

Costs and Challenges of Polycentric Governance

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The term “polycentric political system” was introduced to the literature on governance systems in a classic article by Ostrom, Tiebout, and Warren (1961: 831). They use this term to describe “the traditional pattern of government in a metropolitan area with its multiplicity of political jurisdictions.” They further elaborate as follows:

“Polycentric” connotes many centers of decision making that are formally independent of each other. ... To the extent that they take each other into account in competitive relationships, enter into various contractual and cooperative undertakings or have recourse to central mechanisms to resolve conflicts, the various political jurisdictions in a metropolitan area may function in a coherent manner with consistent and predictable patterns of interacting behavior. To the extent that this is so, they may be said to function as a “system.” (Ostrom, Tiebout, and Warren 1961: 831).

The basic idea is that any group of individuals facing some collective problem should be able to address that problem in whatever way they best see fit. To do so they might work through the existing system of public authorities, or they may establish a new governance unit that would impose taxes on members of that group in order to achieve some common purpose, including monitoring and sanctioning of individual contributions. Many problems may not warrant establishment of a formal organization, but the basic idea is that the governance system in place should facilitate the problem-solving process, for any group facing any particular problem.

Given a suitable range of choice, communities will craft complex networks of institutions (both on their own and in the process of interacting with other communities facing similar problems). Such bottom-up governance institutions have significant advantages. Each institutional component should enjoy a greater sense of legitimacy and

a high level of community participation. In addition, because people with access to knowledge on local conditions selected these institutions, they should be more closely adapted to local circumstances, and thus prove more effective in the long run. Finally, flexible and locally grounded networks should prove more resilient to ever-changing challenges.

An underlying premise of this conceptualization is that community self-governance is facilitated by the broader existence of a polycentric system of governance. The hope is that groups will first try to solve their problems themselves, rather than immediately running to some government unit for an authoritative (and necessarily coercive) decision. The benefits of such a system should be obvious, but the associated costs cannot be ignored. This notion of governance requires that individuals be willing to expend considerable amounts of time and energy in seeking out a commonly acceptable solution and participating, in some fashion, in its implementation.

Polycentric governance has been a consistent theme running throughout the research programs conducted by scholars associated with the Workshop in Political Theory and Policy Analysis over the last few decades (McGinnis 1999a,b,2000). For the most part, however, the normative attractions of polycentricity have been considered self-evident, a basic point of departure for subsequent empirical research and philosophical elaboration. Overall, there has been little consideration of the costs of polycentricity, as such.

In this paper I discuss some steps towards a comparative evaluation of the costs and benefits of polycentricity. I defend institutional diversity as a laudable goal, but also acknowledge the heavy governance costs required to obtain that goal. To sustain institutional diversity in a polycentric system of governance it is necessary to steer a steady course through a daunting array of inter-related challenges, and I discuss several examples of these challenges and potential responses. My purpose is to facilitate comparisons among the many different systems of governance that can be established in different circumstances, in hopes of providing new insights and criteria for constitutional choice in the European Union and other vulnerable systems of polycentric governance.

Components of Polycentric Governance

Polycentricity, like all institutional arrangements, has costs and benefits, strengths and weaknesses. Thus, it is reasonable to ask if we can discern the level of political complexity that is optimal for society as a whole. The standard point of departure for modern welfare economics is to assert that governments exist primarily to facilitate the smooth operation of the economy. The basic presumption is that since market exchange is an efficient way to organize the production and allocation of private goods, governments should intervene only when private markets are unable to cope (see Weimer and Vining 1989: chapter 3). Thus, governments should be responsible for providing public goods (such as national defense), which would be under-provided by private markets. Another responsibility of government is to provide the legal framework within which economic

exchange occurs, to limit the exercise of private coercion and to ensure that contracts can be enforced and disputes resolved at a relatively low cost.

From Market Failure to Group Rights and Opportunities

This “market failure” model is commonly used to determine the circumstances under which government intervention is most appropriate. Yet there is much more to public policy than the study of firms, markets, and governments. Unique contributions are made by voluntary associations, community-based organizations, faith-based organizations, cooperatives, and other forms of organization that are generally assigned to civil society. As concrete manifestations of social linkages existing among individuals, these organizations both create and make productive use of social capital. No analysis of the formation or consequences of public policy can be considered fully complete without careful consideration of the effects of these organizations and processes, no matter how difficult it may be to categorize them or measure their effects.

In separate projects investigating the management of irrigation systems, fisheries, forests, and other commonly held resources, Workshop-affiliated scholars have documented the ability of local communities of farmers, fishers, and users of forest resources to effectively manage these resources. User groups devise rules to limit the extraction of water, fish, or forest products in a sustainable fashion. They monitor each other's behavior and sanction those who violate these rules. They meet together to revise or update these rules and procedures when necessary. Some of these institutional arrangements have survived intact for centuries. For many observers, perhaps the most surprising result is that they often do all this with minimal assistance from government officials.

In sum, Workshop-affiliated scholars have documented the ability of resource user groups to govern themselves. This capacity for community self-governance is by no means automatic. In some cases each member of the community extracts the maximum amount of the resource for his or her own use, thereby triggering the "tragedy of the commons." In other situations, traditional patterns of resource management are disrupted by the imposition of new rules and regulations from national officials. Or these officials may grant concessions to multi-national firms interested only in quick exploitation of local resources. In other cases, resources that were previously managed communally have been divided up into private plots, often at the insistence of international donors, even if these smaller units are not economically viable over the long term.

Despite these potential dangers, the important lesson is that many communities can, under the right circumstances, craft effective institutions for resource management and self-governance. Too often policy analysts reduce the range of choice to two stark options: privatization or central management. Each of these mechanisms is perfectly appropriate for some circumstances, and each can be disastrous if applied to the wrong set of circumstances.

The Workshop approach to institutional analysis complements well-known results from the literature on "new institutional economics" concerning the importance of property rights. Influential research by Douglass North (1981, 1990) has demonstrated that a clear definition of private property rights is essential before market processes can operate at anywhere near efficient levels. Economic growth requires investor confidence, because individuals or private corporations will make investments to improve the productive capacity of their assets only if they can expect to enjoy the benefits of these investments. Rarely, however, is this conclusion extended to a clarification of property rights over commonly held assets (but see Ostrom 1998).

I argue that an analogous model of governmental intervention as response to "group failure" should be accorded comparable status. The rights of user groups to manage common property and individual (or corporate) rights to private property should have equal status in law and policy. Just as individuals are presumed to be the best judge of their own tastes, the initial presumption should be that user groups are capable of managing common property. Government intervention should occur only to correct problems of "group failure," defined in terms directly analogous to "market failure." Instead of presuming that governmental officials or scientific experts know best how to manage CPRs, user groups should be given the benefit of the doubt, and encouraged to govern their own affairs.

This analogy between group and private property rights is very close. Even though firms are typically treated as primitive units, firms represent successful responses to the dilemmas of collective action. All production entails the coordination of individuals with varied skills or resource endowments. The nature of the firm as an economic organization set up to minimize transaction costs is one of the defining concerns of the new institutional economics (Williamson 1975, 1985, 1996). The very existence of firms and markets presupposes the prior solution of at least some collective action problems.

Economic firms are established in order to take advantage of some "team production externality" (Alchian and Demsetz 1972; Miller 1992). This form of externality exists whenever a group of individuals can more efficiently produce some output by working together as a team rather than as separate individuals. Without this externality, the costs involved in establishing or maintaining any organization could not be offset by the potential benefits of a formal organization. In a similar vein, members of close-knit any social group can be said to enjoy positive externalities that offset individual costs of participation (Iannaccone, 1992.)

Those groups of resource users who have successfully managed their common resources have done so at the cost of establishing and enforcing rules that call for significant sacrifices on the part of individual members of that group. They are unlikely to continue to pay those costs if governmental officials are expected to establish or enforce a different set of rules. Without this assurance, group cooperation will break down, and individuals may succumb to the temptations to overexploit the resource. The resulting destruction of the resource will hurt society as a whole. By the same line of

argument, then, group rights to common-pool resources need to be just as well-protected as are individual (or corporate) rights to private property.

Protection of group rights is particularly crucial if the policy goal is sustainable development, and not just economic growth per se. Resource sustainability is not a new idea: groups of fishers, farmers, and herders throughout the world have always had to cope with sustainability problems. Governmental officials and policy analysts should remain open to the possibility that they can learn from user groups about the conditions for successful resource management.

Protecting Institutional Diversity

In a system of polycentric governance, a primary responsibility of central political authorities is to act to support the capacity of self-governance for groups and communities at all levels of aggregation. Self-governance at the local level is sustainable only in the context of a supportive political and cultural environment at the constitutional level. Market exchange can lead to efficient outcomes only when political and legal institutions guarantee secure property rights and provide general access to low-cost and effective means of conflict resolution. Even the coercion so often taken as the defining characteristic of the “state” can lose its effectiveness if the rulers lose contact with local traditions and expectations, or if productive assets flow across national borders in search of more promising opportunities abroad.

The EU exerts pressure towards the homogenization of economic, political, and cultural institutions. By doing so the EU neglects to let its citizens take full advantage of the significant resources that national and local communities can bring to bear. In particular, participants in any vibrant cultural tradition have access to local knowledge about the wide array of institutional responses to the political and economic problems that community has faced over the course of its development. I contend that maintaining this “institutional diversity” is a crucial element in any long-term strategy to cope with the challenges (and opportunities) posed by globalization. It is especially important to find ways in which previously separate communities can learn from each other, to compare their own institutional arrangements with those that have been crafted by other communities facing similar problems.

Maintaining future access to this diverse menu of institutional options is one of the key challenges facing the world today. Environmental activists have successfully articulated the benefits of maintaining *biological* diversity; I would like to advocate a similar rationale for the benefits of *institutional* diversity. In both contexts, diversity serves as a storehouse of ideas and alternative options. Each has intrinsic value. Biodiversity is seen as a natural aspect of healthy ecosystems, and institutional diversity is an essential ingredient in sustaining a community’s capacity for self-governance. Self-governing capabilities are essential for the enjoyment of liberty. In my view, scholars and public officials should act to insure that more local institutional practices survive the onslaught of globalization or regional standardization.

Embracing the reality of institutional analysis poses an enduring challenge to policy analysts who must be able to somehow compare the advantages and disadvantages of alternative institutional arrangements. In a provocative book, Ostrom (2005) concludes that institutional analysts must give up all pretension that they could ever realize an optimal institutional design. Nonetheless, there are criteria that can be applied to processes of institutional design and development.

Ostrom (2005) concludes that governance structures need to be resilient if they are to survive the vagaries of biophysical change, economic shocks, political changes, and other sources of stress. In her contribution to this volume, Ostrom surveys the wide range of factors that affect a community's ability to cooperate in an effective manner. She concludes that the effects of all the structural factors identified by scholars in the burgeoning literature on collective action are mediated through the configuration of norms and rules actually in place in a given empirical situation. These norm-rule configurations can have the effect of facilitating collective action or making it even more difficult. If rules-in-use are properly aligned, in a way that reinforces shared perceptions of trust and norms of reciprocity, then that group is more likely to succeed in its collectively defined tasks. But a misaligned or inappropriate set of rules can make sustainable management virtually impossible.

One common reason for such inappropriateness is the automatic application of a set of rules that worked in one set of circumstances to an entirely new set of circumstances. Since the EU directives program does this on a routine basis, her conclusion raises concern about the likely effects of EU policies. In contrast, Ostrom touts the benefits of a complex system of governance that takes account of local contingencies and unique circumstances. A polycentric system enables participants to take advantage of local knowledge, to instill a shared sense of trustworthiness, and better adapt to changing conditions.

Ostrom cautions that polycentricity is not a panacea. Some groups will not be able to organize and some local tyrannies may prove difficult to upset. Stagnation and unjustified forms of discrimination may lead to unresolved conflicts among subgroups. Finally, it is not immediately obvious how local successes in collective action can be effectively aggregated into an effective system of governance at the macro-level.

Types of Governance Institutions

My analysis takes as its point of departure recent work by Hooghe and Marks (2001, 2003). They lay out a set of conceptual dichotomies differentiating two ideal types of governance arrangements. Their Type I corresponds to a particularly neat model of federalism, in which a relatively small number of multi-purpose governance units exist for non-overlapping jurisdictions at each of a few levels, with jurisdictions at one level being neatly nested within a jurisdiction at the next higher level. Their Type II covers a looser category of cross-border arrangements, characterized by a large (and changing) number of special-purpose governance units for overlapping jurisdictions that cannot be

neatly arrayed by level. After making this basic distinction, they go on to show how these two types of governance structures can be used to complement each other. Thus, they expect to see examples of both types occurring simultaneously in particular empirical settings. Empirically their focus is the European Union, and they document the extent of both types of governance organizations in the EU and its member countries.

Type I defines a structure of nested partitions. In mathematical set theory, a *partition* of a set is defined as a collection of subsets such that each member of the original set belongs to exactly one of these subsets. These subdivisions are thus, by definition, exclusive in the sense of having no elements in common. As a whole, the collection of subsets is exhaustive, since each member of the original set must, by definition, belong to one of the subsets. The Hooghe-Marks Type I governance architecture consists of a nested series of such partitions.

For illustration, consider the set of citizens who are governed by a federal system consistent with the Type I definition. The first (highest) partition defines units that can be called “states” (here I use the most common set of terms in the U.S. federal system). Each citizen is a member of one, and only one, of these component states. Each state is further partitioned into a collection of units, or “counties.” Each county is itself partitioned into “townships.” Additional levels may be added, but these suffice for purposes of illustration. In this neat governance structure, each individual is a citizen of one township, the one county that contains that township, the one state that includes that county, and, ultimately, of the nation as a whole.

In this ideal representation, multi-purpose governance units have been established at each of these levels: township, county, state, and a central government that includes all of the states. Much of the literature on federalism focuses on the question of how best to allocate different functions of governance to these different levels (see McKinnon and Nechyba, 1997). However, Vincent Ostrom insists on a more expansive conceptualization of federalism, which he has informally defined as “the efforts of people as communities of individuals to achieve self-governing capacities consistent with requirements of liberty and justice” (Ostrom 2002, pp. 440). This definition shifts the focus away from any particular configuration of institutions to instead focus on the general processes through which communities can better govern themselves. He has argued that the idea of federalism must be expressed in the form of a “polycentric” system of governance in which multiple units of government with overlapping jurisdictions find some way to coordinate their efforts to provide public services for citizens, and especially to encourage citizen participation in the process of their own governance.

Hooghe and Marks argue that Type II governance system can be thought of as filling in the cracks that will tend to open up in any Type I governance structure. Specifically, they expect type II systems in places such as “the public/private frontier,” “the national/international frontier,” “densely populated frontier regions of bordering states” and “where local government interacts with community associations” (pp. 19-23).

Since administrative boundaries rarely coincide with natural watersheds, the management of water resources frequently requires the establishment of Type II cross-jurisdictional units.

In effect, then, Type I provides the primary governance partition, and Type II arrangements are tacked onto this basic architecture. This conceptualization is a useful way of highlighting the ways in which these two different governance systems might complement each other. In practice, as the number of special purpose governance units (whether between units on the same level or crossing levels) accumulates, it may be difficult to determine which of the ideal types a given system most closely approximates. Indeed, at that point the term polycentric seems particularly apt. Evaluation should focus on the system as a whole and on the extent to which different types of institutions complement each other in an effective and sustainable manner.

Two additional complications are worth mentioning (both are detailed in the introduction to this volume). First, it is important to look beyond public authorities. Whereas the term government is used to refer to a particular kind of organization, governance is a broader process that occurs in collective entities of all kinds, from societies as a whole to small family units, and in private corporations and voluntary associations. Policy networks are built up by maintaining contacts among organizations from different sectors of the public economy (Benz/Dietrich 2002). Such policy networks locate both Type I and Type II public authorities in a broader, cross-sector context. Second, uniquely important contributions to governance are provided by those institutions which perform an integrative function (Hagedorn, this volume). Integrative institutions such as family farms and agricultural cooperatives combine selected aspects of private, public, voluntary, and community sectors into a single package. As such, they reinforce socialization of new members and facilitate the monitoring and implementation of collective agreements.

In summary, a polycentric system of governance is multi-level, multi-type, and multi-sector in scope. It includes a wide array of organizations with complementary strengths and capabilities. Especially important roles are played by integrative institutions, which can be seen as micro-level versions of polycentricity all wrapped up in a single place. Yet even integrative institutions must be located within a supportive polycentric context if they are to have their intended effects.

Governance Costs in a Polycentric Equilibrium

At this point it is worth repeating a point made in the opening paragraph of this essay, namely, that the basic idea behind polycentricity is that any group of individuals facing some collective problem should be able to address that problem in whatever way they best see fit. By framing governance choices in terms of a response to some collective problem, we couch analysis in terms of identifying the set of individuals who are directly affected by that policy problem. Or, more precisely, analysts must identify those who realize that they face a common problem, and thereby begin to engage in some

process of collective deliberation. Their decisions may well have consequences on individuals not included in this process, and the realization of such externalities further broadens the set of groups involved.

A Problem-Centered Approach to Polycentricity

Dewey (1927) famously defined a *public* in terms of the range of individuals affected by a particular policy problem. For our purposes, it is useful to conceptualize a collection of individuals facing a common policy problem as a *subset* of the overall set of individuals residing in that community. We are especially concerned with understanding the institutional resources available to each public or subset as they confront their shared condition.

Governance architectures establish a correspondence between subsets of the population and specific units of governance. For a Type I system, each individual is a member of exactly one governance unit at each level. That same individual may also be included within an indeterminate number of Type II units. When a dispute arises between two individuals, they can typically either resolve that dispute among themselves or by reference to officials of some governance unit of which both are members. The principle of subsidiarity suggests that any dispute involving k individuals should be resolved by officials of the governance unit corresponding to the smallest subset that contains all of the affected parties. If nearly all of the affected individuals reside in a small number of units at a given level, it might make sense for these units to work out a solution acting together, rather than referring it up to the next level in the structure. In the U.S., interstate compacts dealing with issues of water management provide important examples of this configuration in practice. Conversely, problems that involve individuals in all or nearly all jurisdictions are likely to be most effectively handled at the national level.

Some policy problems, however, are likely to evoke affected public subsets that cannot be directly related to one or more of the existing governance units. In a polycentric system, that group can choose to devise its own mechanism for coping with this particular problem by establishing a new Type II unit for self-governance by that particular group. In the U.S., it has proven quite common for special districts to be established to manage collective problems that cross standard jurisdictional boundaries. Policy responses to technical issues often take this form, as in the establishment of multiple international regimes that facilitate cooperation among technical experts located in different countries. More generally, professional associations define standards and codes of acceptable conduct applicable to a membership widely dispersed across separate jurisdictions, and such instances of private governance are essential in the overall scheme of things.

Each new governance unit comes at a cost in terms of the transactions required to design, establish, and maintain that organization. Groups that are likely to repeatedly face similar problems are more likely to be willing to expend these costs. If it is possible to use the services provided by some existing organization to help them resolve a particular problem, then a group will not have much of an incentive to develop a new, specially

designed set of institutional procedures. Indeed, in a polycentric system, we should expect to see public entrepreneurs actively offering their services to potential customers or supporters. Political leaders who mobilize latent groups in order to win their votes in the next election are one important example, but not all public entrepreneurs are motivated by votes and not all public problems can be solved in that way. Public entrepreneurs have at their disposal a much broader array of creative opportunities.

Institutions are enduring artifacts. Once established, they can be maintained at a lower cost than would be involved in creating them anew, since any new organization would also entail the expenditure of maintenance effort. Governance institutions that have been previously established may remain available for use at a later time, and may be used by groups who were not directly responsible for paying the initial costs of set-up or of subsequent maintenance (McGinnis 1999c). Those sets of institutional procedures that are used frequently will tend to persist over time, whereas those that are not well-used will tend to atrophy. In this way is a society's political culture built up and sustained over time.

Only those groups who expect to require assistance in coordinating their response to significant problems are likely to be willing to pay the costs to establish or maintain an organization for that purpose. Clearly, it is not reasonable to assume that all subsets are equally likely to face salient collective problems on a regular basis. Instead, members will be differentially linked to other members, with some connections close and tight and other members virtually unrelated to each other (except through a series of intermediary connections). Given a network of connections among the members of a community, we would expect a system of governance institutions to arise that mimics that network in some way. That is, those subsets whose members are most likely to interact on a regular basis are likely to have shared access to many of the same governance institutions.

This is where a Type I system proves its usefulness. For, if the partitions used to construct that governance system are directly related to the interaction structure, with boundaries drawn such that most interactions are likely to occur between or among individuals residing within a single jurisdiction. Hooghe and Marks discuss exactly this rationale in their use of Simon's decomposability criterion, as a justification for why Type I systems are so commonly built on the basis of territorially defined jurisdictions. They note that it is also possible to imagine nested partitions based on other characteristics. For example, the clan system of Somalia nicely approximates the interaction patterns between people in this pastoralist community. Typically, the primary governance partition of Type I institutions can be defined so as to minimize overall transaction costs for the parties with the authority to define the governance architecture. This last phrase is made necessary by the example of the colonial boundaries drawn in Africa by European imperial powers. Borders chosen at the Congress of Berlin and in other imperialist forums facilitated the allocation of resources among the respective colonial powers, but these lines bore absolutely no correspondence to the actual distribution of cultural or economic transactions on the ground. Once these colonies obtained their independence, these administrative boundaries gained a real importance as boundaries of sovereign states. This radical disjuncture between the primary governance

partition in effect throughout Africa and real patterns of cultural and economic interactions has certainly contributed to the recurring problems of governance in that continent.

When a group first confronts a collective problem that they cannot immediately solve via discussions amongst themselves, they might decide to refer it to an existing governance unit or to create a new governance unit specifically focused on this particular problem. If the effects of most such problems are contained within existing jurisdictions, and if the costs of creating new governance units are high, then self-governance could be achieved in a basically Type I system, but at a significantly lower cost than would be entailed in a fully-saturated polycentric governance system. The problem, of course, is that no such system can ever be complete, for there are always going to be problems that affect sets of people from different jurisdictions. And, in addition, as technologies of communication and transportation develop they end up creating new linkages and thereby generating new forms of political problems and shared opportunities. The opportunity to craft new Type II governance units at a relatively low cost is an essential component of a viable and sustainable system of governance.

The Baseline Condition: An Unequal Distribution of Social Capital

To evaluate the costs of polycentric governance it is useful to define a “baseline condition” for collective action in the absence of any form of government. This baseline condition must be distinguished from Hobbes’ still-influential notion of a state of nature. Hobbes posited a condition of radical isolation in which no individual can rely on assistance from any other individual. He concludes that cooperation is possible only after a collective authority (the Leviathan) has been established that has the power to enforce agreements.

Hobbes’ argument has been attacked from several directions, and I have no intentions of engaging the critical literature in this paper. Instead, it suffices to note that Hobbes’ conceptualization is just that, a thought experiment not intended to be an accurate representation of any time in human history. Let me posit a different starting point for my thought experiment. Even in the absence of any central authority, I assume that some groups of individuals will find it possible to cooperate with each other. This cooperation may well be uncertain and incomplete, but empirical research has amply demonstrated that groups can, by their own efforts, establish and maintain networks of reciprocity and more complex systems of mutually-reinforcing normative expectations. However, not all groups have the same ability to achieve this level of cooperation.

The “baseline condition” is meant to incorporate these differences in the inherent propensity towards cooperation of groups of different sizes and composition. The many factors that affect expected levels of cooperation are reviewed in the accompanying chapter by Elinor Ostrom. The classic work of Mancur Olson (1965) demonstrated a bias in favor of groups of small size, but Ostrom concludes that this relationship is more complex. Larger groups with homogeneous interests may find it easier to cooperate than a small heterogeneous group, for example. Similarly, homogeneity of interest makes

cooperation easier, in most circumstances, but this effect can be overwhelmed by other factors. Ties of communication, shared normative expectations and access to common rule systems, and other factors are all relevant.

In the baseline condition, each subset of a population can be assigned a value corresponding to the costs of common action on the part of that group of people. Typically, smaller size subsets will face lower costs than larger groups, as will groups with homogenous characteristics. The important point is that this distribution of transaction costs is grossly uneven across groups. As a consequence, some groups will be able to pass the costs of their own collective action onto other groups. These victim groups will be unable to respond because of the greater difficulty they have in coordinating their own actions. Of course, their own victimization may generate an increased realization of the potential benefits of their cooperation, which may inspire them to greater efforts. In equilibrium, those groups able to exploit others will do so, those groups able to resist will also do, and still other groups will remain latent and unmobilized. In this baseline condition, equilibrium is characterized by a radical inequality in the levels of social capital available to groups of different sizes and composition.

Bringing Governance Back In

Next we introduce governing authorities, which may be established for any subset of the population. Afterwards, those subsets which correspond to a particular governance unit will face lower costs when they attempt to address a collective problem. Conversely, those subsets which do not correspond to a particular governance unit will not have ready access to a public official with the appropriate authority. Of course, not all governing agents will be equally responsive to the needs of their constituents.

Authorities in the “highest” level of the Type I hierarchy have a uniquely important position. These officials have the capacity to coerce members to contribute to the production of a public good. This power to tax or otherwise compel contribution greatly facilitates the pursuit of collective goals, especially for larger groups. However, the coercive power of public authorities can also have distorting effects on the baseline distribution of cooperation costs.

Two effects are especially noteworthy. First, groups that manage to “capture” a public agency can use its political power to their own benefit by creating artificial scarcities (rent-seeking; Tollison 1997). In effect, successful rent-seekers use the coercive power of the state to significantly increase the costs of collective action faced by any group seeking to resist their activities. Second, political entrepreneurs can use state power to lower the costs faced by latent groups. Such activism is common in systems of electoral democracy (Riker 1982), for leaders may be able to obtain large numbers of votes by articulating the concerns of large latent groups disadvantaged by current state policies. Even in an autocratic system, a political leader can gain power by appealing to the population as a whole, but, ultimately, the national patron needs to make sure his primary supporters are well-rewarded for their continued support.

For purposes of this analysis, the important point is that the establishment of a political authority has the natural consequence of altering the baseline distribution of costs of group action. That is, all political institutions have unequal distributional consequences (see Knight, 1992). The question facing us becomes how we might evaluate the consequences of this alteration of the cost schedule.

In a monocentric system of governance, public officials have a uniquely strong position of monopoly power. They can charge high prices for the distribution of rents. Public authorities in a polycentric system retain the ability to attract rewards by distributing favors, but their ability to do so is sharply restrained by the activities of public authorities in other jurisdictions. Tiebout's (1956) voting with the feet is the classic example of this constraint, which operates at any level of aggregation, as long as the system in place at that level approximates a polycentric system.

This effect comes into play with the establishment of a new political authority at any level of analysis. Consider, for example, the effects generated by the establishment of a supra-national authority at the European level upon the pre-EU system of governance. One consequence of the EU has been to increase the resources available to sub-national regions within the member states. With regard to agri-environmental policy (AEP), rent-seeking was the initial effect of establishing the European Community. As discussed elsewhere in this volume, the Common Agricultural Policy (CAP) distributed subsidies and price supports to farmers in all member states. More recently, agricultural policy has come to be assessed within the context of its effects on environmental conditions and regional development. This has facilitated the extension of environmental protection to wider areas, especially for the newer members. Yet, the requirement that new EU members implement a large number of specific laws and regulations may have the effect of undermining locally based collective action (Baker 2001).

This point reminds us that there is, or at least there should be, more to the exercise of public authority than the strategic distribution of rents and the imposition of uniform rules and regulations. In a democratic polity, one of the primary responsibilities of public officials should be to facilitate and nurture the ability of local communities to organize themselves for their own benefit. Governments should facilitate community *self-governance*, which I take to mean a community's ability to cope, in an effective and sustainable manner, with the challenges and opportunities posed by their physical environment and by their social interactions with other communities. To pursue this line of argument further, we need to re-examine the notion of equilibrium in a polycentric system.

Equilibrium in a Polycentric System

As long as a polycentric system is in operation we should expect to observe unending processes of change and re-negotiation, as new collective entities are formed, old ones dissolve, and new bargains are arrived at to deal with an unending series of new

issues of public policy. If this can be said to be an equilibrium, it is a radically dynamic one with nothing fixed except the underlying complexity of the system as a whole.

It is worth emphasizing that a system of polycentric governance does not necessarily generate a “spontaneous order” if that term is taken to imply that the system automatically arrives at a socially optimal equilibrium. A polycentric order can be described as spontaneous in only the very limited sense of not being the result of the actions of a central planner. In all other respects, it is chock full of planners and schemers, private and public entrepreneurs of all types, actively engaged at all levels of aggregation (McGinnis 2005).

What would equilibrium mean in a fully polycentric system of governance? Recall that any form of collective action or coordination or creative problem-solving involves the expenditure of time, effort, and other resources. Whenever any group of individuals faces a common problem (or a common opportunity) that gives them a chance to obtain mutually beneficial results, they will confront transaction costs of various types before they can realize these joint gains. If the costs of organizing for collective action are low, then more of these collective opportunities for joint gain should be realizable. To be fully polycentric, the system as a whole should facilitate creative problem-solving at all levels of aggregation.

If the costs of collectively organizing are kept low for groups of all size and interest configuration, one important consequence follows immediately. It should be very difficult for any one group (A) to pass the costs of their own collective action onto some other group (B). Members of group B might voluntarily contribute to the resolution of A’s problems, but as long as B’s costs of collective action are low, group B should be able to resist effectively any effort by A to force B to pay for some benefit desired by the members of group A. In short, externalization of transaction costs should be prohibitively expensive under conditions of polycentricity.

Of course, externalization occurs all the time in any practical system of governance. Costs are imposed on other groups through two primary mechanisms: the absence or existence of a coercive state. In the baseline condition there is no institutional means by which concerns common to both groups can be fully discussed. Thus, there may be no way for the people in group B to bring their concerns to the attention of people in group A. Alternately, if A and B are subsets of a larger jurisdiction (such as a state) with the power to enforce policies on recalcitrant members, then A might gain control over the state’s policy in this particular policy area and pass the costs onto other groups less able to compete in this rent-seeking competition. Ideally, higher-scale governance units will make it difficult for smaller groups to impose costs of their own collective action onto other groups. In practice, of course, the coercive powers of national governments are frequently used to do precisely that.

The Core of Polycentricity

I now introduce an equilibrium concept analogous to the core of cooperative game theory. In cooperative game theory, coalitions of players are presumed to be able to make and implement their strategic choices in coordination. In the current context, a subset of individuals which corresponds to an existing governance unit can use that unit to coordinate its collective actions in response to some common policy problem. Conversely, subsets that do not correspond to a governance unit typically face higher transaction costs in the negotiation and implementation of coordinated responses.

The core is a fundamental equilibrium solution concept in cooperative game theory. As Hildenbrand (1989: 108) defines it, “The *core* of an economy consists of those states of the economy which no group of agents can ‘improve upon’. A group of agents can improve upon a state of the economy if, by using the means available to that group, each member can be made better off.” As Myerson (1991: 428) summarizes it, “if a feasible allocation x is not in the core, then there is some coalition S such that the players in S could all do strictly better than in x by cooperating together and dividing the [extra value] among themselves.” In effect, the core extends the logic of a Nash equilibrium (in which no one individual acting independently can obtain a better outcome by changing strategy) to apply to the cooperative behavior of the members of any possible subset of actors. The close relationship between the core and the well-known Nash equilibrium is best explained by Ordeshook (1986: 340): “If we interpret coalitions as players, then is it not reasonable to define a game’s solution as those utility n -tuples from which no coalition has the means or the incentive for unilateral defection?” It’s a stringent requirement, one that is not always found in all games. (It’s especially unlikely in majority voting games, given the ubiquity of instability in social choice processes.)

In a core-like equilibrium concept relevant to the current problem, no subset of individuals should expect to find it worth their while to establish a new organization (or other institution) to facilitate their collective action. Those subsets composed of individuals likely to interact frequently would, typically, have already established such an organization or institution. In this conceptualization, the final decision concerning whether a new organizational unit is to be added to the existing structure would be made not by a benevolent social planner, but instead by the individual groups themselves. Nothing in this solution concept precludes those groups who currently do not consider it worthwhile investing in building a unique organization from doing so in the future, should their circumstances change. But, as an equilibrium concept, this *core of governance* would represent a matching up between the governance architecture and the existing structure of interactions, preference and capability distributions.

If the transaction costs entailed in establishing and maintaining an organization were zero, then each subset would have an associated governance unit. But this is a clearly unrealistic outcome, for the number of subsets is immense for even small population sizes. Besides, transaction costs are never zero.

Let S denote the minimal start-up costs for establishing a new governance unit. In an S -core, all public subsets whose members can expect that by coordinated action they could obtain an aggregate benefit (or team production externality) of greater than S have already formed an organization to facilitate that coordination. By the argument given above, no group could expect to transfer costs larger than S to any potential victim group. For if a group is made to suffer costs greater than S , then it must be able to establish an effective means of resistance.

This concept of an S -core can be used to make abstract comparisons between different kinds of political systems. In a totalitarian system, rulers seek to keep S prohibitively high, except for those organizations formed under the direction of the ruling party. Of course, some groups find ways to arrange for informal cooperation, even under the most repressive regimes. In a democratic system S should be much lower. However, the value of S may differ widely for different types or sizes of groups. In a purely majoritarian democracy, for example, the interests of any minority group may not be obtainable within the context of that jurisdiction.

A fully-articulated system of polycentric governance should insure a low value of S for groups of all sizes and composition. Public officials should act to minimize the costs involved in bringing groups of all kinds together to resolve common problems. However, the public officials need not do the coordinating themselves. Indeed, a more desirable solution is for public entrepreneurs to produce groups with access to the resources they need to resolve their own problems. Otherwise, that group may become dependent on the continued patronage of a political leader. Of course, some leaders may obtain an advantage from nurturing such a sense of dependence, but this temptation should be resisted by imposing some know of cost on leaders who excessively dominate their followers.

Nor should all groups be encouraged to form. Governments routinely adopt policies intended to raise the costs of coordination for criminals or for other groups seeking to benefit from coercion (see Lichbach 1996). In the dynamic equilibrium of polycentricity, new groups are constantly forming, some of which may well seek to pass the costs of their collective action onto other victim groups. Thus a low value of S cannot be sustained automatically. Instead, this requires the concerted effort of public authorities and of the citizenry as a whole.

We can finally return to the perspective of welfare economics introduced early in this essay. I propose that a primary criterion of political leadership should be to exert the efforts needed to maintain low values of S . Technically, this criterion has two components, since both the mean and variance of S should be kept as low as possible. By variance I am particularly concerned about seeking to minimize the inequitable effects of each of the structural factors affecting the likelihood of collective action, as documented in Elinor Ostrom's contribution to this volume.

Of course, like all criteria facing rational actors, this one can be pursued only at a cost, and these costs must be kept in mind. As S decreases, the overall transaction costs

for governance in the society as a whole will increase. As S gets very small, these aggregate governance costs will quickly become astronomical. At some point an inordinate amount of time and resources would be devoted to governance rather than to directly productive activities. It might be possible to define a point of optimal balance between the lower costs of organizations facing latent or disadvantaged groups and the aggregate level of governance costs for society as a whole. However, whatever level of S is chosen, citizens and officials in a polycentric governance system should act to reduce variation around that level. Again, as the variance approaches zero the marginal costs of implementing more equitable policies will increase exponentially. Nonetheless, efforts should be made to make it difficult for still-advantaged groups to shunt the costs of their own collective action on to victim groups.

Successful maintenance of low mean and variance of S necessarily implies that the resulting system will be very complex. Institutional diversity will be served by this end, but citizens may risk losing a basic understanding of the very system they inhabit. Information overload can have a debilitating effect on any form of action. Thus, public officials must take concerted efforts to alleviate this confusion. In particular, efforts should be made to provide the public with easy access to information on diverse forms of institutional arrangements. Much of this responsibility falls upon academic researchers and instructors, who must resist any effort to over-simplify the range of relevant political institutions (see McGinnis 2002). It is especially important to ensure that each new generation of citizens gains direct experience with the practice of self-governance. In his classic assessment of American democracy, Tocqueville concluded that each new generation of Americans learned how to practice self-governance by their participation in religious communities, juries, and other aspects of local governance. These particular institutions have changed in significant ways since Tocqueville's time, and we need to assure that similar experiences are available for us today and especially for succeeding generations (V. Ostrom 1997).

Challenges of Sustainability for Polycentric Governance

The dynamic equilibrium of polycentric governance does not automatically maintain itself. There are several types of changes and developments that can undermine the continued viability of a polycentric order. The most important of these changes are outlined in this section.

Political Pressures against Perpetual Polycentricity

As emphasized above, the operation of a polycentric system of governance requires the repeated expenditure of high levels of time and effort on the part of its participants, both private citizens and public officials. Since all of these actors are presumed to be boundedly rational, they must be expected to seek ways to achieve similar benefits at lower costs to themselves. Some of these efforts, if successful, might undermine the very system within which they operate.

Consider the perspective of a public official associated with one of the higher level authorities in the Type I governance architecture. Suppose this official is dealing with a dispute between two parties from different sub-jurisdictions, each of whom is basing their claims on laws or regulations unique to that particular region. The public official in question would have to gather information not just about the specifics of the claims, but also about the relevant details of the specific laws being used as a justification by each of the parties. How much easier it would be if there was only one law or one set of regulations that applies to people or corporations in both of the jurisdictions! By the same logic, it would be much easier if a uniform set of laws and regulations applied in all subsidiary jurisdictions. As a consequence, at least some public officials located higher in the Type I governance hierarchy will have a compelling incentive to press for the application of standardized rules and regulations.

Now consider the perspective of the disputants. Each may well prefer the application of the respective local laws or regulations, especially those that each selected to defend their position in the dispute. Thus, one or both may resist the application of a standardized procedure in this case, if that application happened to adversely affect their interests in this particular dispute. However, if they actors are involved in a large number of interactions with other actors in different jurisdictions, then they might well realize costs savings from legal and regulatory standardization. This is often the case for economic actors involved in long-distance trade.

But not everyone is going to benefit from standardization. Consider the viewpoint of public officials for lower-level jurisdictions. They may have invested heavily in the acquisition of their expertise in understanding and applying those rules and regulations that are unique to their own jurisdiction. Indeed, they might well have helped craft these rules in order to serve their own interests, by making sure that they benefit from the additional transaction costs imparted by these legal requirements. Such officials are going to feel threatened by standardization, and should be expected to resist it to the best of their ability (at least until the time that they themselves obtain a position of authority at a higher level of the governance structure!).

Finally, consider the viewpoint of citizens of the lower-level jurisdiction who are not directly involved in the particular activities in question. If that unit is governed in a democratic fashion, then the laws and regulations in place can be said to reflect the tastes or preferences of the people living in that area (or at least that segment of the population which participates regularly in the democratic process). Citizens may resist standardization by insisting upon locally based practices that they see as more consistent with their own cultural traditions.

We already have the makings of some pretty complicated politics, but let me add one more dimension. As noted above, economic actors involved in cross-jurisdictional trade are likely to support increased standardization in order to lower their own operating costs. Such actors are likely to encourage higher-level public officials to exert pressure on their lower-level colleagues in order to facilitate trade. But, in addition, other actors may take exception to certain aspects of the legal or regulatory framework established in some

jurisdiction by lower-level officials and supported by local populations. These concerns may relate to the environmental consequences of productive practices legal there but not at home, or to the lower wages and social protection granted to workers in that jurisdiction, or to any other concerns about the human rights of people in that region or elsewhere. These concerns tend to be manifested in the form of trans-national advocacy coalitions (TACs) composed of networks of collaborating nonprofit and non-governmental organizations (NGOs). These activists exert pressure (or offer rewards for desired behavior) on government officials at all levels, economic producers, and/or on consumers. Their activities range from providing information for increased public awareness to direct action against corporations or governments seen as particularly egregious.

We now have the complete cast of characters for this little drama. Different-sized communities of interest are served by public officials from different levels of the Type I governance structure as well as by specialized Type II associations. Communities vary widely in their preferences and tastes, and any community tends to react defensively when its own values are challenged. On the other hand, some philosophical or ethical claims that are articulated in a universalistic fashion serve as the foundation for political activism on the global stage. Private entrepreneurs engage in trade throughout the world, introducing new products and posing new challenges for governance institutions of all types. Finally, all of this activity has very real consequences on the bio-physical environment and on overall processes of cultural change.

Losing Balance

The English word "govern" is related to the process of "steering." To sustain a polycentric system of governance is to steer a course (not necessarily straight!) through this complexity. Yet complexity or the simultaneous existence of multiple actors is not enough to insure polycentricity, as that term has been understood by scholars associated with the Workshop. Instead, a certain kind of complexity is required, a kind that sustains the ability of local communities to self-organize to cope with their own problems while still remaining congruent with basic principles of justice. Vincent Ostrom (1997) attaches particular prominence to the dictates of the Golden Rule, which has been articulated by thinkers as diverse as Jesus, Confucius, and Hobbes.

Polycentricity requires constant movement to sustain itself as a dynamic equilibrium, much like a bicyclist maintains balance more readily while the bicycle remains in motion. In effect, polycentricity connotes balance among all the forces and tendencies identified above. Each type of actor seeks more influence over others or acts so as to lower their own costs, but if any of these actors proves too successful, the overall balance may be lost.

Different paths away from polycentricity can be associated with these actors pushing in divergent directions. Recall that a fundamental component of a public authority is access to the use of coercion in a legitimate fashion. Not all public authorities are going to have equal access to those resources needed for the effective implementation

of physical violence. If authorities at lower levels of authority are better able to mobilize their supporters for violent action, then we are likely to observe a system of warlordism. In its "ideal" form, each warlord controls his or her separate fiefdom and no external authority is able to enforce standardized rules or regulations. At the other extreme would be an authoritarian system, in which the highest level of authority manages to capture quasi-monopoly control over all mechanisms of coercion. If that authority also captures control over productive assets and the most influential means of cultural influence over the population, then the totalitarian "ideal" would have been realized. In an idealized one party-state, all types of collective action would be shunted through organizations dominated by representatives of the central authority. Of course, even in the closest real-world examples some extra-legal forms of collective action remain viable, even if only barely.

Centralization need not be arrived at by violent means. It is also possible to imagine a central authority that so caters to the basic needs and wishes of the population as a whole that they find it unnecessary to maintain allegiance to any competing cultural authority. Some critics of the modern welfare state decry its tendency to mutate into an all-encompassing "nanny state" that does not encourage, nor even allow, its citizens to undertake any risks on their own behalf. For example, those citizens facing a collective problem who immediately seek the assistance of a top public official have lost all capacity to govern themselves. Public officials may encourage such an attitude of dependence on the part of the population. Many leaders of electoral democracies, for example, show no qualms at devising innovative ways to provide services for their constituents in hopes of securing their continued support at the ballot box.

In practice, of course, the state as nanny cannot satisfy all the needs and desires of the population, so there will always remain at least some other sources of allegiance. Religion, for example, is ubiquitous in all human societies, including the most advanced modernized societies. Despite expectations that secularization would remove all remnants of religious superstition, religions continue to provide some sort of real service to their believers, and there is no rational reason to expect religion to wither away in the foreseeable future. Still, an overly secular society might miss the balancing influence of faith-based organizations, and as such may not be defensible as a fully polycentric order.

Still another path away from polycentricity is paved by efforts to implement universalistic principles. Any normative order, no matter how appealing it remains to its believers, will generate results that someone will consider unsatisfactory. Much of the world has already experienced the devastating consequences of efforts to implement the normative system of communism, which had at least some basis in some desirable goals. We can only hope that future generations will not look back to reminisce about similar failures to implement a perfect Islamic or Christian society.

Universalizing tendencies can also be rather bland in their manifestation. An over-reliance on the advice of technical experts who organize themselves into professional associations, for example, might result in an elite-driven system that fails to address the emotional needs of the public as a whole.

Globalization, for example, generates so much recrimination because of the utter disregard that seems to be shown towards the unique strengths of local cultures. Instead, the stultifying homogenizing effect of an emerging global public culture seems relentless in its realization. To a great extent, this homogenization is supported by private producers seeking to minimize their costs of production and distribution. Still, many local peoples have mobilized to resist the worst effects of globalization, and there seems no reason to fear the complete abandonment of human cultural diversity. Nonetheless, it may be prudent to take particular care to protect institutional diversity in the onslaught of globalized patterns of political and economic practice.

A final path away from polycentricity begins with intolerance. A local community fearful of being absorbed within a globally homogenous mass or of falling under the domination of some other community may erect barriers that prevent the dynamic interchange of ideas and institutions. Taken to its logical extreme, a system of atomized localities might result, with each community engaged in a Hobbesian war against all other communities. Unlike the warlord-based system discussed above, the underlying logic of distinction is not coercion but cultural difference. As leaders in each community impose local values on all members of that community, a system of local tyrannies at war with each other would result.

In sum, then, the dynamic balance of a polycentric system in equilibrium can degenerate into extremes of warlordism, totalitarianism, excessive nannyism, oppressive homogeneity, a global blight of hysterical intolerance or bland technical efficiency, or even a Hobbesian state of war among local tyrants. Each of the component organizations of a polycentric system plays essential roles in restoring temporary imbalances that might result in one of these fatal wrecks. Since my descriptions of the potential consequences of degeneration might seem overdrawn or even a little melodramatic, the next section briefly surveys examples of past and present polycentric systems and the paths of degradation each has experienced.

Examples of Polycentricity in and out of Balance

Let's begin at the beginning, namely the Ostrom-Tiebout-Warren (1961) portrayal of the governance of some metropolitan areas in the United States as the exemplar of a polycentric system of governance. They articulated this vision of urban governance as an attractive alternative to simplistic versions of consolidated governance that were all the rage at the time. Indeed, much of the empirical research conducted by Workshop scholars in its first decade of existence was directed to exactly this question. In particular, the incomplete implementation of an area-wide city-county consolidation of governance in Indianapolis, Indiana, provided the empirical focus for this research, along with comparisons to other metropolitan areas (see McGinnis 1999b). Despite clear findings of the benefits of non-consolidation in at least some aspects of police services, for example, debates and reform movements continue to this day.

The basic rationale behind urban consolidation has been to reduce the costs associated with complex and redundant systems of governance. Throughout the cases discussed in this section runs a common pattern. As each system moves away from the polycentric balance, the relevant communities no longer enjoy the benefits of resilience, redundancy, access to local knowledge, adaptability, flexibility, experimentation, accountability, or efficiency in terms of responding to diverse citizen preferences. The resulting system may prove much less costly in terms of transactions or governance costs, yet many advantages had to be sacrificed to realize these gains.

Another important example of polycentricity familiar to Workshop scholars comes from Tocqueville's classic study *Democracy in America*. At the time of his writing, the national government played a relatively minor role in people's everyday lives, although it had begun to make significant and long-lasting contributions to infrastructure essential to economic prosperity and the rise of a national consciousness. Tocqueville stressed the non-obvious contributions to self-governance of common experiences in such institutions as churches meetings, township governance, and juries. He concludes that the habits of heart and mind of the American people are the primary determinant of their success at implemented a democratic republic of continental proportions.

Tocqueville cautions that not all was sweetness and light when it came to the institutions of American democracy. He expresses particular concern about the subservient status attached to black slaves and to Native Americans. Looking back on his analysis from today, the democracy he so effusively describes involved only a remarkably un-diverse society of Anglo-Americans. Tocqueville also expressed concern about increasing reliance on the government as the primary producer of public services, especially in his second volume. Vincent Ostrom (1997) expounds on these concerns by raising doubts about the long-term sustainability of polycentric governance among a people increasing dependent on public assistance. He points especially to the rise in power of the national government in response to massive challenges of economic depression and world war, and to continuation of this trend in the rise of the imperial presidency. Along with these changes came a decreased ability of local communities to provide for their own interests. Ostrom attributes much of this problem to the tendency of political scientists and policy analysts to focus almost exclusively on politics and administrative practices centered at the national level, thus undermining the essential foundation of community participation in local governance. Elinor Ostrom stresses a similarly expansive vision of civic education for self-governance, which must push students towards increased participation in their own futures.

There is nothing uniquely American about the concept of polycentric governance. The Holy Roman Empire may be taken as another important example of polycentricity, especially in the way in which it exemplifies the complex social order that characterized medieval Europe. Berman (1983) articulates a vision of this era as providing the foundation for future elaboration of European civilization, which he insists is an amalgam of diverse influences and institutions. Berman stresses the complementary interactions among the legal orders formulated through the evolving practices of ecclesiastics,

merchants, city-dwellers, lawyers and legal scholars, and the nobility of each European nation.

This system certainly had its drawbacks, especially in the slow development and implementation of new scientific knowledge and technological advances. Ultimately, the Holy Roman Empire fell as a victim of the military power and administrative capacity of the centralized nation-state, which came to dominate first the European scene and later the world as a whole. This Westphalian system of sovereign states came to dominate scholarly understanding, even though it simply failed to recognize all important aspects of the modern world order. For example, alongside an anemic law of nations that did not contribute much to the control of the policies of national governments grew a remarkably effective system of private international law. Originally grounded in the merchant law developed in medieval cities, this system continues in effect today, especially through the extensive efforts of private associations of international arbitration. In addition, transnational cultural ties of common religion, language, and ethnicity remained important throughout the medieval and modern eras. Despite the pretensions of so-called realist theory, the sovereign state never completely dominated international affairs. The oft-touted "obsolescence" of the nation-state in the presence of transnationalism or globalization basically represents a continuation of its previous inability to monopolize public affairs.

The Westphalian system can be seen as the antithesis of a polycentric system, to the extent that state authorities assert control over all aspects of public policy. Of course, they never attain that end, but that claim remains at the heart of this system. The logic of this system found its natural extreme in experiments with totalitarian governance in the twentieth century. Totalitarian states of the Nazi and Communist varieties rose and fell, causing unmeasurable grief in their wake. Ultimately these systems failed to compete in an effective fashion with societies whose states were more open. The military might of Nazi Germany was overcome by the forces of other world powers. Later, the Soviet Union devoted such a high proportion of its resources to the military that its economy was unable to compete with the rest of the industrialized world. Although it is common to interpret this competitive failure in solely economic terms, I think it is equally accurate to stress the ways in which the communist party-state worked to undermine the ability of its own people to creatively resolve their own problems.

The Polycentric European Union

The European Union arose as a new kind of political-economic entity in a European continent shaped by a pair of world wars and fears of a third. Originally just a treaty between national governments and not yet a truly complete polity, EU governance occurs simultaneously at multiple levels and in different areas of public policy. With its emphasis on the development of sub-national regions and its efforts to generate a shared sense of European culture, the EU harks back to the heritage of medieval Europe. It's not clear just what the EU is, but it is certainly something different from a standard state (Rosamond 2000).

As a dynamically changing polycentric order, the EU faces daunting challenges in maintaining an appropriate balance among the forces discussed above. Some subnational loyalties to regions have increased in importance, and yet national feelings remain in force. As detailed elsewhere in this volume, the EU relies very heavily on the imposition of central directives in the areas of agricultural and environmental policy, to the detriment of appropriate local variability in environmental conditions and institutional response. For the most part, the process of integration has been driven by political and economic elites, seeking to make European corporations more competitive in global markets by combining assets and reducing transaction costs. Recent resistance in France and the Netherlands against the proposed EU constitution may be taken as evidence that the process of integration may already have proceeded too far, at least according to significant segments of the population in those two centrally important countries. By no means is the European project of the EU dead in the water, but these resounding votes against ratification of this constitution is likely to slow the process of expansion.

Debates over the ratification of the proposed EU constitution were held in each country separately. As a consequence, opponents in each state could attribute to the proposed constitution much of what that public disliked about the process of European integration. A common theme articulated by opponents of the constitution is that the EU imposes excessive homogenization of policy and standardization of conditions across Europe as a whole. Remarkably, EU officials denied that the constitution would add anything significant to this process.

In an interview on the PBS News Hour on June 1, 2005, after the rejection of the EU constitution by the French public and a few days before the even more resounding no vote by the Dutch, John Bruton, EU Ambassador to the US and a former prime minister of Ireland, emphasized the importance of recognizing that each level of government has distinct responsibilities and competencies:

I think it's time to be more honest ... about what the European Union can do and about what it cannot do. And what is the matter of responsibility of nation states to do, and indeed maybe of local firms and local individuals. The European Union can't take responsibility for solving all the problems in people's lives. People have to take their own responsibility. Governments at the national level have to take their own responsibility, but the European Union must take its responsibility and we need to explain that there are different levels of responsibility and the EU is not either to blame for or entitled to the credit for everything that happens. (Bruton 2005)

That Bruton's assertion that the proposed constitution was a guarantee of continued national diversity in the expanding EU is so out of kilter with the general public impression signifies a major public relations problem for the EU. Advocates of closer union need to clearly articulate the ways in which a stronger union can protect and insure diversity. A minimal requirement would be for advocates to clarify the appropriate roles of public authorities at all levels of governance from the local to the EU level. Any hopes of completing the transition to a constitutional basis will require a clearer

understanding of the reasons why multi-level governance should be sustained, even at the cost of confusion and policy incoherence.

In sum, the EU is an example of polycentric governance in danger of going off course and losing the balance needed for its continued development. The EU has made dramatic advances in opening up markets and in deepening ties among the peoples of Europe. However, EU officials and advocates need to do a better job of articulating their vision of the essential roles that local, regional, and national diversity will continue to play within the European project. This diversity remains the foundation of European civilization, and it is essential that the European publics recognize and reinforce that diversity.

Conclusion

Since this discussion has been presented in such an abstract format, it may be useful to conclude with a more straightforward statement of the principles of governance being advocated here. My argument implies that public officials should be guided by the following normative criteria:

1. Level the playing field by facilitating the formation of effective collective action by latent groups (i.e., those left at a disadvantage in natural processes of collective action or by previous forms of government policy).
2. Raise the costs for groups seeking to transfer the costs of their own collective action onto other victim groups.
3. Provide channels of communication to lower the transaction costs of collective action for latent groups, but encourage them to be self-supporting and not dependent on this assistance. (In short, build a climate of empowerment not entitlement.)
4. Don't seek to minimize the total costs of the transactions of governance, but rather encourage forms of cost structures that have the consequences of improving the ability of groups to organize and govern themselves.

Finally, what does all of this say to the current situation confronting analysts and public officials in the EU? The goal of public policy should not be a continent-wide simplicity of policy consistency, as was one of the goals articulated in a recent White Paper on EU governance. Instead, the goal should be to embrace complexity and incoherence. The key concern should be to facilitate the organization of self-governance on a local and regional level. European Union should not be seen as the simple extension of a system of sovereign states to the level of the continent as a whole. Instead, Europe's contribution to human civilization should be its continued example as an endless source of complexification, as a commodious compendium of institutional diversity.

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