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### *An institutional approach to the study of self-organization and self-governance in CPR situations*

In Chapter 1, I described my strategy as that of a “new institutionalist” who has picked small-scale CPR situations to study because the processes of self-organization and self-governance are easier to observe in this type of situation than in many others. The central question in this study is how a group of principals who are in an interdependent situation can organize and govern themselves to obtain continuing joint benefits when all face temptations to free-ride, shirk, or otherwise act opportunistically. Parallel questions have to do with the combinations of variables that will (1) increase the initial likelihood of self-organization, (2) enhance the capabilities of individuals to continue self-organized efforts over time, or (3) exceed the capacity of self-organization to solve CPR problems without external assistance of some form.

This chapter has several objectives. First, I define what I mean by CPRs and how I view individual behaviors in complex and uncertain CPR situations. Then I examine the general problem facing individuals in CPR situations: how to organize to avoid the adverse outcomes of independent action. This general problem is solved by external agents in two well-accepted theories: the theory of the firm and the theory of the state. These explain how new institutions are supplied, how commitments are obtained, and how the actions of agents and subjects are monitored effectively, using in one case the firm, and in the other state, as an organizational device. How a group of principals – a community of citizens – can organize themselves to solve the problems of institutional supply, commitment, and monitoring is still a theoretical puzzle. Given that some individuals solve this puzzle, whereas others do not, a study of successful and unsuccessful efforts to solve CPR problems should address important issues related to the theory of collective action and the development of better policies related to CPRs. Many efforts to analyze collective-action problems have

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framed the analysis by presuming that all such problems can be represented as prisoner's dilemma (PD) games, that a single level of analysis is sufficient, and that transactions costs are insignificant and can be ignored. In the last section of this chapter, I propose assumptions that are alternatives to those that normally frame the analysis of collective action.

### THE CPR SITUATION

#### *CPRs and resource units*

The term "common-pool resource" refers to a natural or man-made resource system that is sufficiently large as to make it costly (but not impossible) to exclude potential beneficiaries from obtaining benefits from its use. To understand the processes of organizing and governing CPRs, it is essential to distinguish between the *resource system* and the flow of *resource units* produced by the system, while still recognizing the dependence of the one on the other.

Resource systems are best thought of as stock variables that are capable, under favorable conditions, of producing a maximum quantity of a flow variable without harming the stock or the resource system itself. Examples of resource systems include fishing grounds, groundwater basins, grazing areas, irrigation canals, bridges, parking garages, mainframe computers, and streams, lakes, oceans, and other bodies of water. Resource units are what individuals appropriate or use from resource systems. Resource units are typified by the tons of fish harvested from a fishing ground, the acre-feet or cubic meters of water withdrawn from a groundwater basin or an irrigation canal, the tons of fodder consumed by animals from a grazing area, the number of bridge crossings used per year by a bridge, the parking spaces filled, the central processing units consumed by those sharing a computer system, and the quantity of biological waste absorbed per year by a stream or other waterway. The distinction between the resource as a *stock* and the harvest of use units as a *flow* is especially useful in connection with *renewable* resources, where it is possible to define a replenishment rate. As long as the average rate of withdrawal does not exceed the average rate of replenishment, a renewable resource is sustained over time.<sup>1</sup>

Access to a CPR can be limited to a single individual or firm or to multiple individuals or teams of individuals who use the resource system at the same time. The CPRs studied in this volume are used by multiple individuals or firms. Following Plott and Meyer (1975), I call the process of withdrawing resource units from a resource system "appropriation." Those who withdraw such units are called "appropriators."<sup>2</sup> One term –

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“appropriator” – can thus be used to refer to herders, fishers, irrigators, commuters, and anyone else who appropriates resource units from some type of resource system. In many instances appropriators use or consume the resource units they withdraw (e.g., where fishers harvest primarily for consumption). Appropriators also use resource units as inputs into production processes (e.g., irrigators apply water to their fields to produce rice). In other instances, the appropriators immediately transfer ownership of resource units to others, who are then the users of the resource units (e.g., fishers who sell their catch as soon as possible after arrival at a port).

The analysis of scarce, renewable resources is made from the perspective of the appropriators. This is not the only perspective that can be used in an analysis of complex CPR problems. If the appropriators of a resource unit gain considerable market power, such as by creating a cartel to influence price, their strategies affect themselves as well as others. This analysis relates to situations in which CPR appropriators have no power in a final-goods market, nor do their actions have significant impact on the environment of others living outside the range of their CPR.

The term I use to refer to those who arrange for the provision of a CPR is “providers.” I use the term “producer” to refer to anyone who actually constructs, repairs, or takes actions that ensure the long-term sustenance of the resource system itself. Frequently, providers and producers are the same individuals, but they do not have to be (V. Ostrom, Tiebout, and Warren 1961). A national government may provide an irrigation system in the sense of arranging for its financing and design. It may then arrange with local farmers to produce and maintain it. If local farmers are given the authority to arrange for maintenance, then they become both the providers and the producers of maintenance activities related to a CPR.

A resource system can be jointly provided and/or produced by more than one person or firm. The actual process of appropriating resource units from the CPR can be undertaken by multiple appropriators simultaneously or sequentially. The resource units, however, *are not subject to joint use or appropriation*. The fish harvested by one boat are not there for someone else. The water spread on one farmer’s fields cannot be spread onto someone else’s fields. Thus, the resource units are not jointly used, but the resource system is subject to joint use. Once multiple appropriators rely on a given resource system, improvements to the system are simultaneously available to all appropriators. It is costly (and in some cases infeasible) to exclude one appropriator of a resource system from improvements made to the resource system itself. All appropriators benefit from maintenance performed on an irrigation canal, a bridge, or a computer system whether they contribute or not.

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Failure to distinguish between the subtractability of the resource units and the jointness of the resource system has in the past contributed to confusion about the relationship of CPRs to public or collective goods.<sup>3</sup> Michael Taylor recognized the difference between CPRs and collective goods when he wrote the following:

There is, in particular, a very important class of collective action problems which arise in connection with the use of resources to which there is open access – resources, that is, which nobody is prevented from using. These resources need not be public goods. (M. Taylor 1987, p. 3)

The relatively high costs of physically excluding joint appropriators from the resource or from improvements made to the resource system are similar to the high costs of excluding potential beneficiaries from public goods. This shared attribute is responsible for the ever present temptation to free-ride that exists in regard to both CPRs and public goods. There is as much temptation to avoid contributing to the provision of a resource system as there is to avoid contributing to the provision of public security or weather forecasts. Theoretical propositions that are derived solely from the difficulty of exclusion are applicable to the *provision* of both CPRs and collective goods.

But one's use of a weather forecast does not subtract from the availability of that forecast to others, just as one's consumption of public security does not reduce the general level of security available in a community.<sup>4</sup> "Crowding effects" and "overuse" problems are chronic in CPR situations, but absent in regard to pure public goods. The subtractability of the resource unit leads to the possibility of approaching the limit of the number of resource units produced by a CPR. When the CPR is a man-made structure, such as a bridge, approaching the limit of crossing units will lead to congestion. When the CPR is a biological resource, such as a fishery or a forest, approaching the limit of resource units not only may produce short-run crowding effects but also may destroy the capability of the resource itself to continue producing resource units. Even a physical resource, such as a bridge, can be destroyed by heavier use than was allowed for in its engineering specifications.

Thus, propositions derived from a theory of public goods that are based on the nonsubtractive attributes of those goods are *not* applicable to an analysis of *appropriation* and *use* of subtractable resource units. Appropriation and use of the resource units are more closely related to the theory of private goods than to the theory of public goods. On the other hand, the process of designing, implementing, and enforcing a set of rules to coordinate provision activities is equivalent to the provision of a local collec-

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tive good. CPR appropriators who organize themselves to govern and manage a CPR are faced with some problems that are similar to those of appropriating private goods and other problems that are similar to those of providing public goods. Both aspects are intimately bound together physically and analytically. In a particular CPR, if problems associated with the appropriation of subtractable resource units become severe, local appropriators may refuse to undertake provision activities.<sup>5</sup> No appropriation of resource units can occur without a resource system. Without a fair, orderly, and efficient method of allocating resource units, local appropriators have little motivation to contribute to the continued provision of the resource system.

### *Rational appropriators in complex and uncertain situations*

The decisions and actions of CPR appropriators to appropriate from and provide a CPR are those of broadly rational individuals who find themselves in complex and uncertain situations. An individual's choice of behavior in any particular situation will depend on how the individual learns about, views, and weighs the benefits and costs of actions and their perceived linkage to outcomes that also involve a mixture of benefits and costs.<sup>6</sup>

Organizing appropriators for collective action regarding a CPR is usually an uncertain and complex undertaking. Uncertainty has many external sources: the quantity and timing of rainfall, the temperature and amount of sunlight, the presence or absence of disease-bearing vectors, and the market prices of various inputs or final products. Other sources of uncertainty are internal to the CPR and the appropriators using the CPR. A major source of uncertainty is lack of knowledge. The exact structure of the resource system itself – its boundary and internal characteristics – must be established. Ascertaining the structure of the resource system may come about as a by-product of extended use and careful observation, as in the case of appropriating from a fishing ground or grazing range. Moreover, this folk knowledge must be preserved and passed along from one generation to the next. For a groundwater basin, on the other hand, the discovery of the internal structure may require a major investment in research by geologists and engineers.

How appropriators' actions affect the resource system, the yield of resource units, and each other's outcomes must also be ascertained.<sup>7</sup> It is not immediately apparent, for example, how one irrigator's forbearance in taking water from a canal will affect the yield obtained by that farmer or by other farmers. In some cases, a farmer located near the head of a system

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may be able to curtail his water use substantially without a major impact on his own yield, while substantially enhancing the yields of downstream farmers. In other cases, the excess water taken by the farmer located near the headworks may subsequently also flow to farmers located lower in the system. Restraint by the farmer located higher in the system may not increase total yield. Uncertainties stemming from lack of knowledge may be reduced over time as a result of skillful pooling and blending of scientific knowledge and local time-and-place knowledge. Uncertainty reduction is costly and never fully accomplished. The uncertainty stemming from strategic behavior by the appropriators remains even after one acquires considerable knowledge about the resource system itself.

Given these levels of uncertainty about the basic structure of the problems appropriators face, the only reasonable assumption to make about the discovery and calculation processes employed is that appropriators engage in a considerable amount of trial-and-error learning. Many actions are selected without full knowledge of their consequences. Some dams wash out after the first heavy rains. Some rules cannot be enforced because no one is able to monitor conformance to them. By definition, trial-and-error methods involve error, perhaps even disasters. Over time, appropriators gain a more accurate understanding of the physical world and what to expect from the behavior of others.

Appropriators in many settings are strongly motivated to find better solutions to their problems if they can. The economic livelihood of the appropriators depends on their ingenuity in solving individual and joint problems. How complete and accurate the information local appropriators obtain about their situation will vary from one situation to another, depending on the number of appropriators involved, the complexity of the situation, and the stability of factors affecting individual behaviors and resource-system responses. The symmetry of information available to appropriators will also vary from situation to situation, depending on how expensive it is to acquire information and the rules used for disseminating information to appropriators.

Collective-action problems related to the provision of CPRs and appropriation from CPRs extend over time. Individuals attribute less value to benefits that they expect to receive in the distant future, and more value to those expected in the immediate future. In other words, individuals discount future benefits – how severely depends on several factors. Time horizons are affected by whether or not individuals expect that they or their children will be present to reap these benefits, as well as by opportunities they may have for more rapid returns in other settings. The dis-

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count rates applied to future yields derived from a particular CPR may differ substantially across various types of appropriators. In a fishery, for example, the discount rates of local fishers who live in nearby villages will differ from the discount rates of those who operate the larger trawlers, who may fish anywhere along a coastline. The time horizons of the local fishers, in relation to the yield of the inshore fishery, extend far into the future. They hope that their children and their children's children can make a living in the same location. More mobile fishers, on the other hand, can go on to other fishing grounds when local fish are no longer available.

Discount rates are affected by the levels of physical and economic security faced by appropriators. Appropriators who are uncertain whether or not there will be sufficient food to survive the year will discount future returns heavily when traded off against increasing the probability of survival during the current year. Similarly, if a CPR can be destroyed by the actions of others, no matter what local appropriators do, even those who have constrained their harvesting from a CPR for many years will begin to heavily discount future returns, as contrasted with present returns.<sup>8</sup> Discount rates are also affected by the general norms shared by the individuals living in a particular society, or even a local community, regarding the relative importance of the future as compared with the present.

Discount rates are not the only aspects of human choice that are affected by shared norms of behavior. Although I stress the importance that the expected consequences will have on one's decisions, individuals vary in regard to the importance they place on acting in ways that they and others view as right and proper. Norms of behavior reflect valuations that individuals place on actions or strategies in and of themselves, not as they are connected to immediate consequences.<sup>9</sup> When an individual has strongly internalized a norm related to keeping promises, for example, the individual suffers shame and guilt when a personal promise is broken. If the norm is shared with others, the individual is also subject to considerable social censure for taking an action considered to be wrong by others.

Norms of behavior therefore affect the way alternatives are perceived and weighed. For many routine decisions, actions that are considered wrong among a set of individuals interacting together over time will not even be included in the set of strategies contemplated by the individual. If the individual's attention is drawn to the possibility of taking such an action by the availability of a very large payoff for doing so, the action may be included in the set of alternatives to be considered, but with a high cost attached. Actions that are strongly proscribed among a set of individuals will occur less frequently (even though they promise to yield high net

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payoffs to individuals) than will those same actions in a community that does not censure such actions.

The most important impact that the type and extent of shared norms will have on the strategies available to individuals has to do with the level of opportunistic behavior that appropriators can expect from other appropriators. Opportunism is defined as "self-interest with guile" (Williamson 1975). In a setting in which few individuals share norms about the impropriety of breaking promises, refusing to do one's share, shirking, or taking other opportunistic actions, each appropriator must expect all other appropriators to act opportunistically whenever they have the chance. In such a setting it is difficult to develop stable, long-term commitments. Expensive monitoring and sanctioning mechanisms may be needed. Some long-term arrangements that once were productive are no longer feasible, given their costs of enforcement. In a setting in which there are strong norms against opportunistic behavior, each appropriator will be less wary about the dangers of opportunism.

In every group there will be individuals who will ignore norms and act opportunistically when given a chance. There are also situations in which the potential benefits will be so high that even strongly committed individuals will break norms. Consequently, the adoption of norms of behavior will not reduce opportunistic behavior to zero. Opportunistic behavior is a possibility that must be dealt with by all appropriators trying to solve CPR problems.

In some settings, however, rampant opportunistic behavior severely limits what can be done jointly without major investments in monitoring and sanctioning arrangements. Substantial benefits have to be obtained to make costly monitoring and sanctioning activities worthwhile. In other settings, long-term joint commitments can be undertaken with only a modest investment in monitoring and sanctioning arrangements. Shared norms that reduce the cost of monitoring and sanctioning activities can be viewed as social capital to be utilized in solving CPR problems.

Because CPR settings extend over time, and individuals adopt internal norms, it is possible for individuals to utilize contingent strategies, not simply independent strategies, in relating to one another. By "contingent strategies" I mean a whole class of planned actions that are contingent on conditions in the world. The contingent strategy that has been the object of the most scholarly attention is tit for tat in a two-person game in which an individual adopts a cooperative action in the first round and then mimics the action of the opponent in future rounds (Axelrod 1981, 1984). There are many other contingent strategies that can be adopted; they vary

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in terms of the level of initial cooperation extended and the actions of others required for switching behavioral patterns. That individuals utilize contingent strategies in many complex and uncertain field settings is an important foundation for later analysis.

Thus, I use a very broad conception of rational action, rather than a narrowly defined conception. The internal world of individual choice that I use is illustrated in Figure 2.1. Four internal variables – expected benefits, expected costs, internal norms, and discount rates – affect an individual's choice of strategies. Individuals selecting strategies jointly produce outcomes in an external world that impinge on future expectations concerning the benefits and costs of actions. What types of internal norms an individual possesses are affected by the shared norms held by others in regard to particular types of situations. Similarly, internal discount rates are affected by the range of opportunities that an individual has outside any particular situation.

This general model of individual choice is thus open to many particular specifications. The particular assumptions made about the completeness, shape, and differentiability of preference functions depend on the situation of relevance for a particular model in this theory. In simple, highly constrained situations where individuals have interacted for long periods of time, assumptions about convex, twice-differentiable preference functions

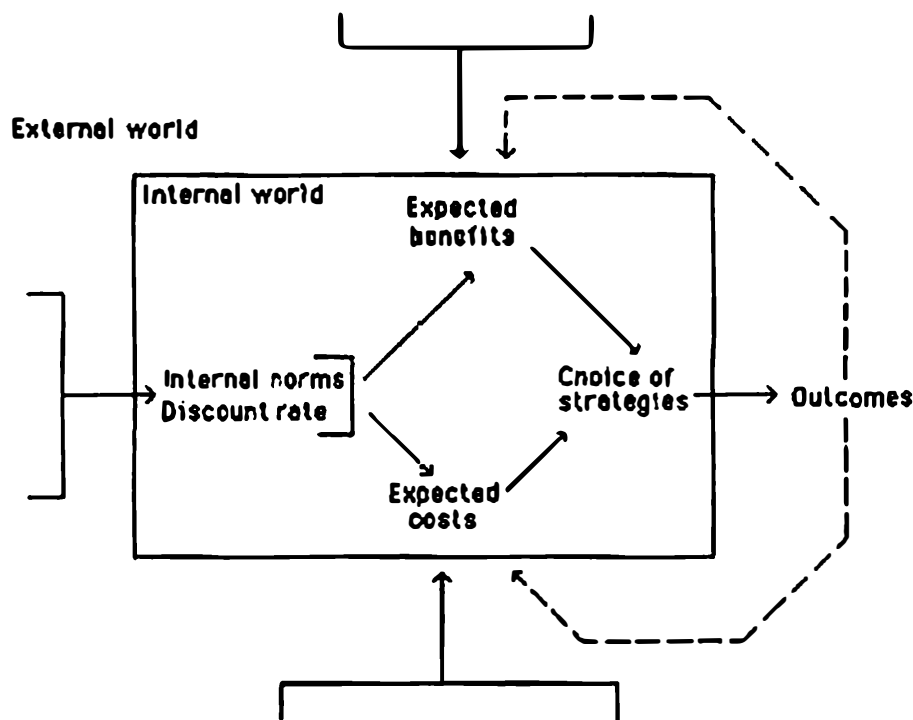


Figure 2.1. The internal world of individual choice.

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may be appropriate. In complex situations involving unstructured problems, assuming complete preference functions of any shape is not meaningful. The most one can say is that the individuals in such situations are engaged in a trial-and-error effort to learn more about the results of their actions so that they can evaluate benefits and costs more effectively over time.

This general conception is one way of fulfilling Popper's advice to make the rationality principle "an almost empty principle" (Popper 1967). It places the primary weight of theoretical analysis on specifying rigorously and fully the models of the situations in which individuals find themselves. It accepts Popper's methodological advice to emphasize the way we describe the situations in which individuals find themselves so that we can use observable variables to reject our theories, rather than internal, in-the-mind, subjective variables, which are far more difficult to measure.

Thus, most of the analysis contained in this volume examines the combinations of situational variables that are most likely to affect individuals' choices of strategies and how those situational variables occur.

### INTERDEPENDENCE, INDEPENDENT ACTION, AND COLLECTIVE ACTION

When multiple appropriators are dependent on a given CPR as a source of economic activity, they are jointly affected by almost everything they do. Each individual must take into account the choices of others when assessing personal choices. If one fisher occupies a good fishing site, a second fisher arriving at the same location must invest more resources to travel to another site, or else fight for the first site. If one irrigator allocates time and materials to repairing a broken control gate in an irrigation canal, all other irrigators using that canal are affected by that action, whether or not they want the control gate fixed and whether or not they contribute anything to the repair. The key fact of life for coappropriators is that they are tied together in a lattice of interdependence so long as they continue to share a single CPR. The physical interdependence does not disappear when effective institutional rules are utilized in the governance and management of the CPR. The physical interdependence remains; what changes is the result the appropriators obtain.

When appropriators act independently in relationship to a CPR generating scarce resource units, the total net benefits they obtain usually will be less than could have been achieved if they had coordinated their strategies in some way. At a minimum, the returns they receive from their appropriation efforts will be lower when decisions are made independently than they

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would have been otherwise. At worst, they can destroy the CPR itself. As long as the appropriators stay “unorganized,” they cannot achieve a joint return as high as they could have received if they had organized in some way to undertake collective action. Mancur Olson stated the key problem facing appropriators who rely on a single CPR:

... when a number of individuals have a common or collective interest – when they share a single purpose or objective – individual, *unorganized* action (either will) not be able to advance that common interest at all, or will not be able to advance that interest adequately. (Olson 1965, p. 7; emphasis added)

Prisoners who have been placed in separate cells and cannot communicate with one another are also in an interdependent situation in which they must act independently. Acting independently in this situation is the result of coercion, not its absence. The herders in Hardin’s model also act independently. Each decides on the number of animals to put on the meadow without concern for how that will affect the actions chosen by others.

At the most general level, the problem facing CPR appropriators is one of organizing: how to change the situation from one in which appropriators act independently to one in which they adopt coordinated strategies to obtain higher joint benefits or reduce their joint harm. That does not necessarily mean creating an organization. Organizing is a process; an organization is the result of that process. An organization of individuals who constitute an ongoing enterprise is only one form of organization that can result from the process of organizing.

The core of organization involves changes that order activities so that sequential, contingent, and frequency-dependent decisions are introduced where simultaneous, noncontingent, and frequency-independent actions had prevailed.<sup>10</sup> Almost all organization is accomplished by specifying a sequence of activities that must be carried out in a particular order.<sup>11</sup> Because of the repeated situations involved in most organized processes, individuals can use contingent strategies in which cooperation will have a greater chance of evolving and surviving. Individuals frequently are willing to forgo immediate returns in order to gain larger joint benefits when they observe many others following the same strategy. By requiring the participation of a minimal set of individuals, organizations can draw on this frequency-dependent behavior to obtain willing contributions on the part of many others. Changing the positive and negative inducements associated with particular actions and outcomes and the levels and types of information available can also encourage coordination of activities.<sup>12</sup>

Unlike prisoners, most CPR appropriators are not coerced into acting independently. Making the switch, however, from independent to co-

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ordinated or collective action is a nontrivial problem. The costs involved in transforming a situation from one in which individuals act independently to one in which they coordinate activities can be quite high. And the benefits produced are shared by all appropriators, whether or not they share any of the costs of transforming the situation. Empirically, we know that some appropriators are able to solve this problem, and some are not. Theoretically, we do not have a coherent explanation for why some succeed and others fail.

The theory of the firm and the theory of the state can each provide an explanation for one way in which collective action can be achieved. Each involves the creation of a new institutional arrangement in which the rules in use are fundamentally different from those that structure independent action. Let us briefly and in a stylized fashion consider how each theory can “solve” the problem of independent action in an interdependent situation. By doing this, we can better illustrate the absence of a similar theory that would identify the mechanisms by which a group of individuals could organize themselves.

### *The theory of the firm*

In the theory of the firm, an entrepreneur recognizes an opportunity to increase the return that can be achieved when individuals are potentially involved in an interdependent relationship.<sup>13</sup> The entrepreneur then negotiates a series of contracts with various participants that specify how they are to act in a coordinated, rather than independent, fashion. Each participant voluntarily chooses whether or not to join the firm, but gives up to the entrepreneur discretion over some range of choices. The participants become the agents of the entrepreneur. After paying each of the agents, the entrepreneur retains residual profits (or absorbs losses).

Consequently, the entrepreneur is highly motivated to organize the activity in a manner as efficient as possible. The entrepreneur attempts to craft contracts with agents that will induce them to act so as to increase the returns to the entrepreneur, and the entrepreneur monitors the agents' performances. The entrepreneur can terminate the contract of an agent who does not perform to the satisfaction of the entrepreneur. Because agents freely decide whether or not to accept the terms of the entrepreneur's contract, the organization is considered private, voluntary, and, at least by some individuals, nonexploitative. If there are large residuals to be obtained, however, it is the entrepreneur, not the agents, who receives them.<sup>14</sup> When a firm is located in an open market, one can presume that

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external competition will pressure the entrepreneur toward developing efficient internal institutions.

#### *The theory of the state*

The theory of the state can also be presented in a brief and stylized version. Instead of an entrepreneur, we posit a ruler who recognizes that substantial benefits can be obtained by organizing some activities. As Hobbes first formulated the theory, individuals who independently engage in protection activities overinvest in weapons and surveillance and consequently live in constant fear. If a ruler gains a monopoly on the use of force, the ruler can use coercion as the fundamental mechanism to organize a diversity of human activities that will produce collective benefits. The ruler obtains taxes, labor, or other resources from subjects by threatening them with severe sanctions if they do not provide the resources.

The “wise” ruler uses the resources thus obtained to increase the general level of economic well-being of the subjects to a degree sufficient that the ruler can increase tax revenues while being able to reduce the more oppressive uses of coercion. Rulers, like entrepreneurs, keep the residuals. Subjects, like agents, may be substantially better off as a result of subjecting themselves to the coercion exercised by rulers. If the effort is highly successful, the ruler captures a substantial portion of the surplus.<sup>15</sup> There is no mechanism, such as a competitive market, that would exert pressure on the ruler to design efficient institutions. The ruler may face rebellion if the measures selected are too repressive, or military defeat if the realm is not adequately organized to do well in warfare.

In both the theory of the firm and the theory of the state, the burden of organizing collective action is undertaken by one individual, whose returns are directly related to the surplus generated. Both involve an outsider taking primary responsibility for supplying the needed changes in institutional rules to coordinate activities. The entrepreneur or the ruler makes credible commitments to punish anyone who does not follow the rules of the firm or the state. Because they gain the residuals, it is in their interest to punish nonconformance to their rules if they are confronted with nonconformance. Consequently, their threats to punish are credible (Schelling 1960; Williamson 1983). It is also in their interest to monitor the actions of agents and subjects to be sure they conform to prior agreements. Both theories thus address how a new institutional arrangement can come about, how credible commitments can be made, and why monitoring must be supplied.<sup>16</sup>

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### THREE PUZZLES: SUPPLY, COMMITMENT, AND MONITORING

Although the theory of the firm and the theory of the state can resolve these problems, no equivalently well developed and generally accepted theory provides a coherent account for how a set of principals, faced with a collective-action problem, can solve (1) the problem of supplying a new set of institutions, (2) the problem of making credible commitments, and (3) the problem of mutual monitoring.

#### *The problem of supply*

In a recent commentary on contractarianism and the new institutionalism, Robert Bates (1988) raises the issue that modern institutional theories do not adequately address the problem of supply. As he points out, “the new institutionalism is contractarian in spirit. Institutions are demanded because they enhance the welfare of rational actors. The problem is: Why are they supplied?” Bates first examines assurance games, where supplying new rules is considered easier to accomplish than it is in PD games, because there are mutually beneficial outcomes that are potential equilibria in the sense that once reached, no one has an incentive independently to switch strategies. Equilibria in assurance games do not, however, necessarily reward participants equally. Participants prefer a set of rules that will give them the most advantageous outcome. Although all will prefer a new institution that will enable them to coordinate their activities to achieve one of these equilibria, in contrast to continuing their independent actions, a fundamental disagreement is likely to arise among participants regarding which institution to choose. “The proposed solution to coordination – or assurance – games thus itself constitutes a collective dilemma” (Bates 1988, p. 394).<sup>17</sup>

Bates then turns to problems faced by a set of symmetric principals facing a collective dilemma in which all would benefit from a change in rules. Because supplying a new set of rules is the equivalent of providing another public good, the problem faced by a set of principals is that obtaining these new rules is a second-order collective dilemma.

Even if the payoffs were symmetric and all persons were made [equally] better off from the introduction of the institutions, there would still be a failure of supply, since the institution would provide a collective good and rational individuals would seek to secure its benefits for free. The incentives to free-ride would undermine the incentives to organize a solution to the collective dilemma. It is subject to the very incentive problems it is supposed to resolve.

(Bates 1988, pp. 394–5)

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Because Bates presumes that the second-order dilemma is no easier to solve than the initial dilemma, he concludes that a new set of rules to solve the collective dilemma will not be provided by a set of principals (M. Taylor 1987).

Bates finds this deeply puzzling as it is obvious to him that some individuals in field settings *do* solve the problem of supply. Bates wishes to remain an institutionalist and a rational-choice theorist. His approach to addressing the inadequacy of current theories to explain how individuals supply their own rules is to turn for inspiration to some of the recent work in the theory of repeated games under uncertainty. Kreps and associates (1982) have demonstrated that in a finitely repeated PD game, some uncertainty about the exact payoff to a player can produce cooperative equilibria, as well as many other equilibria. Given this, it will pay one player to signal to other players an intention to cooperate, in the hope that they will reciprocate for a series of mutually productive plays. Thus, establishing trust and establishing a sense of community are, in Bates's view, mechanisms for solving the problem of supplying new institutions.

Driven by a concern with institutions, we re-enter the world of the behavioralists. But we do so not in protest against the notion of rational choice, but rather in an effort to understand how rationality on the part of individuals leads to coherence at the level of society. (Bates 1988, p. 399)

Bates's approach is similar to the approach taken in this volume.

### *The problem of credible commitment*

A second puzzle to be solved in explaining how a set of principals can organize themselves to obtain long-term collective benefits is the problem of commitment.<sup>18</sup> To understand the heart of the "commitment" problem, let us consider a highly simplified picture of the choices available to appropriators in CPR situations.<sup>19</sup> In all cases in which individuals have organized themselves to solve CPR problems, rules have been established by the appropriators that have severely constrained the authorized actions available to them. Such rules specify, for example, how many resource units an individual can appropriate, when, where, and how they can be appropriated, and the amounts of labor, materials, or money that must be contributed to various provisioning activities. If everyone, or almost everyone, follows these rules, resource units will be allocated more predictably and efficiently, conflict levels will be reduced, and the resource system itself will be sustained over time.

During an initial time period, an appropriator, calculating his or her

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estimated future flow of benefits if most appropriators agree to follow a proposed set of rules, may agree to abide by the set of rules in order to get others to agree. During later time periods, the immediate return to the appropriator for breaking one or another of the rules frequently can be high. When an irrigator's crops are severely stressed, the financial benefit of taking water "out of turn" can be substantial. Breaking the rules may save an entire crop from drought. On many occasions after an initial agreement to a set of rules, each appropriator must make further choices. Minimally, the choice at each decision time subsequent to the agreement can be thought of as the choice between complying to a set of rules,  $C_i$ , or breaking the set of rules in some fashion,  $B_i$ . On many occasions,  $B_i$  will generate a higher immediate return for the appropriator than will  $C_i$ , unless  $B_i$  is detected and a sanction,  $S$ , is imposed that makes  $C_i > B_i - S$ .<sup>20</sup>

At the beginning of the process, all appropriators know the general configuration of the commitment problem. If they wish to change their appropriation rules, for example, to rotate the authority to withdraw water from an irrigation system among authorized appropriators, how does one appropriator credibly commit himself or herself to follow a rotation system when everyone knows that the temptation to break that commitment will be extremely strong in future time periods? Each appropriator can pledge: "I will keep my commitment if you keep yours." But when the temptation arises, how do past commitments bind the appropriator to future sacrifices? And given that it may be possible to steal water without being observed, how do the other appropriators know that commitments are actually being kept? No one wants to be a "sucker," keeping a promise that everyone else is breaking.

External coercion is a frequently cited theoretical solution to the problem of commitment (Schelling 1984). The presumption is made that if individuals commit themselves to a contract whereby a stiff sanction ( $S > B_{\max}$ ) will be imposed by an external enforcer to ensure compliance during all future time periods, then each can make a credible commitment and obtain benefits that would not otherwise be attainable. External coercion is at times a sleight-of-hand solution, because the theorist does not address what motivates the external enforcer to monitor behavior and impose sanctions. That is not, however, the issue at hand; it will be discussed later. The immediate issue is that a self-organized group must solve the commitment problem without an external enforcer. They have to motivate themselves (or their agents) to monitor activities and be willing to impose sanctions to keep conformance high.

These puzzles cumulate. Even if one appropriator took the time and effort to analyze the problems they faced and to devise a set of rules that

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could improve their joint returns, the effort at supply would be pointless unless the appropriators could commit themselves to follow the rules. Unless the monitoring problem can be solved, credible commitments cannot be made. So let us now address the problem of mutual monitoring.

#### *The problem of mutual monitoring*

The question of how a set of principals can engage in mutual monitoring of conformance to a set of their own rules is not easily addressed within the confines of collective-action theory. In fact, the usual theoretical prediction is that they will not do so. The usual presumption that individuals will not themselves monitor a set of rules, even if they have devised those rules themselves, was summarized by Jon Elster in a recent discussion of the motivations for workers to monitor each other's participation in a union:

Before a union can force or induce workers to join it must overcome a free-rider problem in the first place. To assume that the incentives are offered in a decentralized way, by mutual monitoring, gives rise to a second-order free-rider problem. Why, for instance, should a rational, selfish worker ostracize or otherwise punish those who don't join the union? What's in it for him? True, it may be better for all members if all punish non-members than if none do, but for each member it may be even better to remain passive. Punishment almost invariably is costly to the punisher, while the benefits from punishment are diffusely distributed over the members. It is, in fact, a public good: To provide it, one would need second-order selective incentives which would, however, run into a third-order free-rider problem. (Elster 1989, pp. 40-1)<sup>21</sup>

Dilemmas nested inside dilemmas appear to be able to defeat a set of principals attempting to solve collective-action problems through the design of new institutions to alter the structure of the incentives they face. Without monitoring, there can be no credible commitment; without credible commitment, there is no reason to propose new rules. The process unravels from both ends, because the problem of supply is presumed unsolvable in the first place. But some individuals have created institutions, committed themselves to follow rules, and monitored their own conformance to their agreements, as well as their conformance to the rules in a CPR situation. Trying to understand how they have done this is the challenge of this study.

#### FRAMING INQUIRY

Understanding how individuals solve particular problems in field settings requires a strategy of moving back and forth from the world of theory to the world of action. Without theory, one can never understand the general

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underlying mechanisms that operate in many guises in different situations. If not harnessed to solving empirical puzzles, theoretical work can spin off under its own momentum, reflecting little of the empirical world.

When theoretical predictions and empirical observations are inconsistent, adjustments in theory are needed.<sup>22</sup> Predictions that individuals will not devise, precommit to, and monitor their own rules to change the structure of interdependent situations so as to obtain joint benefits are inconsistent with evidence that some individuals have overcome these problems, though others have not.

Theories affect the way that a problem is framed, not simply the particular assumptions used in an explanation. The way a problem is framed affects which questions are asked and what one looks for in conducting empirical inquiries. Several of the presumptions that have framed the way that scholars have approached the analysis of collective action have led them to an overly pessimistic view of the capacity of individuals to restructure their own interdependent situations.

Scholars addressing the problem of collective action frequently presume (1) that the underlying structure is always that of a PD game and (2) that one level of analysis is sufficient. When CPR problems are conceptualized as collective-action problems – a useful way to think of them – these same presumptions continue to frame the analyses, leading to the policy prescriptions described in Chapter 1. Consequently, part of the strategy pursued in this inquiry is to start from an alternative set of initial presumptions:

- 1 Appropriators in CPR situations face a variety of appropriation and provision problems whose structures vary from one setting to another, depending on the values of underlying parameters.
- 2 Appropriators must switch back and forth across arenas and levels of analysis.

These presumptions lead me to examine questions in a manner somewhat different from that of an analyst using the “normal” presuppositions of collective-action theory, although I still rely heavily on the work of other scholars.

### *Appropriation and provision problems*

Although some interdependent CPR situations have the structure of a PD game, many do not. Several scholars have shown how some simple situations facing appropriators may be better characterized as “assurance” games and as the game known as “chicken” (Runge 1981, 1984a; M.

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Taylor 1987; M. Taylor and Ward 1982). The underlying problem facing the appropriators in the Alanya fishing grounds discussed in Chapter 1 cannot be represented as a PD game. A formal analysis shows that it has the structure of an "assignment" game (Gardner and E. Ostrom 1990). In many irrigation systems similar to those discussed in Chapter 3, the fundamental choices facing appropriators are whether or not to steal water and whether or not to monitor the behaviors of others who might be stealing. The resulting game structure is complex and does not reduce down to any simple game. It does not have a single equilibrium. The amounts of stealing and monitoring that occur will depend on the values of parameters such as the number of appropriators, the cost of monitoring, the benefit from stealing, the punishment imposed when stealing is discovered, and the reward that a monitor receives for detecting a rule-breaker (Weissing and E. Ostrom 1990).

Consequently, instead of presuming that all CPR situations involve one underlying structure, I presume that the appropriators relying on any CPR face a variety of problems to be solved. The structure of these problems will depend on the values of underlying parameters, such as the value and predictability of the flow of resource units, the ease of observing and measuring appropriator activities, and so forth. In an effort to develop a unified framework within which to organize the analysis of CPR situations using the tools of game theory and institutional analysis and the findings from empirical studies in laboratory and field settings, Roy Gardner, James Walker, and I have found it most useful to cluster the problems facing CPR appropriators into two broad classes: appropriation problems and provision problems (Gardner et al. 1990).

When appropriators face appropriation problems, they are concerned with the effects that various methods of allocating a fixed, or time-independent, quantity of resource units will have on the net return obtained by the appropriators. Provision problems concern the effects of various ways of assigning responsibility for building, restoring, or maintaining the resource system over time, as well as the well-being of the appropriators. Appropriation problems are concerned with the allocation of the flow; provision problems are concerned with the stock. Appropriation problems are time-independent; provision problems are time-dependent. Both types of problems are involved in every CPR to a greater or lesser extent, and thus the solutions to one problem must be congruent with solutions to the other. The structure of an appropriation problem or a provision problem will depend on the particular configuration of variables related to the physical world, the rules in use, and the attributes of the individuals involved in a specific setting.

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***Appropriation problems.*** In regard to appropriation, the key problem in a CPR environment is how to allocate a fixed, time-independent quantity of resource units so as to avoid rent dissipation and reduce uncertainty and conflict over the assignment of rights. Rents are dissipated whenever the marginal returns from an appropriation process are smaller than the marginal costs of appropriation. Rent dissipation can occur because too many individuals are allowed to appropriate from the resource, because appropriators are allowed to withdraw more than the economically optimal quantity of resource units, or because appropriators overinvest in appropriation equipment (e.g., fishing gear).

In an open-access<sup>23</sup> CPR, in which no limit is placed on who can appropriate, the time-independent appropriation process frequently can be characterized as a PD game.<sup>24</sup> Rent dissipation is likely to be endemic. No appropriator has any incentive to leave any resource units for other appropriators to harvest (Gordon 1954; Scott 1955). In a limited-access CPR, in which a well-defined group of appropriators must jointly rely on a CPR for access to resource units, the incentives facing the appropriators will depend on the rules governing the quantity, timing, location, and technology of appropriation and how these are monitored and enforced. The structure of a limited-access CPR is not a PD game (Dasgupta and Heal 1979, p. 59) and lacks a dominant strategy for each participant. The incentives of appropriators who act independently, however, will lead them to overinvest in any input factor that is not constrained under the current rules (Townsend and Wilson 1987).

A second type of appropriation problem relates to assignment of spatial or temporal access to the resource. This occurs because spatial and temporal distributions of resource units frequently are heterogeneous and uncertain. Many fishing grounds, such as Alanya, are characterized by "fishing sites" that vary in their productivity. In grazing areas, one region may be drowned out in one year, but lush with growth in another year. Farmers who extract water from the head of an irrigation system can obtain more water than farmers who are located at the tail end. The risks associated with geographic or temporal uncertainty can be very high. Physical works, particularly those with storage, involve somewhat reduced risks, but well-enforced rules to allocate time or location of use or the quantity of resource units to specific users can reduce risks still further if the rules are well crafted to fit the physical attributes of the resource system. If risks are sufficiently reduced, appropriators can invest in productive enterprises that would not otherwise be economically viable. Physical violence occurring among the users of fisheries and irrigation systems is symptomatic of inadequate assignments of spatial or temporal slots to appropriators. When

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appropriators consider the assignment of access rights and duties to be unfair, uneconomic, uncertain, or inappropriately enforced, that can adversely affect their willingness to invest in provision activities. The particular rules used to regulate appropriation will affect monitoring and policing costs and the type of strategic behavior that will occur between appropriators and monitors (the detection/deterrence game).<sup>25</sup>

*Provision problems.* Analyses of provision problems focus on the time-dependent, productive nature of investment in the resource itself. Provision problems may occur on the supply side, on the demand side, or on both sides. The supply-side problem faced in a CPR environment is related to the construction of the resource itself and its maintenance. Construction problems are like any long-term investment in capital infrastructure. Maintenance problems involve determining the type and level of regular maintenance (and reserves for emergency repair) that will sustain the resource system over time. Given that an investment in maintenance will affect the future rate at which a capital infrastructure will deteriorate, decisions about these activities are difficult to make even when a single entrepreneur makes them. When this difficult long-term problem is combined with the free-riding incentives of multiple appropriators, we see that organizing to maintain a system is a challenging task.

Supply-side provision problems are similar to the supply-side problems in providing a continuing, rather than a one-shot, public good. If appropriators act independently, they can expect that less than an optimal effort will be devoted to the construction, and particularly to the maintenance, of the system because of free-riding. What makes the problem more difficult in a CPR situation than in a public-goods situation is that unless appropriation problems are resolved, the provision problems may prove intractable. In a public-goods situation, appropriation problems do not exist, because resource units are not subtractable.

Demand-side provision problems involve regulating withdrawal rates so that they do not adversely affect the resource itself. Many of the dynamic models of "rent dissipation" in the fisheries literature (Clark 1980; Clark, Munro, and Charles 1985) have focused on the time-dependent relationship between current withdrawals and future yields. The same rules that affect the allocation of this year's resource units will have an impact on the availability of resource units next year and the years thereafter.

The underlying uniformities of all CPR situations relate to the non-separability of one's choice of strategy and the choices made by others, as well as the fact that solving provision problems depends on achieving

adequate solutions to appropriation problems, not the particular game-theoretical representations for these commonalities.<sup>26</sup> Many factors affect the strategic structure of a particular appropriation or provision problem, including the physical structure of a particular CPR, the technology available to the appropriators, the economic environment, and the sets of rules that affect the incentives that appropriators face. As Oliver (1980, p. 1,359) stressed after reviewing many of the efforts to present “the” model of collective action, “there is no one ‘right’ way to model collective action: different models imply different assumptions about the situation and lead to substantively different conclusions.”

### *Multiple levels of analysis*

Most current analyses of CPR problems and related collective-action problems focus on a single level of analysis – what can be called the operational level of analysis (Kiser and E. Ostrom 1982). At the operational level of analysis, one assumes that both the rules of the game and the physical, technological constraints are given and will not change during the time frame of analysis: The actions of individuals in an operational situation directly affect the physical world. Resource units are withdrawn from a CPR. Inputs are transformed into outputs. Goods are exchanged. Appropriation and provision problems occur at an operational level. When doing an analysis of an operational situation, it is necessary for the analyst to assume that the technology and the institutional rules are known and unchanging. Both technology and rules are, however, subject to change over time. Analysis of technological changes has proved to be far more difficult than analysis of production and consumption decisions within a fixed technology (Dosi 1988; Nelson and Winter 1982). Analysis of institutional change is also far more difficult than analysis of operational decisions within a fixed set of rules.<sup>27</sup> The rules affecting operational choice are made within a set of collective-choice rules that are themselves made within a set of constitutional-choice rules. The constitutional-choice rules for a micro-setting are affected by collective-choice and constitutional-choice rules for larger jurisdictions. Individuals who have self-organizing capabilities switch back and forth between operational-, collective-, and constitutional-choice arenas, just as managers of production firms switch back and forth between producing products within a set technology, introducing a new technology, and investing resources in technology development. Given that CPR appropriators in some of the cases to be discussed in this volume do switch back and forth between arenas, we must drop the framing assumption that analysis at a single level will be sufficient. It is also essential to clarify what is meant by “institutions” in the first place.

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“Institutions” can be defined as the sets of working rules that are used to determine who is eligible to make decisions in some arena, what actions are allowed or constrained, what aggregation rules will be used, what procedures must be followed, what information must or must not be provided, and what payoffs will be assigned to individuals dependent on their actions (E. Ostrom 1986a). All rules contain prescriptions that forbid, permit, or require some action or outcome. Working rules are those actually used, monitored, and enforced when individuals make choices about the actions they will take (Commons 1957). Enforcement may be undertaken by others directly involved, agents they hire, external enforcers, or any combination of these enforcers. One should not talk about a “rule” unless most people whose strategies are affected by it know of its existence and expect others to monitor behavior and to sanction nonconformance. In other words, working rules are common knowledge and are monitored and enforced. Common knowledge implies that every participant knows the rules, and knows that others know the rules, and knows that they also know that the participant knows the rules.<sup>28</sup> Working rules are always monitored and enforced, to some extent at least, by those directly involved. In any repetitive situation, one can assume that individuals come to know, through experience, good approximations of the levels of monitoring and enforcing involved.

Working rules may or may not closely resemble the formal laws that are expressed in legislation, administrative regulations, and court decisions. Formal law obviously is a major source of working rules in many settings, particularly when conformance to them is actively monitored and sanctions for noncompliance are enforced. When one speaks about a system that is governed by a “rule of law,” this expresses the idea that formal laws and working rules are closely aligned and that enforcers are held accountable to the rules as well as others. In many CPR settings, the working rules used by appropriators may differ considerably from legislative, administrative, or court regulations (Wade 1988). The difference between working rules and formal laws may involve no more than filling in the lacunae left in a general system of law. More radically, operational rules may assign *de facto* rights and duties that are contrary to the *de jure* rights and duties of a formal legal system. My primary focus in this study will be on the *de facto* rules actually used in CPR field settings, in an effort to understand the incentives and consequences they produce.

All rules are nested in another set of rules that define how the first set of rules can be changed.<sup>29</sup> This nesting of rules within rules at several levels is similar to the nesting of computer languages at several levels. What can be done at a higher level will depend on the capabilities and limits of the

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software (rules) at that level, on the software (rules) at a deeper level, and on the hardware (the CPR). Whenever one addresses questions about *institutional change*, as contrasted to action within institutional constraints, it is essential to recognize the following:

- 1 Changes in the rules used to order action at one level occur within a currently “fixed” set of rules at a deeper level.
- 2 Changes in deeper-level rules usually are more difficult and more costly to accomplish, thus increasing the stability of mutual expectations among individuals interacting according to a set of rules.

It is useful to distinguish three levels of rules that cumulatively affect the actions taken and outcomes obtained in using CPRs (Kiser and E. Ostrom 1982). *Operational rules* directly affect the day-to-day decisions made by appropriators concerning when, where, and how to withdraw resource units, who should monitor the actions of others and how, what information must be exchanged or withheld, and what rewards or sanctions will be assigned to different combinations of actions and outcomes. *Collective-choice rules* indirectly affect operational choices. These are the rules that are used by appropriators, their officials, or external authorities in making policies – the operational rules – about how a CPR should be managed. *Constitutional-choice rules* affect operational activities and results through their effects in determining who is eligible and determining the specific rules to be used in crafting the set of collective-choice rules that in turn affect the set of operational rules. One can think of the linkages among these rules and the related level of analysis at which humans make choices and take actions, as shown in Figure 2.2. The processes of appropriation, provision, monitoring, and enforcement occur at the operational level. The processes of policy-making, management, and adjudication of policy decisions occur at the collective-choice level. Formulation, governance, adjudication, and modification of constitutional decisions occur at the constitutional level.<sup>30</sup>

This nesting of rules within rules is the source of considerable confusion and debate. Institutional theorists, who have attempted to make the choice of rules endogenous to an analysis, have been criticized because it is necessary to assume the presence of some rules that govern the choice of other rules.<sup>31</sup> Making the choice of operational-level rules endogenous does not imply making the choice of collective-choice or constitutional-choice rules endogenous at the same time. For purposes of analysis, the theorist has to assume that some rules already exist and are exogenous for purposes of a particular analysis. The fact that they are held constant and unchanging

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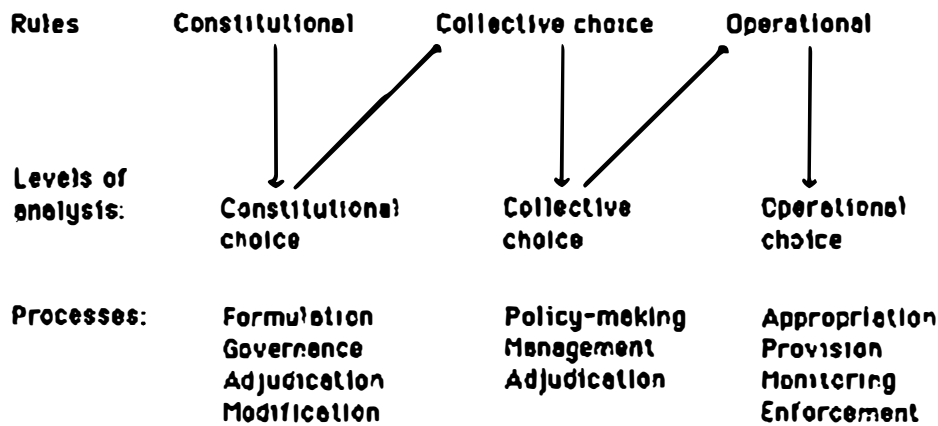


Figure 2.2. Linkages among rules and levels of analysis.

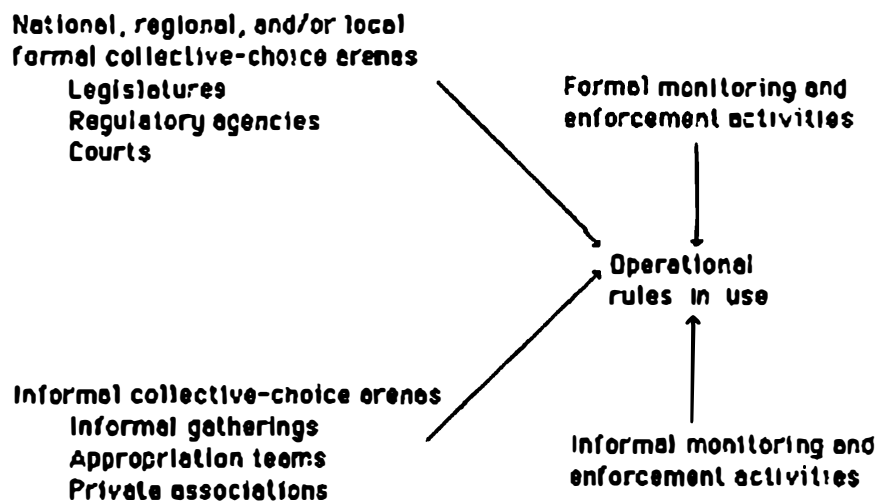


Figure 2.3. Relationships of formal and informal collective-choice arenas and CPR operational rules.

during analysis, however, does not mean that they cannot be changed. Those very same rules may themselves be the objects of choice in a separate analysis or in the context of a different area of choice. At the end of every season, for example, intercollegiate sports leagues consider whether or not to alter the rules of the game for the next season.

On the other hand, rules are changed less frequently than are the strategies that individuals adopt within the rules. Changing the rules at any level of analysis will increase the uncertainty that individuals will face. Rules provide stability of expectations, and efforts to change rules can rapidly

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reduce that stability. Further, it is usually the case that operational rules are easier to change than collective-choice rules, and collective-choice rules are easier to change than constitutional-choice rules. Analyses of deeper layers of rules are more difficult for scholars and participants to make. Deciding whether an irrigation association should use a legislative body of five or nine members will depend on the physical and historical environment and the analyst's speculation about different outcomes at several levels.<sup>32</sup>

When doing analysis at any one level, the analyst keeps the variables of a deeper level fixed for the purpose of analysis. Otherwise, the structure of the problem would unravel. But self-organizing and self-governing individuals trying to cope with problems in field settings go back and forth across levels as a key strategy for solving problems. Individuals who have no self-organizing and self-governing authority are stuck in a single-tier world. The structure of their problems is given to them. The best they can do is to adopt strategies within the bounds that are given.

At each level of analysis there may be one or more arenas in which the types of decisions made at that level will occur. The concept of an "arena" does not imply a formal setting, but can include such formal settings as legislatures and courts. An arena is simply the situation in which a particular type of action occurs. Policy-making regarding the rules that will be used to regulate operational-level choices is carried out in one or more collective-choice arenas. If the appropriators using a CPR change at least some of the working rules used to organize appropriation and provision, the arena in which collective-choice decisions will be made may be a local coffeehouse, the meetings of a producers' co-op, or the meetings of an organization that has been set up specifically for the purpose of managing and governing this CPR and possibly others related to it. If the appropriators using a CPR cannot change the rules used to organize operational choices, then the only arenas for collective choice are external to the CPR appropriators. In such cases, choices about the rules to be used will be made by government officials in bureaucratic structures, by elected representatives in local or national legislatures, and by judges in judicial arenas.

The relationships among arenas and rules rarely involve a single arena related to a single set of rules. Most frequently, several collective-choice arenas affect the set of operational rules actually used by appropriators for making choices about harvesting and investment strategies in a CPR. Decisions made in national legislatures and courts concerning access to all resources of particular types, when given legitimacy in a local setting and enforced, are likely to affect the operational rules actually used in particular locations. The relationships among formal and informal collective-choice arenas and the resulting operational rules are illustrated in Figure

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2.3. Similarly, formal and informal constitutional-choice processes may occur in local, regional, and/or national arenas.

That the working rules used by appropriators may have multiple sources, and may include de facto as well as de jure rules, greatly complicates the problem of understanding behaviors and outcomes in particular locations and the problem of improving outcomes. The absence of national, formal laws regulating the appropriation from and provision of a CPR is not equivalent to the absence of effective rules. Over a long period of time, local appropriators may have developed working rules that constrain the entry to and use of a CPR. Such rules may or may not lead appropriators to manage their resource efficiently and fairly, but they will affect the strategies that appropriators perceive to be available to them and the resulting outcomes.

#### STUDYING INSTITUTIONS IN FIELD SETTINGS

In the cases described in Chapters 3, 4, and 5, I present only a fraction of the detailed information to be found in the in-depth case studies from which I draw. A reader is justified in wanting to know how I approach the task of reading in-depth case materials and abstracting from them for the purpose of studying how individuals supply their own institutions, how they commit themselves to conform to their own rules, and how they monitor each other's conformance to these rules. In general, I am relying on the method of institutional analysis that has been described elsewhere (Kiser and E. Ostrom 1982; Oakerson 1986; E. Ostrom 1986a,b) and applied in many papers, doctoral dissertations, and books (Blomquist 1988a-d; Gardner and E. Ostrom 1990; Kaminski in press; V. Ostrom 1989; V. Ostrom, Feeny, and Picht 1988; Sawyer 1989; Schaaf 1989; Tang 1989; Wynne 1988; Yang 1987).

The basic strategy is to identify those aspects of the physical, cultural, and institutional setting that are likely to affect the determination of who is to be involved in a situation, the actions they can take and the costs of those actions, the outcomes that can be achieved, how actions are linked to outcomes, what information is to be available, how much control individuals can exercise, and what payoffs are to be assigned to particular combinations of actions and outcomes. Once one has all the needed information, one can then abstract from the richness of the empirical situation to devise a playable game that will capture the essence of the problems individuals are facing.

To solve appropriation and provision problems, for example, individuals must learn about the structure of the physical system on which they jointly rely, about their own appropriation and use patterns, about the norms of

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behavior that are followed in a community, about the incentives they will encourage or discourage as they change rules, and about how all of these factors will cumulatively affect their net benefits and costs over time. Individuals must assess what types of transactions costs will be involved in adopting various strategies within a set of rules or in changing those rules. If the analyst is to understand the structure of the situation, the analyst must learn about the same set of variables.

For the cases that I discuss in Chapter 3, I do not know what the structures of the situations were like before some appropriators in the mists of time began to experiment with various rules to allocate resource units and provisioning responsibilities. What I do know is that the appropriators in the “success” cases described in Chapter 3 were able to allocate resource units and at the same time avoid the conflict, uncertainty, and perceived unfairness of a poorly solved assignment problem, the overinvestment in appropriation efforts involved in an inadequately solved rent-dissipation problem, or the deterioration or destruction of the resources involved when provision problems remain unsolved.

Obviously, I do not know if these appropriators reached optimal solutions to their problems. I strongly doubt it. They solved their problems the way that most individuals solve difficult and complex problems: as well as they were able, given the problems involved, the information they had, the tools they had to work with, the costs of various known options, and the resources at hand. I see my task as one of learning about the structures of the problems they faced and why the rules they adopted seem to work.

This means that I first try to understand something about the structure of the resource itself – its size, clarity of boundary, and internal structure. Then I try to discover the flow patterns involved in the resource units: How much predictability is involved over time, across space, and in quantity? Given the economic circumstances of the appropriators, how reliant are they on the resource, and what are the risks involved in various potential types of allocation schemes? Lastly, I try to ascertain key attributes of the individuals: How many are involved? What are their time horizons likely to be? Are they involved in multiple activities together? Are their interests roughly similar or heterogeneous? Have they established prior norms of behavior that can be drawn on (or pose a disadvantage) in trying to solve these problems? Then I examine the rules that they have devised and try to understand how they work by searching for the design principles that are involved and how these affect the incentives of participants. Given that the appropriators in these cases have engaged in mutual monitoring and generally have kept their commitments to follow their rules to a substantial degree, I try to understand how they have been able to do this.

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In Chapter 4, I use this framework again to identify the structure of the situation that existed before a group of appropriators attempted to change their rules to solve several interrelated provision and appropriation problems. Then I examine the process of devising new institutions, in order to address the question of the supply of institutions. The “failure” cases in Chapter 5 are characterized by extreme rent dissipation, unresolved disagreements leading to physical violence, or resource deterioration. The same framework is used to identify the variables that account for that lack of success in solving appropriation and provision problems. I again assume that the individuals involved tried to do as well as they could, given the constraints of the situation. Thus, the problem is to identify what those constraints were, using the same framework for analysis.

In the concluding portions of this study, I discuss how the findings derived from an analysis of these cases can be used to advance theoretical understanding of a theory of self-organized collective action to complement the existing theories of externally organized collective action: the theory of the firm and the theory of the state.