coordinated housing policy for the Kansas City Metropolitan Area between representatives of the Mid-America Regional Council, U.S. Department of Housing and Urban Development Area Office, key housing staff members from some of the 118 jurisdictions in the Kansas City Area, housing staffers from the states of Kansas and Missouri and housing and civil rights interest groups in the region is an example of individual and organizational components of the policy system of housing in one area. It also illustrates a type of problem (coordination) dealt with by the decision network.

Roland Warren et al. (1974) deal at length with what they call community decision organizations (CDO's) which represent a host of mission oriented organizations that perform the same function; school
boards, community action agencies, health systems agencies and health and welfare councils are all examples of CDO's. In my terminology they, like the housing policy system in Kansas City, represent the managerial level of the policy system--Level II.

The manifest functions of the (policy system) are those of facilitation coordinated planning in their respective functional areas so that services, broadly considered, will be delivered in appropriate fashion to those who need them. Innovation is widely accepted as desirable. It is necessary to improve the quality and nature of the direct services offered, so they will be more effective. . . . (Warren et al., 1974: 32-33)

However, when the question of what steps must be taken to achieve this effectiveness arises, the political economy of the policy system functions in such a manner as to support the status quo since survival is the preeminent concern at the latent functional level, and innovation and coordination may threaten the domain of the policy system and its standard operating procedures. When you talk about coordination you usually conclude that there is overlap and waste, so that consolidation might be just the means to achieve a more efficient provision of housing services. Questions of jobs, territory and survival of existing organizations often serve as sufficient blockages to frustrate innovation. We can see this more clearly at the national level when the national housing policy system was able to defeat HEW Secretary Joseph Califano's plan to end housing programs and subsidies and to include the money spent on this in a negative income tax proposal that would have replaced the entire welfare system (National Journal, July 30, 1977: 1190). Here a direct threat to the existence of a policy system was repelled and its definition of reality was maintained (its institutionalized thought structure). It was maintained by its successful defense of the key role
of housing professionals in mediating between the political and economic system on behalf of clients who are incapable of providing housing services for themselves even if given income transfers that would have allowed them to purchase their own living quarters.

In this manner, problem definition becomes an important social control function performed by a policy system. Definition of a problem in a certain way gives the policy system the "... ability to control the methods used to deal with problems, and to ward off possible alternative approaches that would jeopardize part or all of the institutionalized thought structure" (Warren et al., 1974: 33).

In acting in a manifest manner as highly supportive of new initiatives to social problems while latently fighting to maintain a definition of reality supportive of the status quo it becomes possible to achieve the best of both worlds. Action is taken in the name of social progress while the action actually supports the status quo and the vested interests of the mediators. This is why Lowi (1969), Warren et al. (1974), and Aldrich (1976b) find "interest group liberalism" such a pernicious ideology.

In affirming innovation and responsiveness, the aura of positive sanction for these goals is sustained, and it is possible to give massive evidence of progress in these areas while at the same time assuring that innovation and responsiveness are kept within comfortable limits. The "heat is taken off," both through explaining the upsetting anomaly of widespread systematic poverty amidst affluence and declarations of war against it--explaining the anomaly essentially in terms of the marginality of the problems and their locus in the deficiencies of marginal individuals unable to "make it" in the otherwise healthy mainstream--and through giving the aura of massive concern and effort to remedy untenable social conditions. (Warren et al., 1974: 33-34)

All policy systems have more or less well developed technical rationales for dealing with the problems in their domain (Thompson,
1967). The technical rationale according to Warren et al. (1974: 35) arms the policy system with an expert, sophisticated and presumably effective manner of rationally confronting the problems addressed in a manifest fashion by the decision network of the policy system. However, the latent function performed in the political economy of the policy system is to use the technical rationale in such a manner as to mold the problems the policy system faces in such a way as they can be dealt with without threatening its own viability. The existence of a technical rationale gives the policy system the continuous ability to routinize the unpredictable. In their interactions with each other, Warren et al. (1974: 150) found that policy systems were able, with differing success, to define dissensus situations in such a way that the resolution of such situations would be essentially compatible with their continued viability which is an essential ingredient of cooptation.

**Cooptation as an Organizational Process**

The process has been explored by Phillip Selznick (1949b). If one is of a cynical turn of mind, the entire affirmative action effort in the United States could be rooted in Selznick's description of formal cooptation.

Cooptation tells us something about the process by which an . . . environment impinges upon an organization and effects changes in its leadership, structure, or policy. Formal cooptation (occurs) [w]hen there is a need for the organization to publicly absorb new elements. . . . This involves the establishment of openly avowed and formally ordered relationships. (Selznick, 1949a: 141)

This process tends to occur when the legitimacy of a governing group or agency is called into question. The result is that organizations absorb new elements who then share the responsibility for power rather than power itself (Selznick, 1949a: 142).
There is a second reason for formal cooptation. This is essentially administrative in nature. What is desired is to establish orderly and reliable mechanisms for reaching a target population (Selznick, 1949b). Thus, administrative convenience in linking organizations to clients may be the reason that the areas of housing, welfare and health have a higher proportion of blacks in high level positions than transportation or agriculture (Herbert, 1974). Again to quote Selznick (1949a: 143):

In general, the use of formal cooptation by a leadership does not envision the transfer of actual power. The forms of participation are emphasized but action is channeled so as to fulfill the administrative functions while preserving the locus of significant decision in the hands of the initiating group.

The U.S. Civil Rights Commission (1969) found examples of this in a study they conducted. They discovered that blacks were being "type cast" for certain positions such as staff jobs for human relations councils, civil rights commissions, or assistants to ranking administrators. The jobs have high status and command high salaries but the jobs focus almost exclusively on minority group problems.

Warren et al. (1974: 56) adopt Selznick's description of cooptation but tie it to the "institutionalized thought structure" of the policy system so as to adapt it from the organizational level to that of the interorganizational field. Therefore at this level, cooptation is the process through which a policy system succeeds in defining problems which appear to threaten its stability or existence in such a way that the actual resolution of the problem will be amenable to its continued stability or existence.

Thus many new programs and initiatives are merely absorbed into the preexisting hierarchy of influence and dominance in the interorganizational field (Aldrich, 1976b: 6).
In this context the discussion of cooptation raises one of the fundamental questions of political philosophy, "who benefits?"

Individuals may be the building blocks of a political order, but organizations are the building blocks of industrial societies. As Coleman (1973), and Hirschman (1972) and others have noted, an individual in an industrial society experiences costs and benefits primarily in his roles in various organizations. Theories of interorganizational relations with public policy relevance ought to contain analyses of the distribution of benefits at the organizational, as well as the individual level. (Aldrich, 1976b: 6)

It is through the analytic focus of the political economy that this question is raised in the policy system approach.

**Position and Power in the Political Economy**

Cook (1977: 75) distinguishes between dominated and undominated interorganizational fields. This is a distinction that economists make to differentiate between imperfectly and perfectly competitive markets. "The market structure determines to some extent market conduct, the nature of the competitive and cooperative strategies organizations engage in."

Position in the political economy is thus very important. Iyan (1972: 357) gives the following illustrations of position using graph theory.

1. Wheel

```
    A
   / \  \
  B   C
   \ /  \
    D
```

2. All-Channel Network

```
    A
    /\ \
   /  B
  /    / \
 /     /  \
/      /    \
D
```

3. Chain

```
    A
   /  \
  B   C
   \  /
    D
```

Figure 11
If in all cases "A" is the focal organization its power would vary greatly in terms of power and autonomy depending on its position in the policy system. The "Wheel" with "A" at the center obviously ranks first in both power and autonomy. This is perhaps like the national level agencies in the administration of federal grants and programs. Here you have grants and programs going into 435 Congressional Districts or 50 States through 12 Federal Regional Offices. This is very much like the colonial system in Africa where all the lines of communication and trade, such as roads and railways, ran from the capitol city to the interior with no connecting links to the colonies of the other European powers who shared similar boundaries.

Centrality in a network (which "A" has in "1" but not in "2" or "3") is vitally important as it is a measure of structural dependence. "Power is attached to a position in a network and networks can be analyzed in terms of the extent to which exchange in the network is dependent upon one particular party or position" (Cook, 1977: 72).

Because of the work of Cook (1977) which is supported by Benson (1975) and Lehman (1975), power is not only derivative from resource dependencies within an interorganizational field; there is in addition a structural component relating to position in the field. The distribution of resources is not the only thing related to structure; with mandated programs position may indicate the distribution of responsibility for decisionmaking. Thus position can affect the decision network as well as the political economy.

Before attaching paramount importance to position, a qualifying statement must be added. The power relationships in an interorganizational field do not depend solely on position, or mandated authority or
upon the relative resources of the actors. Rather power ultimately
depends on the power they are willing to expend in the game. If this was
not the case there is no reason that the United States would not have
been successful at the Bay of Pigs or in Vietnam. Power exercised in a
relationship cannot be deduced by an objective analysis of opposing
forces or by their position. Crozier and Thoenig (1976: 563) indicate
that this can only be determined by in-depth interviews where an actor's
statements provide rough, but relatively faithful, indicators of the
power relationships and the problems around which these relationships
crystallize. In addition, the researcher must describe the players'
strategies and understand the games in which they develop these
strategies.

In addition, Czepiel (1975) found that size and function also
played a role in the configuration of a resource network.

Proposition 10: The configurations of the networks within a
policy system will vary with the size of the
system and the types of functions the components
perform. (Czepiel)

The Institutionalized Thought Structure

The third network which exists in a policy system is the institu-
tionalized thought structure. This deals with the manner in which actors
perceive a problem and how this perception affects their decisions.

The question of the institutionalized thought structure brings up
a sticky problem for empirical social science. In certain situations,
how a situation is perceived is crucial to understanding behavior. The
treatment of the mentally ill is certainly a case in point. The policy
system model as well as other models of political and social behavior
explored in Chapter I, even if operationalized will not allow us
to handle the problem of problem perception. Attitudinal studies of the
participants may give us insights into the mind set of them but it is a difficult phenomena to capture in all its richness. Warren et al. (1974) found that it was only through the process of participant observation that this dimension could be adequately tapped.

Sir Geoffrey Vickers (1965) terms this aspect of policy making "appreciation." Appreciation involves making judgements about the state of the system, both in its internal and external relations. He terms these "reality judgements." Katz and Kahn (1966) describe this as organizational "coding categories" and ascribe them to the contextual history of the organization (or system). They believe they are often linked to the birth of the organization (policy system) and particularly the way reality was defined by a charismatic leader or founder.

The importance of the Institutionalized Thought Structure (ITS) must be stressed. This is the network through which sentiments and values flow and by which actors "make sense" out of the exchanges that occur in both the decision network and the political economy. Thus the ITS network deals with "appreciative judgements" about the significance of facts for individuals and for others whom the "facts" are interpreted for, such as those in higher positions in organizations who only deal with facts in a second hand manner. The reason this is so important is the disjuncture between expertise and formal position. The persons responsible for making decisions are often only vaguely familiar with the issues at hand which have been boiled down and interpreted for them by advisors. The image of the President digesting memos which have resulted from three or four interpretations and digestions of the original facts gives one the feel for how important the "reality judgements" and bias of a long chain of officials are for policy determination.
In addition to reality judgements there is also the matter of value judgements. Both reality and value judgements are inseparable for facts are relevant only in relation to some judgement of value, and judgements of value are operative only in relation to some configuration of fact (Thompson, 1977: 398).

These judgements will depend on the interests and responsibilities of those who make them. These may be largely unconscious but they will nonetheless condition what events and relations will be deemed relevant (Vickers, 1965: 67).

... Such judgements disclose what can best be described as a set of readinesses to distinguish some aspects of the situation rather than others, and to classify and value these in this way rather than that. ... The readinesses have to be learned. Like all learning they are necessarily limiting as well as enabling. They facilitate further learning consistent with the patterns they create; but they create "unreadinesses" to see, value and respond in ways consistent with those patterns. (Vickers, 1965: 67-68)

Empirical support for this contention comes from Czepiel (1975: 21-22) who found that business firms whose decision groups had greater participation in professional/scientific/technical activities tended to adopt innovations later than those whose participation was not as great. One explanation for this finding may be that these kinds of activities reinforce the status quo rather than promoting the diffusion of innovation. This may be particularly true after initial adoption where a form of technological coupling may take place--an interest with a technology.

Lowi (1971: 18-19) makes this similar observation about all organizations (I would include all professions as well). "Regardless of its commitment to particular goals, the established organization will resist other organizational forms or approaches to attain these same goals."

He uses the example of the building trades unions, which "are specifically
organized to prevent alternative ways of approaching construction and alternate modes of recruiting and training skilled persons."

The social services area is even more resistant to change because of the indefinite nature of the responsibilities for and causes of social problems. This makes success or failure in the usual sense of task performance very difficult to define much less to identify. This gives the policy system in this area the ability to

... define the social problems they are addressing, define the nature of what "must be done" in order to solve them, control the intervention strategies that are brought to bear on them, evaluate the results of their intervention, and exercise large measures of control over the way their respective fields and activities are conceived for purposes of public discussion. (Warren et al., 1974: 27-28)

One of the major findings of George Downs' (1976) study of the adoption of the policy of juvenile deinstitutionalization was that because the parameters of the solution to problems are unknown or objectively undefinable (in a welfare economic sense) policy systems are able to define them in a manner optimal to them.

This leads us to conclude that the institutionalized thought structure, together with an active policy community and a political economy with positive incentives for innovation can, given the necessary condition of a large public sector, allow policy systems to create their own demand under some conditions.

The reverse side of this is that "[n]o matter how urgent the need for new policies, they will not emerge if they are beyond the appreciative setting of the policymakers. Settings can change and be changed, but normally only slowly, one at a time" (Thompson, 1977: 399). What this means is that decisions in a policy system are not made in a totally incremental fashion (Lindblom, 1959). There is not simply
decision after decision each of which slightly deviates from the past. The policy as opposed to the individual decisions are based on the underlying system of the institutionalized thought structure. Or as Thompson says, "Decisions are not simply a matter of 'muddling through,' they have an underlying system based on an appreciative field" (1977: 399).

Rudolf Klein (1977: 404) argues that policy research needs to give attention to analyzing the "deep structure" of the attitudes and ideas held by civil servants and professionals--"those values which . . . are most influential precisely because they are taken so much for granted that they scarcely require articulation."

The institutionalized thought structure must be seen not simply as part of a process which occurs within a societal context, but as part of the process of society itself. Zeitz (1975: 137-138) says that the system of interorganizational relationships can in themselves lead to radical changes in the social system as organizations and the professional associations which stand behind them act in such a way as to create legitimacy for themselves through the manipulation of cultural values and the creation of new ones.

The institutionalized thought structure of a policy system is not a network that is necessarily specific to it. Rather it seems connected to the incentive structure of the interorganizational field in which the policy system resides. In cases like the policy system containing the U.S. Forest Service (Kaufman, 1960a) it is contiguous with and unique to the Forest Service which is the dominant organization in this policy system. In cases like that described by Warren et al. (1974) and Lehman (1975), which dealt with community social services and health respectively,
the institutionalized thought structure seems to span the entire inter-
organizational field (at least at the operational and perhaps managerial 
levels of the policy system). In both of the cases mentioned, the 
institutionalized thought structure seemed to be a joint product of the 
professional social service organizations in a number of different 
functional areas. The connecting link was that all these organizations 
utilized the same method of service/product delivery—the professional 
provision of them with these same professionals mediating between the 
clients and the political-economic system.

Vickers (1965) handles the problem of the boundaries of the ITS 
very clearly. He says that each policy system would have an apprecia-
tive system which consists of the "readinesses" of the actors in the 
system. The current state of such a system is its "setting" and the 
settings of a number of appreciative systems as an "appreciative field."
All of these are termed by Warren et al. (1974) the "institutionalized 
thought structure."

The institutionalized thought structure while generally resisting 
change also holds out hope to those who would attempt to alter the mind-
set of policy systems dominated by professional or institutional values. 
As stated earlier, "Decisions are not simply a matter of 'muddling 
through,' they have an underlying system based on an appreciative field" 
(Thompson, 1977: 399). If the institutionalized thought structure of 
a policy system means that there is an underlying "system" to seemingly 
random, incremental decisions then it holds out the hope that social 
scientists can both understand the system and hopefully change it.
**Functions and Levels of a Policy System**

A policy system must perform certain functions to have enough autonomy to exist independently of other policy systems. At the same time, there are authority structures and dominance patterns which must be sufficiently articulated for a policy system to be sufficiently connected to have "entitiveness" or systemness. The authority structures are generally viewed by the social actors in a manner similar to the way multinational corporations view the different systems of law and governmental rules and regulations of the various countries in which they operate. Policy systems view authority structures as constraints on their freedom of action and they seek to maximize the different authority structures one finds at the different levels of the American Federal System. The juristic notions of separation of powers and separate levels of government each with unique powers are viewed as constraints by policy systems, and in certain legally well-defined areas, as parameters; however they do not determine the behavioral patterns of interaction within a given policy system.

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4. Heatwole et al. (1975) have developed a taxonomy for classifying policy systems according to their degree of homogeneity or heterogeneity. Policy systems lacking in the number of connected elements are termed homeostatic policy systems or policy clubs. In cases like this (e.g., the Groundwater Policy System in Kansas) where all actors and organizations number less then 10, the only thing that makes it an analytical system are connections to the authority structure. It is likely that Policy Clubs can only flourish in a policy domain which is of very low visibility and where there are no functional or allocation rivals.

5. Edward W. Weidner in a survey done in 1955 found that state and local officials are more loyal to the policies and programs they administer than to the level of government they work for. Crozier and Thoenig (1976) found the same thing in the French administrative system.
The authority structure of a policy system consists of structural elements of all levels and branches of government. The actual pattern of dominance or balance of power is dynamic. As the class of problem or policy expands, so do the boundaries of the policy system. As this process occurs, the authority structure becomes more general as new actors, organizations and institutions seek to influence the process of decision making. This leads to an extended, more complex policy system than was previously the case.

Exploration of a problem in a wider context sometimes takes the process into a higher level of policy system, extending the bounds . . . , and opening up interfaces with further contiguous policy systems. However, the higher level policy system may often be more open, in that policy guidelines are likely to be less specific when relating to more complex levels of problems. (Friend et al., 1974: 35)

In Figure 12 the original policy system (Figure 10) can be regarded as a subsystem of the extended policy system which is now dealing with a more general level of policy. For example, on certain issues the vocational education policy system will be subsumed by the larger educational policy system. The extension of the domain will mean corresponding extension of the environment. It is at a certain level of generality that the policy system will begin to include major elements of its environment such as its constituency system which includes both the policy community as well as allied interest groups, clients and suppliers (Friend et al., 1974: 37).

It is at this point that our ability to diagram breaks down. Since there are four hierarchical levels for any system it becomes impossible to diagram a four dimensional figure. As was state earlier, there are four dimensions of a policy system.
Figure 12

Figure 12 represents an empirical policy system which has extended its action space and pattern of interaction. This in turn has changed its pattern of exchange and its dominance pattern.
1. Geographical scope
2. Inclusiveness of membership
3. Range of functions
4. Relationship of authority

The last two dimensions appear intuitively to be the most standard from policy system to policy system. Therefore the relationship of authority (hierarchy) and the range of functions (functions) will be explored at some length.

**Hierarchy in a Policy System**

Policy systems vary to the extent they are hierarchical in terms of the power relationships within them. To the extent that the policy system departs from perfect competition internally, increasingly powerful hierarchies are possible. In the governmental sector hierarchy is often the result of deliberate constraints imposed by the Institutional level of the policy system. In contrast to the usual assumptions in organization theory, the resulting hierarchy is often not the result of environmental adaptation; rather it emerged fully formed by legislative action. The Comprehensive Employment and Training Act of 1973 began with the vertical links of the policy system already formed by legislative mandate. The horizontal links at the local level were left to be worked out by the "prime sponsor" (Aldrich, 1976a: 16-17).

Aldrich (1976a) also points out that even within an existing policy system, unwanted levels of hierarchy can be inserted from the top. For example, Office of Management and Budget Circular A-95 gave the power of review and comment to Councils of Governments when local projects were being paid for with federal funding. Thus decision networks in the
public sector, especially in intergovernmental projects, are to an extent mandated by law. "The result (is) not an action set, (as) organizations never acted as a coalition. Instead, a network is created" (Aldrich, 1976a: 27) whose links are mandated.

Simply because hierarchical links are mandated we should not assume that the policy system is well integrated. Integration must not be seen as a constant but rather "... as a variable which is the product of a complex dialectical interplay between the strains of the actor for autonomy and the attempt of the system to control its members" (Zeitz, 1975: 136). In addition a system may be loosely joined in a vertical dimension and richly joined in a horizontal direction.

A policy system is controlled by one or some combination of three system mechanisms or social choice processes--hierarchy, polyarchy, and bargaining (Dahl and Lindbloom, 1953). Hierarchy is the process by which leaders or dominant coalitions (Cyert and March, 1963) control other elements of the policy system. A central agency would control its units in the field through this process. Polyarchy is the process whereby the elements of the policy system control their leaders. Bargaining is the process of negotiation between somewhat independent elements, with mutual control as the result. "The great traditions of power analysis are contained in these essential mechanisms. Hierarchy embodies the Millsian 'power elite' approach; polyarchy refers to a mass democracy--interest group approach; and bargaining with a veto group approach" (Tropman, 1974: 150).

The degree to which any elements of the policy system had power in the system might include the ability to determine the flow of resources and the rates of exchange as well as the political power to
stake out new claims and attempts to control the introduction of new actors into the system. For example, a powerful element of the system might successfully oppose accreditation for a new hospital or college or it might be able to block or delay federal funding for a new social agency (Cook, 1977: 72). Or as Benson (1975: 234) says, "The powerful agency may see that the terms of the exchange are set in a way that protects its dominance."

**Functional Levels of a Policy System**

A policy system, as a collectivity, must perform certain functions in order to have enough autonomy to exist independently of other policy systems. The type of function performed will vary with the structural-functional level of the system. One does not have to buy all of Talcott Parson's theories to acknowledge that his conception of three levels of structure in any social system makes intuitive sense and has the support of a number of empirical studies (Warren et al., 1974; Friend et al., 1974; Crozier and Thoenig, 1976). These three structural levels are technical, managerial and institutional (Parsons, 1956). Within the structure of the policy system there are certain functions that are performed at each of these structural levels. Each level constitutes a subsystem of the policy system (Van de Ven et al., 1974: 123).

Level I, the operational level, constitutes the technical core of the policy system (Thompson, 1967). This is the level of service/product delivery or primary regulatory enforcement. "The major functional orientation of the level I subsystem is attainment of sub-optimized goals when the resources necessary to attain instrumental ends exist external to (the policy system). It is this dependence upon other units comprising the (policy system) that serves as the necessary motivation for (them)
to participate in the (policy system)" (Van de Ven et al., 1974). The geographic locus of level I is usually a mission oriented organization at the local or state level of government in a federal system. If the national government performs the service itself the policy system can be self-contained at the national level. This would be the case with regulatory programs which have no dealings with the states or cities but merely regulate an economic activity such as the stock markets.

Level II constitutes the managerial component of the policy system. The major functions performed by this subsystem are integration, mediation, coordination and secondary resource and authority disposition to the level I performing units. It also performs the functions of managerial planning and control and the political functions of mobilization and legitimation of national policy. The geographical locus of level II is mainly state or regional levels of government (substate or metropolitan area) in a federal system of government.

Level III is the institutional level of the policy system. The major functions performed by this subsystem are (1) governance of overall goals and policies, (2) external policy legitimation and support of the policy system's domain (Van de Ven et al., 1974: 124), (3) primary resource acquisition from and exchange with the macropolitical system, and (4) strategic planning in attempting to cope with greater or lesser degrees of environmental uncertainty.

The geographical locus of level III is mainly the national level of government. However, on occasion this proves not to be the case. The impoundments of January, 1973 by the Nixon Administration provide a rich illustration of what happens when the flow of federal funds is cut off at the national level. The case to be examined in Chapter VI will
examine the question of whether much of the recent adoption of housing finance agencies by states can be explained by the decentralization of national interest groups, both economic and professional, which then join with allies in the state bureaucracy to create a demand for a public policy, housing, which has not historically been viewed as a state function. In this case the state becomes the focus of level III activity.

In social system terms what is found at level III is field interaction between and among different policy systems which may be functional or allocational rivals. Actors are executives, legislators, the policy community and both the input and output constituencies of the policy system.

One level of decisionmaking which has not been mentioned is what could be called level IV. This is where social choice functions for a society are performed. A social choice is the accidental by-product of the actions of two or more actors who have no common intention and who make their selections competitively or without regard to each other. In a social choice process, each actor seeks to attain his own end (Mayer, 1972: 135). Thus level IV is like a market or an ecological system with no necessarily shared values. Action is related not to a solution but it is rather a resultant condition. This is the level where a number of policy systems may compete for a new domain. The choice is made by their relative power and their interaction with the macropolitical and macroeconomic structures of society. Since policy systems lose effective control of an issue at this level, I will not elaborate on it,
except to note its existence. Gregg (1975) calls this the Public Economy where fundamental societal tradeoffs are made.6

Table 3
Policy System Actors and Level Where Role is Performed

<table>
<thead>
<tr>
<th>Level</th>
<th>Actors</th>
<th>Where Performed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IV</td>
<td>President, Congress (as an institution), Parameter Elites, Mass Public, Media</td>
<td>Societal Level</td>
</tr>
<tr>
<td>III</td>
<td>Policy Community, Intervening Elites, Bureaucratic Elites, Interest Groups, Task Forces, Commissions</td>
<td>Federal Level (usually)</td>
</tr>
<tr>
<td>II</td>
<td>Interorganizational Actors in the same policy system acting as representatives</td>
<td>State Level, Sub-state, Metropolitan, and Regional Levels</td>
</tr>
<tr>
<td>I</td>
<td>Intraorganizational Actors and Interorganizational Actors in Different Policy Systems</td>
<td>Cities, Counties Special Districts Public Authorities Agencies</td>
</tr>
</tbody>
</table>

In Table 3, which indicates the level at which certain actors become involved in the policy process, it should be noted that interorganizational actors play a role at both levels II and I. The role is different and needs explaining. At level II the interorganizational actors are from organizations in the same policy system. It is through this mechanism that the coordination, mediation and internal policy legitimation are performed within the policy system. Aside from money this is the "glue" that keeps the system together. The interorganizational

6Ripley and Franklin (1976) have a lucid description of what types of policy decisions are likely to be made at level IV.
actors at level 1 are from different policy systems at this same level. There is some coordination but basically it is the live-and-let-live atmosphere of the ecological field. Both Warren et al., in The Structure of Urban Reform and Norton Long in "The Local Community as an Ecology of Games" (1958) capture the spirit of policy system interaction at this level. Only threats to the institutionalized thought structure force a high degree of cooperation at this level. The normal pattern of interaction is the appearance of cooperation with some competition which is usually at the margin and therefore not of a zero sum order.

It may at first appear that I have merely substituted a convoluted terminology, in the best tradition of Talcott Parsons, for the clear, precise units of the federal system--federal, state and local governments. Such is not the case. You can identify structural level with level of government to a certain extent but involvement of actors owing allegiance to one level may very well be intimately involved in decisions at another level of government. If structural level is equivalent to level of government our model does not have sufficient explanatory power to handle decision-making situations such as the Kansas City housing desegregation plan. In this example the national level of government (the regional offices of the U.S. Civil Rights Commission and the Department of Housing and Urban Development) is trying to get the 118 local jurisdictions in the Kansas City Metropolitan Region to adopt an extensive housing desegregation plan.

... In one of the few community power studies to discuss the impact of decisions made at other levels of government on local power, Robert Presthus, in Men at the Top ... writes "in effect, the initiation and control of local decisions was to a considerable extent shared with external sources of power. ... the dependence of both communities (Riverview and Edgewood) upon external governments was a major condition of decision-making in almost all of the (functional) areas analyzed." (Presthus, 1964: 238, quoted in Fritschiher and Segal, 1972: 98)
Several testable propositions may be formulated from the preceding discussion.

Proposition 11: The greater the extent that semiautonomous officials at different levels of a policy system calculate their mutual interdependencies, the greater the likelihood that they will coordinate their activities. (Gregg, 1975)

Proposition 12: If the pattern of interaction within a policy system is multi-jurisdictional, then decisions at each level of the policy system will be dependent on the power asymmetry (or hierarchy) of the actors.

The level at which a decision is made depends on the function the decision is intended to perform. However, actors identified with other structural levels may play key or even determining roles in the decision process. Level of functions merely means "central tendency." The actors involved depend on the issue and not vice versa. An operational/technical issue may have a normally level II actor in on a level I decision. For example, a state department of housing and community development may provide technical assistance to local communities. However, before any assistance is provided, a community must agree to allow the state to be involved in and perhaps approve whatever project or plan the technical assistance is needed to develop. So even non-multi-level discrete decisions where ostensibly no hierarchy is involved may have actors from normally different levels play key roles depending on the issue. Friend et al. give an interesting illustration of this from their work on English local government (Figure 13).

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7 The classic example of the multilevel decision would be the implementation of a federal grant-in-aid program.
The three structural levels are analytical constructs. Levels of government are constitutional and legal constructs. Behavioral patterns depend on need, not on constitutional requirements or the desire of the formal modeler for precision. Area or geography may play a behavioral role. Urban areas in general seem more amenable to innovation. And they are very fragmented in their number of centers of power and decision (Long, 1958). A large urban area's decision-making process often takes on the characteristics of a floating crap game where everyone can play. In this regard area (the context of the decisional process) may change the interaction patterns.

With federal or state grants of funds, area does to an extent relate to structural levels depending on the type of grant. However, it changes with the type of grant and the issues it raises for decision. Level II in a direct Federal-local grant is the Federal area or regional office, councils of governments, planning agencies, city managers, mayors and other elected officials. Housing and Urban Development 701 planning grants in regard to the development of a metropolitan housing assistance plan exhibit this pattern.
Other grants exhibit quite different patterns. Level II in a Federal, state, local grant, such as Aid to Elementary and Secondary Education is clearly the state department of education. So the fit of levels with the federal system seems, at least at the state level, very good. In both cases the level II functions of policy and program development within the broad outline of national policy were carried out there. In the Kansas City example, level II also tried to legitimate national policy which is a role that Beε (1973) urges upon the states.

Research on level III functions of the policy system must first seek answers to the questions of who governs, when, where and with what effects? There are three classes of variables which are important for research on the decision-making structure at level III: (1) the characteristics of the decision-makers; (2) the range of issues being decided upon; and (3) the decision-making process itself (Van de Ven, Emmett and Koenig, 1974: 124-125).

An aspect of the decision-making structure is the power structure which connects the members of the policy system together as well as to contiguous policy systems and finally to the macropolitical structure.

The results of this and other research must not be misinterpreted. There are different "games" at different levels. There is a great temptation to extrapolate from the repetition of the same games at the institutional level a general model of how the policy system operates. There may be certain similarities between games at different levels but this does not mean that the game which regulates the whole policy system is the same as that found on level III (Crozier and Thoenig, 1976: 556).

The reason for this caveat is the weberian heritage so common in organization theory which views the chain of command and vertical hierarchy as the general nature of the organizational process.
Compared with the idea of hierarchy which merely executes the directives from some higher authority, the concept of levels emphasizes the existence of qualitative breaks in the lines of command. This means that each level of operations supplements the directives set by the next higher level by adding its own decisions, derived from its detailed knowledge. (Faludi, 1973: 232)

This level specific knowledge which relates to the way a policy system component at a given level will operate with its environment is based on the functions it performs.

The decision network handles policy decisions which relatively directly commit the system as a whole and which are directly connected to its manifest functions (Parsons, 1956). Policy decisions may be taken at any level of the policy system but they are relatively consistent with the functions performed by a specific level.

Higher policy decisions will concern the general type and quantity of resources brought into the (system) and the more general policies toward personnel recruitment and financing. But the operative utilization of these facilities cannot be completely controlled (by the decision network). (Parsons, 1956: 21)

At the managerial and technical levels, the role of individuals is much more circumscribed. Thus the relationships at levels II and I are more typically interorganizational in nature. In general as one moves from level I subsystems to level II and III, the fewer the number of actors and organizations involved in both the decision network and the policy community. This creates a cone shaped structure representing the relative size of the three functional levels. The reason for the decrease in the absolute number of social actors is that at higher levels actors are more likely to be fiduciaries acting for large groups of individuals or for associations of organizations. Examples are Congressmen acting as representatives or a lobbyist for the National Education
Association acting as an agent for the various state and local education associations. Thus both levels I and III of the policy system will involve a higher proportion of boundary personnel than level II. This is because resources are acquired at level III and services are delivered at level I.

The Environment of a Policy System

Sagasti (1973: 381-382) divides the environment of a system into three components.

1. The Inner Environment: This consists of the elements of the system which are systems themselves; their elements and the relations between them would constitute the inner environments of the system. The inner environment of the system would be one of the components conditioning the behavior of the system.

2. The Contextural Environment: This consists of elements in the environment whether they have direct contact with the system or not; in either case they have an impact on the behavior of the system. This also includes relations among elements of other systems in the environment of the focal system.

3. The Relevant or Task Environment: This includes ". . . those aspects of the environment which directly and significantly affect the alignment of political and economic forces in (the) networks (which comprise the policy system)" (Benson, 1975: 239). It consists of all aspects of the environment directly connected to the system. In other words, for the policy system it is its set of critical contingencies or dependencies.

The policy system ". . . is significantly affected by environmental conditions. These conditions provide a social context with which network relations are negotiated" (Benson, 1975: 238). The environment assumes a great importance for the policy system. It is perhaps the relevant or task environment that is most important since this is where its most critical contingencies are located. This is due to a policy system being a non-market collectivity in the sense that it does not sell goods and services and its authority over its domain is delegated
from the macropolitical system--level IV. Therefore the relevant environment affects "(1) the supply of the two resources, money and authority, to (the policy system) and (2) the distribution of power (and money) within a network. The environment may be analyzed in terms of its structure or organization and its change or transformation" (Benson, 1975: 239).

The relevant environment is as dynamic as the policy system itself. At higher functional levels, which are associated with more general authority structures, much of the environment enters the boundaries of the policy system. This leads to the curious inversion mentioned previously. The number of social actors decreases at levels II and III, but they, as fiduciaries, represent more people and organizations.

Composition of the Relevant Environment

The relevant environment consists of a number of organizations, such as lobbies, government bureaus, and foundations; officials, such as legislators; and publics, such as advocates of government reform, and recipients of agency services. These participants--organizations, officials, and publics--are linked in interaction patterns centering on the governance of a given network, that is the distribution of resources and power (authority and dominance) within the network. The environment relevant to a given network is to some extent unique (Benson, 1975: 239).

At structural levels I and II, the relevant environment is more regularized than at level III. The policy guidelines are usually well known and the environment is not as turbulent as at level III which deals with major changes in policy system governance and resource acquisition from level IV. If the manifestation of the policy system at levels I and II appears to exist in a placid state in regard to conflict or innovation it is due to the fact that conflict and real cooperation embodying resource tradeoffs occur at level III where contiguous policy
systems in different functional areas interact among themselves and with the macropolitical structure of the polity, over major questions of intergovernmental resource allocation, distribution or redistribution. Zero sum conflict is a possible outcome as is effective political action through coalition against a common enemy.\footnote{For a comprehensive treatment of the dynamics of issue expansion which would cause policy systems to expand their policy space into that of contiguous policy systems see Cobb and Elder (1972).}

At levels I and II one finds an operating environment. It includes all those aspects of the environment of a policy system from which problems emerge that can be classified as falling within its recognized domain. The structure of the operating environment may itself be complex and dynamic, including both human and material elements. It also includes the regular constituency of the policy system. This of course includes the beneficiaries or regulatees of the policy system. Formally stated, the constituency at these levels of the environment includes that set of public or other interests to which the actors in the policy system consider themselves to be responsible for the actions which they may select (Friend et al., 1974: 27-29).

The constituency of a policy system is a complex system of overt and latent political forces. The formal actors in the decision network as well as the policy community will be cognizant of the anticipated reaction of the constituency to any change in policy which may affect them. In return, the constituency will exert some degree of influence on the outcome of most policy decisions.
The constituency system may seem to overlap with the policy community which is in the policy system's decision network. At functional level III the policy community may include members of the constituency system who are termed constituency leaders. The policy community itself tends to be most active at this level. This is the point of resource dispersion, broad policy determination and strategic planning. This is where they can maximize their influence. It is also the point of resource and authority contact with the macropolitical system. An example of a constituency leader operating at this level would be the late George Wylie of the Welfare Rights Organization working to defeat the Nixon Administration's Family Assistance Plan.

There are a number of propositions from empirical work in inter-organization theory which are very helpful in understanding the relationship of the policy system to its constituency or beneficiaries in its relevant or task environment.

Proposition 13: Through informal and formal contacts, members of the task environment, become in the course of time, members of the policy community and possibly the decision network, where they will influence information gathering as well as policy formulation. (Evans, 1976)

Proposition 14: If the members of a policy system's task environment who control the system's critical dependencies are fractionated and widely dispersed then the less the components of the task environment will be able to agree on either values or policy proposals. (Jacobs, 1975)

Proposition 15: If the intended beneficiaries of a service performed by a policy system are fractionated and widely dispersed, then they will be less able to control the way the service is delivered or to exercise any real control over the behavior of the policy system. (Jacobs, 1975) This is a reason some policy systems are relatively autonomous. Good information which would allow individuals to control a policy system is hard to come by and can be deliberately distorted.
The more autonomy that a policy system has the more freedom it will have to directly influence the relevant or task environment. In fact, actions of government not only have an impact upon the forms of relationships between groups "outside" government per se, but actually generate fundamental properties of the groups themselves (Alford and Di Tomaso, 1973). This will be explored in Chapter VI where the housing policy system in Ohio actually created interest groups to lobby for housing legislation.

From our discussion of the relevant or task environment of a policy system we may formulate several general propositions dealing with these relationships.

Proposition 16: The more overwhelming the relevant environment appears to be, the more likely elements of the policy system will pursue policies that are adaptive and adjustive.

Proposition 17: The more surmountable the relevant environment appears to be the more likely elements of the policy system will take actions that will attempt to control or manipulate it.

Proposition 18: The more the balance of forces in the relevant environment approaches an equilibrium, the more independently the elements of the policy system can act, if they wish to. Their desire to act depends on their own recruitment and socialization. (Alford and Di Tomaso, 1973; Downs, 1976)

Proposition 19: The greater the degree of similarity of goals and functions between a policy system and its relevant environment, the greater the amount of competition between them, and hence the lower the degree of decision-making autonomy of the policy system. (Evan, 1966)

It is important to note that actors in a given policy system seldom have the same constituency allegiance. This is because most policy
problems impinge significantly on more than one type of constituency interest (Friend et al., 1974: 28). This is also why boundaries among policy systems are difficult to establish. Organizations and individuals who are members of one policy system may also be members of two or more. "... The advantages of multiscate exchange are obvious. The conglomerate can engage in a variety of exchange relations in different networks, enabling it to maintain dispersed dependencies and to utilize its power in one (system) to obtain resources necessary for exchange in another (system)" (Cook, 1977: 74).

Interaction Between Policy Systems

If Figure 14 could be extended into three dimensions it would be possible to represent the interaction of any number of contiguous policy systems pivoting around a common axis consisting of the intergovernmental flow of federal funds. Actually it is the availability of funds from another governmental level and legal requirements providing for intergovernmental interaction which are the principle catalysts of intergovernmental relationships (Reeves, 1974). This is the linch pin that binds the substructures of non-market collectivities to the macropolitical system. At level III one finds both conflict and cooperation over resources and authority. Since there is an absence of a common institutionalized thought structure which could provide shared values, the situation approximates Robert Lindbloom's model of decision-making by partisan mutual adjustment (Friend et al., 1974: 39). Conflicts at this level involve trade-offs of resources and values held by different policy systems. In an era of diminishing resources, the conflicts will approximate a zero sum game.
Figure 14 represents how each succeeding functional level of a policy system subsumes more and more of the relevant environment.
Ralph Huitt speaks of policy systems as geometric planes which cross only at points of decision involving tradeoffs (1968: 272). Phillip Gregg calls this point of intersection a "public economy." This is where contiguous policy systems meet and where both conflict and cooperation are possible with functional and allocational rivals (1975: 84-85). As the interdependence of different problems is recognized (e.g., land use and transportation) the number of conflicts will increase between policy systems which have different value structures. Because of this, almost any policy change at level III will result in the expansion of the domain of a policy system into the domain of another policy system. The only exception is if a policy system is so unique and of such low visibility that it has no functional or allocational rivals.

From this discussion there appears to be one general proposition which we can formulate.

Proposition 20: The higher the domain consensus between two policy systems, the more cooperative will be their interaction. (Warren et al., 1974) Domain consensus refers to agreement among actors as to the appropriateness of their role in the interaction).

Policy System Deflection

When dealing with policy systems as dynamic entities the question of change occurs. Much of the literature of organization theory assumes adaptation of an organization to its environment to better meet the demands of change. However, this assumption is open to challenge with policy systems. Deflection is a serious problem in the public sector. James Q. Wilson (1967) calls this the "bureaucracy problem." He says that it is not so much red tape or inefficiency that constitutes the bureaucracy problem, rather it is efficiency toward ends that are not
viewed as legitimate which constitutes the heart of the bureaucracy problem. Busing, the Vietnam War, and the activities of OSHA are all viewed by some segments of society as nonlegitimate ends of government. It is worth exploring this problem of deflection to see how "the bureaucracy problem" occurs.

Over time policy systems are subject to drift caused by problem drift, institutional drift, political drift, and value drift (Graham and Graham, 1975: 264). Unanticipated consequences often flow from prior policy decisions. This in turn may provide the stimulus to change.

Problem drift is caused by a change in the perception of the problem the policy system is dealing with, or a dissatisfaction with the unintended consequences of that policy. The policy of rehabilitation in the corrections policy system is being severely questioned by both the public at large and by its own policy community (Wilson, 1975).

Institutional drift occurs because of one organization's inability to control another that is critical to the implementation of a policy in its own policy system. The states as middlemen, the local units of government as performing agents and the federal units as fund disbursers and regulators accentuate this problem. Another source of this problem lies with nongovernmental political institutions such as political parties or interest groups (or a power elite if there is such a thing) which functions to keep some demands unarticulated and therefore out of the policy conversion process. "In reality, unanticipated consequences occur as a result of any policy decision, largely because it is no longer wholly the task of any single group or person to initiate policy and carry it through to final decision" (Simmons, Davis, Chapman and Sager, 1974: 465).
Political drift occurs because policy selection can be and often is influenced by personal political considerations that distort the policy conversion system. A president who vetoed an appropriations bill, not on its merits, but to appear as a fiscal conservative, is an example of how this type of drift occurs.

Value drift results from a perception of tradeoffs between moral or value rewards and the policy's costs. The current debate over school busing is an illustration of this type of policy drift.

Also contributing to the dynamics of policymaking are several major contextual variables such as intersocietal exchanges; technological developments; generational dialectics; and availability of natural resources (Simmons et al., 1974: 459).

Age of the policy system may also play a role in policy deflection. Turk (1970) found that age is positively associated with the integration of a policy system. This leads to the following proposition.

Proposition 21: The greater the integration of a policy system, the greater is its capacity either to support or to resist new interorganizational activities and arrangements. (Turk, 1970)

Two Types of Policy Systems and Their Interaction Over Time

When a time dimension is added to the policy system, two important concerns of policy analysis come to the fore--policy implementation and policy outcomes. For this reason it is necessary to distinguish between two types of policy systems--one of which interpenetrates the other. The type of policy systems described thus far are functional policy systems in that they deal with a particular function that the government has identified as worthy of doing or supporting. On the other hand there
exist "process" policy systems which are not directed toward substantive/functional goals but are concerned with the process by which the government reaches those goals. Was housing policy research money awarded in a non-discriminatory manner? There is an equal opportunity/affirmative action process policy system concerned with this question.

The topic of the process policy system is worthy of extensive research in its own right as government puts more and more of these process "add ons" upon the receipt of federal grants. "In a recent survey of 221 grant programs, which included categorical grants, block grants, and revenue sharing, the Federal Assistance Review Task Force found 172 instances of regulations and procedures related to personnel administration" (Milward, 1977: 63). However, the concern of this research is how substantive/functional policy systems affect public policy outcomes. In this regard, process policy systems interpenetrate substantive/functional policy systems during the process of implementation because it is here that process interpenetration may affect their hiring and allocational decisions. A student of mine provided an excellent illustration of this type of interpenetration. She indicated that in her agency the lobbying force of the social work profession is credited with maintaining social work classification for positions that logically fit in areas such as public administration or child development. Any change in the classification requires negotiation with professional interest groups having strong constituencies within the civil service.

These two types of policy systems tend to vary on the degree to which the decision-making is dyadic (a process policy system generally involves only a professional interest group and the bureaucracy). The substantive/functional policy system, on the other hand, exhibits a
generally tryadic pattern of interaction—interest groups, bureaucratic agencies and legislative committees or subcommittees.

There are policy communities associated with both types of policy systems but they are more important in the substantive policy systems since they deal with functional goals rather than protective mechanisms which are of paramount concern to interest groups. However, on occasion issues which are usually dealt with by process systems take on the character of major agenda items themselves.

The debate over affirmative action, impoundment of funds by the President and the Malek attempt to subvert the Merit System serve to illustrate the point. Affirmative Action is tied to the policy question of remedying the vestiges of racism and discrimination. Impoundment of funds by the President in 1973 was directly tied to the question of separation of powers and the constitutional prerogatives of each branch of government. The Malek escapade is yet another chapter in the continuing question of Presidential control of the bureaucracy. (Hilward, 1978: forthcoming)

Summary and Conclusion

In this chapter we have stated that there exist informal and formal communications networks and interaction patterns within specific functional areas which constitute a class of social system called a policy system. A policy system may be conceived of as three analytically distinct networks. One network is concerned with decision-making, one with the flow of sentiments and values, and one with the acquisition and distribution of scarce resources. It is the last network, the political economy, that determines the pattern of authority and dominance in a given policy system. Policy systems are intercorporate in nature as the social actors in the decision-making network may owe their allegiance to more than one corporate entity. It may also include actors who
occupy no formal positions in the decision-making process, but as members of the policy community influence the decision-making process.

The policy system is dynamic in nature. As the class of problem or policy expands, so do the boundaries of the policy system. It then encompasses new actors and organizations who may also be members of other policy systems. To capture this process it has been stated that there must be structural levels of a policy system. Level I has been described as the technical core of the policy system. This is where services/products are distributed or where primary regulatory enforcement occurs. Level II has been called the managerial component. Finally, at functional level III overall governance of the goals and direction of the policy system are authoritatively determined. These levels, while separated for purposes of analysis, must not obscure the fact that the patterns of interaction between them as well as with the environment influence and shape the pattern of dominance and resource exchange in the policy system and with the macropolitical structure. Interaction between policy systems at level III approximates the decision process of partisan mutual adjustment. Both conflict and cooperation are possible at this level with functional and allocational rivals.

Policy systems can potentially be measured by the following concepts (Aldrich, 1976a):

1. Density: The extensiveness of ties between elements (e.g., is a policy system richly or loosely coupled?). The degree of density is a comparative concept which may vary with the policy system or level of the policy system.

2. Centrality: The total distance from the organization to other organizations and/or the total number of organizations that it can reach.
3. Hierarchy: The number of organizations the focal organization in the policy system can reach (e.g., organization "1" can reach all other organizations in a policy system where organization "2" can only reach a limited number of other organizations).

What must be remembered is that these are organizational measures. Systems are analytic/empirical phenomena. We can determine the elements of a policy system, we cannot measure the strength of the relationships at the systemic level. We must use organizational measures which concentrate on one or more focal organizations rather than the policy system.

Policy systems if developed and extended can be used as comparative units of analysis in advanced industrial societies regardless of whether they are federal or unitary in their governmental structure. The reason for their particular application in industrial societies is that the state of technological development will generate a process of specialization. Complex problems then tend to become segmented into manageable parts. Increasing levels of education in a society generate an increase in the process of professionalization. This creates claims by emergent professions that they are the only ones equipped to handle certain types of problems. Thus, in the advanced welfare state, the increase in scale, specialization, and complexity of government shifts initiative and influence from the private sector to the public sector (Beer, 1976).

The geographic area of a country as well as technological development will play a role in the degree to which a policy system is developed. This is because size generally leads to some type of decentralization just as technological development leads to specialization and division of labor. These factors are to some degree prerequisites for policy system development.
The concept of the policy system, if adequately developed, can allow social scientists to move beyond current approaches to policy analysis such as administrative reorganization studies, case studies and policy output studies. With policy systems as the unit of analysis it may become possible for social scientists to give meaningful policy advice on matters of implementation and to apply a much more rigorous perspective to both public policy and intergovernmental relations than is now the case.
Chapter V

STATE HOUSING POLICY: THE CONSUMER MODEL

Now that a model of a policy system has been constructed there are a sizable number of political scientists who if shown that a policy system existed in housing would say so what. In doing so they would point to a voluminous body of research on the determinants of public policy which has been called "The Consumer Model" (Tarschys, 1975).

The Consumer Model

This model which has its roots in democratic theory and recent empirical research posits that adoption of a particular policy by a state is due largely to socioeconomic determinants exogenous to the political system. Innovation is thus a reaction on the part of policymakers to environmental changes in society at large. Political factors have generally not been found to be significant in explaining public expenditure decisions which result in policy innovation. The argument is that to focus on political variables is to share in the illusions of policymakers who believe in their own freedom of action when in actuality these policymakers are being driven by forces beyond their control. "[I]t would be misleading to concentrate exclusively on what the men in the life-boat are doing, without taking into account the sea current or the direction of the wind" (Klein, 1976: 402). The socioeconomic determinants approach then assumes on the basis of a good deal of empirical evidence that policy innovation reflects consumer preference and, inversely, that shifts in consumer demand will make an impact on the policymaking process (Tarschys, 1975: 15).
The empirical task this research addresses is the relationship between the housing policy system and the policy output under examination—creation of a state housing finance agency.

State Housing Policy

In the United States there are two parts to the housing problem. First there are problems associated with housing production and second, there are problems associated with housing assistance.

The focus of housing production is the creation of a new dwelling unit; its prime justification and purpose is the community's need for additional dwellings. The focus of housing assistance is the need of some citizens for a subsidy if they are able to afford decent housing, old or new, its prime justification and purpose is the community's sense of obligation to provide these citizens with suitable accommodations (Welfeld, 1972). The housing finance agency mechanism was designed to attack both of these housing problems.

At the present time over three-fourths of the states have adopted housing finance agencies (HFA's) as their principal housing policy mechanism. HFA's have broad powers to finance multi-family and single family housing for low and moderate income groups.⁹

Another instrument of state housing policy consists of Departments of Community Affairs which exist in almost every state. In Ohio it is called the Department of Economic and Community Development (DECD). In the case study of Ohio in Chapter VI, it played a crucial role in the development of a housing policy system in that state.

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The state of New York established the first HFA in 1960. By 1970, 12 states had adopted the innovation. As in so many areas of public policy the federal government played a key role in HFA development. It was not until the passage of the 1968 Housing and Urban Development Act that the real growth in HFA adoption occurred (Table 4). Two sections of the Act established interest subsidy programs: Section 235 (single family interest subsidy) and Section 236 (multi-family interest subsidy). State HFAs and Departments of Community Affairs worked closely with the newly created Department of Housing and Urban Development to produce the Section 236 projects. As these programs proceeded the HFAs became heavily dependent on this source of subsidy funds and mortgage insurance.

President Nixon's impoundments of January, 1973, which included a moratorium on all federal housing subsidy programs, were viewed as a crippling blow to the HFAs. However, the moratorium revitalized these agencies. This was due to two factors: (1) the recession of 1973-74 made it increasingly difficult for even middle income groups to afford housing without some public aid; and (2) the state program professionals and interest groups had established close working relationships in the period prior to the moratorium so that now they concentrated on getting states to assume an active role in housing.

The Historical Role of the States in Housing

Until the 1960's, states played little or no role in setting housing policy within their borders.

... They have ... limited their roles to the enactment of various classes of enabling legislation required to
permit local communities full participation in ... federal housing and urban development programs. Consequently, local housing authorities, redevelopment agencies, and other institutions of local government have in the past dealt with, and continue now to deal directly with the federal government, by passing the states almost entirely. (Stegman, 1974: 308)

States were not welcome entrants into this policy area initially as cities viewed them as competitors for federal funds. Reasons for the entrance of states into this area in addition to the availability of federal funds are the intensification of problems in large urban centers and the spillover of these problems to both smaller cities and higher income groups; the resource deficit and urban-suburban problems which are appealed to higher levels of government; the reapportionment of state legislatures following Baker v. Carr in 1962 which reduced the overrepresentation of rural interests in them (Stegman, 1974: 308).

The State Housing Finance Agency

The nature of the HFA varies from state to state. The most common components of a state effort in housing include interim and permanent mortgage financing to private developers through the sale of tax-exempt bonds; tax-exempt bond financing to establish a secondary mortgage market; interest-free loans and technical assistance to nonprofit groups interested in sponsoring housing; land purchase and new community development programs, and statewide public housing authorities.

The foundation of the state HFA is the tax-exempt bond. Because of lower interest rates than taxable securities, loans can be made to

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developers at below-market rates. The bonds which generate these loanable funds are revenue bonds. The developer makes payments to the HFA from his rentals on the development. The revenues from these projects are pledged to retire the bonds.

The bonds are a financial innovation in that they are different than general obligation bonds of the state. The securities are secured by the "full faith and credit" of the HFA, they are not general obligations of the state. The state government has a "moral obligation" to back up the bonds but this carries little if any legal significance. Legislatures cannot bind their successors to annual appropriations of this type. Moreover, the enabling legislation typically states that "the bonds shall not be general obligations of the state." In spite of this proviso the bonds of many agencies are viewed as good investments by the financial community.

Agency Organization

HFA's are generally governed by a board of directors which sets policies and operations. An executive director and a professional staff run the day-to-day operations of the HFA.

While boards vary in number and composition from state to state, representatives from state government, labor, industry, and finance are usually included.

State Housing Policy and the Socioeconomic Determinants of Public Policy

Given the great amount of research on the socioeconomic determinants of public policy (Dye, 1966; Hofferbert, 1968; Sharkansky, 1969; etc.) one would expect that the standard socioeconomic variables like education, urbanization, per capita income and industrialization would explain a significant amount of the variance in the rate of state HFA adoption. This will be measured by whether a state has adopted
a state housing finance agency and the degree to which it both has the full powers of a model agency and the extent to which it has utilized those powers through the issuance of revenue bonds to finance its activities.

Specific work on the relationship between innovation and the socioeconomic determinants (Walker, 1971; Gray, 1973) confirms the earlier research.

Jack Walker found a series of zero order correlations close to .60 between his index of state innovativeness and percent urban, total population, per capita income, value added per capita by manufacturing and average value per acre of farms. Thus he concluded that "The larger, wealthier, more industrialized states adopt new programs somewhat more rapidly than their smaller, less well developed neighbors" (Walker, 1969: 884).

Rather than construct an index, Virginia Gray (1973: 1182) analyzed a number of specific innovations and socioeconomic measures of various states at the time of adoption. She came to the same conclusion.

It appears that innovative states are both wealthier and more competitive than their sister states at the time of adoption of a particular law. The finding is consistent with the hypothesis derived from studies of state and local expenditures.

The primary question that is addressed in this chapter is how much of the variance is explained by characteristics which are exogenous to the political system. The importance of this is that if this is indeed the case, there is very little policymakers can do to change the mix of policy outputs in a given state. This would lead us to conclude that even though we can establish that a policy system does exist in housing in Ohio, its impact on the particular policy outputs in that domain will be small.
State Policy Innovation and Previous Research

Except for a general notion that it takes socioeconomic resources to afford certain types of policy innovations, there is no theory which explains the relationship of a given socioeconomic characteristic to public policy innovation. Although it is generally argued that the impact of the socioeconomic determinants varies somewhat by policy domain.

Three studies that examined state innovation are Walker's (1969) general study of state innovativeness, Booms and Halldorson's (1973) study of state redistributiveness, and Downs (1976) study of the relationship between the deinstitutionalization of juveniles and the socioeconomic determinants.

In all three studies the dependent variable is an index, a distributional measure, rather than a direct measure of expenditures on a particular policy output.

The findings in these three studies are strangely inconsistent. Walker and Booms and Halldorson both strongly indicate that the socioeconomic variables are strongly related to a state's innovativeness in general in the former case, and in the latter to the extent to which the policies adopted are redistributive in intent.

<table>
<thead>
<tr>
<th></th>
<th>Walker's Innovation Index</th>
<th>Booms &amp; Halldorson's Redistribution Index</th>
<th>Down's Deinstitutionalization Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>.55</td>
<td>.65</td>
<td>.14</td>
</tr>
<tr>
<td>Industrialization</td>
<td>.66</td>
<td>.43</td>
<td>-.18</td>
</tr>
<tr>
<td>Urbanization</td>
<td>.63</td>
<td>.67</td>
<td>.07</td>
</tr>
<tr>
<td>Education</td>
<td>.29</td>
<td>.39</td>
<td>.34</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>not reported</td>
<td>( R^2 = .56 )</td>
<td>not reported</td>
</tr>
</tbody>
</table>

| \( R^2 \)           | not reported              | \( R^2 \)                                | not reported                        |
The Downs' study is the deviant case. Here, in regard to one particular policy--juvenile deinstitutionalization--the general level of economic development as measured by the four socioeconomic variables does not seem to be related to the level of juvenile deinstitutionalization that a state adopts, with perhaps the single exception of education which is associated with it at .34. This is a disturbing finding since the literature implies that the combined explanatory power of the four standard measures of socioeconomic development will be significant.

At this point we perhaps need to consider the theoretical case for the four variables and the extent to which they are equivalent measures of the socioeconomic development of a state. In regard to the later we note that in both Walker's and in Booms and Halldorson's studies, income, industrialization and urbanization (in Walker's alone) were much more highly correlated with the dependent variable (the index) than was education. While in Downs' the reverse is the case. In his study the only socioeconomic variable which was fairly strongly associated with the dependent variable was education.

<table>
<thead>
<tr>
<th></th>
<th>Per Capita Income</th>
<th>Industrialization</th>
<th>Median Education</th>
<th>Percent Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Capita Income</td>
<td>1.00</td>
<td>0.61</td>
<td>0.66</td>
<td>0.23</td>
</tr>
<tr>
<td>Industrialization</td>
<td>0.23</td>
<td>1.00</td>
<td>-0.29</td>
<td>0.54</td>
</tr>
<tr>
<td>Median Education</td>
<td>0.66</td>
<td>-0.29</td>
<td>1.00</td>
<td>0.26</td>
</tr>
<tr>
<td>Percent Urban</td>
<td>0.61</td>
<td>0.54</td>
<td>0.26</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Table 6

Degree of Intercorrelation Between Income, Industrialization, Education and Urbanization
Because all four variables do not have the same impact on the dependent variable, and because of the inconsistent finding of Downs, we perhaps need to consider the theoretical assumptions behind the four independent variables and to formally state the relationship as a hypothesis. This is the case because these four variables are not all highly intercorrelated.

**Income**

Hypothesis 1: The higher the per capita income of a state the greater the tendency to adopt and to implement a housing finance agency.

Cyert and March (1963: 278) first hypothesized the relationship between slack resources and innovation.

One of the main consequences of slack is a muting of problems of scarcity. Subunit demands are less closely reviewed (since they are less likely to conflict with other demands). Resources are more likely to be allocated if they are sought strongly by a single subunit. Thus, distributed slack is available for projects that would not necessarily be approved in a tight budget.

Walker (1969: 883) uses this hypothesized relationship to justify his inclusion of income as a measure of organizational slack.

If slack resources are available, either in the form of money or a highly skilled, professional staff, the decision maker can afford the luxury of experiment and can more easily risk the possibility of failure.

However, in an attempt to explain why juvenile deinstitutionalization was a deviant case, George Downs (1976: 193) points out that the theoretical case for using high per capita income as an indicator of slack resources rests on the assumption that wealthy states have wealthy state agencies. This assumption ignores the fact that "[t]he zero-order correlation between all state expenditures (per capita) and per capita income is a modest .39." This finding should cast some
doubt on this measure of organizational slack. In Downs' study he 
found an even more tenuous relationship. There the relationship between 
juvenile corrections agency expenditures and per capita income is an 
anemic .25. "Thus juvenile corrections agencies in wealthy states are 
simply not more likely to have a larger budget to spend on innovations 
or on the hiring of innovation-oriented professionals" (Downs, 1976: 
103).

_Urbanization_

_Hypothesis 2: The more urbanized the state, the greater the tendency to adopt and implement a housing finance agency._

In addition to any impact urbanization has on housing through its 
tercorrelation with per capita income or median education we would 
expect that it would have a direct effect. This is because housing 
policy in the United States has, with the single exception of the 
Farmers Home Administration, been an urban policy; one that was designed 
to aid cities with their housing problems associated with the large 
number of poor people located in the cities (Farkas, 1971).

_Industrialization_

_Hypothesis 3: The more industrialized a state, the greater the tendency to adopt and implement a housing finance agency._

There is no direct theoretical relationship that I can discover 
between industrialization and adoption of a housing finance agency. 
There is perhaps some indirect effect through some other socioeconomic 
variable like education. This is based on the assumption that high 
levels of industrialization are somewhat related to a high level of 
support for education. Intuitively this seems born out with states like
New York, Indiana, Michigan, Illinois and California. However, states like Ohio and New Jersey come to mind where this relationship seems very tenuous. As Downs' (1976: 104) concludes

Although (industrialization) can be logically related to pollution standards, minimum wage and fair trade law, child labor standards, etc., any direct and theoretically interesting relationship between industrialization and deinstitutionalization, teacher certification requirements, or open housing legislation is obscure at best.

The same is obviously the case with the adoption and implementation of a housing finance agency. "Industrialization provides another good example of the likely differential effect of environmental variables on policy outputs" (Downs, 1976: 104).

Education

Hypothesis 4: The higher the educational level of a state, the greater the tendency to adopt and implement a housing finance agency.

There are two ways education might impact upon a policy output like housing. First, a well educated citizenry would be less likely to tolerate deplorable housing conditions in terms of both aesthetics and in terms of compassion for those who must live in substandard housing.

Second, "[w]e might expect higher levels of education to lead to greater political and social consciousness which would manifest itself in the sort of interest-group participation (e.g., League of Women Voters, ACLU) often associated with reform" (Downs, 1976: 105). Open housing, better housing are logical causes for these groups to adopt. This is what leads us to offer the hypothesis that a high level of education is positively correlated with a greater amount of demand for state housing innovation.
If this assumption is correct, this would tend to indicate that having a population that was not well educated would serve as a resource constraint on the ability of groups to push for housing innovation. If these hypothesized relationships exist what is the expected strength of them? In other words, how strong a demand is likely to be created by a high score on the education variable?

It is unlikely that the strength of the demand will be great. There is much slippage between the indicator, median education, and groups of well educated citizens joining interest groups to press for housing innovation. So, "the demand argument, although reasonable, is simply not that powerful" (Downs, 1976: 106). Housing policy simply is not an abiding concern for most broad-based interest groups. There are a range of issues which they are interested in.

Downs, in a very convincing argument which I will draw heavily on, also argues that the functional form by which a resource constraint relates to a policy output can be expected to produce only a low to moderate correlation, but an important relationship none-the-less.

The Functional Form of a Relationship

Figure 15 represents a scattergram which indicates the bivariate relationship between a policy output (P) such as adoption of an HFA and a socioeconomic variable (SE) such as urbanization. The scattergram in Figure 15 would exist if SE were a necessary and sufficient condition of P. SE is a necessary condition for P since the maximum level of P that a state can reach is a perfect linear function of its score on SE. Also, because the minimum score a state can attain on P consistently increases as SE increases, SE acts as a sufficient condition of P. So,
Figure 15

Scattergram Generated by a Necessary and Sufficient Condition

SE relates to P in the manner of a necessary and sufficient condition because it appears to set both the upper and lower boundaries of the distribution of states on P.

In the case of SE being a merely sufficient condition of P rather than a necessary one, the functional form of the relationship would appear as in Figure 16. Since SE is a sufficient condition of P, as SE increases, the minimum score that any state receives of P also increases. But because SE is not a necessary condition of P, a state can achieve a high score on P although their SE score remains low. This indicates that P is caused by factor(s) other than SE. For a sufficient condition, SE sets the lower boundary of the distribution but not the upper.

This sufficient but not necessary conditional relationship is very common in the determinants research. Dye (1966) discovered numerous examples. This is attributed by Downs (1976: 108) to the general assumption of determinants scholars that most policy outputs are
a function of not one but several determinants and that each determinant is independently capable of bringing about an increase in the output to which it is related.

Figure 16
Scattergram Illustrating a Sufficient but not Necessary Condition

The reverse of the previous relationship is most interesting as a necessary but not sufficient condition would by symptomatic of the case where SE functioned as a resource constraint with respect to P. In Figure 17 we find SE determining the upper limit of the distribution of data points on P however SE is unrelated to the lower boundary. SE thus restricts the maximum level of P that a state can reach. At the same time a high score on SE is not sufficient to ensure that a state will actually reach a high level of P.

In the case of an innovation like a housing finance agency, it would be this type of scattergram which would denote the relationship between each of the socioeconomic variables and the adoption and implementation of a HFA. The reason for this assumption is that as state
wealth increases, it is possible to spend more state money on public services like housing. So, we would predict that if a state adopted a HFA, it would also score high on our four socioeconomic variables. This explains why we say that resources constitute a necessary but not sufficient condition to explain HFA adoption. Simply because a state is wealthy does not mean that innovation will take place. "It is this failure to determine the minimum as well as the maximum output level that states will achieve that leads to the heteroscedasticity evident in (Figure 17) and prevents the correlation between a necessary but not sufficient condition from being high" (Downs, 1976: 112).

The Dependent Variable

Since many states have adopted state housing finance agencies, it is possible to create an index of HFA adoption based on the following variables:
1. authorized debt limit
2. bonded indebtedness
3. debt limit per capita
4. bonded indebtedness per capita

In addition the index includes the powers granted by the state to an HFA. If a state both adopts an HFA with a full range of powers and has a high bonded indebtedness per capita it will score higher on the innovation than states that do not have one or both of these conditions. To the index is added the following items:

1. year HFA established\(^{11}\)
2. direct permanent multi-family loans\(^{12}\)
3. direct permanent single family loans
4. direct loans for the construction of multi-family housing
5. direct loans for the construction of single family housing
6. indirect mortgage loans for multi-family housing
7. indirect mortgage loans for single family housing
8. indirect loans to lenders for multi-family housing
9. indirect loans to lenders for construction of single family housing
10. power of eminent domain
11. tax abatement power
12. ability to issue seed money loans
13. ability to issue mortgage insurance
14. other powers (e.g., rehabilitation loans)

\(^{11}\) This was included so that an agency would not be scored low on bonded indebtedness if it had just been created.

\(^{12}\) Items 2-14 are a series of nominal variables used to measure the powers on an HFA.
The Impact of Socioeconomic Determinants on the Adoption and Implementation of State Housing Finance Agencies

The following relationships were found between the four socioeconomic variables and the dependent variable--the state housing finance agency adoption index. The results of the multiple regression are as follows.

We can see from the very low coefficient of determination (R^2) that none of the socioeconomic variables seems to play a role in the adoption and implementation of a state HFA.

We have not used any significance tests because the entire population studied (50 states) was sampled here. The data comes from that collected by Richard I. Hofferbert (1968). Because of this there is no need to test for the possibility that the observations were produced by errors of measurement. For these data a correlation of .14 has a probability of less than one percent of resulting from measurement errors. And as a tentative rule for reporting the data only relationships of .14 or more are mentioned as having any significance, and only then if they are consistent with other logical inferences or multiple indicators (Alford and Di Tomaso, 1973: 75-76).

Thus in the case of the variables examined here, only per capita income and education seem to have any significant relationship at all and that is small indeed--.15 and .16 respectively.

The Multiple R of .40 shows that the cumulative impact of the four variables (some of which are somewhat intercorrelated) is not embarrassing, although certainly not overwhelming. Tentatively we are forced to conclude as George Downs (1976: 114) did that:
<table>
<thead>
<tr>
<th>Variable</th>
<th>Multiple R</th>
<th>$R^2$</th>
<th>$R^2$ Change</th>
<th>Simple R</th>
<th>$B^1$</th>
<th>BETA$^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrialization</td>
<td>.35</td>
<td>.13</td>
<td>.13</td>
<td>-.35</td>
<td>-.17</td>
<td>-.14</td>
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<tr>
<td>Urbanization</td>
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<td>.13</td>
<td>.01</td>
<td>.28</td>
<td>.01</td>
<td>.09</td>
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<tr>
<td>Per Capita Income</td>
<td>.38</td>
<td>.15</td>
<td>.01</td>
<td>.31</td>
<td>.15</td>
<td>.32</td>
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<tr>
<td>Education</td>
<td>.40</td>
<td>.16</td>
<td>.01</td>
<td>.02</td>
<td>-.31</td>
<td>-.20</td>
</tr>
</tbody>
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$^1$Unstandardized regression coefficient.

$^2$Standardized regression coefficient.
Certain socioeconomic characteristics that are traditionally thought to determine the nature of policy outputs do not invariably do so, these findings lead to a rather provocative hypothesis about the manner in which those characteristics that are relevant affect the policy outputs that emerge from bureaucracies. This hypothesis states that bureaucratically dominated policy outputs are constrained by certain kinds of socioeconomic resources . . . but are relatively independent of variation in socioeconomically based demands at least as measured by these crude indicators.

At this point we may find it useful to examine the functional form of the bivariate relationship between each independent variable and the dependent variable.

The Functional Form

By examining the functional form of the relationships between each of our four socioeconomic variables and the index of housing innovation we may discover whether the relationships are in the form of a necessary but not sufficient condition as we have predicted.

In Figure 18, which depicts the relationship between the housing index and urbanization, we find the scattergram roughly in the predicted form (see Figure 19) of the necessary but not sufficient condition. This is the case although there is some degree of heteroscedasticity. The same finding of necessary but not sufficient condition can be found with regard to both the relationship between the housing index and education and the housing index and income. In both cases there is a certain degree of heteroscedasticity (see Figures 19 and 20).
Figure 19

Scattergram of the Relationship Between Housing Adoption (Down) and Education (Across)
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<th>0.</th>
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**Figure 20**

Scattergram of the Relationship Between the Housing Adoption Index (Down) and Income (Across)
In the case of the scattergram of the relationship between industrialization and the housing index, we find almost a sufficient but not necessary condition with some heteroscedasticity. While this is contrary to our expectation we might conclude that this can be explained by the very tentative theoretical relationship between HFA adoption and industrialization.

Conclusions

The findings of this research are that none of the socioeconomic variables are significantly related to the index of state HFA adoption. Our highest $R^2$'s are just over the point of even being worth reporting---.14 and .15. Thus we can conclude that all of the hypotheses are not supported by the data.

The functional form of the relationship is another matter. Income, education and urbanization all relate to the dependent variable in the manner of a necessary but not sufficient condition. Thus income, education and urbanization appear to determine the maximum degree of housing innovation that a state will attain but not the minimum level. This is the type of functional relationship that is commonly associated with a resource constraint (see Figure 18).

Thus with the four socioeconomic variables we have in no one case accounted for more than 15 percent of the variance. We have however found that three of the four independent variables relate to the housing innovation index in the form of a necessary but not sufficient condition.
Figure 21

Scattergram of the Relationship Between HFA Adoption (Down) and Industrialization (Across)
The theoretical import of these findings is small indeed and we must conclude that there must be other variables which account for a larger share of the variance than those we examined. To see if we can identify these variables, we turn to the "producer model" and a case study of housing innovation in Ohio.
Chapter VI

BUREAUCRATIC DEMAND CREATION: THE PRODUCER MODEL

Since the consumer model has been examined and found wanting in regard to the determinants of state housing policy we will examine the producer model to see if it possesses more explanatory power. The consumer model will be applied to the case of the Ohio Housing Finance Agency.

To shift from a multi-state study using socioeconomic variables to a single state study using organizational variables makes one guilty of the ecological fallacy. However, no claim is made for the Ohio study being a replication of the multi-state study. The purpose of the Ohio case is to show in an in-depth manner how bureaucratic and organizational variables work to shape the policy process and policy outcomes even though they are difficult to deal with in a rigorous, scientific fashion.

The Producer Model

The case of housing finance agency adoption in Ohio will be examined to see whether or not producer forces play a role in the adoption process. The focus of the research centers on the interaction between housing program professionals and interest groups consisting of clients and suppliers. To the extent that producer forces dominate a policy system the producer model is isomorphic with the policy system model developed in Chapter IV.

In the application of the policy system model to the adoption of the Ohio Housing Finance Agency certain elements of our model will be relaxed. In the Ohio case one found a policy system becoming organized.
It had no history and thus it had a limited number of connections. The levels were not apparent as there was no policy to deliver. All energy focused on developing the policy that would allow the system to become differentiated.

Thus the Ohio case represents the creation of a policy system in housing from scattered and diverse elements by a policy community. The major thing all members of the policy community have in common is an interest in the domain of housing policy. The central bureaucratic and entrepreneurial elements of the policy community also have an interest in expanding the domain.

Since the real impetus for adoption occurred after the 1973 moratorium on all housing subsidy funds it will test Samuel Beer's proposition that when the government sector approaches 40 percent of the GNP, the bureaucracy can begin to create its own demand by responding to negative externalities created by other government programs. The ability to create demand for a service or program is shared by interest groups, program professionals in the bureaucracy and their professional associations. In the case of housing it was done by creating an input constituency (developers, realtors, mortgage bankers, and building trades) at the state level. The interesting part was the creation of an output constituency from among groups already mobilized in allied policy arenas. They would also directly try to press for the creation of new interest groups in housing.

It is hypothesized that this is made possible because of the emergence of a "new class" in the United States. With government employment running at one in five workers, a hidden socialist movement begins to emerge. Irving Kristol (1975) believes its power is great and growing. You find public service professionals such as social workers, planners,
public administrators and their allies in the social and behavioral sciences of all shapes and sizes whose power, income, and prestige comes from the existence of an ever increasing public sector.

The conflicts in American politics today reflect nothing less than the professional classes engaging "in a class struggle with the business community for status and power." Their ideological banner is equality, not in the sense of guaranteeing equal power to affect decisions in society, although part of its rhetoric fits that description, but in the sense of constructing a service elite that will administer benefits more equally to the rest of the population than the business community is able to do. (Abbott, 1977: 269-270)

The argument for the producer model can be summarized as follows. In politics as in economics, there must be both forces of supply and of demand. If this is true then there is no reason to assume that the suppliers of public goods and services sit idly by waiting for consumers to choose which bundle of goods and services they prefer. If we assume self-interest, there is every reason to expect that they will play a key role in the policy process.

The politicians are not the only suppliers of public goods. A reason that the empirical work on the determinants of public policy has failed to support the hypothesis that political variables determine, or jointly determine, policy innovation may be due to a focus by these researchers on the wrong politicians. A much longer term supplier interest is represented by the actual producers of public goods. These include all governmental employees (Tarschys, 1975: 15). With the increase in merit system protection at all levels of government, they in effect control the process of agenda setting, or when they can not they shape it during the implementation process. This occurs because most policy proposals originate in the bureaucracy (Seidman, 1970).
A second supplier interest is represented by those in the private sector who sell most of their production to the government. Here both owners and employees (such as those at Lockheed Aircraft Corporation) can be viewed as public producers.

In the producer sector one finds a good deal of entrepreneurial behavior (Feller, Menzel and Engel, 1974). This is due to the decreasing opportunities for entrepreneurship in the nongovernmental sector which is increasingly dominated by oligopolies and where prices and wages are administratively determined rather than market determined. The existence of this new breed has been recognized by *The New Republic*. In the fall of 1977, it started running a continuing series on "The New American Hustler" which profiles the activities and careers of these public sector entrepreneurs much as *Fortune* did for entrepreneurs of another generation.

As the size of the public sector grows, it seems inevitable that the producer interest will carry greater weight than the consumer interest in the political process (Tarschys, 1975: 15). These producer interests in a given functional arena of public policy constitute a policy system such as has been developed in the previous chapters.

The major hypothesis of the empirical part of this dissertation is the following.

**Hypothesis 1.** Policy systems under certain conditions can create their own demand.

In testing this hypothesis, I will again address the central research question of this dissertation which I explained in Chapter V: what are the causes of domain expansion by states in a functional area where they have historically played little or no role? In pursuing this question I have used both hard and soft methodologies. This is justified as the goal of
this research is as much improved conceptualization as explanation. Anatol Rapoport (1958) and Greenberg, Miller, Mohr, and Vladeck (1977: 1543) both argue that because the social sciences deal with a unit of analysis that is constantly changing, sometimes in response to the actions or findings of the social scientists, that improved conceptualization is often a more important criterion in judging good theory than predictive power. In this regard, the value of the application of hard methods in social science would not necessarily lie so much in improved prediction as in better conceptualization and the reformulation of thinking about problems. Thus, this research is as much designed to test parameters as hypotheses. As Robert Nozick (1974: ixii) has said, "There is room for words on subjects other than last words."

My research strategy has been one of exploration. I have attempted to blend a new conceptual model of the policy system with an attempt to validate it, in part through the merger of a traditional case study (although a very rich one) and a quantitative approach which relies heavily on the socioeconomic determinants of public policy. The end result may show that the consumer model is not incompatible with the producer model and they together explain the dynamic behind the policy system.

**Hypothesis 2.** Where there are few or no resource or supply constraints, under favorable condition, policy systems may institute policies for which there is virtually no demand (Downs, 1976: 129).

The reverse of Hypothesis 2 is also the case.

**Hypothesis 3.** Because of resource or supply constraints, policy systems may ignore public demands for new policies (Downs, 1976: 129).
Thus these hypotheses are to be tested in the context of the Ohio case study. At the same time, I will attempt to show that the basic elements of policy system in housing exists at the state level in Ohio. To do this I must deal with the entitity question. For this to be the case one must show that the relationships between people and organizations interested in housing are regular, intense and have content related to housing. These will determine whether these participants form a coherent, or even discernable, policy system within whose boundaries state housing policy is made. If this is established, then at least in Ohio, this will symbolize state professionals coming of age, like their federal counterparts.

That there is a national housing policy system is generally agreed upon by every scholar to study that policy arena. Parkas (1971), Wolman (1971), Ripley (1976), Aaron (1972), and Schon (1971) all agree that what political scientists call a policy subsystem exists in housing at the national level. They also agree that it was with the passage of the 1968 National Housing Act that it emerged from the larger Urban Affairs Policy System. Since the development of the conceptual model of the policy system is the focus of this research and not housing, I will not review this literature. It is rich in description and I invite scholars who challenge the assumption that a national policy system exists to review the literature I have cited on housing policy.

**State Housing Policy: The Creation of a Policy System**

For a policy system to be created or radically altered there needs to be an environmental stimulus. There can be one traumatic disruption or several lesser ones in close proximity to one another which affect the
relevant environment of a policy system. These environmental factors can be legion. They can be the effects of a state reaching the critical threshold levels in the socioeconomic determinants of public policy. Much of the work in the Dye (1966), Sharkansky (1968) and Hofferbert (1968) literature certainly suggests this as a cause. Other factors than these general ones may affect the creation of a specific policy system: a new law which creates a mandate, a new technology, civil disorders, a rapid change in federal money available for a public purpose are all examples of factors which may be important. In the case of housing policy at the state level of government, it was a fiscal innovation, the Housing Finance Agency mechanism and tax-free moral obligation bonds which they issued which fueled state involvement in housing in the 1960's and 1970's.

In addition two other major environmental stimuli encouraged HFA adoption. The first was the 1968 Housing Act which legitimated the role of the HFA by making them eligible for federal funds under the act. The January, 1973 moratorium on all federal housing subsidy funds provided an even bigger stimulus to HFA adoption. With the curtailment of these federal programs all of the producer and consumer forces that had previously looked to Washington now turned to the next highest level of government to make their housing policy demands.

All of this occurred amid the general backdrop of the level of socioeconomic development of the states. Ohio ranks high on all of the socioeconomic variables which were examined in Chapter V (Hofferbert, 1968; Sharkansky, 1968). Thus if there is a threshold level of economic and social development that a state must achieve for a policy system to create demand, it would appear that Ohio must be well past that level.
State Housing Policy in Ohio

The housing policy system in Ohio in the 1960's was marked by a low degree of entitity and cohesion as it related to the government of the state. The developers, lenders, and building trades were completely capable of looking out for their own self-interest but seemed incapable and uninterested in initiating housing proposals and putting them into effect. To the extent that they were active it was in an adaptive fashion trying to maximize the amount of federal dollars that they could get under the various housing and urban development subsidy programs. Even here they were not too successful as Ohio ranked very low in comparison to other large industrial states.

The data that I have gathered in studying housing policy in Ohio comes from the files of the Department of Economic and Community Development. In addition I have relied on interviews with key participants in the housing policy system and upon my role as a participant observer throughout the period of 1972-75. I believe that the data, especially that from the DECD files, is absolutely unique in the literature of Public Administration. This seemed to be a department that wrote every thing down in regard to its role as in policy demand creation. It shows clearly that the bureaucratic component of the policy system together with allies in the policy community were able to force the state into a relatively new area of public policy with almost no pressure from the consumers of that public policy or for that matter from the likely forces that would benefit, the developers, lenders or the building trades, all of whom are traditional interest groups that are supposed to be the policy innovators of pluralist democracy.
Ohio is not one of the most active states in housing. Prior to 1970 there was little if any demand or support for a state role in housing. In the 1969-70 session of the General Assembly the Housing Development Board was created (Ohio Code Sec. 124.21 et seq). This legislation was introduced as part of Governor James Rhodes legislative package and it sailed through the Republican controlled General Assembly with no difficulty. The bill was intended to assist limited profit and nonprofit organizations to construct housing for low and moderate income people. The Board was created to make interest-free advances as seed money for the planning of housing projects and to then guarantee the loans. The source of the proposal seems to have been a private, nonprofit housing group in Cleveland. This is unusual since groups such as that played little role in the subsequent housing policy system (Flinn, 1973: 7-8).

The legislation appears to have been designed to take advantage of the federal Section 236 federal multi-family subsidy program. Given the money private developers were making from Section 236 and from the tax shelters associated with it, one can understand why the Housing Development Board legislation was adopted by the Rhodes Administration as being the type of bill that would encourage private and nonprofit developers to take advantage of federal subsidies. With this legislation Ohio as a state entered a new policy area.

This entry is perfectly consistent with what Lowi (1969) suggests in his description of "interest-group liberalism." He maintains that there is no longer any meaningful debate over the propriety of governmental action in any area of social life. The difference between the Republicans and Democrats lies not in the scope of governmental activity but rather in which interest groups they support when in office. In this
case, the Housing Development Board (HDB) was intended to support developers who are a historic part of the Rhodes constituency. Also Rhodes son-in-law is a developer.

Members of the State Housing Development Board were appointed by Governor Rhodes on September 16, 1970. The Board in turn appointed William Laconcy as the Executive Director on May 17, 1971. He was a Rhodes supporter who was appointed after the election of John J. Gilligan, a Democrat. The HDB, composed largely of Rhodes supporters was not terribly active. By the January 1973 moratorium on federal housing subsidy programs, the Board had only advanced $306,000 to 30 projects. The scale of their program was extremely limited (Flinn, 1973: 8).

Development of the Policy Community

With the election of Gilligan as governor of Ohio in November, 1970, housing assumed a much more prominent role in the Ohio policy matrix. Early in 1971 Gilligan appointed a series of task forces in areas where he and his advisors felt the state should improve its performance.

The Housing and Community Development Advisory Commission (HACDAC) became the most active housing group in the state. It together with the staff of the Ohio Department of Urban Affairs (later it was reorganized into the Department of Economic and Community Development) were the most active supporters of an increased state role in housing. They were to become the housing policy system for Ohio. In assessing the sources of innovation in housing, Tom Flinn came to the same conclusion writing for the National Housing Review Study in 1973.

By far the most important (source of innovation) is the Governor's Advisory Commission on Housing and Community Development. . . . It is a broadly representative commission of 40 members; and, according to its chairman, the
Commission has sought to be a catalyst in developing policy and has not sought to spend its energy on basic research in housing. It is likely that with the expiration of the Commission that the Department of (Economic and Community) Development will continue its function.

The Department has served as staff to the Commission and has some people who are expert in housing matters. (Flinn, 1973: 9)

Flinn goes on to assess the sources of innovation in state housing policy. What is very interesting is that in addition to the Commission and its staff he only lists government groups--planning commissions, the Dayton area governments, the Ohio Board of Realtors. The traditional sources of policy innovation such as economic interest groups and trade associations are not to be found pressing either for or against a state role in housing.

While housing and community development are standard fare on the Democratic agenda, HADAC was studiously nonpartisan and non-ideological. Jim Huston, a prominent Cleveland lawyer active in housing finance, was the chairman. The commission members represented every conceivable constituency for housing in the state: banks, savings and loans, developers, realtors, Housing Development Board members, including Laconcy, the director. In addition there were professors with housing expertise, representatives of local governments, and minority groups of all types--blacks, chicanos, aged, handicapped.

The role of the staff in Urban Affairs/DECD in regard to the work of the commission is most interesting and instructive in learning how professionals in the bureaucracy are able to set the agenda for groups like HADAC and thereby determine the shape of the legislation that they may propose.

The staff was developing background material on housing even before Governor Gilligan appointed the Commission. They, together with Chairman
designate Huston, had contracted with McKinsey and Company to prepare two reports. The first was *Overview of Ohio's Housing Problem* (Department of Urban Affairs: August, 1971) which describes the magnitude of the unmet housing needs of Ohioans. The report leaves no doubt that something must be done by the state in housing. A second document that they also prepared for the first meeting of MACDAC is even more interesting. It addresses the question of what must be done in housing. The report, *Strategy in Formulating a State Housing Program*13 (Department of Urban Affairs, August, 1971) was also prepared by McKinsey and Company under a Section 701 HUD Planning Grant which was awarded to McKinsey by the Ohio Department of Urban Affairs. In this report it is clear that the preferred strategy for addressing housing needs was the creation of a State Housing Finance Agency which would stimulate the production of low and moderate income housing. By some coincidence, McKinsey and Company handle much of the consulting for Housing Finance Agencies around the country. This illustrates the role of commercial entrepreneurs in the policy innovation process.

There are several dimensions to the relationship between entrepreneurship and policy adoption which need to be discussed. Feller, Menzel and Engel (1974) found that the patterns of adoption of new technologies in the public sector may be a reflection of the independently determined marketing strategies of commercial entrepreneurs. This suggests that innovation in public agencies may be externally induced. The decisions of commercial entrepreneurs to market in the public sector and the design for carrying out these activities may result in a pattern

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13 The report analyzes a strategy of cash transfers, a production oriented approach, and a trickle down strategy.
of adoption that cannot be attributed to individual or organizational characteristics of state or local agencies. Also, the reason that wealthy, urbanized states tend to adopt innovations before less wealthy and less urban states may not be due to these socioeconomic determinants of public policy, but to the fact that they are more lucrative markets for these entrepreneurs.

Feller et al. found two corollaries to their general finding. These were that commercial entrepreneurs tend to be more aggressive in selling to local and state agencies if there is no significant private market. This partially explains the quickness of HFA adoption. Perhaps even more important was the finding that the adoption of new technologies by state agencies is dependent on the acceptability of these techniques to federal agencies.

In the case of Ohio, the HFA mechanism was an "approved" technology in the eyes of the federal government. After some uncertainty during the moratorium, it reemerged in the 1974 Housing and Community Development Act as a favored strategy for addressing state housing needs. Secondly, the HFA moral obligation bonding mechanism had no utility outside of the public sector so the commercial entrepreneurs only had one market.

It is unlikely that HFA adoption can be ascribed to entrepreneurship or any other single variable. The cumulative and interactive effect of entrepreneurship along with both organizational and socioeconomic variables is a more convincing argument. In Ohio while entrepreneurship played an important role in the development of the policy community, it did not continue to do so throughout the three year struggle to pass HFA legislation.
During this period there appears to have been much interaction between the housing staff and Chairman Huston. He appears to have been instrumental in working with the staff to set the agenda and to involve McKinsey and Company in the process. Huston requested, and Troy Grigsby, the deputy director, responded to a request for background papers on various facets of Ohio's housing problem. Many do not deal with housing finance but those that do suggest that HFA's are the best way to develop a state role in housing finance (Department of Urban Affairs Housing Analysis Report, August 2, 1971).

Creating a Demand for Housing

An additional report was prepared at the same time. Its title was Organizations Participating in Low and Moderate Income Housing Programs (Department of Urban Affairs). The report lists the name, address and function of every conceivable interest group that might be interested in supporting or opposing a state housing policy. The book was essential because as yet there was no demand for a state role in housing. It includes 62 pages of names and addresses of organizations that might have an interest in state housing policy. There was good reason for them to do this for as yet housing was not viewed by these groups as a state responsibility. This leads to the hypothesis that the ability of a policy system to create its own demand is positively associated with the degree to which political actors at a given level of government perceive the policy being promoted as being a responsibility of their level of government.

On August 4, 1971, Governor John J. Gilligan announced the formation of the Ohio Housing and Development Advisory Commission (HADCAC) to undertake the state's first thorough investigation of Ohio's housing needs; to
identify constraints and impediments in the housing market, and to draft--
for the governor's consideration--legislative proposals that addressed
the problems that had been identified.

The first meeting was held on the same day as the group's appointment.
It was at that meeting that the results of the McKinsey survey of Ohio's
housing problems were presented to the commission. They included the
following observations.

1. Ohio faces a shortage of 487,000 standard units in the
   low-income category.

2. Fourteen percent of all Ohio housing units are unsound.

3. Six percent of all Ohio families live in overcrowded
   conditions.

4. Ohio's non-white population is impacted in the large metropoli-
   tan areas of the state. In some areas, non-whites
   account for 75 to 85 percent of the low-income housing need.

5. Although the elderly comprise only nine percent of the total
   state population, they represent nearly half the state total
   low-income housing need.

6. According to the Federal Census, there are 355,000 large
   families in the state. The gap in sound, large-family hous-
   ing units at prices these households can support is presently
   estimated at more than 200,000 units.

7. Ohio's welfare families--more than a third of which are
   large families--are particularly hard-hit by the need for
   decent housing.

8. The problem in Ohio's 28 Appalachian counties is unusual:
   there is an over-supply of low-income units but nearly
   half of them are deteriorating or dilapidated.

After presentation of this background information, the commission
organized itself into five subcommittees to study the five general pro-
blem areas identified in the statewide survey of housing needs: develop-
ment, housing costs, land use, finance, and human components. As can be
imagined this whole formal meeting had been coreographed months in advance
by the chairman and the staff.
Before the Commission adjourned they asked the staff for an additional report on certain topics which were to respond to questions raised by the Commission. One of the areas concerned the role of the state in housing. The staff report of August 22 came to the following conclusion:

It is fair to state that the State of Ohio is currently undertaking no significant housing activities. The existing legislation is either inactive or not sufficient to grant the State an active role in furthering housing efforts. The Legislature, after enacting a new State housing program, might be able to repeal the dormant provisions in the law in order to eliminate confusion and overlap. In addition, those powers which are effective should be consolidated so that housing efforts can be targeted. A central housing agency is required. (Issue Paper, "Existing Housing and Housing Related Programs in Ohio," August 22, 1971)

The Commission was extremely active in the next six months; they held three sets of hearings, nine plenary meetings and 45 individual subcommittee meetings. A press release captures the sense of activity that surrounded the Commission that fall.

To complement the commission's own expertise, a series of public hearings was held around the state to receive recommendations of others as to how the state might best solve the housing crisis. On October 29, the commission went to Nelsonville, where more than 150 residents of the 28-county Appalachia Region testified about the bad housing conditions in that rural area. The public hearing was preceded by a bus tour and hike along about 40 miles of back roads through small settlements usually hidden by hills and trees.

Subsequent hearings were held on November 12 in Cleveland, where commission members heard more than six hours of testimony on the housing needs of Northeastern Ohioans, and on December 15, in Cincinnati, where residents of the Cincinnati and Dayton areas voiced their opinions on housing problems. At each of these hearings, the HACDAC heard developers, financiers, trade unionists, community leaders, and citizens say what some of their biggest problems are:

* Too much "red tape" in federal housing programs.

* Not enough money available for mortgage and construction loans.
* Dilapidated housing made even more unbearable by lack of decent water and sewer facilities.

(Dept of Economic and Community Development Press Release, January, 1972)

The hearings served two purposes for the Commission and its staff. First, it served the manifest purpose of getting the input of citizen groups from all over the state on their perception of Ohio's housing problem. Even more importantly it gave visibility to the area of state housing policy and perhaps encouraged local groups to view the state and not just the cities and federal government as a source of housing policy.

**Legislative Proposals**

The Commission had worked very fast in preparing the groundwork for legislative proposals. During January and February, 1972, the Commission and the staff focused on developing four legislative proposals including an HFA bill. They published both their findings and the recommended legislation in *Ohio's Housing: Agenda for Action* (February, 1972). The report specifically stated that a Housing Finance Agency was being proposed in a financial and technical assistance bill.

This statute creates an Ohio Housing Finance Agency through an expansion of the powers of the present Ohio Housing Development Board. This Agency would issue long-term revenue bonds and use the proceeds to provide low interest loans and other financial aids for the construction and rehabilitation of housing for low and moderate income families. This statute also expands the powers of the present Department of Urban Affairs (a) to serve as a housing information and education center, (b) to provide technical assistance in housing, and (c) to give limited kinds of financial assistance to developers and occupants of low income housing.

In February, 1972 a report was prepared by the Commission and DECD to justify the state's entry into the housing field and to explain the technical and controversial aspects of the legislation. The report
justified both the proposed state role in housing and the need for a HFA. (Legislative Report Number 2: Financial and Technical Assistance Legislation, February, 1972.)

Immediately after this report was released, House Bill 1113 was submitted as the Gilligan Administration's housing bill in the 109th session of the Ohio General Assembly. DECD enlisted sponsors for the legislation. Being known as a bill endorsed by the Gilligan Administration did not necessarily help the chances of passage as the General Assembly was controlled by the Republicans in both the House and Senate.

The bill added powers to issue revenue bonds and provide technical assistance to the functions performed by the state in housing. The Housing Development Board would handle the former, thereby becoming a full-fledged HFA and the Department of Economic and Community Development would handle the latter. Also included in the bill was a provision to expand the governing board of the HDB. This created a well founded fear in Laconcy, the executive director, that he would be ousted by Gilligan's appointees.

The bill also had several provisions to target the aid at low income groups and this brought forth a similar bill, H.B. 398, sponsored by Rep. C. J. McLin (R-Dayton) which also established an HFA but which differed in the definition of poverty, had no mandatory percentage of low income units to be built by each, and a prevailing wage provision favored by the unions.

These competing bills created confusion and housing became the subject of much interest group activity. An internal memo dated November 21, 1972 which was written by the DECD staff in the Bureau of Research
and Analysis, reflects on what had happened in the 109th General Assembly to the Commission's housing legislation.

The memo states that there was no negative reaction to an increased state role in housing. What had happened was that special interests lined up supporting and opposing various parts of the two bills but that they did not object to the creation of an HFA. Labor wanted a strong prevailing wage provision in the bill which would add to the cost of construction in nonunion areas like southeastern Ohio. The lenders were afraid that if the HFA could issue direct loans to developers they would compete with them. The homebuilders objected to a mandatory clause in H.B. 1113 which stipulated that a certain percentage of low income people should be included in each project. The real estate interests were upset generally because the Commission had sponsored a Landlord-Tenant bill which they opposed.

The memo goes on to say that:

[a]s for other special interest groups and citizen groups such as organized labor, Ohio Housing Coalition, non-profit housing groups, minority groups, consumer groups and the Municipal League, the reaction was either neutrality or uncertainty as to which bill to support because of a lack of information about either bill, questions about either bill, questions about different provisions in each bill, misinterpretation or disinterest.

The major real estate and investment interests will be involved in giving their input into the bill. We anticipate a more positive reaction as a result of this involvement, particularly from those developers involved in construction of federally subsidized housing. An active educational campaign will be undertaken with other special interest groups and citizen groups to generate interest, input and support (emphasis added). As a result of this effort, we anticipate a more favorable reaction. The introduction of a single bill will also be advantageous. In addition, we anticipate that there may be a somewhat different climate prevailing in the 110th General Assembly, particularly if the legislation has the full support of the Administration.
Mobilizing Support

Cobb, Ross and Ross (1976) discuss two models of agenda setting that are pertinent here. One is the "inside access model" where policy is developed by elements of the bureaucracy and those closely associated with it such as task forces. These insiders try to get this policy on the institutional agenda with a minimum of discussion from those who are outsiders. While this model appears to fit the Ohio case rather well no new legislation resulted because the bill was complex and most legislators did not understand it and correctly perceived that there was no great groundswell of popular support for the measure, not even from some of the likely beneficiaries in the traditional housing interest groups.

With the failure of the first attempt at passage of the HFA legislation a second model developed by Cobb, Ross and Ross seems to explain the behavior of the Ohio housing policy system. This is the "mobilization model." In it the agenda is determined by "insiders" and then it is taken to the people who it is hoped will support it so as to make it appear that the policy is the result of a groundswell of popular opinion. To do this the insiders must carefully plan their strategy and not appear to openly manipulate both the media and interest groups.

The HFA legislation thus came to nothing in the 109th session of the General Assembly. However, the Commission and the staff decided that a much more intense effort to lobby for the bill would be needed to get the legislation passed. They would directly try to influence interest groups and indirectly they would try to create demand by stimulating the formation of interest groups who would support housing legislation or those in allied areas who could be convinced to take up the cause of housing.
This leads to a proposition concerning the relationship between how technical a policy is and the ability to set the public agenda.

Proposition 22: The more technical the legislation, the more likely that policy systems will both initiate (set the agenda) and create strategies to insure passage.

The Ohio HFA legislation was certainly technical and complex. It was 54 pages long and dealt with the intricacies of bonding.

The direct effort began with the Commission, behind the scenes, consulting all of the groups which had opposed parts of the initial bill as to what their specific objections had been and what would be acceptable to them in a new bill. In addition the Commission and the staff pushed hard to get the strong backing of Governor Gilligan.

In a staff memo to Gilligan aide Jack Hansen (1/6/73) it was revealed that to avoid the duplication of bills and the ensuing confusion, the Commission and staff had decided to mount "an active educational campaign with other special interest groups and citizen groups to generate interest and support." This was an attempt to create an output constituency. Those with a direct financial interest--the developers, lenders, etc.--had already been consulted. What was desired now was to give the bill the illusion of mass support from good government groups, civil rights and community development organizations. As a first step letters supporting the proposed legislation with an explanation of the contents and what they would mean to these groups were sent out to all groups who might possibly be interested in becoming a part of the constituency for housing policy in Ohio. This was the beginning of the indirect strategy.

The Commission will circulate a preliminary draft of the proposal and mobilize local steering committees around the state. This technique has proven highly successful in the case of landlord-tenant legislation in eliciting responses to the Commission's
bill and in building momentum for immediate legislative action.  
(Staff Summary of Legislation and Strategy for Passage, January, 1973)

In addition the Commission and staff were trying to get unanimous support for the bill from Governor Gilligan and his staff. Memos were sent to Jack Hansen (1/6/73), Phil Moots, another top aide to the governor (1/9/73) and finally a letter to Gilligan from James Huston (1/16/73). All made the case for strong administration support for the bill along with the areas which could be compromised if the bill was in danger of defeat.

The final version of the Housing Finance Agency bill will contain two provisions that have been the source of some controversy. The legislation requires that 20 percent of each housing project financed through the Housing Finance Agency be provided for low-income families. In addition, the legislation includes a provision requiring the payment of prevailing wage rates for housing developments assisted by the agency. Because of the controversial nature of these two provisions, the Commission specified that the Governor be given the option of including or deleting these provisions, as he deems necessary. (Memo from Dr. David Sweet, Director of the Department of Economic Development to Phil Moots, Gilligan Aide, 1/9/73)

In late January, the Chief of the Bureau of Research and Analysis wrote to the Deputy Director of DECD concerning the strategy for getting the HFA legislation passed. What is most interesting is the elaborate detail involved. This is a far cry from the strategy in the first attempt to pass the bill and it is certainly a vastly different view from the traditional public administration's view of the administrator as a neutral implementor of the legislature's decisions.

This long memo (Exhibit I) assigned the responsibilities to the staff of DECD and the members of the Commission to market the bills. The strategies of the staff were as follows:

1. mobilize citizens
2. mobilize HACDAC members

3. create and disseminate educational materials (e.g., summary papers on housing issues and fact sheets)

4. survey legislators

5. meet with opponents of the HFA legislation and try to win them over

6. develop a media program

7. gather endorsements

8. make speeches

9. have the Ohio Council of Churches designate a "Housing Sunday" to gain visibility

10. hold news conferences across the state

Ironically the day this memo was written, January 23, 1973, President Nixon declared a moratorium on all federal housing subsidy programs. This made the current Housing Development Board's powers meaningless as they could only subsidize federal 236 projects which were no longer available.

The staff and Commission attacked on two fronts. They prepared a position paper which blasted the moratorium. (Memo of January 29, 1973 from Bill Hale, Bureau Chief of Research and Analysis, to Troy Grigsby, Deputy Director, DECD) which would serve as a position paper for Governor Gilligan who was leaving for the National Governors Conference.

The moratorium which had at first seemed to doom the Ohio housing effort now was used at its major selling point. The staff and commission

14 All members of the commission were not in favor of the HFA legislation and among those who did favor it, their degree of commitment varied greatly. The staff and Chairman Huston spent a major part of their efforts trying to hold the Commission solidly behind the legislation.
Exhibit I

WORK PLAN

Please see enclosed communications work plan. Of course, we are waiting for the bills to be introduced to move into full gear.

CONTACTS WITH MEDIA

It is of the greatest importance that you keep me informed of your contacts with the media. It is physically impossible for me to call each of you every week to check on this. But if you could call me whenever you have an important encounter with electronic or print media, it would avoid a lot of headaches for both of us. Thank you.

SPEAKING AND RADIO/T.V. SCHEDULES

Commission and staff have been quite active the past few weeks. Some interesting appearances include:

Director Sweet
Apartment Association, Columbus (speaking on the housing shortage and commission legislation)

Peter Simmons
Television taping in Bowling Green (syndicated to eight other Ohio cities)

James Weston
Spoke at 'Yodel Cities Housing Seminar in Columbus February 15. Radio beeper sent to Cols., Cleve., Cincinnati.

Troy L. Grigsby
March 9 - 3 hour live radio broadcast in Toledo, with call-in from listeners.

PRINT MEDIA

Lantern (Ohio State University newspaper) had front page interview with Arnie White this week.

Peter Simmons is writing a piece for the Ohio Bar Association Weekly Journal on Landlord-Tenant.

Peter and Tom Jenkins are writing a letter to be sent to all Ohio college papers.

David Yetter is arranging for S & L magazine to carry an article on housing finance.

I have begun contacting reporters and editors including those at the Citizen-Journal, Cincinnati Post, New Philadelphia Times Reporter, and Urbana Evening Chronicle.

Please let me know of your contacts, also.

SPEECH/ARTICLES

Please note all the materials enclosed:

1. Suggested speech on housing crisis, commission and three bills.
2. Neutral article on landlord-tenant entitled "Improving Landlord-Tenant Relations."
3. Tenant-oriented article entitled "Landlord-Tenant Legislation."

You will probably want to rewrite them to fit your own particular need and your audience. Articles on housing finance and fair housing are being prepared.

Source: Memo of January 23, 1973, from Bill Hale, Bureau Chief of Research and Analysis, to Troy Grigsby, Deputy Director of DECD.
argued that the states must act, even if in a limited way, during the moratorium to take up some of the slack in housing needs. Secondly, the HFA must be in place and operational when the new housing programs had been passed by Congress as was expected sometime in the next year.

From mid-February to June the staff of DECD made a major effort to market the HFA legislation. The February 23rd Communication Report (Exhibit II) was sent to all Commission members.

While this strategy was pursued other states' HFA's were contacted to see what strategies were used to pass their enabling legislation. A memo was prepared by the staff appropriately titled How Other States Sold Their SHFA. While the memo is lengthy it is fascinating since it presents strategies other state housing policy systems used to "sell" the housing finance agency legislation. It was based on interviews with the directors of the Michigan, West Virginia, Massachusetts and Illinois housing finance agencies. The latter two summaries are not reproduced because they are not relevant. Therefore Exhibit III is an edited version of the memo.

Exhibit III

How Other States Sold Their SHFA

MICHIGAN

After talking to Mr. White of the Michigan HFA, it became apparent that the proponents of the HFA had two major things working for them. One was the democratic landslide which occurred after the Goldwater defeat. The Democrats had so much control they could even override a veto by the Governor. The time was 1965, when there was a generally liberal mood throughout the country. Another factor which worked for their advantage was that it was the second HFA proposed; only in New York had there been any experience. This created an experimental attitude toward the agency. No one knew much about HFA's so
## Exhibit II

### Initial Action Plan for Developing Support of Commission Legislation

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Activities</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mobilize individual citizens and groups to demonstrate support by letters or telephone calls to legislators.</td>
<td>1. Steering committee notified of meetings. Steering committee meets. Columbus. Cincinnati. Toledo. Akron. Youngstown. Dayton. Cleveland. Prepare map and list of legislators by district, and by committee membership and leadership. Organize list of citizens by city and legislative districts. Organize machinery for contacting citizens by telephone, meetings and letters. Begin letter campaign to legislators. Develop pending list of people for possible testimony in committee. Contact state organizations on citizen support i.e., Ohio Citizens council, Ohio Housing Coalition, CAP. Follow up with steering committees and commission members.</td>
<td>1/24/73 1/25/73 1/26/73 1/22/73 &amp; 1/26/73</td>
</tr>
<tr>
<td>2. Mobilizing Commission members.</td>
<td>2. Review Commission membership. Contact Commission members to determine participation.</td>
<td>2. 1/22/73 1/26/73</td>
</tr>
<tr>
<td>3. Prepare written material on legislation.</td>
<td>5. Print legislation. Prepare general summaries of legislation. Prepare question and answer summaries for different audiences. Research issues used by other states to sell finance agencies to real estate interests and their effect on the industry. Prepare material for Commission members to issue news releases. Prepare HOMICAC fact sheet on Commission.</td>
<td>3. 1/26/73 1/26/73 2/2/73 1/26/73 1/26/73 1/26/73</td>
</tr>
<tr>
<td>4. Survey legislators reaction about legislation.</td>
<td>6. Prepare news releases. Utilize talk shows. Contact various publications for articles. Draft articles when necessary for publications.</td>
<td>4. As required. 6. As required. 2/2/73</td>
</tr>
<tr>
<td>5. Contact representatives of opponent.</td>
<td>7. Contact steering committee representatives and local councilmen.</td>
<td>5. As required. 7. 2/9/73</td>
</tr>
<tr>
<td>6. Develop media program.</td>
<td>8. Speeches to various groups and organizations. Make speeches to groups in favor of legislation when possible.</td>
<td>6. As required. 8. When possible.</td>
</tr>
</tbody>
</table>
there was little organized support against it. Everyone agreed to "wait and see." However, some opposition did blossom as interest groups saw parts of the agency as encroaching in their territory. At the same time, the low appropriations requested for the HFA did not seem to indicate the HFA would be much of a threat.

One interesting factor concerning the passage of the HFA in Michigan was the support of groups for the aged which gave the bill some mass public appeal and a public rallying point.

The following indicates the reaction to the HFA by selected groups:

(1) **Bankers:**

The bankers presented the main charge against the HFA. They viewed the HFA's entering into the HUD 236 area as a threat. The 236 program had been administered laxly by HUD and the bankers had grown to appreciate the interest subsidies and the two percent service charge received for handling these projects. Many of these receipts accounted for the extraordinary profits of many of these banks during this period. A HFA involvement in the 236 program was not welcomed.

A compromise was worked which satisfied both parties. The SHFA would pay 3/4 percent of the loans to the bankers for providing a specific service. This would involve a preliminary screening of acceptable projects and a check to ensure complete applications. The SHFA felt that this service was worth the expense due to the housing expertise of the bankers and the lower costs of processing.

(2) **Savings and Loans:**

This group objected mainly to any tampering in the moderate housing loan market. This group was suspicious but agreed to wait and see due to a convincing argument that direct loans to moderate income groups would probably only involve the marginal recipients or credit risks to savings and loans.

(3) **Homebuilders:**

The homebuilders were divided into two categories---the large and the small companies. The large firms were already using FHA and HUD programs. They knew the system and were satisfied. They naturally became suspicious of a new mechanism which they did not yet fully understand. However, whatever reservations they
had were assuaged by making the point that the SHFA would increase the number of projects available.

The small homebuilders for the most part did not use federal programs and were not building for the low and moderate income markets. They were fairly apathetic, but generally took a conservative attitude.

(4) Realtors:

The realtors objections centered around the nonprofit organizations which would use the HFA. They felt that at times nonprofit groups perform some of the functions of a realtor. The proponents stressed the great increase in housing activity the SHFA would initiate would create more business for realtors and would more than offset any slight damages. They did not actively oppose the bill.

WEST VIRGINIA:

John Maxim, the first director of the HFA, felt that the biggest selling point to the legislature and some opponents was the Appalachian Regional Commissions' grant of $140,000 to the HFA to ensure the first years of success. This meant no state appropriations were needed for start-up expenses.

The following indicates the reaction to the HFA by selected groups:

(1) Bankers:

The proponents organized a banking coalition of 87 banks which bought the HFA bonds. The idea was sold as an opportunity for investment. Receiving tax exempt five percent interest on HFA bonds is nearly equivalent to a 10 percent taxed return on investment.

Actually this was a shrewd strategy because the HFA's tax exempt bond market is heavily dependent on commercial banks and the extent of commercial bank participation in the market is volatile. This would aid in stabilizing the bond market for the HFA.

(2) Savings and Loans:

Opposition in this area was appeased by pointing out that the HFA would not cut into their single-family loan market, but would merely pick up the marginal borrowers and poor credit risks.
(3) **Homebuilders:**

The proponents courted this group and made appeals to homebuilders' wives. They persuaded them that the HFA would not undercut the homebuilders but complement them by increasing their opportunities. They explained that little low and moderate income housing was being built and that HFA financing of the housing would open new markets for those interested.

**Conclusions:**

(1) Prominent men from the investment and construction communities of states with a HFA could be invited to come here to testify or talk with members of our respective communities.

(2) A banking coalition could be organized to make bankers feel they are getting a piece of the action.

(3) The aged might be used as a vehicle for public appeal and interest in the HFA.

(4) Appalachian Regional Commission could be contacted for support in the HFA effort.

(5) The bankers could be given 3/4 percent for preliminary screening of HFA loans. This could prove satisfactory as it did in Michigan.

While strategies were being considered, speeches were prepared for Commission members and DECD officials on the need for a state housing policy. Public relations releases were sent to a variety of special interest groups telling them what the legislation would do for them. Targeted groups included banks, savings and loans, mortgage bankers, government agencies such as cities, villages, townships, councils of government, local and regional planning commissions, community action agencies, municipal housing authorities, and public corporations and of course developers, homebuilders and contractors. They also attempted to build support among individuals by contacting low and moderate income people, the intended beneficiaries, through their unions.
At the end of March the staff took stock of their hectic activities in support of the bill in a Progress Report (March 29, 1973) which they sent to the Commission and which would be updated weekly for the rest of the spring. These progress reports only cover a week's activity. From the number of items listed, one can imagine that the small staff of Research and Analysis was almost completely absorbed with getting the legislation passed. This supports Rogers (1974) finding that as the intensity of interorganizational relations within a policy system increases, the amount of resources committed to the interaction will also increase (Rogers, 1974). Resources are defined as finances, personnel clients, physical facilities, and authority.

Exhibit IV


1. Two staff members attended Youngstown steering committee meeting on March 28.

2. An article on the Housing Finance Agency was prepared.

3. New staff members were briefed on the Commission's history and objectives.

4. Arrangements for three radio programs were finalized.

5. The rationale for media editorials was written for the Commission's use.

6. The design for the Housing Week flier was prepared.

7. Invitations were mailed to 65 steering committee members in Cleveland for a workshop with Senator Matia which will be held on March 31st.

8. Various activities for Housing Week were followed-up, including the proclamation, poster, and tentative press conference arrangements.
9. The staff met with a representative of the Ohio Municipal League to discuss the Housing Finance Legislation.

10. Informational materials were prepared regarding federal options in financing low and moderate income housing. These materials will be presented at a meeting of the Housing Finance Agency Task Force of the National Governor's Conference in Washington, D.C.

11. Staff attended the meeting of the Housing Finance Agency Task Force in Washington.

12. Staff made 18 telephone calls regarding S.B. 103 and attempted to reach another nine new contacts.

13. A revised Cleveland steering committee list was prepared and mailed to 65 persons.

14. Informational materials regarding S.B. 103 were mailed to Akron for a housing conference to be attended by 100 to 150 people.

15. Minutes of the Cincinnati steering committee were prepared and mailed to 48 people.

16. Meeting arranged and held with Senator Woodland regarding S.B. 103.

17. Meeting arranged and held with Senator O'Shaughnessy regarding S.B. 103.

18. Drafts of the Housing Finance Agency legislation were mailed to seven interested groups for their review and comment.

19. Several new endorsements of S.B. 103 were obtained.

On April 12, 1973 the Commission and staff held a Housing Finance Agency Conference. It was a carefully orchestrated affair which had as its purpose the bringing together of special interests in lending and homebuilding in Ohio with their counterparts from Michigan, Missouri, Massachusetts and Illinois. These states all had HFA's and the purpose was for the out-of-state lenders and developers to tell their Ohio counterparts the benefits of HFA's. This is precisely what was done. At this meeting Troy Grigsby, the Deputy Director of DECD, charged the Ohio
representatives by saying that "Your role is to help Ohio industry understand the legislation, and particularly that the legislation will not make the state a competitor with private industry but will actually increase their business" (Minutes of the Housing Finance Agency Conference, April 12, 1973). Thus ended the almost frantic effort to mobilize support for the legislation before the beginning of the 1973 General Assembly session.

**The Decision Network**

While there was as yet no formal mandate for the policy system the relatively "loose" policy community was being transformed into a decision network. The formal roles within it consisted chiefly of the Deputy Director and the Chief of the Bureau of Research and Analysis. Both had the legitimate authority to shape, within boundaries, the campaign for the housing finance agency legislation. The Chairman of the commission and many of the members as well as their staff formally served as the decisionmakers in the effort to pass the bill.

**The Institutionalized Thought Structure**

In less than two years since the Commission had been appointed most commission members had bought the assumption that states had a responsibility in housing and that both business and the state should be partners in that endeavor. The staff also shared these assumptions.

The institutionalized thought structure (ITS) is not terribly well developed as it usually develops out of the history of interaction between clients, suppliers, and providers in a policy domain. As with the decision network we see the beginnings of an ITS but it too is undifferentiated.
The Political Economy

One reason the mobilization and creation of interest groups was so important was that a well developed policy community is essential if the housing policy system was to compete with other contiguous policy systems who were allocational if not functional rivals. Thus the policy community is important in helping the field of housing maintain a degree of visibility which in turn helps to ensure that a "fair share" of funds will be allocated to housing and that bureaucratically initiated proposals in housing will be paid attention to (Downs, 1976).

The internal political economy of the housing policy system in contrast to the general incentive structure of the interorganizational field, was still fluid with no dominant organization controlling the pattern of interaction. This can only occur after a sizable amount of resources have been devoted to the system. It, like the rest of the policy system, was just beginning to develop.

The Legislative Struggle

Just before the HFA Conference the Commission and staff had gotten Governor Gilligan to proclaim that April 8-14, 1973 was Housing Week in Ohio. This led into the introduction of the HFA legislation in the 110 General Assembly on April 18th as H.B. 870. The Prime sponsor was Rep. Edward F. Feighan (D. Cleveland). In all seven Democrats and one Republican sponsored the bill.

In a Bill Analysis (May 16, 1973) the legal staff of DECD outlined the reasons why the Housing and Development Board had been less than enthusiastic about the bill even after the moritorium took their powers away.
This bill has several unique features. DECD, which has extensive expertise in housing, establishes the housing needs of this state and then establishes priorities. This arrangement separates planning from financing and allows each to do what it can do best. The bill also has a unique definition of "low income persons" which relates one's income to the cost of housing within a geographic area. Finally, the bill authorizes DECD to administer most of the grant programs, while the board makes the loans. This insures that grants will continue to be made by a politically responsible department and that these grant programs will be required to be part of the budget process, thereby increasing legislative review and oversight.

On June 5, 13, and 19 and on July 3 and 10, the House State Government Committee held hearings on H.B. 870. The bill was reported out by the committee 15-2, but the Committee Chairman Michael Del Bane (D. Hubbard) refused to report the bill out of committee. An amendment to the legislation removed the "prevailing wage" provision that would have forced the state to pay union wages to laborers and mechanics on jobs financed by the HFA even if they were nonunion. While the Chairman had voted for the measure, the building trades union officials applied pressure to Del Bane to keep the bill bottled up in committee (Gongwer Ohio Report, July 9, 1973).

The disagreement over the "prevailing wage" provision centered over which formula should be used to determine prevailing wage--the state or the federal. This dispute held up the passage of the bill for over a year. It put the issue squarely out of control of the housing policy system in Ohio and brought two traditional interest groups--Labor (the AFL-CIO, specifically the Building Trades) and Industry (the Homebuilders lobby) to loggerheads with one another. As the "prevailing wage" was part of the institutionalized thought structure of the unions, compromise was very difficult. At the same time, the industry groups, particularly, the lenders, began to have second thoughts about this venture in state
capitalism. This is similar to Downs (1976) finding that elements of
the task environment may stop or delay policy system innovation but they
are usually unable to bring it about (Downs, 1976). This is because
environmental groups rarely possess strong programmatically specific
priorities.

What was happening was indicated by a memo from Jim Kaval, a Commiss-
ion member, to the Governor's Office, DECD, the Chairman of the Commiss-
ion and the Housing Development Board (September 5, 1973).

RE: Staff Work on Amended House Bill 870 Before January 2, 1974

Because of our recent problem of being unable to reconcile the
differences between the building trades and the Ohio Home
Builders Association concerning the prevailing wage section of
Amended House Bill 870, I think there's a need for some staff
work so we can have a more precise understanding of the differ-
ences in the two positions. In my discussions in the past week
with various members of both labor and the Home Builders, I
sensed a vagueness concerning the issue that was disturbing.
We clearly could not work out the differences in that atmosphere;
hopefully, in an atmosphere where everybody knows precisely and
understands precisely the issues, we might be able to work
something out.

The issue was becoming ideologically bound. The emotive and sym-
bolic aspects of the "prevailing wage" issue to both labor and the
homebuilders had brought a very complex, technical piece of legislation
to a halt. As this occurred, ideology was substituted for analysis and
it was felt that this reinforced the vague doubts both sides had about
the bill. This was in fact due to its very technical nature and the
vague uneasiness that industry and the lending organizations felt toward
state involvement in a new policy area. This can be formally stated as
a proposition.

Proposition 23: The greater the degree of uncertainty associated
with a policy, the greater the resistance to it.
For the next six to eight months the bill was again in limbo although a compromise prevailing wage provision had been accepted by both labor and the homebuilders. During this long interum the momentum that the staff had built up around housing as an agenda item had dissipated both by the prevailing wage dispute and the probable passage of a new piece of housing legislation by the Congress. The Watergate weakened Nixon Administration was incapable of stopping action in this area.

The external stimulus of the passage of the federal 1974 Community Development and Housing Act was used to reestablish the momentum of the housing policy system in Ohio as it had provisions which specifically aided HFA's.

The interesting point here is the interrelation of state and federal legislation even where there is no direct connection. The Community Development and Housing Act made the H.B. 870 a viable piece of legislation again.

By October, 1974 Governor Gilligan was running for reelection and the life of the Commission had expired eleven months earlier in November, 1973. The most interested members of the Commission continued to meet throughout most of the year in a semi-formal manner; their travel and meal expenses were paid out of DECD funds. The staff of DECD was now clearly, and officially, leading the fight for adoption of the bill.

On October 1, 1974 DECD held a Building Industry Conference to get the leaders of the industry to unanimously support the bill. Some issues were raised which made this impossible, so another meeting was
held a month later which achieved this objective. During the time between the first and second conference John Gilligan lost his bid for reelection.

In the interim between the election and the inauguration of James Rhodes, a deal was struck between the outgoing and incoming administrations to call the legislature back into special session to pass H.B. 870 which now had the support of both the Governor and the Governor-elect. This occurred on December 3, 1974 and the State Housing Finance Agency in Ohio became a reality.

Either a court case or a constitutional amendment had to be initiated to establish the constitutionality of the legislation as many bonding companies would be reticent to handle the board's affairs unless a court suit was filed testing the constitutionality of the HFA. The constitution, however nebulously, provides that bonds may be issued for this purpose, but prohibits using the state's credit for that purpose, especially when loans are made to private citizens and companies. This has proved to be a major sticking point since it has delayed the implementation of the legislation to the present time.

A Reformulation of Group, Elite and Systems Theory

This case study of innovation in state housing policy in Ohio has shown that there is indeed an empirical analog to the conceptual model of the policy system. The Ohio policy system in housing has entitity and exhibits all of the behavior ascribed to interest groups in the policymaking process by Truman, Dahl and Latham. This is true in spite of the fact that the policy system is constituted almost totally of
producer interests. While centered in the administrative system, it actively attempts to carve out a new policy domain.

It is also consonant with some of the major premises of elite theory. The policy system exhibits much of the behavior ascribed to elites by Dye and Zeigler (1971) in the setting of the policy agenda. It also is congruent with C. Wright Mills (1955) description of "middling elites." Here the lobby and the government are one and policies are formulated for which there is little or no demand in society at large. The actions of government officials create policies for which there is little or no demand. After the policies are adopted, groups then form and support the continuation and expansion of the benefits they derive from these policies. The government through this process ties groups to it so that social control of the citizens is enhanced.

A reason the convergence between these models of politics has not been seen before has been due to the fact that most of the empirical studies are done at one point in time. Therefore they do not capture the longitudinal dimension that a rich case study can achieve. It is only by following a policy system over time that we can observe the key role of elites in setting the agenda and creating their own demand. It is in the adoption stage that groups appear to dominate the policy process since the legislators often view these groups as legitimate representatives of citizen demands.

In the implementation stage which like agenda setting is equally difficult to capture empirically, one can see both elites and groups operating to control the way policy is applied. Allison in his bureaucratic politics model of the policy process (1969) hypothesizes that it
is governmental elites who control policy implementation. Others attribute outcomes to organizational processes or to groups. The reason for the different explanations can be attributed to which level of the policy system has been studied and perhaps to the researchers' conceptual blinders. It is the conclusion of this research that in the implementation process there is a grand montage of interaction which cannot simply be explained in a unidimensional fashion.

Conclusions

What can we conclude from the two models of policy adoption that we have investigated in regard to explaining the adoption of state housing finance agencies? First, the speed with which HFA adoption proceeded can partially be explained by the lack of existing activity in housing at the state level and by the apparent costlessness of an HFA financed by moral obligation bonds which the state is not legally liable to repay. Adoption of a policy which is perceived to cost relatively little will not be closely associated with budget and revenue constraints or state income. Housing Finance Agencies, like the innovation of deinstitutionalization of juveniles (Downs, 1976), does not provide the environmental elements with strong incentives to intercede for or against it. This is because the level of funding involved is nothing compared with the sums spent by the states on mental health, education or welfare.

Second, from Chapter V we can conclude that both economic and sociological characteristics of a state do not have a direct effect on housing policy adoption.

Third, given the functional form of the relationships examined in Chapter V and the intense activity of the Ohio Housing Policy System we
tentatively conclude that the socioeconomic determinants of public policy interact with bureaucratic and organizational variables as well as political variables to affect policy innovation. These variables then are interactive terms which together have an effect on policy innovation. For example, professionalism interacts with need and slack resources to produce a policy innovation. This is true of policies that are perceived as being costly. Some innovations are costless to a state. In these cases the bureaucratic, organizational, and political variables assume even greater importance. For example a new federal program which does not require matching money or a HFA are examples of innovation which can be perceived as relatively costless to a state. In general the impact of political and bureaucratic variables increases in direct proportion to increases in social and economic development. This is because these variables provide the motivation to alter the present level of policy outputs and economic variables supply the requisite resources.

15Innovation as a variable has been studiously avoided in the context of this research. It was felt that the concept was not central to the research at hand and should only be referred to when it was unavoidable. In this context it is mentioned because it appears that the cost, an attribute of the HFA innovation, plays a role in whether or not the policy is adopted. This was the only place in the research where an attribute of the innovation played a direct role. In this research I was not looking at attributes of the innovation but rather the process by which the innovation was adopted. In further research the nature of the innovation's attributes could easily be the major focus as it is in much of the innovation literature.
Chapter VII

SUMMARY AND CONCLUSIONS

In a general way this dissertation has followed Przeworski and Teune's (1970) advice for developing generalizable comparative theory. They recommend a strategy whereby research proceeds in stages. First, they advise the scholar to examine both the endogenous and exogenous independent variables common to all social systems. These should be used to explain as much of the variance as possible in the dependent variable. The second level of explanation focuses on processes operating on or within subsystems of the macrosystem. It is this level that we have focused on in the Ohio case study as well as the conceptual model developed in Chapters I through IV.

The problem this dissertation has examined is how policy systems, or what are commonly called policy or political subsystems, affect governmental decisionmaking and choice activities in a federal system. This general problem was factored into two major subproblems--one theoretical and one empirical--which this dissertation investigated.

The theoretical problem was to develop an empirically useful and conceptually rich model of a policy system which was defined as the behavioral interaction patterns of individuals, organizations and institutions relating to policy outputs in a functional area over an extended period of time.

In Chapters I through IV we attempted to develop a new conceptual model--the policy system. We concluded that the policy system consists of a more or less closed system of public and private organizations and individuals who are dependent upon each other for resources and linked by three social networks which sustain a policy consensus.
To create those values which form a policy consensus and are embodied in governmental programs, this research has concluded that one must have a necessary but not sufficient condition for government action—a large public sector. It was further concluded that because of this size, it is now possible under certain conditions for the producers of public goods to create their own demand.

The reasons for this development in the last 20 years are as follows:


2. The process of professionalization in the public sector with the concomitant growth of analytic staffs.

3. The development of domestic national goals which transformed subnational units of government into middle managers and performing agents.

Thus this research contends on the basis of an extensive review of the literature, an in-depth case study, and the lack of support for the hypotheses of the "consumer model" that a great bulk of policy making power in the American political system lies in what we have called policy systems. We contend that these are the most useful units of analysis for the continued investigation of the forces shaping the way power is exercised and the way policy is made in the United States.

A Summary of the Conceptual Model

In a policy system what is shared is an interest in a certain class of public policy outputs and not a goal. Each system whether in health, housing or education has multiple constituencies and vested interests among providers and other related beneficiaries; but no one controls all of the essential elements. An overt effort to intervene in a hierarchical manner in the affairs of the system may be the one action that is capable of forcing the policy system to act in a coordinated, goal seeking manner.
Within the policy system the focus is on regulation, the basic mechanism of organizations and purposeful systems, as well as both integration and equilibrium. Thus in policy system analysis one concentrates on strategies of the actors, the collective games to which these strategies correspond, and the rules of regulation which govern these games.

We have asserted that a policy system is a collectivity at the inter-organizational field level of analysis. If this is the case then it can be used like any other collective unit of analysis—groups, organizations, societies.

People working in America on policy problems such as housing have enough regular contact or interaction to be regarded as members of a community or organized social system, even though they may work in hundreds of agencies spread over the whole country (Walker, 1974). The policy community predates the formation of the policy system and continues to function as a part of it after governmental action legitimizing it. Thus while there are two classes of individual actors in the policy system, one, the policy community, subsumes the other, the decision network.

The decision network consists of those actors who hold positions in governmental organizations dealing with a particular program or policy area. Those who "act" on a particular policy issue constitute the decision network at that point in time. The rest of the actors in formal positions are, for the purpose of that issue, members, along with those not in formal positions, of the policy community.

A policy community should then be defined as everyone in a policy system. Those who are also members of the decision network varies with the issue and whether an individual actor happens to hold an official position at that time.
On the whole this distinction may be somewhat labored and difficult
to determine in an operational sense as obviously members of the policy
community influence policy whether they are members of the decision net-
work or not. However, I feel that in both analytical and normative terms,
the distinction is important.

Both the policy community and the decision network are empirical
phenomena. They both exist within an interorganizational field which con-
tains an incentive structure. This incentive structure thus partially
determines the strategies of the actors in the decision network and the
policy community.

Within a policy system there are two types of networks. The network
embodifying both the policy community and the decision network dealt with
the structure of relations between people acting in roles. The second
type of network is called the political economy of the policy system. It
is concerned with the structure of relations between situations of choice
involving authority and scarce resources.

The political economy consists of actors in roles concerned with the
nonmarket distribution of money or other valued resources which can be
purchased by money and authority.

The distinction between the two networks is largely analytical and
not an attempt to demonstrate that there are two different sets of actors
in a policy system but rather to illustrate functional role differences.

The political economy represents an expression of the system
resource perspective which assumes that in addition to manifest functions
such as policy choice, decisionmakers in a policy system are also con-
cerned with the acquisition and defense of an adequate supply of re-
sources and their claim to them and their policy domain.
In a marxian sense we are asserting that economic relations shape, if not determine, the political relations in the policy system and to an even greater extent determine the policy system's relations with contiguous policy systems.

The third network which exists in a policy system is the institutionalized thought structure. This deals with the manner in which actors perceive a problem and how this perception affects their decisions. Vickers (1965) terms these "reality judgements." Katz and Kahn (1966) describe this as organizational coding categories and ascribe them to the contextual history of the organization or system.

While the measurement of this aspect of the policy system is very difficult and time consuming to operationalize on any scale at all, it is absolutely indespensible, for in many situations, how a situation is perceived is crucial to understanding behavior. The diagnosis of mental illness is just this sort of labelling or coding problem.

The policy system model, even if empirically operationalized will not allow us to handle the problem of problem perception. The method of participant observation was used in the Ohio case to handle the institutionalized thought structure of the housing policy system.

In the area of domestic social services, the indefinite nature of the responsibilities for and causes of social problems makes success or failure in the sense of task performance very difficult to define, much less to identify. This allows the policy system to define the nature of the social problems they are addressing and in addition, the power to determine what must be done to solve them, control and develop implementation strategies and control to a degree both the evaluation and parameters of acceptable alternatives if change is called for.
This has led us to conclude that the institutionalized thought structure, together with an active policy community and a political economy with positive incentives for innovation can, given the necessary condition of a large public sector, allow policy systems to create their own demand.

The institutionalized thought structure while generally resisting change also holds out hope to those who would attempt to alter the mindset of policy systems dominated by professional or institutional values. "Decisions are not simply a matter of 'muddling through,' they have an underlying system based on an appreciative field" (Thompson, 1977: 399). If the institutionalized thought structure of a policy system means that there is an underlying "system" to seemingly random, incremental decisions then it holds out the hope that social scientists can both understand the system and hopefully change it.

When we focus on intergovernmental relations and the problems of implementation, the policy system model adopts Talcott Parsons conception of three levels of structure in any social system. These structural levels are technical, managerial and institutional. Within the structure of the policy system there are certain functions that are performed at each of these structural levels. Each level constitutes a subsystem of the policy system.

Level I is the operational level and as such constitutes the technical core of the policy system, where one finds service/product delivery or primary regulatory enforcement.

Level II constitutes the managerial component of the policy system. It performs the functions of integration, mediation, coordination and
secondary resource and authority disposition to the level I performing units. It also performs the functions of managerial planning and control as well as the political functions of mobilization and legitimation of national policy.

Level III is the institutional level of the policy system. The major functions performed by this level are (1) governance of overall goals and policies, (2) external policy legitimation and support of the policy system's domain, (3) primary resource acquisition from and exchange with the macropolitical system, and (4) strategic planning in attempting to cope with greater or lesser degrees of environmental uncertainty (see Table 3, p. 120).

A policy system may be conceived of as three analytically distinct networks. One network is concerned with decisionmaking, one with the flow of sentiments and values, and one with the acquisition and distribution of scarce resources, the political economy. Policy systems are intercorporate in nature as the social actors in the decisionmaking network may owe their allegiance to more than one corporate entity. It may also include actors who occupy no formal positions in the decisionmaking process, but as members of the policy community influence the decisionmaking process.

The policy system is dynamic in nature. As the class of problem or policy expands, so do the boundaries of the policy system. It then encompasses new actors and organizations who may also be members of other policy systems. To capture this process it has been posited that there must be structural levels of a policy system. Level I has been described as the technical core of the policy system. This is where services/products are distributed or where primary regulatory enforcement occurs.
Level II has been called the managerial component. Finally, at functional level III overall governance of the goals and direction of the policy system are authoritatively determined. These levels, while separated for purposes of analysis, must not obscure the fact that the patterns of interaction between them as well as with the environment influence and shape the pattern of dominance and resource exchange in the policy system and with the macropolitical structure. Interaction between policy systems at level III approximates the decision process of partisan mutual adjustment. Both conflict and cooperation are possible at this level with functional and allocational rivals.

Policy systems can potentially be measured by the following concepts (Aldrich, 1976a):

1. **Density:** The extensiveness of ties between elements (e.g., is a policy system richly or loosely coupled?). The degree of density is a comparative concept which may vary with the policy system or level of the policy system.

2. **Centrality:** The total distance from the organization to other organizations and/or the total number of organizations that it can reach.

3. **Hierarchy:** The number of organizations the focal organization in the policy system can reach (e.g., organization "1" can reach all other organizations in a policy system whereas organization "2" can only reach a limited number of other organizations).

What must be remembered is that these are organizational measures. Systems are analytic/empirical phenomena. We can determine the elements of a policy system, we cannot measure the strength of the relationships at the systemic level. We must use organizational measures which concentrate on one or more focal organizations rather than the policy system.

Policy systems if developed and extended can be used as comparative units of analysis in advanced industrial societies regardless of whether they are federal or unitary in their governmental structure. The reason
for their particular application in industrial societies is that the state of technological development will generate a process of specialization. Complex problems then tend to become segmented into manageable parts. Increasing levels of education in a society generate an increase in the process of professionalization. This creates claims by emergent professions that they are the only ones equipped to handle certain types of problems.

The concept of the policy system, if adequately developed, can allow social scientists to move beyond current approaches to policy analysis such as administrative reorganization studies, case studies and policy output studies. With policy systems as the unit of analysis it may become possible for social scientists to give meaningful policy advice on matters of implementation and to apply a much more rigorous perspective to intergovernmental relations than is now the case.

A Summary of the Consumer and Producer Models

The empirical problem this dissertation has investigated is the factors which have led to the adoption of housing finance agencies by state governments. The case of HFA adoption in Ohio illustrates part of the policy system model. Specifically it documents the emergence of a policy community in state housing policy. The central question here is what variables are important in the state assumption of a function which was previously left to the private sector, local authorities and the federal government?
In addition, housing finance agency adoption was used to determine if the conceptualization of the policy system as a collective unit of analysis is useful in explaining public sector innovation.

Aggregate state data was examined to determine if socioeconomic variables of the type which are prominently used in much of the research on the determinants of public policy were positively correlated with the dependent variable, an index of the extent of state housing finance agency adoption. The determinants studies typically find that socioeconomic independent variables such as urbanization, industrialization, education, and per capita income are capable of explaining a significant amount of the correlation between these independent variables and the dependent variable--either a particular policy output, like housing, or a general index of state policy innovation.

A few studies have found political variables such as interparty competition to be important and only one (Downs, 1976) has included a number of bureaucratic and organizational variables. This study supported the hypothesis that these types of variables explain much of the variance left unaccounted for by both the socioeconomic and political variables.

As a nationwide survey which was sent to all states was not returned in sufficient numbers to use\textsuperscript{16} it was decided to explore the specific case of the adoption of the Ohio HFA where extensive documentary evidence was available and where I had been a participant observer. Thus the Ohio case introduced the "producer model." The data in the Ohio case were examined to see if there appeared to be any validity to Samuel Beer's

\textsuperscript{16} Only four states returned the questionnaires and only three of them were usable.
proposition that if the size of the government sector approaches 40 percent of the Gross National Product, then the bureaucracy and those allied with it can create their own demand under certain circumstances. This is believed to be triggered by a response to the positive or negative externalities created by other government programs.

The Ohio case seemed to confirm Beer's proposition since the 1968 National Housing and Community Development Act provided positive externalities in the form of financial incentives to create an HFA. The 1973 Housing Moratorium on all Federal housing subsidies represented the negative externalities with the 1974 Housing and Community Development Act providing a last dose of positive incentives to the State of Ohio which stimulated the Ohio policy system to a final effort which led to the passage of the housing finance agency legislation.

In the Ohio case the federal actions provided the initial stimulus to elements of the state bureaucracy, interest groups, program professionals, and other governmental groups to form a policy system which would then try and eventually succeed in creating a demand for a housing finance agency.

This case study of Ohio represented the producer model. The argument for this model can be summarized as follows. In politics as in economics, there must be both forces of supply and of demand. If this is true then there is no reason to assume that the suppliers of public goods and services sit idly by waiting for consumers to choose which bundle of goods and services they prefer. If we assume self-interest, there is every reason to expect that they will play a key role in the policy process.

The politicians are not the only suppliers of public goods. A reason that the empirical work on the determinants of public policy has
failed to support the hypothesis that political variables determine, or jointly determine, policy innovation may be due to a focus by these researchers on the wrong politicians. A much longer term supplier interest is represented by the actual producers of public goods. These include all governmental employees (Tarschys, 1975: 15). With the increase in merit system protection at all levels of government, they in effect control the process of agenda setting, or when they cannot they shape it during the implementation process.

A second supplier interest is represented by those in the private sector who sell most of their production to the government. Here both owners and employees (such as those at Lockheed Aircraft Corporation) can be viewed as public producers. As the size of the public sector grows, it seems inevitable that the producer interest will carry greater weight than the consumer interest in the political process (Tarschys, 1975: 15). These producer interests in a given functional arena of public policy constitute a policy system such as has been developed in the previous chapters.

The Consumer Model

In this section of the dissertation the question addressed is how much of the variance is explained by characteristics which are exogenous to the political system. The importance of this is that if this is indeed the case, there is very little policy makers can do to change the mix of policy outputs in a given state. This would lead us to conclude that even if we can establish that a policy system does exist in housing in Ohio or anywhere else, its impact on the particular policy outputs in that domain will be small.
The four hypotheses that were tested in this section were not supported. The socioeconomic variables of industrialization, education, urbanization and per capita income were not significantly correlated with the dependent variable which was an index of the deepness of housing finance agency adoption.

When the functional form of the bivariate relationship between each socioeconomic variable and the dependent variable was examined it was found that each independent variable related to the dependent variable in roughly the form of a necessary but not sufficient condition. A necessary but not sufficient condition could indicate that as state wealth increases, it is possible to spend more state money on public services like housing. This is why resources constitute a necessary but not sufficient condition to explain FHA adoption. Thus we concluded that policy outputs that are dominated by elements of the bureaucracy and allied sectors are constrained by certain kinds of socioeconomic resources but are relatively independent of variation in socioeconomically based demands at least as measured by these crude indicators.

Conclusion

The goal of this research is as much improved conceptualization as explanation. In pursuit of both goals I have utilized both hard and soft methodologies and attempted to integrate several different strains of social science literature.

My research strategy has been an exploration. I have attempted to blend a new conceptual model, the policy system, with an attempt to partially test it through the merger of a traditional case study (although a very rich one) and a quantitative approach which relies heavily on the
socioeconomic determinants of policy innovation. The end result has shown that the consumer model of policy output is not incompatible with the producer model and that together they explain the dynamic behind both the policy system and much of the policy process.

**Implications for Public Administration**

With the growth of the state the classical dichotomies between public and private spheres and between politics and administration no longer exist in either an empirical or normative sense. This has given rise to a nonelectoral politics centered around the administrative system of the modern democratic state.

Taking the central place as the core unit of the new political economy is the policy system. Policy systems act on narrow interests rather than broad public mandates which are then enforced through bureaucratic means. In addition, they exhibit a tendency to become insulated from the classical mechanisms of broader public accountability—to either the electorate or the nominal beneficiaries of their programs.

The interpenetration of the public and private sector has allowed private organizations and professions to use state power to shelter themselves from the rigors of the competitive marketplace.

If the prevalence of policy systems in the political economy is depressing to those schooled in democratic theory they present a useful opportunity for empirical researchers in the social sciences. The policy system provides a framework for meaningful empirical research. A policy system is a unit that is large enough to capture theoretically significant findings that have policy relevance yet small enough to permit empirical analysis of resource dependencies between public and private
organizations and to connect them through the myriad of social networks that emerge from these dependencies.

In addition the policy system approach is capable of capturing the diversity of American politics and administration without succumbing to the normative blinders of either the group or elitist models of politics. To scholars the policy system approach offers a common language for the comparative analysis of different types of substantive policy areas.

More importantly it represents an interdisciplinary approach which can be used by public administration, political science, and sociology to better understand both the increasing role assumed by public agencies in the policy process and the role of broader social and economic structures in shaping American politics and the new functions assumed by the state.
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