Self-Governance, Polycentrism, and Federalism: Recurring Themes in Vincent Ostrom's Scholarly Oeuvre

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Abstract

This paper addresses Vincent Ostrom's treatment of self-governance, polycentrism, and federalism through which he has generated a coherent vision of political economy. After examining some ontological and epistemological presuppositions that are central to his work, the rest of the paper explores four topical areas: (1) his examination of knowledge, belief, and the requisites for good civic practice; (2) his conceptualization of a polycentric public economy; (3) his articulation of the problem of public administration through his conceptualization of a municipal services industry; and (4) his treatment of federalism as a compound republic rather than simply a form of administrative decentralization.

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My assignment for this Symposium is to address self-governance, polycentrism, and federalism as these are treated within Vincent Ostrom's scholarly oeuvre. The interaction among these three interlaced themes provides a unifying coherence to Ostrom's work. Whether one examines Ostrom's early work on the organization of water supply, his subsequent work on public administration, his work on federalism and urban government, or his more recent work on Tocqueville and the problematic of democracy, a coherent analytical vision connects those works. While Ostrom's disciplinary home is political science and not economics, he is a scholar of public finance in my personal map of the intellectual universe. In saying this, I most surely do not have in mind the narrow, economistic types of conceptualizations that have characterized Anglo-Saxon public finance in recent memory. To the contrary, Ostrom's style of public finance brings to mind the multidisciplinary efforts that characterized the Germanic tradition of Staatswissenschaften and the complementary Italian approach that flowered generally between 1880 and 1940.[2]

I start by presenting what I regard to be the conceptual core on which Ostrom's scholarly work is based. That core primarily contains ontological and epistemological presuppositions that that are relevant to human governance.

[2] For a survey of Staatswissenschaften, see the symposium in the *European Journal of Law and Economics* 12 (No. 2, 2001). For a symposium on the classic Italian approach to public finance, see *Il pensiero economico italiano* 11 (No. 1, 2003). For an articulation of a distinctive continental tradition of public finance that stands in sharp contrast to the Anglo-Saxon tradition, see Jürgen Backhaus and Richard Wagner (forthcoming).

From that core, Ostrom has generated unique insights and formulations across several intertwined areas of scholarship that are organized here under four topics. The first topic involves knowledge, belief, and the requisites for good civic practice. Ostrom seeks to bring the cognitive faculties to bear on the mitigation of conflict within the public square and, in so doing, shows a family resemblance to some of the formulations in the Germanic literature on ordnungstheorie. The second topic treats Ostrom's conceptualization of a polycentric public economy. In this, Ostrom stands in sharp contrast to the widespread treatment of government as some unitary being that exercises rulership over society. The third topic explores Ostrom's articulation of the problem of public administration as this stems from his conceptualization of a municipal services industry. Where the common approach to public finance these days construes government as an agent of intervention into society, Ostrom treats government as a process within which people participate in their own governance. The fourth topic is Ostrom's treatment of the compound republic and of the relationship among liberty, federalism, and democracy. Most scholarship on federalism subordinates federalism to democracy, making federalist governance a subset of democratic governance through administrative decentralization. For Ostrom, federalism is primary, but with federal governance being polycentric and not hierarchical. In this formulation, Ostrom stands in sharp contrast to the common formulations that treat federalism fundamentally as a matter of administrative decentralization.

Between Intelligence and Fate: Some Architectonics of Good Governance

Sermons are presented as extended meditations or reflections on some text. While this paper is not a sermon, I did set myself the task of selecting some text that, upon suitable meditation and reflection, would make it possible to illuminate the logical structure of Vincent Ostrom's scholarly oeuvre. In looking for this text, I found myself returning repeatedly to the question Alexander Hamilton posed in *Federalist* No. 1: "whether societies of men are really capable or not of establishing good government from reflection and choice, or whether they are forever destined to depend for their political constitutions on accident and force (1961, 33)." The various interwoven threads that would comprise an effort to address this question provides a nice mental map for ordering the very substantial body of work that Ostrom has created so far in his career.

To be sure, the subject of this paper is Vincent Ostrom and not Alexander Hamilton. I could have chosen texts from Ostrom's work that have the same quality of facilitating wide-ranging reflection and meditation. For instance, in *The Meaning of American Federalism*, Ostrom states that "[T]he burden upon students of federalism . . . is to understand how overlapping jurisdictions and fragmentation of authority yield emergent patterns of order that are at least as consistent with standards of liberty, justice, and general welfare among persons of equal standing as the patterns that can be achieved where unitary states rule over societies (p. 135)." In a similar vein, he closes *The Meaning of Democracy and the Vulnerability of Societies* by asserting that "[T]he world as such is not free or just; freedom and justice are human creations that can only be constituted

and maintained by learning how to be free and just" (p. 302). Ostrom stands on the natural law side of the dispute between natural law and legal positivism, though the object of his thought is social organization and not individual choice. For Ostrom, the architecture of good governance is centrally a problem of wisdom or cognition, though in a social and polycentric setting as these are reflected and incorporated into institutionalized practice.

The challenge of achieving good governance is similar in form to the challenge of securing a fecund garden. Mother Nature provides us with opportunities and resources as well as setting limits on what we can achieve. The outcome depends both on the knowledge we can secure and the use to which we put that knowledge. It is the same in the social universe. The challenge of societal gardening, however, is more complex than the problem of ordinary gardening. Whereas ordinary gardening is a relatively simple matter of individual choice, societal gardening is interactive and catallactic. Additional complexity arises out of a fundamental distinction between the natural and the humane sciences. People might differ over whether pests should be fought with pesticides or by some sort of green-friendly approach and with those differences perhaps being held with great intensity. Regardless of those differences, however, the natural world operates independently of what we think about its operation.

This is not so with the social world, for there the institutions we generate and the patterns of conduct we form can influence our activities and practices, which in turn can influence conventional norms about the governance of human

relationships. For instance, in free and open economies where goods are priced at market clearing levels, we would generally expect also to observe politeness among shoppers. Should price controls and rationing replace market clearing prices, we would expect the population to start transforming into pugilistic beasts as the density of rudeness increases within the population. One need only recall the growing amount of violence and increasingly bad manners that came to accompany the simple purchase of gasoline some 30 years ago in the United States. Fortunately for the cause of decent civil order, price controls over gasoline were abandoned before too long.

The mental maps that we bring to bear on our activities can influence those activities. The challenge of securing good governance involves both the moral imagination and analytical reasoning about the performance characteristics of the institutional arrangements we create. Institutional arrangements can affect the content of practice, which in turn can affect the content of the moral imagination. In construing the task of securing good governance as a form of societal gardening, the central issue becomes what it might take to improve upon what Mother Nature might offer us. Mother Nature provides us plenty of opportunity along with plenty of peril, but to what extent we can influence the mixture, and in which direction, is the object of Vincent Ostrom's scholarly oeuvre, for that oeuvre represents an extended examination of the difficult tasks that must be surmounted in any effort to expand the scope for reflection and choice over accident and force.

Ostrom starts from the presumption that self-governance is a good thing within the public square, and then argues that achieving good governance requires both knowledge and will on the one hand, and supporting and consistent institutional arrangements on the other hand. Those matters concerning knowledge and institutional arrangements, moreover, are not independent and additive, but are related to each other. For Ostrom, liberal governance in modern, complex societies can only be accomplished through institutional arrangements that are polycentric. To try to mix hierarchical ordering processes into such a polycentric setting is a recipe for the generation of societal conflict.

Such scholars as Craig Roberts (1971) and Peter Boettke (1993) have explained that the Soviet Union was never truly a centrally planned economy because the complexity of the task would have overwhelmed any such genuine effort. Instead, the Soviet Union was inescapably a polycentric economy, only it was terribly fouled up through inefficient and contradictory institutional arrangements. Once societies grow beyond small tribes, hierarchy necessarily gives way to polyarchy. Our models and theories, however, often maintain a hierarchical fiction, perhaps often because of the greater tractability that results. It is easy to go astray by using models of hierarchy to examine polyarchical settings. Some polyarchies, however, perform better than others, and the challenge for good governance is to use intelligence to advance the good relative to the bad. The interacting public is comprised of people who differ from one another in many ways. Those differences provide opportunities for mutual gain through commerce. They also provide bases for conflict. Governments,

moreover, serve in a dual capacity that is laden with opportunities for conflicts of interest, in that they are simultaneously instruments for the control of conflict and loci for the organization of conflict. Ostrom's concern is how that public might be constituted so as expand the scope for human flourishing while restricting the scope of human degradation.

For many free market economists, this seems to be an easy task: just adopt free markets. But this is to solve the problem by assuming it away. Free markets are the abstract noun we use to characterize that set of human relationships that are governed by the legal principles we denote as private property, freedom of contract, and personal liability. In no modern society do those legal principles hold exclusive jurisdiction. Moreover, legal principles must have some degree of resonance with the moral imaginations of those whose relationships are being governed by those principles. The legal principles of a market economy can be stated alternatively as a set of simple moral injunctions. Private property can be translated into something like don't take what is not yours. Freedom of contract can be translated into something like keep your promise, or if you can't, repair the damage that your failure to do so causes. Personal liability can be translated into something like make good the wrongs you do unto others.

In a world where all participants held tightly to those moral beliefs, the legal framework for a market economy, as well as market ordering itself, would follow automatically. Actually, they would all evolve or emerge simultaneously. Natural law theorists of all varieties claim that both knowledge of the good and

willfulness are features of our natures; the former allows us to act as judges, the latter prevents us from acting as judges in our own causes. The classical approach to moral education also claims that knowledge can be amplified or degraded according to the specific content of training and practice. Individual souls could thus be relatively well-ordered or relatively ill-ordered, with the degrees of wellness or illness subject to influence through institutionalized practice. For Ostrom, the treatment of such classical themes is posed in a polycentric or interactive framework where the institutions of governance both reflect interactions among minds and, through specific forms of practice those institutions shape, also influence the content of those minds.

Ostrom's theoretical orientation is fully centered on processes of movement and development, and not at all on the comparative statics of equilibrium states. Concepts of equilibrium might have some use as part of a mental experiment where that experiment itself is designed to illuminate processes of movement and change, but Ostrom does not confound a set of equilibrium conditions with reality. In this spirit, it would be consistent with Ostrom's analytical orientation to imagine a society of people whose members believe that their individual and common flourishing is best promoted through the liberal arrangement of private property and freedom of contract. Those people also have a parliamentary assembly to articulate and deal with some problems of general interest and concern. There is congruence between legal arrangements and moral belief, momentarily.

What happens as the seasons pass and time moves on? Consider a small town with only three residents, all landowners: Prima, Secundo, and Terza. Prima's land contains a marshy area that birds like and that she would like to drain and fill so that she can build a swimming pool on it. Secundo and Terza, though, like watching the birds and hearing them sing, and they would like to see that portion of Prima's land used as a bird sanctuary. This would be easy for them to accomplish within the legal framework of a market economy, but they would also have to pay for their bird sanctuary. In contrast, a legislative action that converts the bird sanctuary into a government project would transfer some of the cost onto Prima. Such an outcome would seem to allow Secundo and Terza effectively to plunder Prima in the name of public policy.

In Ostrom's framework, as well as that of the classical Greeks and other theorists of natural law, a conflict has been set in motion between law and morality, only it is a polycentric conflict and not just a conflict that resides within an individual. It is reasonable to ask how various institutional arrangements promote or extinguish notions of normativity though the kinds of practice they encourage or discourage. For instance, in the above illustration repeated a number of times, an injunction not to take what is not yours will be subject to modification, perhaps transmuting into something like don't take it unless you can get some key legislators to support you.

While Ostrom certainly acknowledges that people can have different preferences, he also construes the problem of governance as more significantly one of the generation and utilization of knowledge in society. The bulk of the

literature on public choice treats the revelation of preferences as the central problem of social order. For instance, voting rules are conceptualized as devices for aggregating preferences, with some of those rules allowing particular subsets of people and preferences to gain predominance over collective choices. In contrast, Ostrom's central concern is with the creation and use of knowledge. For Ostrom, arrangements for governance primarily concern the structuring of conversation among people, which is no simple task, as Bertrand de Jouvenal (1961) explains. Ostrom's central concern arises out of his realization that the quality of our actions and interactions in participating in the social world is affected by the frameworks we construct to guide our activities in the world. In pursuing this orientation toward the pivotal importance of knowledge and intelligence, Ostrom would seem to be complementing such luminaries as Friedrich Hayek (1945) and Frank Knight (1960).

Conflicts might arise among people because they want different things or because they believe they know different things. The source of conflict is important for framing the issues of governance. To illustrate, consider a very stylized representation of contemporary conflict over a very generic version of a welfare state. Some people support relatively expansive welfare programs and use a positive language that speaks of such things as safety nets. Other people support relatively austere welfare programs and use a negative language that speaks of such things as handouts. These differences could arise out of differences in preferences among people. Those who support relatively expansive programs might be characterized as having utility functions that

possess greater benevolence or altruism than those who support austere programs and speak of handouts instead of safety nets.

An alternative explanation for the observed conflicts among people is rooted in knowledge, or in beliefs about knowledge. It is possible for people to be described as having the same preferences yet be observed to have widely varying attitudes toward the programs of the welfare state. Those differing attitudes could originate in different beliefs about reality. People who believe that people are naturally industrious and provident might believe that welfare payments will do little to undermine the naturally industrious and provident character of the recipients. In contrast, people who believe that the extent of industry and providence within a population can be strengthened or weakened, depending on the incentives created by particular programs and the practices those incentives promote, might believe that welfare payments are capable of doing significant damage to industry and providence.

The potential conflict between what is held desirable and what is promoted through institutionalized practice lies at the center of the emphasis on market-conformability that was central to the analysis of order policy that was articulated initially in Walter Eucken (1952) and that has been carried forward in such places as Liepold and Pies (2000), Kasper and Streit (1998), and Vanberg (1988). The treatment of market conformability in this literature reflects a recognition that societies could contain incongruent institutions, with this incongruence creating internally generated sources of conflict and practice. It would be fully within the spirit of Ostrom's scholarship to speak of an urban transit industry. To start,

suppose the consensual framework of a market economy governs the relationships among all participants. Accordingly, some people might drive their own cars each day, while other people might create taxi or limousine companies. Still others might establish, bus service, others might try monorails, and yet others might try to establish a subway service. All of these enterprises might be operated privately by profit-seeking companies, but if so this would be an emergent feature of the process and not something dictated in advance. There might be some cooperative enterprises that participate in this industry, and there could even be some municipally owned operations.

With the prospect of municipal operation comes the Faustian bargain that Ostrom (1984) has explained crisply. It is one thing for governmental agencies to participate within polycentric societal processes on the same terms as other participants. In this case, municipally sponsored transit enterprises would have to compete for customers on the same basis as all other enterprises within a setting of universal contestation. Governments, though, have the possibility to avoid or skew such contestation, as through subsidizing enterprises that might otherwise fail in open competition with private transit enterprises. They can also impose disabilities on competitive enterprises through regulation; for instance, the competitive ability of a privately organized bus company might be degraded by requiring it to maintain routes and schedules that are not profitable. Alternatively, a government might strengthen the competitive ability of a municipal transit company by imposing a tax on parking garages. There are an indefinitely large number of ways by which a government can use taxation and

regulation to secure advantages for the enterprises it sponsors relative to other enterprises within a society.

The various formulations of ordnungstheorie sought to develop a conceptual test to distinguish between government ordinances that were compatible with the basic ordering principles of a market economy and those that were not. That test asked whether policy measures were in conformity with the central operating features of a market economy. Import quotas would fail this test whereas tariffs would not, at least if applied universally and at relatively low rates. Ostrom's concern with governance in relation to the curbing or the promoting of conflict seems to reflect a similar orientation. The practice of self-governance requires a proper mental orientation among the participants. Subsequent practice may reinforce that orientation, but it might also weaken it. The formulations of the theorists of order policy sought a heuristic device that would serve as an instrument of guidance, and I think a number of Vincent Ostrom's formulations have been articulated within a similar orientation toward the heuristics of governance.

The Polycentric Public Economy

Starting with his early work on water supply and continuing throughout his career, Ostrom has sought to develop a polycentric framework for analyzing the operation of the public economy. A polycentric analytical framework removes government as a locus of ultimate knowledge and final authority. This removal clashes sharply with the hierarchical framework that dominates in the analysis of

public economies. For instance, in the customary formulations of welfare economics and public finance, market participants are treated as writing the first draft of the manuscript of social life, so to speak, with government then revising and correcting the manuscript so as to attain some such standard as Pareto efficiency.

In thinking of the deep cleavage between Ostrom's polycentric approach to the public economy and the standard hierarchical or unitary approach, I was reminded of the dueling book reviews that were penned in response to the appearance of Antonio De Viti De Marco's *First Principles of Public Finance*. Fredric Benham reviewed an earlier, Italian version in *Economica* in 1934, while Henry Simons reviewed English and German translations of a modestly revised version in the *Journal of Political Economy* in 1937.

Benham began by asserting that De Viti's book "is probably the best treatise on the theory of public finance ever written (p. 364)." Benham likened De Viti's *First Principles* to Alfred Marshall's *Principles of Economics* in its broad range combined with deep insights, and he laments the sorry state of public finance in England, which he identifies with such luminaries as F. Y. Edgeworth and A. C. Pigou. Benham asserts that "to turn from [English public finance] to the pages of the present volume [De Viti] is like turning from a Royal Academy exhibition into a gallery of Cézannes (p. 365)." Benham closes his review by lamenting that the "lack of an English translation is a great misfortune and loss to all students of public finance in English-speaking countries (p. 367)."

Henry Simons did not share Benham's opinion of De Viti's work. Simons began by noting that the translations "will make possible a more informed consensus, both as to the merits of Italian economics and as to competence of the interpretation and appraisal which it has received in other countries (p. 712)." Simons then offered his judgment: "Careful reading . . . has left the reviewer with no little resentment toward the critics who induced him to search in this treatise for the profound analysis and penetrating insights which it does not contain. The *Principii* is revealed to him, not as a great book, but as a . . . monument to . . . confusion (p. ." Simons continued by asserting that "there is not a single section or chapter which the reviewer could conscientiously recommend to the competent student searching for genuine insights and understanding (p. 713)."

Simons finishes his review by taking on Benham's review: "If his book is 'the best treatise on the theory of public finance ever written,' one hopes that it may be the last. . . . To say that it is distinguished among treatises in its field is to praise it justly and, at the same time, to comment bitterly on the quality of economic thought in one of its important branches. To call it a great book, however, is a disservice to the cause of higher standards and better orientation in economic inquiry (pp. 716-17)."

That two reviewers, each classically liberal in political philosophy, could be so opposed in their appraisals is vivid testimony to the importance of fundamental orientations and their ability to shape perceptions about the value of different approaches to scholarly inquiry. De Viti and Benham shared an orientation toward the domain of public finance that was antagonistic with

Simons' orientation. For Simons, government was a unitary agent of intervention into society. For De Viti and Benham, as for Ostrom, government was an abstract noun that is used to denote polycentric processes of human interaction.

Ostrom's polycentric approach to the public economy fits well, of course, with the Wicksellian approach, particularly Wicksell's (1958, orig. ed. 1896) observation that the theory of public finance "seems to have retained the assumptions of its infancy, in the seventeenth and eighteenth centuries, when absolute power ruled almost all Europe (1958, 82)." Ostrom treats government as a nexus of relationships within which people participate in their governance, not as a choosing entity that intervenes into a society to alter equilibrium outcomes. Political outcomes belong to the realm of catallaxy and not to that of choice. To be sure, catallaxy is generally regarded as a synonym for exchange, but it can also be used as a synonym for interaction that includes duress, as explained in Richard Wagner (1997). For Ostrom, public finance is not the study of government intervention into a society, but is instead the study of how people participate through a variety of organizations to promote and advance their projects and interests. Furthermore, Ostrom places his analytical focus on emergent processes of development and not on equilibrium states, and does so in a setting where much of that development is set in motion by conflicts among people and their plans.

Much dispute in the theory of public finance concerns the dichotomy between private goods and public goods, as this distinction is generally thought to have something to do with the relative sizes of market-governed and state-

governed economic relationships. Ostrom recognizes that a vibrant public sphere is essential for human flourishing and seeks to craft a polycentric framework for analyzing the ability of people to participate in processes of self-governance to secure that flourishing. Contemporary societies are comprised of a huge multitude of overlapping and intersecting publics. Governance within those publics proceeds according to a variety of institutional arrangements, including arrangements that sometimes generate conflict among those publics.

The contemporary theory of public finance has been woven largely around a dichotomy between private and public goods, which seems to map directly into a dichotomy between markets and governments as methods of economic organization. While the theoretical dichotomy is sharp, it has little if anything to do with illuminating issues pertaining to self-governance. There are numerous instances where similar enterprises are organized in both market-based and politically-based manners. Just as there are privately organized hospitals, so are there governmentally organized hospitals. There are tennis courts and golf courses organized by governments, and there are golf courses and tennis courts organized through governmental arenas. It is the same for parks and other recreational facilities more generally, for libraries, and for educational services. There are governmentally-sponsored enterprises that seek to help people learn foreign languages, and there are market-based enterprises that seek to accomplish the same thing. It is the same for the provision of security services. In short, the theory of public goods would seem to have little if anything to do with the concrete phenomena of public finance.

Perhaps it is the very dichotomy between private and public goods that is disabling, particularly in the resulting shift of attention away from concerns about institutional arrangements onto concerns with resource allocation. The extent of the public is surely broad and not narrow. Most economic activity takes place in organized public arenas. Places of commerce are public arenas. A public exists whenever a multiplicity of people comes together. In many instances, the composition of a public is continually changing, as illustrated by the customers of a retail store, yet those customers do constitute a public. Anyone who has been disturbed in a theatre by someone talking nearby can attest that watching a movie in a theater is a public experience, in contrast to watching it at home. For the most part, though, the organization and governance of a wide variety of publics is secured in open and polycentric fashion, not through the hierarchical ordering suggested by formulations from the theory of public goods.

Public Administration and the Municipal Services Industry

Within Ostrom's general treatment of a polycentric public economy, special attention should be given to his treatment of a municipal services industry. Many different enterprises are involved with the provision of services within the public square. As Ostrom (1962) explains, it is not the case that water is supplied either by market-based organizations or by governments. Rather, it is that myriad different enterprises participate in the provision of water, and these enterprises operate under a variety of organizational frameworks. It is a straightforward matter to conceptualize a municipal services industry, as this was

articulated by Ostrom et al. (1961), and elaborated further in Bish and Ostrom (1973). As Ostrom (1973) notes in *The Intellectual Crisis in American Public Administration*, the standard orientation in public administration has focused on bureaucratically controlled and directed hierarchies. One part of this standard orientation is a sharp distinction between politics and administration. Political regimes may change, but administrative tasks remain the same.

Ostrom seeks to replace this standard orientation with one of polyarchic and competitive public administration. In theories of decentralization, it is common to speak of some assignment of tasks among jurisdictions. These formulations lead to neat mappings where different units of government provide different services, depending on the geographical range over which those services extend. A city police department might police city streets and issue parking tickets, but it would take a larger jurisdiction to track down arsonists. Decentralization can, of course, be treated as a simple matter of administrative choice, which is the course taken in the standard, hierarchical formulations. Ostrom, though, treats decentralization as the emergent result of a polycentric, competitive process.

Within an orientation that treats municipal services as being organized hierarchically through assignment, the key questions revolve around the exploitation of economies of scale and the internalization of externalities. With respect to economies of scale, the size of jurisdictions is taken to depend on cost conditions. If jurisdictions are so small as to be on the declining portion of some average cost function, consolidation into larger jurisdictions might lower cost.

Similarly, if the choices made by one jurisdiction impose external costs or benefits on other jurisdictions, some type of intervention by higher levels of government could possibly internalize those externalities.

Ostrom points out that neither of these types of concern is relevant to any administrative delineation of jurisdictional boundaries. Suppose there are 20 towns of 10,000 residents each, and further suppose that the least cost manner of providing general police service requires that it be supplied for 100,000 residents. A consolidation of the 20 towns into two cities is not necessary to secure the saving. Even if we began with each jurisdiction providing its own police force, we would expect open competition to lead to some towns dropping their police services and buying them from other towns. Thus, two towns would have police departments suitable to serve 100,000 residents, with each of those towns selling policing services to nine other towns. There is a clear distinction between the jurisdictional units through which demand is articulated and the jurisdictional units within which production is organized.

To be sure, this simple arithmetic does not speak to the variety of possible story lines that this simple scenario contains. Among other things, it does not speak to the operation of the actual processes of governance by which some jurisdictions stop providing their own police services and buy them from some other jurisdiction instead. The simple arithmetic says that there is an opportunity for people to receive police services in less costly fashion through organizational restructuring, but there are other considerations that might also come into play. For instance, 20 police chiefs would be reduced to two. Even if salaries remain

the same, social standing of those ex-chiefs might fall, which in turn might galvanize some resistance to such organizational rearrangement. Regardless of the outcome in particular settings, the material emerges out of a setting of polycentric public finance.

What holds for economies of scale holds for externalities as well. Several adjacent cities might be connected by a highway that carries much traffic among the cities. If each city sets traffic signals along the stretch of highway within its boundaries, overall traffic flow could be slowed through a resulting non-synchronization of traffic signals. This would be an illustration of an external diseconomy stemming from the signal timing choices by individual jurisdictions. The hierarchical solution to this problem is to invoke some higher level of government to take over the setting of traffic signals. An alternative resolution would be as simple as a conference call or an exchange of emails, as in the postulated setting there are clear advantages to all participants from securing a more effective coordination of traffic flows.

Once again, however, the simplicity of this alternative resolution does not speak to the variety of possible story lines that this scenario can hold. For instance, everyone might not be of the same mind in thinking that faster movement along the highway is invariably better. People who seek to move twenty miles down the road may think that faster travel is better than slower travel. In contrast, people who might use only a two or three mile stretch of the highway, stopping several times in the process to shop, may be more concerned with the ease of entering and exiting the highway. The interest of such people

might be better served by an increased density of traffic signals that slow down the average rate of movement. Once again, however, the actual operation of the polycentric processes by which signals are erected and their timing established will be polycentric and not unitary in nature.

The standard formulations focus on the assignment of functions and the allocation of resources. A major problem with this approach is that resources cannot allocate themselves, nor can functions assign themselves. Only people can do these things, and how they do so is governed both by what they know and how the institutional arrangements within which they operate channel and constrain their actions. In the common, allocationist-centered approach to public economics, government is construed as an instrument of intervention to correct what would otherwise be misallocations. In Ostrom's alternative, institutionalist-centered approach, government is simply a subset of the myriad arenas for human interaction within the public square.

Ostrom's vision of government as an arena of participation within a polycentric process of self-governance leads in a number of ways to a different intellectual orientation than does the treatment of government as an instrument of intervention into a hierarchical order. In several respects, Ostrom's search for a polycentric approach to the material of public economics reminds me of the cameralists who arose in the 15th century and who have been examined variously in Backhaus and Wagner (1987), Dittrich (1974), Small (1909), and Tribe (1984). My first interest in the cameralists sprang from Richard Goode (1970), who compared the treatment of public finance in two different social

science encyclopedias written a generation apart. One of these was the *International Encyclopedia of the Social Sciences*, which was published in 1968. The other was the *Encyclopedia of the Social Sciences*, which had been published in 1930. While Goode duly noted the theoretical advances that had occurred in economics between 1930 and 1968, he also lamented the narrowing of the subject matter of public finance. Goode concluded his lamentation on the state of public finance by asserting that "a sophisticated and unified treatment of the economic, political, legal, and administrative elements of public finance is needed. Unification would represent a return to a tradition as old as that of the cameralists, but for modern readers sophistication can be attained only by rethinking old problems and using new techniques. There is much to be done and work for a variety of talents" (p. 34).

Ostrom's treatment of public economies carries forward the cameralist orientation, although in a vastly different institutional setting than prevailed in cameralist times. A conceptualization of a municipal services industry, for instance, would have been very congenial to the cameralist thinkers. Their vision was one of governments as enterprises that participated within society to promote the general well being. These writers sought to develop, for their time, a model of a participative government in place of the model of the interventionist government that was widely used to characterize the mercantilist empires to their west. A prime feature of the cameralist orientation was that a prince should act economically in the same manner as other participants in society, which led to a stress on the prince's use of his property to generate the revenue to support his

activities, with taxation being a last resort measure. Practice rarely conforms to idealizations, of course, and, moreover, the cameralist lands were autocratic and not democratic. Nonetheless, Ostrom's orientation toward a participative public economics, as against the common interventionist conceptualization, is cut from the same cloth as Richard Goode's appraisal.

Compound Republics and Federal Liberty

Federalism is often used as a synonym for decentralization and at the same time is often thought to be a way of achieving decentralization democratically. Most work on federalism treats it as a matter of decentralization, with the problem of federalism being one of solving a type of assignment problem whereby public activities are assigned to those jurisdictions that can deal with them most effectively (Oates (1972)(1999). To solve an assignment problem is to invoke notions of hierarchical ordering. There will be some process or person that assigns neighborhood parks to cities, regional parks to special districts that encompass several counties, and so on.

This is not Ostrom's vision of federalism and the compound republic, for Ostrom's vision likewise reflects his thoroughly polycentric orientation toward the problematic of human governance. Federalism seems widely to be construed as a pro-liberty form of governance. At first glance, however, this is a puzzling construction. At the purely formal level, think of a simple comparison of life under unitary and federal governance. With unitary governance you face but a single government that taxes you and regulates you. With federal governance, you

face at least two such governments, and perhaps more, each of which is able independently to tax and regulate you. In terms of basic presumption, federalism would seem to be a move away from liberty through its ability to multiply the number of governments that can act directly upon individual citizens. If the *sine qua non* of government is coercion as part of the Faustian bargain (Ostrom 1984), how is it that the multiplication of the sources of coercion is a good thing when appraised against the downside of the Faustian bargain?

The answer must reside in the ability of federalism to limit the despotic possibilities of democracy. For this limit to be realized, it is necessary to recognize that federalism is prior to or more foundational than democracy. It is not that a democratic government decentralizes and thereby becomes federal. To be sure, this is the presumption of most contemporary thought on the relationship between federalism and democracy, with federalism being a subset of democracy. For Ostrom, however, federalism is a principle of association in a context where people participate in many forms and types of association. The arrangements of governance that a free people might develop can plausibly be thought of as involving both fragmentation and overlapping among jurisdictions, with the various jurisdictional boundaries being an emergent feature of openly competitive processes. To the extent that “civic association” serves relatively accurately for a synonym for ”free association,” the central point in Ostrom’s formulation is that expansion and contraction in the domains of various jurisdictions will reflect a general consensus among the participants. Ostrom’s model of federal governance could thus be regarded as an extension of the

Wicksellian orientation where Ostrom allows for fragmented and overlapping jurisdictions.

In *The Political Theory of a Compound Republic*, Ostrom (1987) argues that the original American constitutional system, both as formally established and informally practiced, reflected a polycentric approach to governance. To be sure, this polycentric orientation was pursued incompletely and in the ensuing years has been corrupted in many ways, as Ostrom has explained in his several works on federalism. For instance, Ostrom (1991) argues that a good concept of federalism can make it possible to escape the trap offered by concepts of sovereignty. At least this is some idealized notion of federalism; the actual practice of federalism may fall short of that ideal.

The American system of federalism contains a constitutional asymmetry that threatens to elevate the democratic over the federal principle, as William Niskanen (1978) notes with particular clarity. If people are able to use a national forum to challenge state action, they should also be able to use a state forum to challenge the constitutionality of national action. Indeed, this was pretty much how it worked in the early years of the American republic, for the republic was founded on a principle of subsidiarity even if it was not articulated in this manner. The 9th and 10th amendments are clear expressions of subsidiarity, as was the doctrine of interposition which was alive through the first half-century or so of our national existence. The 11th Amendment arose largely through interposition, in response to the resistance of a number of states to edicts promulgated by judicial offices of the national government.

Interposition was a state's assertion of its sovereignty against invasion by the national government. With assertions of state sovereignty negating assertions of federal sovereignty, the very notion of sovereignty as a locus of final domination evaporates. Something like nullification would seem to be required by elementary principles of symmetry. If people are to use a federal forum to challenge state actions, they must be able to use a state forum to challenge federal actions. Without some such form of organizational counterpoise as this, offices and agencies of the federal government can become judges in their own cause. To be sure, the general direction of movement for more than a century has been from federalist governance toward democratic governance.

It is common to think of governments as territorial monopolists. It is certainly analytically simpler to work with this kind of conceptualization. The continually recurring references to "the state" in the literature on political economy and public finance certainly suggest territorial monopoly. Such a conceptualization almost inescapably brings with it a position of hierarchy within a society, as conveyed by notions of sovereignty. There may be disputes about just where the locus of sovereignty resides in democratic polities, but sovereignty as a concept points in a hierarchical direction.

It could, of course, be claimed that sovereignty is not concentrated somewhere in particular, but diffused throughout the inhabitants of a democratic polity. This notion is represented by claims that "the people" are sovereign in a democratic polity. In many cases, such statements are advanced in a formal but

not a substantive manner. This posture is illustrated by treatments that affirm that people are sovereign ultimately, but that sovereignty is exercised on their behalf by elected officials, with those officials collectively being conceptualized as constituting a territorial monopoly.

This construction of a locus of sovereignty as territorial monopoly serves to bring closure to analytical models. It is part of a conceptualization that treats equilibrium as the end or destination of some historical process. An equilibrium model that allows for comparative statics exercises must be closed; it cannot allow for continual, unending change, for in such an alternative framework comparative statics could not be performed. In place of comparative statics would lie exercises in conjectural history where the possible paths that are open at any one instant emerge out of the preceding history. In such a model, national output will be distributed, simply because it must be. There would, however, be no presumption that everyone was receiving the value of his marginal product under conditions of linear homogeneity of some fictitious aggregate production function.

Within this alternative analytical framework, government can be visualized not as some territorial monopolist, as in references to “the” government. Rather, government would be visualized as an overlapping and fragmented congeries of governments. This situation is indeed the world as we find it. People do not experience the world from the point of view of living within the domain of a territorial monopolist. The world of experience brings people a sense of multiple

governments acting on any single person. Whether this multiplicity is good or bad is a different matter, but it does describe the world of experience in any case.

Within the domain covered by any particular national government, there will typically exist a multiplicity of other units of government as well, all of which occupy some subset of the territory covered by the national government. That national territory might contain a number of provincial or state governments. That territory would also typically contain a number of more local units of government, as illustrated by counties, cities, prefectures, and the like. There are also numerous governments that have been constituted for particular purposes, yet that operate independently of all other units of government. In the United States, the most significant of these other units of government are school districts, but there also exist units of government to deal with flood control, transportation planning, parks, redevelopment, mosquito control, and subdivision governance, among numerous other types of specialized forms of government.

In Closing

Good government is not a destination or final resting point. It is a continual, never ending process. There are two basic though complementary tasks involved in securing good government. One involves the moral imagination and concerns the principles by which we are to live together. History and our imaginations can present us with many options in this respect. Vincent Ostrom starts from an affirmation of the values of a liberal and open society where human relationships are governed by mutual respect among equals.

Ideals are at best realized only imperfectly in practice, of course, and the Faustian character of the bargain that government represents assures us that this will be the case. The second task requires us to undertake the cognitive work of relating our institutional arrangements to the types of practice that those arrangements promote or block. This will lead in several directions and can generate a number of general associations. For instance, it is inconsistent to support an open society and simple democracy because democratic practice will undermine the values of the open society. It is, however, possible to maintain democratic polities in a federal form of governance, provided that that form of governance operates according to polyarchical and not hierarchical principles, such as interposition, broadly speaking, illustrates. Most fundamentally, governance in a liberal order must be construed in a bottom-up type of manner. With respect to valuation, democracy is a derivative value, with governance grounded in mutual respect among equals being primary and with fragmented and overlapping civic association emerging out of the practice of governance in those circumstances. With respect to cognition, the actual institutional arrangements of governance must be conformable with those principles of value: otherwise contrary practice may set in motion a process of regime drift, a beautiful example of which was portrayed brilliantly in Charles Warren's (1932) masterful little book *Congress as Santa Claus*.

In several places, Ostrom shows that he is intrigued by de Tocqueville's treatment of democratic despotism. Perhaps the metamorphosis that Charles Warren described was one particular instantiation of what de Tocqueville had in

mind when he referred to democratic tyranny as wearing velvet gloves and not brass knuckles, of keeping people in perpetual childhood by facilitating their pleasures, managing their concerns, and so on. Whether government provides a program of social security or whether people construct their own arrangements in polycentric fashion, recognizing that some people will act more providently than others, may in the end be less a matter of standards of living and more a matter of character, of its formation or extinction through institutionalized practice.

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