Institutional Collective Action and Local Governance

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The most enduring and contentious issues debated by scholars of local government center on fragmented versus centralized systems of urban government and their implications for policy and governance. The first rounds of this contest focused on the ability of decentralized units to efficiently respond to the demands of citizens within their boundaries (Neiman, 1976, Lowery, Lyons and DeHoog 1995; Teske et al 1995). Building on the work of Tiebout (1956), advocates of decentralization advanced a body of economic theory backed by empirical support to explain competition in public good provision and the generally positive implications of intergovernmental competition for responsiveness and efficiency.

While not entirely conceding defeat at this level, advocates of consolidation shifted their focus to the regional level. The “neo-progressive” case for centralization argues that consolidation of existing government units or the imposition of regional governments with significant powers to control land use and development can better promote economic development, reduce inequality, and address social, economic and environmental externalities (Lowery 2000). This perspective views fragmented local governments as poorly positioned to provide services that require a large scale to achieve efficiencies or to address the economic development, affordable housing, environmental problems or urban sprawl (Rusk 1995; Downs 1994). The assumption that fragmentation precludes cooperation leads to conclusions that decentralized units of government will be unable to achieve economies of scale in services or deal with externalities or spillovers that occur when the policy choices in one community impose costs on another (Olberding 2002). The assumption that governmental fragmentation
limits coordination and cooperation has gone mostly unchallenged because market-based theories tend to focus on competition rather than cooperation or collective action. Explanations of how decentralized systems of governments cooperate to address multi-jurisdictional problems have not been clearly articulated like those for competition.

Feiock (2004) argues that competition and cooperation are complimentary forms of strategic interactions among local actors. Voluntary agreements emerge from a dynamic political contracting process among local government units facing a collective action problem. While informative, this work provides only an incomplete account of how decentralized systems of governance arrangements evolve and effectively cooperate to address multi-jurisdictional or regional problems. It also neglects the influence of relational networks on the emergence and success of cooperative agreements among local government units.

This paper takes initial steps to fill this lacuna by advancing a more complete institutional collective action model of interlocal cooperation. We outline the transaction problems that present obstacles to cooperative interlocal service arrangements. These include bargaining, information, agency, enforcement and divisions problems. We then present a framework to explain how the characteristics of services, communities, political institutions and policy networks influence the ability of local actors to overcome these costs and to forge interlocal agreements. We develop specific propositions regarding how the structure of contractual arrangements will impact patterns of interlocal cooperation and advance an agenda to investigate institutional collective action among local governments.
Transaction Costs in Interlocal Relations

The polycentric, decentralized character of governments in urban areas provides opportunities to address intergovernmental spillovers (see Ostrom, Tiebout and Warren 1961). Cooperation among local governments can be viewed as collective action generalized to governmental institutions (Feiock 2004). The scope of cooperation can be small, as when neighboring jurisdictions enter into an agreement to coordinate emergency response, or large, as in regional efforts to plan infrastructure or manage urban sprawl. In each case cooperative actions are expect to arise when potential benefits are high and the transaction costs of negotiating, monitoring, and enforcing agreement are low.

According to the Coase Theorem (1960), if transaction costs are zero, rational parties will achieve a Pareto-efficient allocation through voluntary bargaining. Application of the Coase Theorem to intergovernmental relations suggests that when bargaining costs among local governments are low, they can correct for over or undersupplies of public goods. The implication is that it would not be necessary for governments to merge to deal with spillover effects among neighboring jurisdictions. When the regionally beneficial actions of one jurisdiction impose costs or harms on others, compensation could be negotiated for the affected jurisdictions. The possibility of voluntary agreements among governments to address spillovers has generally been dismissed in the urban policy literatures. Inman and Rubenfield (1997; 2000) identify five assumptions necessary for successful Coasian bargains that are generally unmet:

1. there are no, or small, resource costs associated with the bargaining process;
2. preferences over bargaining outcomes and resources are common knowledge;
3. bargaining agents perfectly represent the economic interests of their constituents;
4. the parties can agree to a division of the bargaining surplus; and
5. agreements are costlessly enforceable.
Even when bargaining costs are low, information, agency, division and enforcement problems might make interlocal agreements impossible. Information problems prevent governments from recognizing the potential gains from joint action. Joint gains are necessary, but not sufficient, for establishing cooperative relationships (Libecap 1989; Riker and Sened 1991). Information on the actions, positions, and likely future positions, of other local actors is critical to coordinating action for joint benefit. Moreover, unless costs and benefits are common knowledge, all sides are likely to seek strategic advantage by concealing information. (Inman and Rubinfeld 1979). Local governments may be at greater risk from strategic behavior than private organizations seeking to coordinate activities because fixed geographical boundaries reduce their flexibility.

To the extent that contractual agreements reveal valuable information about partners that is available to others, free rider problems reduce incentives to participate. Additional cooperative effort increases the information and reputation resources for all others in the network without any additional investment by the others. The decision-making process will be dominated by lack of individual incentive to contribute to the effort of the collective, and thus will lead to an underinvestment in regional efforts to resolve institutional collective action problems - the second-order collective action problem of institutional supply (Ostrom 1990).

The government officials that negotiate cooperative agreements are agents, thus, principal agent problems complicate the calculus of cooperation. Agency costs arise because the preferences of public officials negotiating interlocal agreements may depart from the preferences of citizens they represent (Feiock 2002). The extent to which
agency problems are manifest has been linked to the structure, powers, and political security of public offices because these arrangements influence the value local officials place on cooperative ventures, their timing, and uncertainty in their outcomes.

Even where officials pursue constituent interests with complete information, achieving agreement on formulas or procedures to allocate costs or benefits can be costly. The negotiation of equitable distributions of benefits will be affected by asymmetries in preferences and political strengths between actors (Heckathorn and Maser 1987). The greater the heterogeneity of the participants and the more clear-cut which party benefits most, the higher the political opposition to a cooperative solution may be.

Defection occurs if one or more of the parties do not comply with the agreement. Third party enforcement of interlocal agreements by the courts is problematic (Ellickson 1979), thus enforcement will be costly unless there are credible commitments by the contracting parties to not defect. When jurisdictions are tempted to renege, there will be less incentive to reach agreement in the first place. State legal doctrines of nondelegation limit the capacity of localities to overcome contacting costs and the threat of strategic behavior. Dillon’s Rule precludes local governments from engaging in activities for which they have not received explicit authority from the state legislature. Nevertheless, the courts have generally upheld interlocal agreements that have been challenged as violations of home rule provisions (Gillette 2001).

Is Institutional Collective Action Possible?

Given bargaining, information, agency, division and enforcement problems, it is not surprising that much of the literature assumes that centralization of authority and
consolidation of decentralized governmental units is necessary for effective action. Nevertheless, in practice, local governments appear to be able to overcome barriers to cooperation and craft contracts to share the burdens of joint service provision more frequently than these literatures would suggest. Gillette (2002:234) describes instances of cooperative interlocal contracts between central city and suburban governments in which the agreement evokes claims that suburbs should subsidize central cities. Parks and Oakersons’ (1993) studies of Pittsburgh and St. Louis documented numerous agreements to produce local public goods including interlocal agreements that led to suburban commitments to protect the central city’s earnings tax base. Summers (2000) found evidence of regional cooperation between the central city and its suburbs in each of the 27 metropolitan areas she examined. With the exception of Houston, each area participated in some form of regional tax sharing. More recently, Johnson and Neiman (2004) report that economic development “joint ventures with other cities” were not uncommon. Finally a recent study of regional partnerships for economic development reports that partnership agreements to share the costs and benefits of growth promotion among governments in a metropolitan area are not uncommon (Park and Feiock 2002).

What accounts for these cases of successful institutional collective action? Under what conditions might a region be effectively integrated through voluntary alliances, institutions and interlocal agreements? Recent work reports cooperative institutions have emerged in some settings to resolve common pool resource dilemmas when potential benefits of cooperation outweighed the transaction costs of forming new institutions (Ostrom 1994; Weber 1998; Lubell, Schneider, Scholz and Mete 2002). Feiock and Carr (2001) framed the creation of special districts by local governments in a
similar manner. Relationships of trust among leaders of neighboring governments, reinforcement of cooperative norms, and development of a collective identity can reduce the costs of exchange in institutional collective action situations (Ostrom 1998). Accounting for both the contextual and relational elements of collective action is necessary to understand cooperation among local governments.

Institutional collective action in metropolitan areas confronts strategic interactions; each jurisdiction chooses their own policies, but their outcomes are directly affected by the decisions of other local actors (Brueckner 2001). Application of a prisoner’s dilemma framework to this situation is problematic because it assumes zero transaction costs. Although metropolitan areas are typically polycentric with no central governing authority, the model assumes constraints are exogenous and fixed unless external authorities changes them (Ostrom 1997; Steinacker, 2003; 2004). In the cooperative outcomes described above the actors have the ability to change the constraints that they face. For example they may build reputations for trustworthiness that decreases uncertainty and reduce information requirements. Furthermore, fixed geographic borders mean that neighboring jurisdictions repeatedly interact with one another.

Types of Goods

Mancur Olson (1965) built his logic of collective action on a presupposition that the type of problem(s) that individuals attempt to solve affect the responses that they make to these problems. Such a formulation begs the question of what are the attributes or types of goods that are likely to present transaction problems for local government actors. The literatures on industrial organization and organizational economics suggest economies of
scale, the meterability of service outcomes and performance, and asset specificity are particularly salient. Goods that have large scale economies may be especially ripe for interlocal agreements that provide potential efficiency gains from coordination and joint production.

Cost savings derived from economies of scale is often described as the impetus for service contracts and interlocal agreements (Fisher 1990; Post 2004). A survey by the International City and County Management Association (ICMA) reports that economies of scale are cited as a reason for cooperation by 52 percent of the local governments using contracts and by 51 percent of the governments participating in interlocal joint agreements (ICMA 1988). The unit cost of service production is minimized when services are produced to capacity and costs spread over a large population. Larger governments generally possess greater tax base and access to capital markets as well as a larger population of service recipients. This allows them take fuller advantage of scale economies. Smaller governments, with less resources and a smaller population of service recipients are less likely to be able to realize scale economies in service production (Hirsch, 1964; Levin and Tadelius 2004). This is particularly true for capital-intensive services. Interlocal service agreements can expand jurisdical markets for public services allowing participant governments opportunities to take advantage of scale economies in production. This benefits both jurisdictions that are too small to achieve scale economies and larger jurisdictions that have excess capacity or can increase capacity though cooperation. Moreover, larger service areas reduce benefit spillovers.

Transaction costs can be great when a relationship involves transaction specific assets or the qualities of a service are difficult to define and measure. For Williamson
(1985) asset specificity – transaction specific durable investments that can not easily be redeplored to other uses- is central to choosing among governance structures. When parties make mutual investments of specific assets it creates mutual dependence. If an agreement requires governments to make investments in specific assets or other long-term commitments, it can alter the outcomes that would be available to them if the agreement broke down in the future (Frieden 1994). For example, a compact to not to engage in incentive competition for prospective firms in return for current tax-base shares may reduce the growth opportunities available to a city in the future. For physical assets that are subject to congestion, such as shared use of a central library or landfill, both the party that provides it and the parties that contract for it are exposed to risk. The party providing the asset must make an investment greater than that necessary to cover its own needs, leaving it vulnerable to excessive costs if other participants later renege on the contract. At the same time if demand for the service increases, the party providing the good may prefer to terminate the interlocal compact in order to better serve its own constituency. The contracting participants are then forced to make an unplanned investment to develop their own asset. The greater the risk due to the size of the investment, the greater the need for a contract that include sanctions for reneging and covers a long time period.

Measurement difficulties hinder monitoring and enforcement. Effective monitoring requires quantitative measures of what counts as an appropriate level of activity by a service provider or the extent to which the services achieve their desired impacts (Deakin, 1996). Service metering is the degree of difficulty in metering or monitoring the quantity and/or quality of output or benefits of a service (Brown and
Because some services are more difficult to measure than others, cooperative outcomes should be easier to achieve for services such as sewer, water, or refuse collection that are divisible, easily measured, and rivalrous in consumption. For these services exclusion is complete, costs are allocated based on the benefits received, and beneficiaries’ preference is invariant (Steinacker, 2004). On the other hand, services that are indivisible and not easily measured such as fire and police services, cooperation is more difficult because exclusion is not complete. It is also difficult to write a contract for services whose outputs are not tangible or whose production is complex (Ferris and Graddy, 1986).

Characteristics of Communities

Political, economic, and demographic characteristics of cities are salient to local governments’ interest in, and ability to, negotiate interlocal agreements. Similar to individual collective action we expect intergovernmental homogeneity in economic and demographic features across jurisdictions to indicate potential common interests and service preferences. State level rules, internal demands and exogenous contexts such as the geographic configuration of government units and their physical, demographic, and social characteristics shape the payoffs of cooperation for citizens, and their governmental agents.

We generally expect that more serious the underlying service problem, the larger the aggregate gains from resolving it, and the greater the likelihood of a cooperative arrangement to do so (Libecap 1989; Lubell, et. al. 2002; Ostrom 1990; Ostrom, Gardner, and Walker 1994). For example, we expect that communities experiencing economic
hardship and/or with demands for large scale economic development will be most likely to cooperate in joint economic development projects with neighbors. City size is important because small governments may realize greater scale economies though cooperation. Because demographic homogeneity in a local government unit’s population reduces agency costs for officials negotiating interlocal agreements on behalf of citizens, we expect intra-jurisdictional homogeneity will increase the likelihood of cooperation. Some communities may lack the capacity to engage in cooperative service provisions arrangements because of internal constraints such as union resistance or administrative concern about potential loss of local autonomy and control.

One of the most important contextual factors is geographic location. Fixed geographic borders require repeat play among neighboring jurisdictions, and thus reduce transactions costs by creating interdependencies. Governments with common borders are not stuck in a one-shot prisoner’s dilemma; the impossibility of exit means defection from cooperation exposes the defector to retaliation. The prospect of future play with the same party constrains opportunism so it is then in the interest of each government to cooperate with neighbors who cooperate. This provides opportunities for mutual assurances that each government will contribute to the provision of the collective good.

Cooperative actions with actors beyond direct neighbors can be more costly. Much recent work demonstrates that the welfare of suburbs is linked to the welfare of central cities. In theory, suburbs should be willing to join collective action that assists the central city out of a desire to protect their own financial well-being (Savitch and Vogel 2000; Stein and Post 2000). Nevertheless, each has a self-interested incentive to withhold contributions and free ride on those of others, with the result that no one
engages in the conduct from which all would benefit. If joint action is advantageous because of the geographic range of spillover effects, affected governments may only participate in the agreement if all affected governments are included.

**Characteristics of Political Institutions**

Government institutions are linked to successful interlocal cooperation because they shape the incentives faced by local government officials. Contracts offer incentives for efficiency, but may also motivate the parties to act opportunistically. Certain types of political system institutions can constrain risks of opportunistic behavior by local government officials (Feiock 2004). Both administrators and elected officials play a central role in forging cooperative alliances with other local governments but they differ in their bargaining resources and institutional positions. The political and career incentives of local leaders have implications for their attentiveness to the level and timing of collective benefits and willingness to enter into cooperative arrangements.

Political system institutions are directly tied to agency problems in negotiating interlocal agreements. The progressive reform “myth” of separation of politics and administration as institutionalized in reformed political structures is useful for resisting opportunism (Miller 2000). An appointed professional manager position can be efficiency enhancing because it replaces high-power political incentives with low-power bureaucratic incentives (Frant 1996). In addition, the professional standing and employment opportunities of city managers are improved by service innovations and a record of promoting efficiency at both the city and regional levels (Feiock et. al 2004). The role of professional administrators is highlighted in Thurmaier and Woods (2002).
account of interlocal agreements among governments in the Kansas City metro area.
Department directors identified opportunities for cooperation in specific service areas and
the city manager, CFO and/or assistant managers put the deals together.

Although elected officials are expected to be primarily responsive to internal
constituencies, local officials within a region can be interested in election or appointment
to regional or statewide office in the future (Bickers and Stein 2004). Alternatively, they
may desire advancement within their political party or seek employment within the
private sector after their term of office is complete. These motives can result in support
for interlocal agreements and efforts to promote regional interests. Gillette (2000)
asserts that local officials electoral or private sector ambitions can lead local officials to
address interlocal needs even in the face of weak internal demand (2000).

The link between form of government and the time horizons of local government
decision makers in critical to understanding how political institutions can influence
interlocal cooperation (Clingermayer and Feiock 2001). As long as future payoffs
continue to be valuable, short-term gains from defection will outweighed by the long-
term gains from continued cooperation. Interaction with other governments, and past
cooperation between/ among city governments affect present and future cooperation
because actors consider their reputation with other governments in the metropolitan area
and value their networks. We consider these network investments a kind of cooperative
norm or institutional level social capital that reduces transaction costs (Park and Feiock
2003).

Cooperation among local governments is more likely the longer the horizon of
their relationship. In a repeated relationship, such as with geographically fixed
government units, each actors stands to benefit by acquiring and preserving a positive reputation. In uncertain real world situations, the signal of reputation does more than compensate for incomplete information, reputation is a valuable social capital asset: building it up and maintaining it entail a short-run cost, and running it down or failing to maintain it yields short-run benefit (Dixit 1996). If the forces of repetition and reputation are strong enough, no explicit commitment mechanism is need to secure commitment: local governments’ own incentives ensure that they will not tempted to defect from commitment. As a cooperative norm in metropolitan areas, reputation and commitment produced by network interactions provide considerable power to explanations of cooperation among governments in polycentric systems. Repeated relations are performed by informal and formal networks among local governments that reduce the transaction cost of investments in reputation making interlocal cooperation easier.

**The Structure of Policy Networks**

A contractual arrangement between two local government units constitutes a dyadic relationship. If each unit also participates in other agreements with other local governments, they are also involved in dyadic relationships with those other governments. Together, the dyadic relations form a macro-level regional governance structure that comprises a set of actors in a social network (see Thurmaier and Wood 2002). Over time embedded relationships with other local governments accumulate into a regional network that invests the reputation and reciprocity of information in the reliability and competencies of prospective partners (Gulati and Gargiulo 1999). Cities change strategy as a result of learning from prior experiences and encounters and their
expectations of future dealings with each other. The presence of a contractual link is voluntary in that non participation, even if costly, is always an option. Local governments maintain their relationships when the ir benefits exceed the expected value of one-time interactions.

Local governments bargain the terms of interlocal contracts in light of the information they have available (Maser 1988). The resulting governance structure is the product of a series of negotiated agreements over governance arrangements and substantive benefits. Rather than relying on centralized authority, local governments themselves negotiate the technologies and strategies to produce desired outcomes, the obligations of the parties, and the timing and duration of the agreements. Information impactedness because of uncertainty and opportunistic behavior can be minimized in this process by repeated interactions among multiple neighboring governments.

As described above, the formation of effective regional governance is constrained by the transaction costs of developing and maintaining contractual arrangements. The existing structure of formal and informal agreements among local governments reduces these transaction costs problems by increasing available information about each other’s conduct specified in the agreements and enhancing the credible commitments to fulfill those agreements. By spanning the metropolitan area interlocal agreements provide information about local governments’ policies and programs in relation to others within the region and implementation problems. Regional governance, consisting of interlocal contractual arrangements, also increases credibility of commitments by transforming short term interlocal relations into repeated games in which a reputation for reciprocity and trustworthiness can mitigate problems of opportunism involved in a single
interaction, especially with localities or organizations that are not located immediately across the jurisdictional boundary.

Scholz, Feiock, and Ahn (2005) advanced two general propositions regarding the role of network structures in mitigating the problems of institutional collective action. One emphasizes tightly-clustered or “strong tie” relationships capable of enhancing the credibility of commitments among network members, which they called “credibility-clustering.” The other emphasizes the role of extensive “weak tie” relationships linking diverse organizations in enhancing shared information required to coordinate collective decision, which they called “information-bridging.”

The credibility-clustering relationship suggests that the credibility advantage of a clustered network becomes increasingly important when there is a potential problem of shirking by local governments involved in the delivery of collective goods. Threats of shirking impose costs on those who have already invested resources in collective efforts. A clustered network structure can reduce enforcement costs because information on the efforts, contributions and behaviors of a contacting government can be made available to and sanctioned by other potential partners. A highly clustered network has the ability to impose constraints on shirking and opportunism that increase the stability of a regional governance structure. A highly clustered dense network structure contributes to social capital by providing extensive monitoring mechanisms, and facilitating mutual reciprocity, trust, and conformance to the rules of the game (Coleman 1988).

Information-bridging links a unit with others that do not share contracts with common partners. This allows local governments to investigate a broader set of possible gains from other local governments and to reap the advantage of innovation not available
within a highly clustered network. This idea builds on Burt’s theory “structural holes” which argues that information bridging provides advantages when negotiating collaborative agreements.

In many instances, coordination of policy actions across a large number of units has the potential to increase benefits and performance for each government. In this situation City A might enter into a bilateral interlocal agreement with every other government to coordinate programs. Nevertheless, it is unlikely that the benefits of coordination would outweigh the transaction costs of involved in negotiating and maintaining multiple agreements. A multilateral agreement might provide more effective policy coordination, but, absent an existing organization or entrepreneur, City A would confront a free rider problem in constructing an organization or contract that would provide benefits for everyone.

Information bridging network structures may offer a more practical solution. City A will have an incentive to enter into an agreement to coordinate service activities with City B if City B has agreements in place with other communities (C and D) that A does not already have an agreement with. This argument builds from Grannovetter’s (1973) idea that extended ties increase individual benefits. In a dyadic relationship between governments A and B, the higher A’s access to other local governments in the network that is controlled by B, the higher A’s cooperation towards B.
Conclusion

Institutional collective action provides a framework for studying interlocal cooperation in fragmented metropolitan area by focusing attention not only the economic scale and costs and benefits of interlocal cooperation, but also their transaction costs. Transaction costs can be reduced by social capital that is a product of networks and political institutions. While recent work has examined the implications of network structures for service performance (Agranoff and McGuire, Provan and Milward Meier and O’Toole), the influence of relationships among local government units on the emergence of cooperation has not been systematically addressed.

A recent investigation of formations of regional economic development partnerships in 284 metropolitan areas from 1990 to 2002 reports a strong link between interactions among local governments and the creation regional partnerships (Feiock and Park 2003). Regional cooperation was more likely in metro areas that had more interlocal fiscal transfers among local governments. Where more cities entered into interlocal service agreements, there was a significantly higher likelihood a development partnership would form.

These results provide cause for skepticism of the conclusions that governmental fragmentation is destructive of regional cooperation. They also highlight the importance of the endogenous networks relationships that result from institutional interactions. The institutional collective action framework provides a conceptual handle to grasp some of the dynamics of decentralized systems of governance and to identify the various ways governments cooperate and compete. Uncertainty regarding outcomes of cooperation is inevitable for boundedly rational decision-makers. The circulation of information on the
benefits of joint action reduces uncertainty but clustered network structures can overcome commitment problems and facilitate inter-organizational learning. Previous alliances shape new alliances through information about current or potential partners capabilities and trustworthiness, timing and referrals (Burt 2005: 192). Cowell (2004) argues that formal contractual relationships are the organization level equivalent of social capital because these organizational relationships foster trust and obligations.

Much network research has focused on relationships between actors to the neglect of actor attributes. Work on networks derived from the sociological tradition in particular focuses on the structure of ties in which actors are embedded and directs attention away from the attributes of actors that shape their interest in cooperation. We argue that both the attributes of actors and relations among them need to be accounted for in explanations of how and why they decide to cooperate with each other.

Much of the urban politics and administration literatures depict the governance of metropolitan areas as a choice of between competition and consolidation. We have argued that this is a false dichotomy. Both competition and consolidation have limited promise for efficiently addressing externality problems in local services. Cooperation can compliment competition in decentralized metropolitan areas. Interlocal cooperation among local governments provides a realistic alternative mechanism to address policy externalities. These voluntary agreements emerge from a dynamic political contracting process among local government units.
References


