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## **Unlocking Public Entrepreneurship and Public Economies**

Elinor Ostrom \*

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### **Abstract**

Unlocking human potential requires a rich network of institutional arrangements in both private and public spheres. Opening the private sphere to entrepreneurship and complex market organization is well understood as a key to increasing the level and quality of private goods available to consumers. Opening the public sphere to entrepreneurship and innovation at local, regional, and international levels is also a key to increasing the level and quality of public goods – e.g., peace, safety, and health – available to citizens. This paper reviews studies of urban service delivery that have repeatedly found communities of individuals who have self-organized to provide and co-produce surprisingly good local services. In addition to unlocking individual freedom, we need to unlock the public sector from rigid, top-down, hierarchical organization.

Keywords: entrepreneurship, urban public services, polycentricity

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\* Indiana University.

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UNU World Institute for Development Economics Research (UNU-WIDER)  
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

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## **1 Institutional arrangements beyond markets and states**

Unlocking human potential requires an opening of both private and public sectors so as to encourage problem solving by individuals in all ways of life. In regard to the provision and production of private goods – goods that are relatively easy to package and lack major externalities – we know that creating an open, competitive market is conducive to increased levels of investment, innovation, and lower prices to consumers. Entrepreneurship plays a key role in the private sector by discovering ways of putting heterogeneous factors of production together in new and complementary ways given the availability of resources and technology. In the private sector, the profit motive is the driving force for private entrepreneurs.

The problem of providing and producing public goods – including public safety and conflict resolution at international, national, regional, and local levels, public education, and public health, as well as the problem of devising governance mechanisms for sustaining natural resources – requires different institutions than an open, competitive market. Institutions to encourage collective action and discourage free-riding are needed. Even the market itself is not a viable institution without effective property arrangements, courts of law, and police.

The language used by many analysts divides the rich world of institutions into a barren dichotomy of ‘the market’ versus ‘the State’. While markets are considered to be open, public realms where many individuals and firms of diverse size and assets compete, the public sector is depicted as a top-down hierarchy with little room for problem solving except by top-level, government officials. To unlock human potential, we must unlock the way we think about non-market institutional arrangements (Ostrom 2005). We need to open the public sector to entrepreneurship and innovation at local, regional, national, and international levels. Public entrepreneurs are motivated by diverse interests including improving services to their own communities, sharing the burden for increasing benefits, the stimulus of innovation, the respect they receive from others, as well as the income they derive from their positions in the public service for those who are not entirely volunteer workers (Mintrom 2000).

Given that the benefits of public goods and common-pool resources are dispersed within a community, many scholars ignore the possibility of local public entrepreneurs devising effective ways of providing, producing, and encouraging the co-production of these essential goods and services. On the other hand, many scholars stress the need for leadership in the public sector. Entrepreneurship is a particular form of leadership focused primarily on problem solving and putting heterogeneous processes together in complementary and effective ways.

Our extensive studies of urban service delivery (for an overview see McGinnis 1999), and of common-pool resources (see Ostrom et al. 1994; Gibson et al. 2000) have repeatedly found communities of individuals in urban and rural areas who have self-organized to provide and co-produce surprisingly good local services given the constraints that they face. The presumption made by many policy analysts is that without major external resources and top-down planning, public goods and sustainable common-pool resources cannot be provided. This absolute presumption is wrong. While it is always a struggle to find effective ways of providing these services (Dietz et al.

2003), public entrepreneurs working closely with citizens frequently do find new ways of putting services together, using a mixture of local talent and resources. The costs of effective self-organization are lower when formal authority exists to craft institutions that match the problems faced. External resources may increase the options available to a local community. External resources are not, however, the essential ingredient for building an effective public sector. The outcomes obtained, for example, by local populations from the massive amounts of international donor assistances have been grossly disappointing (Gibson et al. 2005).

The presumption that locals cannot take care of public sector problems has led to legislation throughout the world that places responsibility for local public services on units of government that are very large, frequently lacking the resources to carry out their assignments, and overwhelmed with what they are assigned to do. One should stress that this is not the way that Europe developed. Since the eleventh century, thousands of independent Water Boards were established in the delta of the Rhine River with their own rules and physical structures, drained the swampy land, and protected the land from being inundated except during extreme storms (Toonen 1996; Andersen 2001). In Switzerland, alpine peasants devised a variety of private and common-property systems to gain profitable income from an extreme and diverse ecology (Netting 1981). More than 1000 free cities with their own charters and legal traditions flourished in Europe during the Middle Ages and were the foundation for modern constitutional democracies (Berman 1983).

Contemporary legislation assigning regional or national governments with the responsibility for local public goods and common-pool resources, removes authority from local citizens to solve local problems which differ from one location to the next. We need to unlock their capabilities and enable them to be recognized as citizens and local public officials with the power and authority to take action to solve local problems. We need to think of the public sector as a polycentric system (Ostrom 1999) and not as a monocentric hierarchy.

## **2 A polycentric approach to local governance**

Our research has repeatedly demonstrated that order and high performance are more likely to be achieved in *local public economies* where large, medium, and small governmental and non-governmental enterprises engage in diverse cooperative as well as competitive relationships (see Frey and Eichenberger 1996). Local public economies are not markets, nor are they simple hierarchies. Individuals are not able to engage in a wide diversity of independent *quid pro quo* relationships with any producer they choose. Decisions are made for collective consumption units, including a wide diversity of self-organized associations as well as governments at multiple levels, who are then held responsible to provide tax revenue and user charges to pay for the provision of public goods and services. Local organizations also enhance the level of citizen co-production of public safety, education, and health. Entities in a public economy engage in extensive horizontal as well as vertical interrelationships. The structure and performance of a public economy must be examined at an inter-organizational level of analysis rather than just at the level of a single unit.

The basic assumptions of a polycentric theory when applied to the study of large urban areas are:

- i) Public goods and services differ substantially in regard to their production functions and their scale of effects.
- ii) Individuals with relatively similar preferences for public goods and services tend to cluster in neighbourhoods. Preferences will tend to be more homogeneous within neighbourhoods than across an entire metropolitan area.
- iii) Citizens who live in multiple jurisdictions learn more about the performance of any one jurisdiction by seeing or hearing about how problems are handled in other jurisdictions.
- iv) Multiple jurisdictions with different scopes and scales of organization allow citizens more effective choice in selecting packages of services most important to them, in articulating their preferences and concerns, and if necessary, in moving to other jurisdictions.
- v) The presence of large numbers of potential producers of urban goods and services in a metropolitan area allow elected officials more effective choice of producers.
- vi) Producers who must compete for contracts are more likely to search for innovative technologies, to encourage effective team production, as well as citizen co-production, so as to enhance their own performance.

This modified form of competition – of vying for citizens to resolve problems and procure services in an urban neighbourhood – is one method for reducing opportunistic behaviour even though no institutional arrangement can totally eliminate opportunism with respect to the provision and production of collective goods. Allowing citizens to form neighbourhood-level collective consumption units encourages face-to-face discussion and the achievement of common understanding. Creating larger collective consumption units reduces the strategic behaviour of the wealthy trying to escape into tax havens where they could free-ride on the tax contributions of citizens in other jurisdictions. Larger units also can more effectively cope with urban goods and services that do have large-scale effects.

### **3 Studying police in US metropolitan areas**

To illustrate the polycentric approach I will draw on research conducted in US metropolitan areas, but the findings from our research are relevant for urban areas of developing countries where the need for drastic improvement in local public services is extreme. Colleagues associated with the Consortium for Self-Governance in Africa (CSGA) are currently studying the almost invisible, self-organized systems that many citizens in Africa have devised given the lack of public goods produced by formal governments (Sawyer 2004).

During the 1970s and 1980s, in response to concerns about police effectiveness in the face of increasing crime rates, proposals to slash the number of police departments serving urban and rural areas of the US were placed on the national agenda. Underlying these proposals was the assumption that bigger is better. Some proposals recommended

reducing the more than 40,000 police departments that then existed to less than 500 police departments for the entire country. *No systematic empirical evidence supported these reform proposals.* Colleagues associated with the Workshop in Political Theory and Policy Analysis at Indiana University began what became a 15-year intensive research programme on urban policing with a relatively simple most-similar systems study in the Indianapolis metropolitan area and eventually conducted a comparative study in 80 metropolitan areas throughout the US (for an overview, see McGinnis 1999).

### **3.1 Small- and medium-sized police agencies are more effective in producing direct services**

In conducting studies of this question in the Indianapolis, Chicago, St Louis, Rochester, and Tampa-St Petersburg metropolitan areas, the severe problems of measuring police performance was met by collecting performance data from interviews with a random sample of households served by small, medium, and large departments. Information was obtained about victimization, willingness to call the police, speed of police response, amount of police follow-up, satisfaction levels with police contacts, and general evaluations of the quality of policing in a neighbourhood. By studying matched neighbourhoods with similar service conditions, we controlled for many of the other factors that can be expected to affect performance.

The consistent finding from this series of studies is that small- and medium-sized police departments perform more effectively, and frequently at lower costs, than large-sized police departments serving similar neighbourhoods (see McGinnis 1999). Victimization rates tend to be lower, police response tends to be faster, citizens tend to be more willing to call on the police, citizens tend to more positively evaluate specific contacts with the police, and citizens tend to rate the police higher across a series of other evaluative questions.

Further, citizens living in small communities tend to be more informed about how to affect local policies, to know more policemen serving their neighbourhoods, to be more engaged in co-production, and to call the police more frequently to obtain general information than citizens living in large cities. Citizens served by small departments tend to receive *better* services at *lower* costs than their neighbours living in the city centre. Instead of being a problem for the metropolitan area, small departments frequently contribute to the improvement of police services in the area. And, recent research demonstrates that the relationships found in Indianapolis in the 1970s are still valid almost twenty-five years later (Parks 1995).

### **3.2 Small police agencies arrange for indirect services from large police agencies**

In our major study of police organization in 80 metropolitan areas (Ostrom et al. 1978), a total of 1159 direct-service producers were found to produce services delivered to the residents in the areas. Most of these agencies produced general area patrol, traffic patrol, accident investigation, and burglary investigation services. In regard to indirect services, we found 70 per cent of the direct-service producers also produced their own radio communications, but only a small proportion of any of the direct-service producers produced the other indirect services such as crime labs or training. In all 80

metropolitan areas, indirect services were made available to *all* direct-service producers. In most metropolitan areas, direct-service producers had a choice between at least two large-scale, indirect producers. Where agencies can work out inter-jurisdictional contracts, set up regional facilities, and exchange services with one another, small agencies are able to obtain highly professional, indirect services at low costs without the need to become fully integrated departments.

### **3.3 Police performance is enhanced in metropolitan areas with larger numbers of police agencies**

In order to examine the effect of inter-organizational arrangements on police performance, we relied on measures of performance such as: the allocation of police personnel to on-the-street assignments and the relative efficiency of agencies in producing response capacity and solving crime. For each of the 80 metropolitan areas, we calculated the number of producers of each type of service (multiplicity) and the proportion of the population being served by the largest producer of each type of service (dominance). Metropolitan areas with low scores in regard to multiplicity and high scores in regard to dominance come closest to approximating a consolidated model. Metropolitan areas with high scores in regard to multiplicity and low scores in regard to dominance come closest to approximating a so-called fragmented metropolitan area.

We found a distinct difference in the availability of sworn officers to conduct patrols in the metropolitan areas depending upon the structure of inter-organizational arrangements. While more officers per capita were employed in the most consolidated areas, a lower percentage of these officers were actually assigned to patrol divisions. One-third more officers were required in the most consolidated areas to place the *same* number of officers on patrol as compared to the least consolidated areas. Citizens living in the most fragmented metropolitan areas received more police presence on the streets for their tax expenditures than did citizens living in the most consolidated areas (Parks 1985).

When we estimated the most efficient production frontier, we found the maximum combinations of clearances by arrest and cars on patrol (both standardized by the number of sworn officers to control for agency size) were obtained by departments in metropolitan areas with differing amounts of multiplicity (Parks and Ostrom 1999). The frontiers show a significant upward shift in output possibilities as the number of patrol producers in a metropolitan area increases. The most efficient producers supply more output for given inputs in high multiplicity metropolitan areas than do the most efficient producers in lower multiplicity areas. Thus, the presence of many for comparison enhances the efficiency of direct-service producers.

## **4 There is no one best system for all local public economies**

In addition to the research on police, scholars have conducted rigorous empirical research that has challenged the presumptions that larger public school districts achieve higher performance (Hanushek 1986; Teske et al. 1993; Coleman et al. 1982), that fragmentation of governments leads to higher costs (Dilorenzo 1983; Schneider 1986; Boyne 1992), and have provided further insights to the way local governments are

constituted (Oakerson and Parks 1989; Stephens and Wikstrom 2000; Bish 2001). As a result of extensive empirical and theoretical research, the presumed self-evident truth that constructing one government for each metropolitan area is the best way to achieve efficiency and equity, has slowly been replaced with a recognition that judging 'structure directly on the single criterion of uniformity contributes little to the advancement of research or reform' (Oakerson 1999: 117). Instead of a single best design that would have to cope with the wide variety of problems faced in different localities, a polycentric theory generates core principles that can be used in the design of effective local institutions when used by informed and interested citizens and public officials.

In his conclusion to an in-depth study of urban consolidation efforts in the US and Canada during the last century, Andrew Sancton (2000: 167) reflected:

Municipalities are more than just providers of services. They are the democratic mechanisms through which territorially based communities of people govern themselves at a local level. ... Those who would force municipalities to amalgamate with each other invariably claim that their motive is to make municipalities stronger. In most cases, they are perfectly sincere in expressing such a motive. But deeper reflection suggests that the message they are really delivering is something quite different. The real message is that local communities of citizens are incapable of knowing their own best interests while those at the centre know what is best. Such an approach – however well-intentioned – erodes the foundations of our liberal democracies because it undermines the notion that there can be forms of self-government that exist outside the institutions of the central government. ...

Those of us who are concerned with unlocking human potentials need to recognize the importance of authorizing citizens to constitute their own local jurisdictions and associations using the knowledge and experience they have concerning the public problems they face. We have much to do to enable citizens all over the world to participate actively in local public economies.



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