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Advocacy and Resource Allocation Decisions in the Public Sector

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ADVOCACY AND RESOURCE ALLOCATION DECISIONS IN THE PUBLIC SECTOR*

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The economist's discussion of resource allocation decisions in the public sector has proceeded along two separate but related lines. The first, and probably more successful, has been the development of rules for making optimizing decisions and analytical techniques to support these rules. It is assumed that some sort of objective function can be specified, that the decision maker is free from other constraints, and that he acts rationally in terms of the stated objective function. The other line of inquiry has been concerned with normative and positive analysis of the decision making process as the economist sees it, with special attention devoted to imperfections in the decision making structures which lead to choices which are not optimal in terms of the stated objective functions. Here the purpose is to explain the observed set of public decisions and, by understanding the forces which shape them, perhaps to suggest ways of altering the institutional framework within which the decisions are made so as to produce better decisions. An important development is the recognition that changes in the decision making structure may impose costs as well as benefits. Costs and benefits must be weighed before changes are made.²

A particular structure for making decisions in the public sector will be considered and its implications for achieving an optimum resource allocation will be discussed. Many decisions in the public sector are the result of a process of advocacy in which two interested parties or groups attempt to persuade or influence a decision maker to take or not to take a certain course of action.

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1. See, e.g., Margolis, The Economic Evaluation of Federal Water Resource Development, 49 Am. Econ. Rev. 96, 108-09 (1959); and Fox and Herfindahl, Attainment of Efficiency in Satisfying Demands for Water Resources, 54 Am. Econ. Rev. 198 (1964). Perhaps the most interesting insights are provided by McKean who argues that there is an "unseen hand" at work in the public sector guiding the decisions of individuals in the various agencies as they weigh the costs and gains of alternative courses of action. He points out that, just as in the private sector, the hand is impeded by concentrations of bargaining power, external effects, and satisfying rather than maximizing behaviour on the part of decision makers. See McKean, Divergencies Between Individual and Total Costs Within Government, 54 Am. Econ. Rev. 243 (1964); The Unseen Hand in Government, 55 Am. Econ. Rev. 496 (1965).
2. McKean's contribution to this view is noted in Defense Management (S. Enke ed. 1967).
Whether the decision is to be made by the electorate, the legislature, executive branch, or judiciary, the activities which come under the heading of advocacy may include the gathering of information and data which support the desired outcome, direct persuasion of the decision makers, generating public support by informing and arousing interested parties, taking advertisements, etc. All of these activities have in common the consumption of scarce resources. The cost of advocacy is defined as the resource cost of all activities undertaken by interested parties with the aim of influencing a public decision concerning resource allocation. Since advocacy consumes resources and the decisions that result from it affect the allocation of resources, the process of advocacy is a legitimate concern of the economist.

The impetus for this short study comes from a concern for the implications of the recent ruling of the Internal Revenue Service revoking the tax deductible status of the Sierra Club and from a disturbing aspect of Krutilla's excellent article on conservation. The Sierra Club, a conservationist organization, has been an active opponent of plans to build two dams in the Grand Canyon of the Colorado River. The Club's activities included placing full page advertisements in the New York Times urging defeat of the bill in Congress. This was alleged to terminate the club's eligibility for tax deductible contributions because such status exists only if "no substantial part of the activities... is carrying on of propaganda, or otherwise attempting, to influence legislation." Advocacy of the preservationist point of view has been made more difficult since one incentive for individuals to contribute to the cause has been removed. The author freely acknowledges his personal bias on this issue.

Krutilla's argument that development of a unique natural resource feature such as the Grand Canyon is an irreversible decision while preservation is not, is the second impetus for this study. For several reasons, the value of the feature in a preserved state is not reflected in market prices. The intervention of a government is required to assure that larger preservation values are not irretrievably lost in the process of development. The advantage of preservation is that if relative values change over time, the option of future development is not lost by preservation now. The problem is that

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3. Campaign contributions and other forms of bribes are not forms of advocacy according to this definition since they involve only a transfer of resources from one party to another.
preservation is reversible and for this reason it leads to a continuing series of attempts to shift to development as in the Grand Canyon Dams case. These attempts usually involve some kind of advocacy process which is costly and which may be shown to be ineffective in protecting the public interest.

I

A MODEL

The process of advocacy can be reduced to its essential elements and described by a model. First it is assumed that there is a decision to be made. This decision must represent a binary choice, A or B, e.g., to undertake a program or not, to raise utility rates or not, to permit development or utilization of a natural resource or not. There must be an identifiable locus of decision, a single agency head, a regulatory body, legislature, or electorate, which will ultimately decide the issue. By the nature of the decision involved interested parties can be divided into two groups, a group for A and therefore opposed to B, and a group for B and against A. Not all members of a group will necessarily act, that is, commit scarce resources to the advocacy process. For purposes of the model an organization is a subset of a group which has as its purpose the raising and spending of resources in an attempt to obtain a choice favorable to the group.

The assumptions of binary choice and only two groups are necessary to define advocacy as a unique decision making system. There are many situations where the outcome may be a compromise choice C, acceptable to both groups and which both groups rank below their preferred outcomes but above the alternatives. When compromise is permitted, the decision process is more like one of bargaining where the decision maker is acting as a mediator exploring the area of mutually acceptable choice. The existence of a possible compromise might split each group into sub-groups, those who find the compromise acceptable, and those who do not. Also the "compromise" alternative might be preferred by some individuals who would then comprise a third group favoring outcome C. This complicates matters in two ways. First, when three or more alternatives exist, a group may not be able to form a consistent ranking of all alternatives. Also the presence of three or more groups opens up the possibility of coalitions and other maneuvers which might better be described by a more comprehensive model of a political system. The justification for adopting the restrictive two party—two choice assumption is that this simple model describes the essential elements of many observed cases.
Finally, there must be something about the nature of the decision or the institutional arrangements for making it which made advocacy possible or perhaps even necessary. There is one possible situation in which advocacy would be redundant. If the decision maker has a reasonably well-defined objective function or criterion,\(^6\) has access to all of the relevant information bearing on the decision, acts rationally in terms of the objective function, and can perform the necessary calculations, the choice is determined. To commit resources to oppose that choice would be useless; to commit resources to a campaign in favor would be unnecessary. These two conditions, the existence and utilization of a criterion and the access to and ability to utilize information, are the conditions which make advocacy unconditionally unproductive for both sides. If either condition is not present, advocacy is potentially profitable to both sides, i.e., for both sides, undertaking advocacy increases the probability that the decision maker will make a favorable choice, *ceteris paribus*. The restrictiveness of these two conditions suggests that a model of advocacy might be widely applicable to the analysis of decisions made by public bodies and officials.

II

THE BEHAVIOR OF THE MODEL

An analysis of the behavior of the advocacy model must consider two separate problems, the level of activity or advocacy cost which a group will choose, and the influence of advocacy on the decision.

The level of advocacy chosen is obviously limited by the economic benefit or the maximum willingness to pay for the effects of a favorable decision. It is irrational to pay more to obtain a favorable decision than that decision is actually worth. While there are good reasons for expecting the level of advocacy to be well below the maximum, more precise predictions are impossible because of the nature of the advocacy problem. Inherent in the two party assumption is an interdependence and an associated uncertainty which

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6. Some might argue that in practice decision makers never are provided with well defined objective functions. However such documents as the “Green Book” (Federal Inter-Agency River Basin Committee, Subcommittee on Benefits and Costs, *Proposed Practices for Economic Analysis of River Basin Projects*, Washington, 1950), the Reclamation Manual (Bureau of Reclamation, Washington, 1952), and *Policies, Standards, and Procedures in the Formulation, Evaluation, and Review of Plans for Use and Development of Water and Related Land Resources* (Senate Document No. 97 87th Cong., 2d Sess. (1962) ) represent attempts to present decision makers at various levels with more or less specific rules for making choices consistent with established policy. This is what is meant by “a well defined objective function.” Although the economic criteria and procedures outlined in these documents are not above criticism, they do replace discretion and intuition in project planning and selection at the agency level.
makes it impossible to define an optimum level of advocacy for either party unless the actual level of advocacy of the other party is known and can safely be assumed to be unchanging.  

While no predictions can be made concerning the effect of interdependence on the level of advocacy, the size of a group has a predictable effect on the level chosen by that group. This results from problems of organizing the group for collective action. If the group consists of only one economic unit, all that is required is that the unit recognize its interest in the decision. But this will seldom occur. Most often other units will have an interest because of the precedent setting nature of a decision. Groups of firms, a whole industry, or groups of individuals may all have a common interest in a particular decision. In these situations a favorable choice is a form of public good to the group. If the choice is favorable, all members of the group benefit even though some of them may not have shared in the costs of obtaining it.

The problems of organizing for collective action when the benefit sought is a public good have been analyzed recently by Mancur Olson. Olson demonstrates that the larger the group and the more evenly the potential benefits are distributed within the group, the less likely it is that the group will organize for collective action; and, if the group does organize, the probability is for a lower level of activity on behalf of the group. The larger the group, the smaller is the share of benefit going to any one individual or unit, and the smaller its share of the potential reward for participating in the advocacy process. Even if the share of the potential benefit to any one unit is significant, in the larger group, it is less likely that any one individual's action in support of the organization will be decisive, i.e., will influence the outcome. Thus, the larger the group, the more probable it is that an individual, after weighing the potential costs and gains, will decide not to join the organization, and the

7. It has been suggested that there are similarities between the problems of choosing an optimal level of advertising and an optimal expenditure on advocacy. However, the differences are probably more important. The primary purpose of advertising is to shift the demand curve of the firm; models of optimal advertising expense assume some known relationship between quantity of advertising and the position of the demand curve, and typically ignore interdependency effects among competing firms. See Arrow and Nerlove's model for an example. Arrow and Nerlove, *Optimal Advertising Policies Under Dynamic Conditions*, 29 Economica 129 (1962). Advocacy may provide potential benefits which may take the form of either demand or cost changes, which may occur in a wide variety of forms, and which may have public good characteristics. Also with advocacy, relationships between expenditure and productivity are not known with any degree of confidence; and interdependency effects may dominate the decision problem facing the group.

probability that the organization will be able to act to maximize the
group benefit decreases.9

The second problem area is the influence of advocacy on the out-
come. Ultimately this is an empirical question, but one which will
be extremely difficult to answer. It seems reasonable to assume that,
ceteris paribus, the greater the expenditure on advocacy, the greater
the likelihood of inducing a favorable outcome; in other words,
advocacy has a positive marginal expected product. This assertion
is consistent with the observation that advocacy is not costless, and
economic organizations do commit resources to it. But the outcome
also depends on the expenditure of the other group, on the sound-
ness of the case and the persuasiveness of the arguments, on the
extent to which the decision maker is constrained by precedent and
guidelines or criteria for choice, and, in the absence of prescribed
criteria, on the decision maker's own structure of pressures and
rewards.10

III
AN EVALUATION OF THE ADVOCACY PROCESS

This model was not developed for the purpose of prediction. The
two problems of interdependence and lack of knowledge of the ef-
fectiveness of advocacy activity seem to rule out any easy application
of the model as a predictive device. Rather the purpose of the model
is to provide a framework for the normative evaluation of the
advocacy process as a way of making decisions in the public sector.
There are two questions to be considered. First, does advocacy
provide an efficient way of making decisions, or are there alterna-
tive ways of making decisions which will consume fewer resources?
The second question concerns the nature of the choices that are
likely to be made through advocacy. Are the decisions likely to be
"right" in the sense of producing a more efficient (in the broadest
sense) allocation of resources?

The first question concerning the resource cost of the advocacy
process can only be meaningful if comparisons are made with alter-
native decision making systems. It has already been shown that
advocacy systems arise if one of two conditions exist: if the decision
maker did not have sufficient information of his own to make the

9. Id., ch. 2, especially at 48.
10. There is a gap in the analysis in that there is no assumption or hypothesis con-
cerning the motivation of the decision maker. Perhaps it would be useful to assume that
he is maximizing something like utility or the probability of getting the next promotion;
but the problem is to find the relationship, if any, between the activities of the advocates,
the choices to be made, and whatever it is that the decision maker is maximizing.
decision, or if the decision maker did not have a well defined objective function. If the decision maker lacks sufficient information in terms of his established criteria, the question of evaluation reduces to determining the relative efficiency of advocacy as a producer of information. Advocacy is a source of information for the decision maker since both sides will attempt to place their arguments on as sound a factual basis as possible. The alternative\textsuperscript{11} to advocacy is the purchase of information by the decision maker either from his own staff or from independent sources, e.g., consultants. Advocacy may be an inefficient way to purchase information for the decision maker, although it may represent as good a way as any for distributing the cost of this information. The advocacy expenditure of either side is not limited to provision of information alone, and it is hard to see how it could be. More important, there is no connection between the actual level of advocacy expenditure and the optimum expenditure for purchasing information. \textit{A priori}, one would expect that advocacy expenditures would exceed optimum information costs, and by an ever wider margin with the increasing importance of the economic interests at stake for the opposing parties. Also, it is possible that information relative to third alternatives might be consciously or unconsciously suppressed by the two parties. Finally, the quality of the information provided to the decision maker is suspect since it will have been selected to prove a particular case, or to appeal to the decision maker’s perception of his role and his structure of rewards and penalties.

On the other hand, some of the same points made above are also applicable to the decision maker’s own staff or independent agencies as sources of information.\textsuperscript{12} For example, staffs can become wedded to a point of view and suppress information on alternatives. A group may present information on valid alternatives as a way of weakening the position of its opponent. For example, conservationists may suggest thermal powerplants as alternatives to the dams they oppose. No conclusion can be reached on \textit{a priori} grounds concerning the relative efficiency of advocacy and its alternatives as sources of information.

If a well defined objective function or criterion is not provided to the decision maker, the normative evaluation of advocacy is difficult. It is not clear what the relevant alternative systems are, if any. But regardless, advocacy may be valuable in stimulating discussion of the question of appropriate criteria for making these

\textsuperscript{11} These are not mutually exclusive alternatives.

\textsuperscript{12} I am indebted to Roland McKean for calling my attention to this point.
particular decisions. For example, one group might argue that the criterion should be the reduction of air pollution in New York City while the other group might argue instead for a decision based on the effect on scenic values. The discussion of such issues may result in a requirement from a higher level (e.g., the courts, legislature, or electorate) that the decision be made on the basis of certain criteria. For example the U.S. Court of Appeals in the case of Consolidated Edison's Storm King Mountain Project remanded to the Federal Power Commission for rehearing stating that the FPC had failed to consider scenic, historical, and biological factors. The court, in effect, ordered the FPC to make its decision on the basis of a different set of criteria than it had been using heretofore. Advocacy permits, even encourages, discussion of the broader issue of the goals of economic policy when these are not already clearly defined. Surely such discussion has some value in its own right.

Is the advocacy process likely to produce efficient decisions? Or, to put it another way, aside from the resources absorbed by the process itself, are the decisions likely to satisfy pareto optima conditions, and if not, why not? If decisions are influenced at all by the relative advocacy expenditures of the two groups, it follows that the decisions will be biased in favor of the small groups with more specific economic interests because these groups will be able to organize more effectively and command relatively more resources. Decisions will favor more direct private interests over indirect public interests such as those arising from preservation of scenic areas or recreation sites. For example, even though the aggregate willingness to pay for preservation of a scenic area may exceed the benefits from de-

13. Advocacy can play a role quite similar to that attributed to systems analysis by Wildavsky. "It cannot be emphasized too strongly that a . . . distinguishing characteristic of systems analysis is that the objectives are either not known or are subject to change." He then quotes Charles Hitch, "... learning about objectives is one of the chief objects of this kind of analysis." Wildavsky, The Political Economy of Efficiency: Cost-Benefit Analysis, Systems Analysis, and Program Budgeting, Pub. Ad. Rev. 292, 299 (1966).


15. In the courts, where the advocacy system is highly institutionalized, decision criteria are continually being refined through the accumulation of precedent and the process of appeal.

16. There are two ways in which organizations representing large groups can overcome the inherent disadvantages of large numbers and widely distributed benefits. The first is to find a way to lawfully compel membership in the organization for all potential beneficiaries. The union shop is an example of this approach. The second way is to utilize the "tie-in sale" technique to make membership in the organization more attractive to potential beneficiaries. However, in the areas of natural resources and conservation decisions, these techniques are probably not feasible.
development of the area, the group opposing development is usually at a disadvantage in organizing for advocacy. If each group consists of one unit so that organizational problems can be ignored, there is still no reason to expect *pareto optima* outcomes; but neither is there any reason to expect a bias in one direction or the other.

**CONCLUSIONS**

The conclusions of this article can be divided into implications for further research and implications for public policy. The brevity of discussion and lack of hard conclusions on the behavior of the model suggest that research is needed concerning the effect of advocacy activities on the outcomes of decision processes and concerning the determinants of the level of advocacy expenditure. The crucial role of information in decision making and the role that lack of information plays in this model both suggest that further theoretical and empirical work is needed on the value and cost of information of various qualities and from various sources. Although specific examples have been cited here, no particular effort has been made to determine the degree and extent of applicability of this model to real world political processes. The model may be applicable to relationships among agencies within the executive branch of the government and between the executive branch and Congress\(^\text{17}\) as well as between private parties.

The policy implications are that, if the objectives or criteria are known, the choice between advocacy and alternative decision structures depends on comparison of the quantity and quality of information provided and the costs of obtaining it by advocacy or some alternative. It also depends on the weight to be given the various side effects of altering the decision structure. One might argue that because advocacy has developed as a means of making decisions, it is the preferred system of decision making—preferred on its merits. But if, instead, advocacy arises because of failure to specify a complete set of criteria for the decision maker, some basic issues of public policy are raised. One could argue that advocacy arises because society is not willing to state hard and fast rules for decision making, that it prefers the advocacy system with its flexibility and implied right of appeal to higher authority. Another

\(^{17}\) “Classically, legislation, whether it be for a project or a government policy, has been presented by the executive branch to the legislative branch as an act of advocacy. . . . The process of identifying alternatives . . . is left to the . . . political process.” John A. Carver, Under Secretary of the Interior, quoted in Carter, *Grand Canyon Dams: Interior to Ask "Are They Necessary?"*, 154 Science 134 (Oct. 7, 1967). In context this remark is critical of procedures described.
possibility is that the political system is not sensitive enough, or perhaps fundamentally incapable of registering a consistent set of criteria for public decision makers where economic interests of individuals are at stake. In either case, advocacy may be the only practical system or may be preferable on political or philosophical grounds. In some instances it may be preferable to take advantage of the discussion of objectives which is usually part of the advocacy process to arrive at a consensus or to sharpen the criteria employed by decision makers. As this occurs some kinds of decisions may be shifted from advocacy channels to administrative channels.

Where, for other reasons it is deemed necessary or desirable that decisions continue to be made by advocacy, the quality of decisions which result might be improved by policies designed to overcome the inherent disadvantages of large groups in the advocacy process. For example, some form of subsidy might be granted to organizations advocating more widely distributed potential benefits. Without such a subsidy the outcome is less likely to reflect the economic merits of the case, because the organization representing these widely distributed interests will experience greater difficulty in raising resources for the advocacy process. The rules for granting subsidies could not make the subsidy dependent on "the merits" of the cause since this would be circular. The rules would have to provide a way for determining eligibility for the subsidy which would in fact differentially benefit the "public interest" groups. The rules could also restrict the range of allowable activity to genuine educational and informational forms of advocacy. The costs of the subsidy, distributed among all taxpayers would have to be weighed against the benefits of better decisions, which would also be more widely distributed.

If reasonable criteria for eligibility could be established, the subsidy might take the form of a grant of tax deductible status to the organization. Thus, organizations would not be freed from the discipline of having to seek funds from individuals, but they would have a differential advantage in the contest for resources. The current provision of the U.S. tax laws denying tax deductible status to organizations which devote a "substantial part" of their activities to "carrying on propaganda or otherwise attempting to influence legislation" discriminates against those organizations whose basic aims and nature might otherwise enable them to obtain this form of subsidy.18

18. The role of the Sierra Club in the Grand Canyon Dam controversy and their subsequent loss of tax deductible status is a case in point.