Presidential Policymaking: Transaction Costs

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Abstract
This entry focuses on presidential managerial transaction costs, particularly with respect to presidential policy development in the executive branch. To be adept managers and policy leaders, presidents must effectively collect, organize, and sort out information derived from an assortment of executive branch personnel. Whether seeking responsive input from inner White House personnel or from the policy expertise of agency civil servants, presidents may experience a measure of friction or “transaction cost” in the form of opposing viewpoints and contradictory interests espoused by such personnel. Therein, presidents face the challenge of attempting to effectively maneuver through transaction costs while seeking to maximize policy performance outputs and outcomes. Recent research suggests presidents may be better off adopting a decentralized policy development approach that addresses transaction cost issues up front in order to lower friction at the legislative passage and bureaucratic implementation stages.

PRESIDENTIAL MANAGERIAL TRANSACTION COSTS IN POLICYMAKING

Over the past century, the office of the presidency has grown exponentially. Responding to public demands for leadership during the Great Depression and World War II, President Franklin Delano Roosevelt set major precedents for expanding the role of presidents as chief executives and policy leaders.[1–3] During that period, the Executive Office of the President (EOP) was created to help the chief executive manage and employ the expertise of executive branch personnel across what has since been a continually increasing number of outer bureaucratic departments and agencies. Consequently, modern presidents are faced with the daunting task of managing a mammoth bureaucracy while attempting to fulfill their ambitious policy agendas.

To be adept managers and policy leaders, presidents must effectively collect, organize, and sort out information derived from an assortment of executive branch personnel. In the words of Richard Neustadt, “a president is helped by what he gets into his mind. His first essential need is information.”[4] When presidents effectively utilize such information for developing policy initiatives, they increase the likelihood for successful policy outputs and outcomes. Oftentimes, presidents develop their initiatives by relying on either the “responsive competence” of their inner White House personnel, the expertise of agency civil servants, or some combination of the two.[5,6] That said, given the breadth and depth of the executive branch and the resources of information therein, presidents must carefully juggle where and how they seek out information since opposing viewpoints and/or contradictory interests espoused by an assortment of executive branch personnel can lead to a measure of friction, which scholars commonly refer to as a “transaction cost.”[7–11]

Such transaction costs also apply to the exchange of ideas and information between presidents and other political actors, both within and beyond the policy development stage. For instance, when presidents propose their policy initiatives to members of Congress, additional measures of friction may be encountered with legislators during the legislative committee and chamber vote stages. Therein, presidents must further contend with potential compatibility and capacity issues that may affect increase transaction costs between the White House, the bureaucracy, and the Congress, and subsequently hinder progress in policymaking. In one case, it could be the president is able to develop a policy that agency actors find suitable for policy implementation, but legislators oppose for political reasons (particularly under divided government); conversely, the president may be able to organize a coalition of legislators for a bipartisan policy solution, but agency actors may find the initiative to be lacking in policy substance or beyond their capacity (and/or budgetary restraints) for effective and efficient implementation to occur.

In all, for presidents to succeed in developing, passing, and implementing their policy proposals, they must seek out information in a manner that can most adequately satisfy their personal goals and preferences while garnering the required support from key actors involved in the policy-making process, particularly the relevant agency policy experts and legislators. Given the various challenges they face, how can presidents effectively maneuver through transaction costs in a manner that helps them maximize the likelihood of positive policy performance outputs and outcomes?

Studies have found presidents strive to maximize the value of a policy proposal in line with their own personal preferences and will often look for the cheapest source of trusted information to help prepare their proposals in a
manner that minimizes their front-end managerial transaction costs.\textsuperscript{12–14} This typically results in presidents adapting a more centralized approach to policy development that places the responsive input of inner White House political staff above the policy expertise offered by outer bureaucratic agency actors. Such a proclivity toward inner staff makes sense, particularly in light of the post-1930s growth and expansion of the executive branch, which has seen modern presidents inherit an increasingly fragmented and fractious political system.\textsuperscript{15}

However, minimizing transaction costs at the front end by centralizing the policy development stage can actually lower the likelihood of policy success.\textsuperscript{5} When presidents focus their policy activities closer to the White House Office, legislators may view such behavior as politically motivated and lacking in policy substance that might otherwise be derived from the expert input of agency actors.\textsuperscript{6} In addition, such lack of substantive expertise may lead the president’s inner staff to inadvertently provide unsound policy advice, which could ultimately undermine the president’s policy and administrative ambitions.\textsuperscript{12,16} Thus, taking a more centralized approach to minimize transaction costs may backfire if it ultimately leads to failed policymaking outputs and outcomes.

Alternatively, presidents may be better off adapting a decentralized (or at least more mixed) policy development approach that better addresses transaction cost issues up front in order to lower friction at the legislative passage and bureaucratic implementation stages. When presidents employ agency input for policy development, such information lends a president’s policy initiative with a dose of “objectivity, expertise, transparency, and the support of the very people responsible for its eventual implementation” (p. 843).\textsuperscript{6} Policy proposals developed with bureaucratic expertise—though generally higher in transaction costs—are relatively more objective and grounded in years of policy learning and institutional memory than the information obtained from inner White House staff members because agency actors are relatively less likely to view the process from an ideological perspective.\textsuperscript{17,18} The transaction of information for such proposals also tends to be more transparent (and thus less suspicious to partisan opponents) because “members of Congress know less about an item being crafted in the White House than they do about a departmental production, and have less reason to believe that the information they do receive from EOP sources is reliable” (p. 150).\textsuperscript{19} Excluding higher-cost agency input from the policy development process can otherwise create uncertainty about whether the relevant bureaucrats will be willing or able to implement presidential directives successfully. Thus, presidents need the support of agency actors for the implementation stage. As well, contrary to the notion that such actors lack responsiveness, research indicates civil servants are far more likely than not to help presidents with their policy goals and implementation plans.\textsuperscript{20,21} As James Q. Wilson put it, “what is surprising is not that bureaucrats sometimes can defy the president but that they support his programs as much as they do” (p. 275).\textsuperscript{22}

In conclusion, by seeking policy-competent solutions for their political goals, presidents can capitalize on the more costly input of agency actors. After all, presidents who employ agency input tend to be more successful in convincing legislators—particularly partisan opponents of the president—that a policy proposal represents “not only a set of political goals but also a concerted effort toward producing effective policy solutions for serving the public good” (p. 863).\textsuperscript{23} In garnering the information they need, presidents can further avoid a transaction cost trade-off between the “neutral” and “responsive” competence of their executive branch staff by maintaining a focus on their institutional interests while in pursuit of their partisan political goals. Nevertheless, presidents must be mindful of other factors that can complicate the process, including incompatibility between a commander-in-chief’s ideological preferences versus a department or agency’s mission or the extent to which over-politicization of the bureaucracy may detract from the legitimacy of a decentralized approach to policy development. In all, although it may come at a higher transaction cost by requiring more time and energy for development, strategic and effective utilization of executive branch input for policy development can help maximize presidential policymaking success.

REFERENCES

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**BIBLIOGRAPHY**