

Costs and Challenges of Polycentric Governance

Michael McGinnis

Workshop in Political Theory and Policy Analysis
and
Department of Political Science,
Indiana University,
mcginnis@indiana.edu

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Communities craft complex networks of institutions, both on their own and in the process of interacting with other communities. Bottom-up governance institutions have at least three significant advantages. First, each institutional component should enjoy a greater sense of legitimacy and a high level of community participation. Second, 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. Third, flexible and locally grounded networks should prove more resilient to ever-changing challenges.

Community self-governance is facilitated in the broader context of a polycentric system of governance. The term “polycentric political system” was introduced to the literature on governance systems in a classic article by 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. Either way, groups should first try to solve their

problems themselves, rather than immediately running to some government unit for an authoritative (and necessarily coercive) decision.

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. Yet, self-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.

This paper outlines a framework for the comparative evaluation of the costs and benefits of polycentricity. A system of governance is *fully polycentric* if it facilitates creative problem-solving at all levels of aggregation. I argue that protecting the rights of groups to self-organize and the resulting patterns of institutional diversity should be considered laudable goals for government policy. Indeed, in the absence of such protection neither goal may be realized to its full potential. Yet, governments can themselves threaten these objectives via excessive centralization of power or inappropriate extremes of the homogenization of laws and regulations. Sustaining institutional diversity in a polycentric system of self governance requires steering a steady course through a daunting array of inter-related challenges, many of which are detailed in subsequent sections of this paper. The paper concludes with a statement of basic principles that can guide policy-makers in accomplishing that task, with particular attention to criteria for constitutional choice in the European Union.

From Market Failure to Group Rights and Institutional Diversity

To balance the costs and benefits of any mode of governance, we need some basic criteria to guide policy selection. 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 underprovided 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.

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. No analysis of the formation or consequences of public policy can be complete without careful consideration of the effects of non-market and non-governmental organizations and processes.

Scholars associated with the Indiana University Workshop have been at the forefront of extensive research programs on community management of irrigation systems, fisheries, forests, and other critical resources (Ostrom 1990; McGinnis 1999a,b, 2000). In brief, researchers have documented the ability of resource user groups to govern themselves. 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, often with only minimal assistance from government officials.

Success in community self-governance is by no means automatic. In some cases individual users extract the maximum amount of the resource they can, triggering a "tragedy of the commons." Or traditional patterns of resource management may be disrupted by the imposition of new rules and regulations from national officials, especially those willing to 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. This conclusion nicely complements well-known results from the literature on "new institutional economics" concerning the importance of private 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.

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. Since all production entails the coordination of individuals with varied skills or resource endowments, the very existence of firms and markets presupposes the prior solution of at least some collective action problems.¹ Economic firms are established in order to take advantage of a “team production externality” (Alchian and Demsetz 1972; Miller 1992). Whenever a group of individuals can more efficiently produce some output by working together as a team rather than as separate individuals, their potential joint gains can offset the transaction costs involved in establishing and maintaining a formal organization.

Resource user groups 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 allowed to arbitrarily establish new rules. Without some assurance of secure group rights, individuals will overexploit the resource and the resulting destruction will hurt society as a whole. Protection of group rights is particularly crucial if the policy goal is sustainable development, and not just economic growth per se.

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. Exactly the opposite effect is accomplished whenever a set of rules that worked in one set of circumstances is extended, by edict, to an entirely new set of local circumstances. By exerting pressure towards the homogenization of economic, political, and cultural institutions among its candidate member states, EU directives make it impossible for anyone to take full advantage of the significant resources that national and local communities can bring to bear.²

Communities 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. Maintaining access to these diverse menus of institutional options is, in my opinion, 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, which is itself essential for the realization of liberty. Both forms of diversity also have instrumental value, especially in insuring the sustainability of ecosystems and cultural traditions in the face of uncertain and constantly changing challenges.

The implication for policy making is immediate, namely, that scholars and public officials should act to insure that more local institutional practices survive the onslaught of globalization or regional standardization. Yet public officials must pursue other goals as well, and the next section introduces concepts and analytical tools that enable us to evaluate tradeoffs among competing public ends.

Governance Costs in a Polycentric Equilibrium

The normative basis of polycentric self-governance is the belief that any group of individuals facing a collective problem should be able to address that problem in whatever way they best see fit. 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. Hooghe and Marks (2001, 2003) demonstrate that Type I and Type II governance institutions typically co-exist in viable polities. Type I is exemplified by a federal arrangement, in which multi-purpose governance units have been established for non-overlapping jurisdictions at each of a few levels (local, district, national, international), with jurisdictions at one level being neatly nested within a jurisdiction at the next higher level.³ 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. Type I jurisdictions comprise a primary governance architecture that defines a structure of nested partitions upon the collection of individual subjects.

Type II encompasses specialized and often cross-border arrangements. They fill in the cracks that tend to open up along the borders of Type I units. Specifically, type II units emerge along “the public/private frontier” and “the national/international frontier.” For example, since administrative boundaries rarely coincide with natural watersheds, the management of water resources frequently requires the establishment of Type II cross-jurisdictional units. Among

specialized functional units are professional associations that set standards of good conduct for their members and private-public partnerships in particular areas of welfare policy.

Policy networks locate both Type I and Type II public authorities in a broader, cross-sector context by maintaining contacts among organizations from all sectors of the public economy (Benz/Dietrich 2002). In addition, uniquely important contributions to governance are provided by those institutions which perform an integrative function (see Hagedorn 2002 and his contribution to this volume). Integrative institutions such as family farms and agricultural cooperatives combine aspects of private, public, voluntary, and community sectors into a single package. Yet even integrative institutions must be located within a supportive polycentric context if they are to have their intended effects.

A society's existing set of governance institutions can be seen as a resource that is available for the use of its members whenever some dispute or shared problem arises that the primary parties are unable to resolve by themselves. The widely-recognized normative 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 the parties share a professional connection, they are likely to refer their dispute to some shared Type II institutions, but most complex problems end up in the laps of the agents of Type I institutions.

Some policy problems, however, are likely to evoke affected public subsets that cannot be directly related to an existing governance unit of either type. In a polycentric system, that subset of citizens enjoys the opportunity to devise its own institutional mechanism by establishing a new unit of governance. Typically, these will be specialized Type II units, but new general-purpose units can be established in some circumstances.⁴

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.

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.

In an ideal system, public entrepreneurs will actively offer their services to potential customers or supporters. In doing so, they effectively reduce the transaction costs faced by newly emerging groups. However, there is no guarantee that this market in assisted mobilization will operate with perfect efficiency in all circumstances. Biases against certain groups may be built into the system. For example, in a democratic system in which all disputes are settled by majority vote, the advantage will always lie with those who happen to have been born into the majority. The next section moves to further examination of how government officials might act to improve the efficiency of this process of institutional formation and maintenance.

From an Updated State of Nature to Dynamic Equilibrium

To place this analysis in context, we begin by defining a “baseline condition” for collective action in the absence of any form of government. This point of departure was inspired by Hobbes’ still-influential thought experiment of a state of nature, but his presumptions need to be revised after some four hundred years of additional research. Hobbes began by positing a condition of radical isolation in which no individual could ever rely on assistance from any other individual. Hobbes famously concludes that cooperation is possible only after a collective authority (the Leviathan) has been established that has the power to enforce agreements.

A new starting point is now required to take account of the well-established finding that shared expectations of reciprocity can provide a basis for conditional forms of cooperation. 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.

The most important point to realize, however, is that not all groups have the same ability to achieve even minimal levels of cooperation. My “baseline condition” is meant to incorporate 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 (see also Ostrom 1998). The classic work of Mancur Olson (1965) demonstrated a bias in favor of groups of small size, but Ostrom shows that 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.

These differences among groups' access to collective action can be represented formally by associating each subset of the population with a cumulative level of two kinds of transaction costs: (1) the start-up cost of establishing a new unit of shared governance unit and (2) the operational costs of bringing a dispute to the attention of agents responsible for making decisions within that unit. Those subsets whose population comports with the membership of an established unit of governance, of either the Type I or II variety, will be assigned a zero value for the first component, but there may still be substantial costs in getting the attention of the agents of that governance unit. These second costs are likely to be especially high in large jurisdictions. Conversely, subsets that do not correspond to a governance unit typically face higher transaction costs in the negotiation and implementation of coordinated responses.

In the baseline condition closest in spirit to that of Hobbes' state of nature, groups advantaged by any of the factors that facilitate collective action will be more likely to be able to cooperate for joint action. In particular, advantaged groups will be better able 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.

A more realistic baseline condition allows for the previous establishment of some system of governance units. Since all political institutions have unequal distributional consequences (Knight 1992), the governance architecture currently in place will modify the differential advantages available to different groups. In particular, some groups will be especially well-placed to make use of the coercive capacity of public authorities to shift costs onto other victim groups. The term *rent-seeking* denotes the common pattern in which one group uses their influence over some public authority to artificially improve their own position. In the framework presented here, rent-seekers increase the transaction costs confronting the targeted groups.

Rents are typically interpreted in purely economic terms, as in the excess monopoly profits that a small interest group can capture by artificially restricting the access of potential entrants that would serve as their competitors. The term originally derives from an analogy to the ability of land-owners to extract excessive profits when alternative sources of land are scarce, an advantage it generalizes to any effort to use access to political power to create artificial scarcities (Tollison 1997). Moreover, any kind of group that uses influence over public authorities to make it more difficult for some other group to organize itself for collective action can be said to be engaged in rent-seeking. For example, an ethnic or religious group that seeks hegemonic control over the legal system is, in the terminology used here, engaged in the competitive pursuit of non-monetary rents.

In a monocentric system of governance, public officials have a uniquely strong position of monopoly power and can thus charge high prices for their allocation 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 authorities in other jurisdictions. Tiebout's (1956) voting with the feet is the classic example of this constraint, which operates

whenever consumer-citizens can relocate to other jurisdictions which offer more appealing packages of tax schedules and public services. The polycentric system first outlined by Ostrom, Tiebout, and Warren (1961) generalizes this constraint by allowing groups to contract with or craft new public authorities without even having to relocate themselves or their capital.

Democratic political systems incorporate an important source of countervailing power to the excessive extraction of rents. In an electoral democracy, some political entrepreneurs have a strong incentive to use state power to lower the costs faced by latent groups. By creatively reframing the terms of political discourse (Riker 1982), aspiring leaders may attract large numbers of voters disenchanted by current state policies. However, not all public entrepreneurs are motivated by votes and not all public problems can be solved in that way. In a polycentric system of governance, public entrepreneurs have at their disposal a much broader array of creative opportunities.

This tendency of groups to use existing institutional opportunities to competitively mobilize in support of their interests generates a highly dynamic system 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.

Note, however, 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). Furthermore, 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.⁵

The Polycentric Core

What does equilibrium entail in a fully polycentric system of governance? 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 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.

If the costs of collectively organizing are kept low for groups of all size and interest configuration, it should be extremely 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 effectively resist any effort by A to force B to pay for some benefit desired by the members of group A. In this way, any externalization of transaction costs should be prohibitively expensive in a polycentric equilibrium.

Rent-seeking of this form is prohibitively difficult if the members of A and B jointly belong to a tightly-knit community. In larger systems, externalization occurs frequently. Costs can be imposed on other groups through two primary mechanisms: the absence or the existence of a coercive state. In the initial baseline condition as outlined above, there is no institutional means by which concerns common to both groups can be fully discussed. Thus, there would be no way for the people in group B to bring their concerns about being victimized to the attention of their oppressors 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.

By associating each subset of a population with the minimal level of transaction costs required for that group to solve collective action problems this notion of equilibrium in a governance system can be defined in a manner analogous to the core, a fundamental equilibrium solution concept in economics and 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.”⁶

In a polycentric core, no subset of individuals finds it worthwhile to establish a new organization to facilitate their collective action. Those subsets composed of individuals likely to interact frequently would, typically, have already established such an organization or institution.

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 preposterously unrealistic outcome, for the number of subsets is immense for even small population sizes.⁷ Besides, transaction costs are never zero.

For purposes of illustration, let S denote the minimal start-up costs for establishing a new governance unit. In an S -core, all public subsets whose members 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. As a consequence, no group can reasonably 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.

A fully-articulated system of polycentric governance insures a low value of S for groups of all sizes and composition.⁸ However, in dynamic equilibrium, new groups constantly form, 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.

Polycentricity can be sustained only if governing authorities take as one of their primary missions the task of minimizing the costs involved in bringing groups of all sizes and kinds

together to resolve their own problems.⁹ A further condition is that public officials should not expect to do much of 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, and the self-governing capacities of citizens as a whole would atrophy.

Of course, like any 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 aggregate transaction costs for governance in the society as a whole will increase. So does the complexity of the system. The goal of institutional diversity will be served by this end, but citizens risk losing a basic understanding of the very system they inhabit. Thus, public officials must take concerted efforts to alleviate this confusion by insuring easy access to information on diverse forms of institutional arrangements. Much of this responsibility falls upon academic researchers and instructors, who must resist any temptation to simplify their own professional lives by over-simplifying the range of relevant political institutions (see McGinnis 2002).

As S gets very small, aggregate governance costs will quickly become astronomical, and an inordinate amount of time and resources would be devoted to governance rather than to directly productive activities. It seems reasonable to say that all real-world systems of governance fall well short of this extreme. The tendency instead is to err on the side of minimizing the transaction costs of governance, for the many reasons to be detailed in the next section.

Challenges of Sustainability for Polycentric Governance

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. 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.

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.

Political Pressures against Perpetual Polycentricity

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

Different paths away from a fully-articulated polycentric equilibrium begin with different actors pushing in a direction most conducive to their own interest. Recall that a fundamental component of a public authority is access to the use of coercion in a legitimate fashion. Not all public authorities will have equal access to resources needed for the effective implementation of physical violence. If authorities at lower levels of authority are better able to mobilize supporters for violent action, then warlords may become the dominant form of governance. In the “ideal” form of warlordism, each warlord controls a 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 a fully-articulated ideal of a totalitarian one party-state, all types of collective action would be shunted through organizations dominated by representatives of the central authority. Fortunately, even in its closest real-world approximations, at least some extra-legal forms of collective action have remained viable, even if only barely.

Centralization need not be arrived at by violent means. A central authority may so effectively cater to the basic needs and wishes of the population that they may 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 risks on their own behalf. Public officials may even encourage such an attitude of dependence. Leaders of electoral democracies, for example, show few qualms at devising innovative ways to provide services for constituents in hopes of securing 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. 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. Even so, an overly secular society might suffer from the loss of the balancing influence of faith-based organizations and their unique contributions to polycentric governance.

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. Universalizing tendencies can also be brutally bland in their manifestation. An over-reliance on the advice of technical experts, for example, might result in an elite-driven governance system that cannot address the emotional needs of the public as a whole.

Globalization generates intense recrimination because of its utter disregard for the unique strengths of local cultures. To a great extent, this homogenization is supported by private producers seeking to minimize their costs of production and distribution. In response, many local

peoples have mobilized to protect their cultures and to reiterate the continued value of cultural diversity.

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 feared rivals 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 state of war against all other communities.¹⁰ Unlike the warlord system discussed above, the underlying logic of distinction would not be mere coercion but artificially enhanced cultural difference.

In sum, then, the dynamic balance of a polycentric system in equilibrium can degenerate into extremes of warlordism, totalitarianism, excessive nannyism, oppressive homogeneity, bland technical efficiency, or a global blight of hysterical intolerance. 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 these depictions 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 diverse paths towards governance failure each has already experienced.

Examples of Polycentricity in and out of Balance

Let's begin at the beginning, 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. The vision of urban governance that they articulated stands as an alternative to simplistic versions of consolidated governance that were all the rage at the time.

The basic rationale behind urban consolidation is to reduce the costs associated with complex and redundant systems of governance. Much of the empirical research conducted by Workshop scholars in its first decade of existence was directed to exactly this question, initially in the context of the incomplete implementation of an area-wide city-county consolidation of governance in Indianapolis, Indiana (McGinnis 1999b). Despite their clear findings of the benefits of non-consolidation in at least some aspects of police services, metropolitan consolidation remains a common theme of reformers to this day.

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. 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, nor its problems. The Holy Roman Empire may be taken as another important example of polycentricity, as an exemplification of 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 remains an incomplete set of categories when confronted with diverse forms of shared sovereignty found in 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, 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 era and continue to inspire diverse transnational movements in the contemporary era.

The Westphalian system stands as the antithesis of a polycentric system, since in it state authorities assert control over all aspects of public policy. Of course, the sovereign state never completely dominated either domestic or international affairs, but their claim to do so 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. Ultimately these systems failed to compete in an effective fashion with societies characterized by more open systems of governance.

Throughout these cases 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. The next section considers whether a similar fate awaits the European Union.

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 (European Commission 2001). 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.

Notes

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¹ 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 (Coase 1937, Williamson 1975, 1985, 1996).

² For critical analyses of EU directives on environmental policy, see Baker (2001) and Hagedorn et al. (2002).

³ Much of the literature on federalism focuses on the question of how best to allocate different functions of governance to these different levels (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). For Ostrom true federalism requires 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.

⁴ In the U.S., it has proven quite common for special districts to be established to manage collective problems that cross standard jurisdictional boundaries.

⁵ With regard to 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.

⁶ 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.

⁷ For a population of size n , the number of unique subsets is 2^n .

⁸ 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).

⁹ Technically, the evaluative criterion may be to reduce the variation among the magnitude of S for different sizes of groups as well as for groups that differ on any of the facilitating factors identified by previous researchers on collective action (see Ostrom 2005).

¹⁰ The intensity of emotion that such a system of inter-community warfare could evoke might make its victims envy the inhabitants of Hobbes’ mythical state of nature, who in their “poor, solitary, nasty, brutish, and short” lives did not have to face the prospect of well-organized genocidal campaigns.

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