

# RATIONAL CHOICE AND REGIONAL GOVERNANCE

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**ABSTRACT:** *This article presents a “second-generation” rational choice explanation for voluntary regional governance. It identifies the interests that motivate interlocal collaboration and argues that voluntary agreements emerge from a dynamic political contracting process in which benefits exceed the transaction costs of bargaining an agreement. Explanations are presented for how specific community characteristics and formal and informal institutional arrangements reduce transaction costs of information/coordination, negotiation, enforcement, and agency. Based on the logic of this framework, sets of propositions are presented regarding how these contextual factors influence the transaction costs of cooperative actions. Evidence supporting these propositions is reviewed, followed by a discussion of implications of this second-generation rational choice theory for the study and practice of regional governance.*

**T**o what extent can voluntary cooperation and coordination among local governments provide solutions to regional problems confronting metropolitan areas? Debate between advocates of centralized versus decentralized systems of urban government has defined the study of local government for four decades. The first rounds of this contest focused on the ability of decentralized units to efficiently respond to the demands of citizens within their boundaries (Lowery, Lyons, & DeHoog, 1995; Neiman, 1976; Teske, Schneider, Mintrom, & Best, 1995). Building on the work of Tiebout (1956), advocates of decentralization advanced a theory of public goods that linked intergovernmental competition to service responsiveness and efficiency.

While not entirely conceding defeat at this level, advocates of consolidation shifted the focus of the debate to a regional level. The “neoprogressive” case for centralization argues that consolidation of existing government units and creation 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 (Basolo, 2003; Lowery, 2000, 2001). The underlying assumption of this perspective is that fragmentation precludes concerted responses to interjurisdictional problems (Downs, 1994; Katz, 2000; Warner & Hefetz, 2002). Thus, local governments are unable to deal with spillover problems that result when the policy choices in one community impose costs (or benefits) on others.

This assumption has gone mostly unchallenged because rational choice theories have focused primarily on competition as the coordination mechanism in local public economies. Although

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**JOURNAL OF URBAN AFFAIRS**, Volume 29, Number 1, pages 47–63.

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ISSN: 0735-2166.

Feiock (2004) argues that collaboration through institutional collective action can produce coordinated metropolitan governance, at best he provides an incomplete account of how or under what conditions cooperative governance arrangements might emerge. Lowery describes the regional governance debate as one-sided because “public choice scholars have hardly recognized the new arguments raised by the neoprogressive research” (2001: 134). This essay takes up this challenge and offers a rational choice explanation for how decentralized voluntary governance arrangements arise and evolve over time to address multi-jurisdictional or regional problems.

Elinor Ostrom (2005) distinguishes between first- and second-generation rational choice models. First-generation models were based on rational egoist assumptions that individuals have complete information, consistent preferences over outcomes, and seek to maximize material benefits. This approach has proven very valuable for predicting behavior in economic markets as well as stable competitive political settings such as elections and, in some instances, public goods markets (Ostrom, 2005: 100).

Second-generation rational choice models explicitly take the context of collective decisions into account. Simply saying context matters is not a satisfactory approach. In order to generate testable propositions, a rational choice explanation must systematically address how context matters in specific choice situations, and how it affects the calculus of individual or corporate actors. Many situations generate only partial information that may be distributed asymmetrically and the structure of the situation may cause actors to view risk, uncertainty, information asymmetries, and the actions attributes of other participants differently (Ostrom, 2005; Vanberg, 2002). The next section outlines a rational choice explanation for cooperation among local governments in metropolitan areas. It identifies the interests that motivate interlocal collaboration and argues that voluntary agreements emerge from a dynamic political contracting process. Bilateral contracting and multilateral collective action are mechanisms by which two or more governments act collectively to capture the gains from providing or producing services across a larger area. Taken together these mechanisms can be referred to as institutional collective action (ICA) (Feiock, 2004, 2005). ICA focuses on how local government officials perceive and weigh the various costs and benefits of cooperation as they contemplate interlocal service agreements and other forms of intergovernmental cooperation. Although service cooperation can produce substantial benefits, local officials often perceive the costs of attaining those benefits as exceeding potential gains. How officials understand these costs will depend on the context of the decision setting, including the characteristics of the good or service being considered, the configurations of political institutions under which they operate, and the networks of existing relationships among local government officials.

A contextual explanation of regional governance points not only to the potential for voluntary regionalism, but also to its limitations. Where transaction cost barriers to institutional collective action are substantial, voluntary regional governance may not be possible and governmental approaches such as consolidation and regional districts may be more efficacious. After specifying the individual and collective benefits for local actors that can motivate interlocal cooperation, I identify the transaction problems that limit cooperative interlocal service arrangements. A rational choice explanation for interlocal cooperation is presented in which agreements occur where net benefits exceed the transaction costs of bargaining. A systematic explanation is then presented for how specific community characteristics and formal and informal institutional arrangements reduce transaction costs of information/coordination, negotiation, enforcement, and agency. Based on the logic of this framework I present sets of propositions regarding how each of these contextual factors influence the transaction costs of cooperative actions and thus the success of voluntary regionalism.

The final sections review evidence supporting these propositions gleaned from empirical analyses of fiscal relationships and case analysis of interlocal cooperation at three levels: metropolitan

areas, local government units, and policy ties or agreements. This is followed by a discussion of implications of this second-generation rational choice explanation for the study and practice of regional governance.

## **WHY COOPERATE?**

Motivations for governments to cooperate with each other in the provision and delivery of services encompass public interest explanations based in collective benefits and private interest explanations based in economic or political opportunism of local actors. Interlocal cooperative agreements generate collective benefit by producing efficiencies and economies of scale in the provision and production of services and by internalizing spillover problems. They can also advance the individual interests of local government officials.

### **Collective Benefits**

We generally expect that the 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, & Walker, 1994). For example, communities experiencing economic hardship and/or with demands for large-scale economic development are anticipated to be more likely to cooperate in joint economic development projects with neighbors.

Interlocal cooperation can be the product of efficiency-enhancing efforts of local officials seeking economies of scale in production, especially in the case of capital-intensive goods (Post, 2002). A polycentric system of governments enhances allocative efficiency if it produces a match between community preferences for quantities and qualities of a service and actual service choices and resource allocations; but it can also result in diseconomies of scale in service production and interjurisdictional externalities. Economies of scale result when average cost declines as output increases. Fragmented governments are constrained by their size if there are not enough citizen consumers in a jurisdiction to produce a service at minimum cost. For this reason, economies of scale are often cited as the impetus for interlocal agreements (Bish, 2000; Sandler, 1992; ICMA, 1997).

Capturing cost and benefit spillovers also produces gains from cooperation. Public services can produce positive externalities such as storm water management, crime prevention, etc., or negative externalities such as storm water flooding, incompatible land uses, and crime risks. Externalities give local leaders strong incentives to pursue joint goals, but the metropolitan governance literature is characterized by disagreement over the extent to which spillovers present problems for decentralized systems. Scholars in the Tiebout tradition argue that spillovers are minimized to the extent that households sort themselves into jurisdictions based upon preferences for government-provided collective goods, and overlapping jurisdictions conform to a particular service's scale economies and the geographic scope of its costs and benefits. The literatures of public goods markets and consolidation agree that taking advantage of scale economies and correcting spillovers produce substantial benefits for citizens. A second point of agreement is their assumption that general purpose local governments are unable to adequately resolve local collective good problems themselves (Basolo, 2003). Thus, they argue that either creation of special purpose overlapping governments or consolidation of exiting units is necessary.

In theory, consolidation, overlapping districts, or higher-level government intervention solves scale and externality problems, yet their larger scale reduces local control, creates allocation

inefficiencies, and increases coordination costs (Brierly, 2004). Empirical work supports the proposition that horizontal competition among local units enhances efficiency, but vertical competition among overlapping units can result in increased costs of government (Foster, 1997) and create common pool resource problems as overlapping jurisdictions compete for the same tax base (Bae, 2006; Berry, 2002). Moreover, shifting service responsibilities from municipalities to regional governments requires cooperation among cities because state-enabling legislation for city–county consolidation or formation of regional districts generally requires consent or positive action by citizens and /or government officials of the affected general purpose governments.

### **Selective Benefits**

The political and career incentives of local leaders have implications for their willingness to enter into cooperative arrangements. Stein (1990) and McCabe et al. (2007) argue that city managers often act “as if” they were residual claimants who can and do capture a portion of the benefits of local government activity, particularly when those activities produce efficiency gains and economic growth. While not a residual claimant in the strict sense, since there are no profits in local government to distribute, city managers can use the tangible success represented by service efficiencies to advance their careers, usually by finding better paying positions in larger and wealthier communities. Recent work argues that the professional standing and employment opportunities of city managers are improved by collaborative service innovations (Feiock, 2005). Carr and LeRoux (2005) and Krueger and McGuire (2005) report that the council–manager form of government is a strong predictor of interlocal contracting.

Although elected officials are expected to be primarily responsive to internal electoral constituencies, motivations unrelated to efficiency may create demands for collaboration. Bickers (2005) suggests that interlocal cooperation might result from the efforts of local officials seeking to prevent the dilution of the voter groups on whom they rely for electoral support.

Politicians from jurisdictions with higher income voters might be willing to make side payments to adjacent jurisdictions in order to decrease the costs of delivering social welfare benefits in those jurisdictions. Residents in those communities might be willing to tolerate such payments as long as the per household costs of the payments are lower than the benefits to the household of maintaining the status quo in the mix of groups residing in the jurisdiction. At the same time, politicians in the jurisdictions with large low income populations might be willing to accept such side payments even though to do so might attract in more high demanders of social services and repel high income residents, on the grounds that coalitions of low income voters constitute the core of their electoral support (Bickers, 2005).

Collaborative service arrangements can produce political costs as well as benefits for local officials. Local governments may need to give up some authority to achieve regional coordination. Furthermore, local officials who pursue cooperative solutions that are contrary to their constituents’ preferences or prejudices—even if those solutions are economically efficient—risk being punished at the polls (Gerber & Gibson 2005: 12). On the other hand, if local leaders are interested in election or appointment to regional or statewide office in the future, or desire advancement within their political party, they might promote regional interests to enhance their recognition and reputations outside their city. Gillette (2000) asserts that electoral ambitions can lead local officials to address interlocal needs even in the face of weak internal demand.

Despite the potential benefits of cooperative governance arrangements, local officials often perceive the costs as far exceeding the potential gain. The rejection of voluntary agreements as a feasible strategy for regional governance can usually be traced to transaction cost problems that make such solutions costly and difficult.

## TRANSACTION COSTS IN INTERLOCAL COOPERATION

The Coase theorem (1960) states that, if transaction costs are sufficiently low, rational parties will achieve a Pareto-efficient allocation through voluntary bargaining. Application of the Coase theorem to metropolitan governance suggests that under the right conditions local governments can negotiate agreements to capture scale economies and policy spillover effects (Lubell et al., 2002; Ostrom, 1990). The scope of cooperation can be small, as when neighboring jurisdictions enter into an agreement to coordinate timing of traffic signals, or large, as in regional efforts to plan infrastructure or promote regional development. In each case cooperative actions are expected to arise when benefits to potential collaborators are high and the transaction costs of negotiating, monitoring, and enforcing agreement are low. Coase extended his analysis beyond two-party externalities to larger groups and to collective goods (Coase, 1988). Thus, Coase's theorem has implications for collective action situations, not just local externalities (Dixit & Olson, 2000). However, for successful Coasian bargains to be achieved, transaction costs from various sources need to be minimized (Inman & Rubinfeld, 1997, 2000):

1. Information/coordination costs—information on the preferences of all participants over possible outcomes and their resources must be common knowledge.
2. Negotiation/division costs—the parties must be able to agree to a division of their mutual gains.
3. Enforcement/monitoring costs—there can be at most low costs associated with monitoring and enforcing the agreement.
4. Agency costs—bargaining agents must well represent the interests of their constituents.

Prescriptions for regional general purpose government and consolidation of local government units, at least implicitly, are based on an assumption that the information, negotiation, enforcement, and agency costs of collective bargaining agreements exceed the gains from cooperation, or at least are greater than the costs of centralized policy in a consolidated system (Carr & Feiock, 2004).

Coordination is often a critical problem in joint provision of services. In order for actors to cooperate, they need to be able to identify opportunities for mutual gain and have good information on who may be a good potential partner. When information is not perfect and resources are limited, finding other actors in a trial-and-error fashion will be highly unproductive and inefficient. Thus, information costs prevent governments from recognizing potential gains from joint action. This is especially a problem when service outcomes are difficult or costly to measure.

Joint gains are necessary, but not sufficient, for establishing cooperative relationships (Libecap, 1989; Riker & Sened, 1991). Information on the positions and likely future positions of other local actors is needed to coordinate actions for joint benefit. If costs and benefits are not common knowledge, the parties may seek strategic advantage by trying to influence one another's perceptions of the relative attractiveness of their available outside options or their own valuation of the outcomes from cooperation (Scharpf, 1997). Because fixed geographical boundaries reduce local governments' flexibility in choosing service partners, they may be at greater risk from these strategic behaviors than private organizations seeking to coordinate activities.

Even where local officials have complete information, achieving agreement on formulas or procedures to allocate costs or benefits can be difficult. The negotiation of equitable distributions of benefits will be affected by asymmetries in economic and political strengths between actors (Steinacker, 2004). Negotiated solutions will reproduce existing advantages and disadvantages. Political and social norms regarding the fairness of divisions may preclude some technically feasible outcomes from being reached. Experimental studies report that participants respond to the perceived fairness of a deal and sometimes reject offers where the stronger partner benefits disproportionately (Roth, 1995).

Bargaining positions of cities differ not only because of different service needs and production capacities, but also because local government leaders differ in their institutional powers and political security. The need for a collective service, the importance of its timing, and willingness to trade off a certain outcome for a chance at something better shape bargaining positions in negotiating the distribution of gains from cooperation. Each local government not only wants joint gains from collective provision but also a large share of the benefits. Thus the likelihood of cooperation is dependent on the context of the situation, both whether the type of good produces joint gains and whether the city features lead to compatible bargaining positions.

Defection occurs if one or more of the parties do not comply with the agreement. While enforcement problems occur at implementation, the anticipation of enforcement problems adds to the costs of the process of bargaining an agreement in the first place. Preferences of the participants may diverge over time. As conditions change, the value of the cooperative agreement can change, possibly increasing the incentive of some parties to renege (Keohane & Martin, 1995). Cities that are on different trajectories—a slowly declining central city or inner suburb versus rapid growth suburbs, for example—may anticipate that their preferences regarding services will diverge over time. The higher the probability that their interests will drift apart, the less likely a contract can be struck, especially if significant asset investments would be required. When jurisdictions are tempted to renege, there will be less incentive to reach agreement in the first place.

Enforcement will be costly unless there are credible commitments by the contracting parties to not defect. In addition, third party enforcement of agreements is uncertain because the courts have been inconsistent in their treatment of agreements among local government units (Ellickson, 1979). State legal doctrines of nondelegation limit the capacity of localities to overcome contacting costs and threats of strategic behavior. Although Dillon's Rule precludes local governments from engaging in activities for which they have not received explicit authority from the state legislature, the courts have generally upheld interlocal agreements challenged as violations of home rule provisions (Gillette, 2000).

Agency problems not only influence the costs of reaching an agreement but also the social benefit or efficiency of interlocal agreements. 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). Also, administrators as agents may be unable to commit in the name of elected overseers without public disclosure of bargaining strategies (Steinacker, 2004). The extent to which agency problems are manifest can be 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. Officials participating in regional institutions are particularly attentive to the local benefits and costs of regional policy. Gerber and Gibson (2005) find institutions shape the extents to which regional versus local benefits are emphasized in regional governance arrangements.

## CONTEXT AND INSTITUTIONAL COLLECTIVE ACTION

The institutional collective action perspective considers the opportunity participants have to assess by themselves the costs and benefits of participation in the solution of mutual problems. The conditions for successful regional governance can be found in the types of policies, the characteristics of the community, political institutions, and the formal and informal network structures in which local actors are embedded. The benefits of voluntary regionalism exceeds the

transaction costs when these conditions produce repeated interactions among the participants, compatible incentive structures, mechanisms to establish reputations, and linkages across various policies and issues. As interlocal cooperation is achieved through mutual bargaining between and among affected parties, such mutually agreed arrangements will likely be Pareto enhancing. Below we describe how the transaction characteristics of goods, the geographic, social, and demographic position of communities, the structure of local government political institutions, and the structure of the policy networks determine the scope of these transaction cost problems and the ability of local leaders to overcome them.

### **Transaction Characteristics of Goods**

Mancur Olson (1965) built his logic of collective action on a presupposition that the type of problem(s) individuals attempt to solve affect their responses to these problems. Such a formulation begs the question of what are the attributes of goods that are likely to present transaction problems for local government actors. The literatures on industrial organization and organizational economics suggest that characteristics of goods such as the meterability of service outcomes and performance, and asset specificity are most salient.

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 cannot easily be redeployed 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 options that would be available to them if the agreement broke down in the future (Frieden, 1994).

For example, a compact 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 government providing the good may prefer to terminate the interlocal compact in order to better serve its own citizens. The other participants are then forced to make an unplanned investment to develop their own asset.

Measurement difficulties increase search costs and make coordination of joint action difficult. In addition, measurement problems 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 (Williamson, 1985). Outcomes of some services are more difficult to measure than others, thus cooperative outcomes should be easier to achieve for services such as sewer, water, or refuse collection that have divisible outcomes that are easily measured. 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, for service outcomes that are less divisible 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 & Graddy, 1986). The preceding discussion suggests several propositions regarding the relationships between service

types and the structure of interlocal cooperation.

*Proposition 1a: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are negatively related to the extent to which a service requires asset-specific investments.*

*Proposition 1b: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are negatively related to the difficulty in measuring and monitoring service outcomes.*

### Characteristics of Communities

Economic, social, and political characteristics of community populations shape preferences for public goods and help determine the potential gains and transaction costs of cooperation. Homogeneity of preferences, both within units and across units, is salient. Similar to individual collective action situations, we expect homogeneity across jurisdictions to signal potential common interests and service preferences. For public officials who are the bargaining agents for their governments, knowledge that counterparts in other jurisdictions represent similar constituencies provides for better understanding of their preferences and indicates similar political and economic interests.

Demographic homogeneity suggests that there will not be political and economic power asymmetries that advantage one of the parties and create problems for negotiating fair divisions of benefits. Neighboring jurisdictions that are similarly situated begin from a position of mutual dependence. Scharpf (1997: 140) argues that mutual dependence can be represented as a battle of the sexes game in which both players have an interest in concluding the deal but have differences in preference for one or the other coordinated outcome. In this situation both players could achieve their second-best outcome. Since nonagreement would lead to the worst outcomes for each, threats to break off negotiation would not be credible. If instead power is asymmetrically distributed, the player in an advantaged position can capture all of the benefits or no deal will be struck. Social and economic homogeneity among cities places them in similar bargaining positions and thus makes an even split of costs a workable solution to bargaining problems.

Demographic homogeneity within, not just between, units is important because it reduces agency costs for officials negotiating interlocal agreements on behalf of citizens. Interests are likely to be less uniform and it is more difficult to aggregate preferences and hold agents accountable in heterogeneous communities. In addition to increasing the principal-agent conflict, communications costs will also be higher in heterogeneous rather than homogeneous groups (Alcorn & Toledo, 1998). Thus we expect intrajurisdictional homogeneity to increase the likelihood of cooperation.

One of the most important contextual factors is geographic location. Neighbors have incentives to cooperate based in the technical costs of sharing services. For services with high transaction costs, we might expect agreement will be sought with the same neighbor across different services. Fixed geographic borders also require repeat play among neighboring jurisdictions, and thus reduce transaction 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 in the future. 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 (Miller, 1992).

Cooperation 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 & Vogel, 2000; Stein & 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.

*Proposition 2a: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are negatively related to demographic heterogeneity among local governments.*

*Proposition 2b: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are negatively related to demographic heterogeneity within local governments.*

*Proposition 2c: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are negatively related to the geographic distance between local governments.*

### **Political Institutions**

Local authority to enter into interlocal agreements is derived from state constitutions and enabling legislation. The provisions of intergovernmental cooperation laws vary tremendously across states but most are permissive and let jurisdictions undertake jointly any activity they can undertake individually (ICMA, 1997). State legislation defines the purposes and forms agreements can take, what types or classes of local governments can participate, and requirements for its passage and ratification. For example, Florida's "Interlocal Cooperation Act of 1969" (s. 163.01, Fla. Stat.) provides a broad legal framework for local governments to enter into agreements with other governments.

Political institutions are linked to successful interlocal cooperation because they shape the information available and the structure of incentives faced by government officials. Administrators and elected officials each play a role in forging cooperative alliances with other local governments but they differ in their bargaining resources and institutional positions. Contracts offer incentives for efficiency, but may also motivate the parties to act opportunistically. Certain political system institutions have been shown to constrain risks of opportunistic behavior by both elected and appointed leaders (Feiock, 2004). Gary Miller argues that the progressive reform "myth" of separation of politics and administration institutionalized in reformed council manager forms of government helps elected leaders resist opportunism (Miller, 2000). Krueger and McGuire (2005) assert that "the city manager function can be viewed as a mechanism for reducing information costs associated with policymaking in a complex environment" (2005: 11). The role of professional administrators is also highlighted in Thurmaier and Wood's (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.

The city council functions as a "veto player" in the political system since council approval typically is necessary to ratify agreements (Tsebelis, 2002). A council elected at large is more likely to share the preferences of the executive, but district councils will advocate the interests of the smaller geographic constituencies they represent. Gerber and Gibson (2005) argue that the underlying political dilemma associated with regional governance is that local officials need to

give up some authority to achieve regional coordination, but they may then be held accountable for regional policies that are contrary to the preferences of their local constituents. Even if there are city-wide benefits from collaboration, district representatives may be unwilling to delegate control of decisions regarding the scope and location of projects if it means a loss of the ability to direct benefits to their district constituencies.

Turnover and short election cycles result in a short-term focus by local officials that makes cooperation difficult (Clingermayer & Feiock, 2001). When political institutions create a longer time horizon, short-term gains from defection will be outweighed by the long-term gains from continued cooperation. Extended tenure in office for local elected and administrative officials reduces uncertainty and promotes decision making based on long-term considerations of the collective and selective benefits of collaboration.

Institutional homogeneity, the similarity of political institutions across government units in a region, facilitates exchange because actors tend to cluster with others of similar values, norms, and beliefs characteristics (Carley, 1991; Sabatier, 1999). Much of the local public administration literature suggests that professional city managers share a common set of training, experience, and orientation that lead to common values and an emphasis on efficiency and professionalization that are reinforced by the professional organizations in the field (Feiock, Jeong, & Kim, 2003; Frederickson, Johnson, & Wood, 2004). We expect local leaders will align with others with whom they share similar professional values.

*Proposition 3a: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are negatively related to the restrictiveness of state laws authorizing interlocal cooperation.*

*Proposition 3b: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are positively related to council–manager form of government.*

*Proposition 3c: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are negatively related to district-based representations systems.*

*Proposition 3d: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are positively related to tenure in office of elected and appointed officials.*

*Proposition 3e: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are negatively related to institutional heterogeneity in the political structure of local governments.*

### **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, together the dyadic relations form a macro-level regional governance structure that comprises a set of actors in a social network (see Thurmaier & 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 & Gargiulo, 1999).

The existing structure of agreements among local governments reduces transaction costs problems by increasing available information about each other's conduct specified in the agreements and enhancing the credibility of commitments to fulfill those agreements. Interlocal agreements

provide information about local governments' policies and programs in relation to others within the region and potential implementation problems. A network of contractual arrangements transforms short-term interlocal relations into repeated games in which a reputation for reciprocity and trustworthiness can mitigate opportunism, especially with localities or organizations that are not located immediately across the jurisdictional boundary.

Scholz, Feiock, and Ahn (2005) advance two general propositions regarding the role of network structures in mitigating the problems of institutional collective action. "Information-bridging" emphasizes the role of extensive "weak tie" relationships linking diverse organizations in enhancing shared information required to coordinate collective decision. "Credibility-clustering" emphasizes tightly clustered or "strong tie" relationships capable of enhancing the credibility of commitments among network members.

Because information on opportunities for cooperation and who may be a good partner is necessary for local government units to cooperate, the value of a link might be particularly high if the link creates a "bridge" to a government with connections to others not part of the first governments network (Berardo & Scholz, 2005; Burt, 2005). Information bridging 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 more highly clustered network. This idea builds on Burt's theory of "structural holes," which argues that ties that bridge structural holes are beneficial for the flow of information and reduce coordination/information costs. Nevertheless, they may increase bargaining and enforcement costs if there is risk that an actor can use this brokerage position to opportunistically control information. What Burt calls an opportunity structure can also be interpreted as a power structure. Brokerage is about coordinating people between whom it would be valuable, but risky, to trust (Burt, 2005: 3–4).

The credibility-clustering hypothesis argues that the credibility advantage of a clustered network becomes increasingly important when there is a potential problem of shirking or defection by localities involved in the delivery of collective goods. Threats of shirking impose costs on those who have already invested resources, effort, and time in collective efforts. From the transaction cost perspective, a clustered network reduces the cost of monitoring and enforcing compliance with the terms of interlocal arrangements. Information on the efforts, contributions, and behaviors of a government can be made available to and sanctioned by potential partners. Other localities with common concerns and shared beliefs provide threats of collective sanction that enhance the credibility of punishments being imposed. Thus, a highly clustered network has the ability to impose constraints on local units that might attempt to shirk or act opportunistically.

A densely clustered network of intergovernmental relationships contributes to social capital by facilitating mutual reciprocity, trust, and conformance to the rules of the game (Coleman, 1988; Cowell, 2004). Cooperation is more likely the longer the time horizon for a relationship. In a repeated relationship, such as occurs with geographically fixed government units, each actor stands to benefit by acquiring and preserving a positive reputation (Park & Feiock, 2003). In uncertain real world situations, the signal of reputation does more than compensate for incomplete information; reputation is a valuable social capital asset (Dixit, 1996). If the forces of repetition and reputation are strong enough, local governments' own incentives ensure that they will not be tempted to defect from their commitments.

In addition, a history of cooperation among pairs of local governments leads to development of reciprocity norms that reduce the costs of joint action and build social capital. Dyadic interactions with other governments affect present and future cooperation as repeated interactions reduce the effort required to put additional new activities in place as partners develop norms, trust, and comfort working together over time (Gerber & Gibson, 2005). Reciprocal relationships provide the opportunity for "side payments" if they link agreements across issue areas (Stein, 1990). In such relationships, the costs of knowing how counterparts may behave are reduced, since

the establishment of a link running in both directions presupposes wider access to information on what type of behavior is expected and the political and social norms regarding the fairness of divisions. Bundling agreements across issues can be especially helpful if the government which is in advantaged position regarding one service is in a disadvantaged position regarding others.

*Proposition 4a: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are positively related to bridging “weak tie” network relationships among local governments.*

*Proposition 4b: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are positively related to tightly clustered “strong tie” network relationships among local governments.*

*Proposition 4c: The likelihood of the emergence of cooperative intergovernmental agreements and their durability are positively related to a history or reciprocal dyadic relationships across time and policy arenas.*

## **A RESEARCH AGENDA**

Given the transaction costs inherent in crafting voluntary collective agreements, it is not surprising that much of the literature assumes governmental solutions such as centralization of authority and consolidation of units necessary for effective action. Certainly, there are many situations where transaction costs exceed the benefits of cooperation, and thus governmental approaches to regional problems may be necessary. Nevertheless, a long history of research confirms that voluntary regional governance arrangements are not uncommon (c.f. Parks and Oakerson’s (1993) studies of service arrangements in the Pittsburgh and St. Louis areas). This suggests that cooperative governance arrangements will emerge when contexts and institutional configurations reduce the transaction costs of cooperation for local actors. To date there has not been a systematic test of institutional collective action explanations for the emergence of voluntary regional governance. Nevertheless, elements of institutional collective action have been examined at several levels of analysis: metropolitan areas or other regional units, cities or other local government units, and individual ties or service agreements between governmental units.

There has been surprisingly little comparative work examining intergovernmental cooperation using region or metro area as the units of analysis. Empirical investigations of intergovernmental revenues and expenditures at this level reveal substantial fiscal transfers among local government units. Post (2002) found certain community characteristics and political institutions facilitated interlocal fiscal cooperation. She reported interlocal transfers were positively related to the density of local governments. Most recently Krueger (2006) found interlocal revenue transfers were greater where the governments in a metropolitan area were demographically homogeneous.

Large N studies that compare policy networks across regions are rare. Although they focused on estuaries rather than metropolitan areas, Lubell et al. (2002) provided insights into how barriers to institutional collective action can be reduced. They found that characteristics of the environment, characteristics of actors, higher-level government programs, and network structure contributed to the reduction of transaction costs that facilitated watershed partnerships. Park and Feiock (2006) linked regional economic development partnerships to network structure and provided evidence that social capital resulting from experience with interlocal agreements is strongly related to the formation of regional partnerships in metropolitan areas. Case studies conducted at the metro level generally confirm the importance of political incentives and the structure

of relationships among local actors. Thurmeier and Wood (2002) report that social network relationships among governments in the Kansas City metropolitan area define intergovernmental relations and underlie local governments' exchange of goods and services. Carr and LeRoux (2005) report similar relationships underlying cooperation in Michigan metro areas. The patterns reported in case analyses of collaborative service provision and in comparative analyses of interlocal fiscal transfers reinforce the importance of both the contextual and relational elements of bargaining and collective action for cooperation among local governments.

More work has been done at the city level. Morgan and Hirlinger (1991) found service agreements were more likely to be found in council–manager cities that were located in metropolitan areas and in states with few statutory limits on contracting activity. Examples of interlocal cooperation described in this literature share a configuration of conditions that reduced the costs of intergovernmental cooperation (Parks & Oakerson, 1993; Summers, 2000; Gillette, 2000; Carr & LeRoux, 2005). Shrestha and Feiock (2005) focused on characteristics of goods, particularly asset specificity and meterability, as determinates of fiscal cooperation among local governments. Their analysis of transfers across different service areas among municipal governments in Georgia reports evidence that local governments can correct externalities through interlocal cooperation. Several recent studies link various contextual factors to collaboration among jurisdictions in a metropolitan area (Post, 2002; Gerber & Gibson, 2005; Feiock, Park, & Steinacker, 2005).

The third set of empirical analyses examines dyadic ties or cooperative agreements among local government units in relation to the network structures in which they are embedded. This approach allows predictions to be made based on both the structure of ties and the characteristics of units simultaneously. It also allows researchers to examine and test hypotheses about the emergence of ties among members and the evolution of the network over time. A unique set of concepts, measures, and analytic techniques are required for analyzing relational linkages in longitudinal dyadic data sets. This approach has recently been applied to public safety and emergency response networks (Andrew, 2005), environmental projects in the Tampa Bay area (Berardo & Scholz, 2005), and water-related services in Pinellas County, Florida (Shrestha & Feiock, 2006).

Research that examines various individual components of institutional collective action can provide new insights that inform theory and practice, but the next step should be to empirically examine the influence of service types, community characteristics, political institutions, and network structures together. Certainly, designing a comprehensive empirical test of the explanation developed in this article would be a complex and resource-intensive undertaking. It would involve mapping structure of social networks of intergovernmental agreements within each metropolitan area. It also would need to investigate governance arrangements in multiple states to account for variation in state-level constraints and would need to examine a large set of public goods and services in order to control for the transaction characteristics of specific services. The advantage of such an approach is that it could investigate institutional collective action at metro, city, and agreement levels as holons—nested part–whole units of analysis (Ostrom, 2005).

## DISCUSSION

A rational choice explanation for regional governance focuses attention not only on service costs and benefits of interlocal cooperation, but also on transaction costs of cooperation. Transaction costs are reduced by formal and informal institutional arrangements that increase the availability of information, reduce obstacles to bargaining, and reinforce social capital. Advocates of both decentralized governance and of progressive consolidation each promote a particular governance mechanism generally. Rather than this unitary approach, a second-generation rational choice explanation posits that the potential for voluntary governance is contingent on contextual factors that reduce the transaction costs of negotiating, monitoring, and enforcing an agreement. As

in many other situations, we believe governance structures depend on contextual factors. For example, Oliver Williamson (1985) argued that the benefits and costs of external production versus vertical integration in firms depended on the transaction costs properties of goods and the frequency of transactions. Better understanding of the context of metropolitan governance not only advances our theoretical understanding of institutional collective action, but it also has practical policy implications. Systematic evaluation of the contextual factors that shape transaction costs may allow policy makers and advocates of progressive consolidation to identify situations in which the costs of voluntary regional governance arrangements are high, and governmental approaches to regionalism may be more viable.

The institutional collective action framework also focuses on the dynamics of decentralized systems of governance. As cooperation continues to provide benefits to participants, the parties to these exchanges build reputations for being trustworthy, providing in the process a feedback mechanism that enhances future cooperation and collective action. Thus service cooperation provides mechanisms for exchange of resources, commitments, and trust that can reinforce cooperative norms (Scholz, Berardo, & Kile, 2005). The study of how these endogenous mechanisms operate deserves greater theoretical and empirical attention.

The discussion that opened this article focused on the long-standing debate in urban affairs about the consequences of centralized versus decentralized systems of government. We believe that the rational choice explanation of institutional collective action sheds new light on this question and provides insights into the emergence and evolution of the structure of governance in metropolitan areas. It also has implications for another enduring issue, the question of who governs. Robert Dahl (1961) asked this question with regard to cities almost 45 years ago, but it has not been adequately approached at the regional level. The “who governs” question underlies the literature on government versus governance in metropolitan areas as well as the literature on social networks, but it has not been addressed directly (for an exception see Hall, 2001). Our focus on actors, institutions, and relational ties in the institutional collective action process provides tools to go beyond a snapshot of who governs and to investigate the evolution and success of governing arrangements.

**ACKNOWLEDGMENT:** An earlier version of this article was presented at the Innovative Governance Salon, University of Southern California, on April 25, 2005. I wish to thank John Scholz, Annette Steinacker, Margaret Levi, Simon Andrew, and Manoj Shrestha for comments on earlier versions. This article is based upon work supported by the DeVoe Moore Center Program in Local Governance at FSU and the National Science Foundation under Grant No. 0214174. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of the National Science Foundation.

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