Federalism and Polycentric Governance

Marilyn A. Brown
Professor of Energy Policy
Georgia Institute of Technology

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Diffusion of Responsibility & the Intellectual Commons

• When individuals know that others have the potential to address a common problem, they often make the assumption that someone else will intervene and do nothing themselves.

• Something similar is happening in scientific and academic disciplines: an “intellectual commons” is developing.
The Problem of Scale

• The “diffusion of responsibility” may be addressed by tacking the problem of scale.

• The scale of policy implementation can be just as important as the choice of policy instrument.

• The division and authority for environmental protection between the federal/global and local/state governments has historically lacked a cohesive rationale.

• The same is becoming true of energy and climate policy.
Subsidiarity

• The principle of “subsidiarity” has dominated U.S. environmental and energy policy.
• It presupposes that whenever possible, problems should be addressed by local and state authorities.
• This principle is consistent with the federalist structure of the U.S. Government.
• In addition, it would appear to be applicable to many environmental problems, which tend to be local or regional in origin.
• However, many environmental and energy problems have both local and broader dimensions, which is why we have interstate water wars and global treaties that ban ozone-depleting substances.
The Matching Principle

• The division and authority between federal and state governments for addressing environmental protection, clean energy, and energy security lacks a cohesive rationale.

• To introduce refinement to the simple subsidiarity principle, a number of lawyers have developed the “matching principle.”

• It suggests that the level of jurisdictional authority should “match” the geographic scale of the externality being addressed.
  – Local water contamination – local policy action
  – Global climate change – international policy action
The Matching Principle (cont.)

• Often policies fail to achieve their goals because of jurisdictional mismatch:

  ✓ For instance, the federal government has intervened in problems that are local (such as air regulation in metropolitan areas).

  ✓ In other instances, the federal government has not provided the coherence needed to prevent a chaotic mosaic of state laws (e.g., energy codes for new buildings and renewable portfolio standards).

  ✓ Similarly, the federal government has abdicated its role when there is justification because of inter-state spillovers (such as climate change).
State Building Codes: A Chaotic Policy Landscape
More Chaos: Renewable Portfolio Standards

[Map showing states with renewable energy standards and goals]
Over-Simplification

• Both the “subsidiarity principle” and the “matching principle” suffer from over-simplification: actions at the local/state and national/global scales create different sets of costs and benefits.

• The dilemma is that each different scale of action has unique benefits not generally available to the other.
State and Local Policies

• The *diversity* of local action encourages *innovation* by creating opportunities for policy experimentation.
  – It also enables more rapid response to changing needs.

• Local scales also promote *flexibility*, which enhances *administrative efficiency* given that state and local agencies are more agile and adaptive than federal or national agencies.
  – They are better able to tailor solutions to local needs and preferences.
  – Failure to take into account local conditions can lead to a one-size-fits-all prescription that is more often one-size-fits-nobody.
State and Local Policies (cont.)

- Promotes *accountability*
  - Allows for closer fit between policies and preferences
  - Affords the option to sort between jurisdictions
  - Benefit from “ecologies of scale.”
- Charles Tiebout (1956)
  - Individuals are fully mobile to choose the jurisdiction in which they will live based on the taxes that a jurisdiction imposes on its residents as well as the services it provides.
  - People can sort between jurisdictions with the best mix of taxes and services.
Federal and Global Policies

• Federal and global action ensures consistency, so that states and localities are not at an economic disadvantage by the lack of similar policies elsewhere.

• Federal and global policies also benefit from economies of scale in technology delivery, data collection, R&D, etc., and can minimize transaction costs.
National and Global Policies (cont.)

• National and global action minimizes “free riders,” leakage, and *spillover* effects.
  🔄 State and local actions that restrict carbon-producing activities may encourage producers simply to shift to other locales with less restrictive policies: the “pollution haven” theory.
  🔄 State and local actions can result in a “race to the bottom.”

• Consider, for example, the 1200 MW coal plant proposed by LS Power (a New Jersey based company) to be built in Early County, Georgia, to serve Florida’s growing demand for electricity.
<table>
<thead>
<tr>
<th>Favors Local/Regional Policy</th>
<th>Local/Regional</th>
<th>Federal/Global</th>
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<tbody>
<tr>
<td><strong>Diversity</strong></td>
<td>Encourages innovation and experimentation in designing policy and enables more rapid response to changing needs</td>
<td>Stifles innovation and experimentation, is prone to diseconomies of scale, and changes slowly</td>
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<tr>
<td><strong>Flexibility</strong></td>
<td>More flexible and able to adapt to local conditions; promotes administrative efficiency</td>
<td>More uniform and rigid; tends to fail to account for local conditions</td>
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<tr>
<td><strong>Accountability</strong></td>
<td>Allows for closer fit between policies and preferences and affords option to sort between jurisdictions</td>
<td>Promotes “rent seeking” behavior, which wastes resources trying to garner local advantages</td>
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<td><strong>Consistency</strong></td>
<td>Building national markets for technology solutions is difficult when policies are vary; local controls over major carbon emitters are often limited</td>
<td>Standardization minimizes transaction costs and policy uncertainties; captures long-distant influences on major emitters</td>
</tr>
<tr>
<td><strong>Economies of Scale</strong></td>
<td>Inefficient due to redundancies of R&amp;D efforts and data collection systems</td>
<td>Better matched to promote economies of scale and avoid redundancies</td>
</tr>
<tr>
<td><strong>Spillovers</strong></td>
<td>Vulnerable to free ridership and emissions leakage</td>
<td>Minimizes free ridership and emissions leakage</td>
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U.S. Energy & Climate Policy: Moving Slowly from the Local to the Federal Scale
Polycentric Governance

- incorporates multiple scales and multiple stakeholder groups at once (e.g., government regulators, business stakeholders, and civil society)
- Harnesses the benefits of federal/global and local/state action together instead of having them trade off
Examples of Polycentric Governance

- Denmark’s electricity system
- Germany’s feed-in tariff
- Brazil’s Proálcool Program and Promotion of Flex-Fuel Vehicles
- Singapore’s Urban Transport Policy
- Bangladesh’s Grameen Shakti
- The Toxics Release Inventory in the United States
The Virtues of Polycentric Governance

- Complementary back-up institutions (at higher and lower levels) that can help offset some of the imperfections at any one level.
- Achieve better outcomes than either a highly centralized or fully decentralized system.
The Virtues of Polycentric Governance

- Polycentrism captures the “flexibility” benefits of local/state action as well as the “uniformity” and “equity” benefits associated with federal/global action.
- It accepts that multiple jurisdictions with overlapping duties can offer citizens more choice in setting modes of regulation (capturing the “simplicity” and improved “accountability” from local action);
- Yet it still requires that local actors subscribe to a common set of goals and to broader enforcement, minimizing “transaction costs” and the “dilemmas of collective action.”
- When multiple actors at a variety of scales must compete in overlapping areas, they can often promote innovation as well as cooperation and citizen involvement.
The Challenges of Polycentric Governance

- It requires the coexistence of local, national, and international laws and programs, assessing similar topics.

- Divergent rules and programs can lead to redundancy of regulation, inefficiency, and confusion as people try to figure out which laws apply to them.

- It can extend the time needed for policy resolution, because disgruntled parties can always go to the other levels of government for relief.
  
  ✓ By creating overlapping jurisdiction, regulators and policymakers can blame deficiencies on other levels of government.
  
  ✓ This can give them more ability to create smokescreens, to shirk their responsibilities, and to hope that disgruntled citizens will not discern the proper target for their ire.
Conclusions

- Polycentrism could mitigate the “diffusion of responsibility” effect by creating important roles for multiple scales of action and multiple stakeholders.
- It would reduce the risk of creating an intellectual commons problem by empowering social, political, and intellectual leaders from a variety of places to contribute to clean and secure energy systems.
For More Information