

THE POLITICAL ECONOMY OF INSTITUTIONS AND DECISIONS

*Editors*

*James E. Alt, Harvard University*

*Douglass C. North, Washington University in St. Louis*

Other books in the series

James E. Alt and Kenneth Shepsle, eds., *Perspectives on Positive Political Economy*

Yoram Barzel, *Economic Analysis of Property Rights*

Robert Bates, *Beyond the Miracle of the Market: The Political Economy of Agrarian Development in Kenya*

Gary W. Cox, *The Efficient Secret: The Cabinet and the Development of Political Parties in Victorian England*

Leif Lewin, *Ideology and Strategy: A Century of Swedish Politics* (English Edition)

Gary Libecap, *Contracting for Property Rights*

Matthew D. McCubbins and Terry Sullivan, eds., *Congress: Structure and Policy*

Douglass C. North, *Institutions, Institutional Change, and Economic Performance*

Charles Stewart III, *Budget Reform Politics: The Design of the Appropriations Process in the House of Representatives, 1865–1921*

# GOVERNING THE COMMONS

*The evolution of institutions  
for collective action*

ELINOR OSTROM

*Indiana University*



PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE  
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS  
The Edinburgh Building, Cambridge CB2 2RU, UK  
40 West 20th Street, New York, NY 10011-4211, USA  
477 Williamstown Road, Port Melbourne, VIC 3207, Australia  
Ruiz de Alarcón 13, 28014 Madrid, Spain  
Dock House, The Waterfront, Cape Town 8001, South Africa  
<http://www.cambridge.org>

© Cambridge University Press 1990

This book is in copyright. Subject to statutory exception and  
to the provisions of relevant collective licensing agreements,  
no reproduction of any part may take place without  
the written permission of Cambridge University Press.

First published 1990  
Reprinted 1991, 1992, 1993, 1994 (twice), 1995, 1996, 1997,  
1998, 1999, 2000, 2001, 2002

Printed in the United States of America

Typeset in Sabon

*A catalog record for this book is available from the British Library*

*Library of Congress Cataloging in Publication data is available*

ISBN 0 521 40599 8 paperback

To Vincent  
For his love and contestation

## Preface

can better search out variables from what we are reading and gathering. The help of Elizabeth Case, associate editor for this series, Sophia Prybylski at Cambridge University Press, and Emily Loose, editor at Cambridge University Press, is gratefully acknowledged. Patty Dalecki has, as always, provided professional editorial and production support that has greatly improved the quality of the manuscript. Her cheerful spirit has relieved pressures on many occasions.

# 1

---

## *Reflections on the commons*

Hardly a week goes by without a major news story about the threatened destruction of a valuable natural resource. In June of 1989, for example, a *New York Times* article focused on the problem of overfishing in the Georges Bank about 150 miles off the New England coast. Catches of cod, flounder, and haddock are now only a quarter of what they were during the 1960s. Everyone knows that the basic problem is overfishing; however, those concerned cannot agree how to solve the problem. Congressional representatives recommend new national legislation, even though the legislation already on the books has been enforced only erratically. Representatives of the fishers argue that the fishing grounds would not be in such bad shape if the federal government had refrained from its sporadic attempts to regulate the fishery in the past. The issue in this case – and many others – is how best to limit the use of natural resources so as to ensure their long-term economic viability. Advocates of central regulation, of privatization, and of regulation by those involved have pressed their policy prescriptions in a variety of different arenas.

Similar situations occur on diverse scales ranging from small neighborhoods to the entire planet. The issues of how best to govern natural resources used by many individuals in common are no more settled in academia than in the world of politics. Some scholarly articles about the “tragedy of the commons” recommend that “the state” control most natural resources to prevent their destruction; others recommend that privatizing those resources will resolve the problem. What one can observe in the world, however, is that neither the state nor the market is uniformly successful in enabling individuals to sustain long-term, productive use of natural resource systems. Further, communities of individuals have relied on institutions resembling neither the state nor the market to govern some resource systems with reasonable degrees of success over long periods of time.

## Governing the commons

We do not yet have the necessary intellectual tools or models to understand the array of problems that are associated with governing and managing natural resource systems and the reasons why some institutions seem to work in some settings and not others. This book is an effort to (1) critique the foundations of policy analysis as applied to many natural resources, (2) present empirical examples of successful and unsuccessful efforts to govern and manage such resources, and (3) begin the effort to develop better intellectual tools to understand the capabilities and limitations of self-governing institutions for regulating many types of resources. To do this, I first describe the three models most frequently used to provide a foundation for recommending state or market solutions. I then pose theoretical and empirical alternatives to these models to begin to illustrate the diversity of solutions that go beyond states and markets. Using an institutional mode of analysis, I then attempt to explain how communities of individuals fashion different ways of governing the commons.

### THREE INFLUENTIAL MODELS

#### *The tragedy of the commons*

Since Garrett Hardin's challenging article in *Science* (1968), the expression "the tragedy of the commons" has come to symbolize the degradation of the environment to be expected whenever many individuals use a scarce resource in common. To illustrate the logical structure of his model, Hardin asks the reader to envision a pasture "open to all." He then examines the structure of this situation from the perspective of a rational herder. Each herder receives a direct benefit from his own animals and suffers delayed costs from the deterioration of the commons when his and others' cattle overgraze. Each herder is motivated to add more and more animals because he receives the direct benefit of his own animals and bears only a share of the costs resulting from overgrazing. Hardin concludes:

Therein is the tragedy. Each man is locked into a system that compels him to increase his herd without limit - in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. (Hardin 1968, p. 1,244)

Hardin was not the first to notice the tragedy of the commons. Aristotle long ago observed that "what is common to the greatest number has the least care bestowed upon it. Everyone thinks chiefly of his own, hardly at all of the common interest" (*Politics*, Book II, ch. 3). Hobbes's parable of man in a state of nature is a prototype of the tragedy of the commons: Men

## Reflections on the commons

seek their own good and end up fighting one another. In 1833, William Forster Lloyd (1977) sketched a theory of the commons that predicted imprudent use for property owned in common. More than a decade before Hardin's article, H. Scott Gordon (1954) clearly expounded similar logic in another classic: "The Economic Theory of a Common-Property Resource: The Fishery." Gordon described the same dynamic as Hardin:

There appears then, to be some truth in the conservative dictum that everybody's property is nobody's property. Wealth that is free for all is valued by no one because he who is foolhardy enough to wait for its proper time of use will only find that it has been taken by another. . . . The fish in the sea are valueless to the fisherman, because there is no assurance that they will be there for him tomorrow if they are left behind today. (Gordon 1954, p. 124)

John H. Dales (1968, p. 62) noted at the same time the perplexing problems related to resources "owned in common because there is no alternative!" Standard analyses in modern resource economics conclude that where a number of users have access to a common-pool resource, the total of resource units withdrawn from the resource will be greater than the optimal economic level of withdrawal (Clark 1976, 1980; Dasgupta and Heal 1979).

If the only "commons" of importance were a few grazing areas or fisheries, the tragedy of the commons would be of little general interest. That is not the case. Hardin himself used the grazing commons as a metaphor for the general problem of overpopulation. The "tragedy of the commons" has been used to describe such diverse problems as the Sahelian famine of the 1970s (Picardi and Seifert 1977), firewood crises throughout the Third World (Norman 1984; Thomson 1977), the problem of acid rain (R. Wilson 1985), the organization of the Mormon Church (Bullock and Baden 1977), the inability of the U.S. Congress to limit its capacity to overspend (Shepsle and Weingast 1984), urban crime (Neher 1978), public-sector/private-sector relationships in modern economies (Scharpf 1985, 1987, 1988), the problems of international cooperation (Snidal 1985), and communal conflict in Cyprus (Lumsden 1973). Much of the world is dependent on resources that are subject to the possibility of a tragedy of the commons.

#### *The prisoner's dilemma game*

Hardin's model has often been formalized as a prisoner's dilemma (PD) game (Dawes 1973, 1975).<sup>1</sup> Suppose we think of the players in a game as being herders using a common grazing meadow. For this meadow, there is an upper limit to the number of animals that can graze on the meadow for

a season and be well fed at the end of the season. We call that number  $L$ . For a two-person game, the "cooperate" strategy can be thought of as grazing  $L/2$  animals for each herder. The "defect" strategy is for each herder to graze as many animals as he thinks he can sell at a profit (given his private costs), assuming that this number is greater than  $L/2$ . If both herders limit their grazing to  $L/2$ , they will obtain 10 units of profit, whereas if they both choose the defect strategy they will obtain zero profit. If one of them limits his number of animals to  $L/2$ , while the other grazes as many as he wants, the "defector" obtains 11 units of profit, and the "sucker" obtains -1. If each chooses independently without the capacity to engage in a binding contract, each chooses his dominant strategy, which is to defect. When they both defect, they obtain zero profit. Call this the Hardin herder game, or Game 1. It has the structure of a prisoner's dilemma game.<sup>2</sup>

The prisoner's dilemma game is conceptualized as a noncooperative game in which all players possess complete information. In noncooperative games, communication among the players is forbidden or impossible or simply irrelevant as long as it is not explicitly modeled as part of the game. If communication is possible, verbal agreements among players are presumed to be nonbinding unless the possibility of binding agreements is explicitly incorporated in the game structure (Harsanyi and Selten 1988, p. 3). "Complete information" implies that all players know the full structure of the game tree and the payoffs attached to outcomes. Players either know or do not know the current moves of other players depending on whether or not they are observable.

In a prisoner's dilemma game, each player has a dominant strategy in the sense that the player is always better off choosing this strategy - to defect

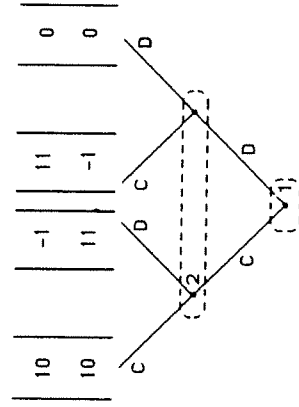


Figure 1.1. Game 1: The Hardin herder game.

- no matter what the other player chooses. When both players choose their dominant strategy, given these assumptions, they produce an equilibrium that is the third-best result for both. Neither has an incentive to change that is independent of the strategy choice of the other. The equilibrium result is from each player selecting his or her "best" individual strategy is, however, not a Pareto-optimal outcome. A Pareto-optimal outcome occurs when there is no other outcome strictly preferred by at least one player that is at least as good for the others. In the two-person prisoner's dilemma game, both players prefer the (cooperate, cooperate) outcome to the (defect, defect) outcome. Thus, the equilibrium outcome is Pareto-inferior.

The prisoner's dilemma game fascinates scholars. The paradox that individually rational strategies lead to collectively irrational outcomes seems to challenge a fundamental faith that rational human beings can achieve rational results. In the introduction to a recently published book, *Paradoxes of Rationality and Cooperation*, Richmond Campbell explains the "deep attraction" of the dilemma:

Quite simply, these paradoxes cast in doubt our understanding of rationality and in the case of the Prisoner's Dilemma suggest that it is impossible for rational creatures to cooperate. Thus, they bear directly on fundamental issues in ethics and political philosophy and threaten the foundations of the social sciences. It is the scope of these consequences that explains why these paradoxes have drawn so much attention and why they command a central place in philosophical discussion. (Campbell 1985, p. 3)

The deep attraction of the dilemma is further illustrated by the number of articles written about it. At one count, 15 years ago, more than 2,000 papers had been devoted to the prisoner's dilemma game (Grofman and Pool 1975).

*The logic of collective action*

A closely related view of the difficulty of getting individuals to pursue their joint welfare, as contrasted to individual welfare, was developed by Mancur Olson (1965) in *The Logic of Collective Action*. Olson specifically set out to challenge the grand optimism expressed in group theory: that individuals with common interests would voluntarily act so as to try to further those interests (Bentley 1949; Truman 1958). On the first page of his book, Olson summarized that accepted view:

The idea that groups tend to act in support of their group interests is supposed to follow logically from this widely accepted premise of rational, self-interested behavior. In other words, if the members of some group have a common interest or object, and if they would all be better off if that objective were achieved, it has been

thought to follow logically that the individuals in that group would, if they were rational and self-interested, act to achieve that objective. (Olson 1965, p.1)

Olson challenged the presumption that the possibility of a benefit for a group would be sufficient to generate collective action to achieve that benefit. In the most frequently quoted passage of his book, Olson argued that

unless the number of individuals is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, *rational, self-interested individuals will not act to achieve their common or group interests.* (Olson 1965, p. 2; emphasis in original)

Olson's argument rests largely on the premise that one who cannot be excluded from obtaining the benefits of a collective good once the good is produced has little incentive to contribute voluntarily to the provision of that good. His book is less pessimistic than it is asserted to be by many who cite this famous passage. Olson considers it an open question whether intermediate-size groups will or will not voluntarily provide collective benefits. His definition of an intermediate-size group depends not on the number of actors involved but on how noticeable each person's actions are.

The tragedy of the commons, the prisoner's dilemma, and the logic of collective action are closely related concepts in the models that have defined the accepted way of viewing many problems that individuals face when attempting to achieve collective benefits. At the heart of each of these models is the free-rider problem. Whenever one person cannot be excluded from the benefits that others provide, each person is motivated not to contribute to the joint effort, but to free-ride on the efforts of others. If all participants choose to free-ride, the collective benefit will not be produced. The temptation to free-ride, however, may dominate the decision process, and thus all will end up where no one wanted to be. Alternatively, some may provide while others free-ride, leading to less than the optimal level of provision of the collective benefit. These models are thus extremely useful for explaining how perfectly rational individuals can produce, under some circumstances, outcomes that are not "rational" when viewed from the perspective of all those involved.

What makes these models so interesting and so powerful is that they capture important aspects of many different problems that occur in diverse settings in all parts of the world. What makes these models so dangerous – when they are used metaphorically as the foundation for policy – is that the constraints that are assumed to be fixed for the purpose of analysis are taken on faith as being fixed in empirical settings, unless external author-

ities change them.<sup>3</sup> The prisoners in the famous dilemma cannot change the constraints imposed on them by the district attorney; they are in jail. Not all users of natural resources are similarly incapable of changing their constraints. As long as individuals are viewed as prisoners, policy prescriptions will address this metaphor. I would rather address the question of how to enhance the capabilities of those involved to change the constraining rules of the game to lead to outcomes other than remorseless tragedies.

#### THE METAPHORICAL USE OF MODELS

These three models and their many variants are diverse representations of a broader and still-evolving theory of collective action. Much more work will be needed to develop the theory of collective action into a reliable and useful foundation for policy analysis. Considerable progress has been made during the past three decades by theorists and empirically oriented social scientists. The sweeping conclusions of the first variants of this theory have given way to a more qualified body of knowledge involving many more variables and explicit base conditions.

As an evolving, rather than completed, theory, it provokes disagreement regarding the importance or insignificance of some variables and how best to specify key relationships.<sup>4</sup> The results from more recent work, particularly work focusing on the dynamic aspects of relevant empirical settings, have begun to generate more optimistic predictions than did earlier models; see, in particular, the work of Axelrod (1981, 1984) and Kreps and Wilson (1982). This is one of the most exciting areas in the social sciences, for although considerable cumulation has already occurred, some deep questions remain unanswered. Some of these puzzles are key to understanding how individuals jointly using a common-pool resource might be able to achieve an effective form of governing and managing their own commons. These puzzles are examined in Chapter 2.

Much that has been written about common-pool resources, however, has uncritically accepted the earlier models and the presumption of a remorseless tragedy (Nebel 1987). Scholars have gone so far as to recommend that "Hardin's 'Tragedy of the Commons' should be required reading for all students . . . and, if I had my way, for all human beings."<sup>5</sup> Policy prescriptions have relied to a large extent on one of the three original models, but those attempting to use these models as the basis for policy prescription frequently have achieved little more than a metaphorical use of the models.

When models are used as metaphors, an author usually points to the similarity between one or two variables in a natural setting and one or two

variables in a model. If calling attention to similarities is all that is intended by the metaphor, it serves the usual purpose of rapidly conveying information in graphic form. These three models have frequently been used metaphorically, however, for another purpose. The similarity between the many individuals jointly using a resource in a natural setting and the many individuals jointly producing a suboptimal result in the model has been used to convey a sense that further similarities are present. By referring to natural settings as "tragedies of the commons," "collective-action problems," "prisoner's dilemmas," "open-access resources," or even "common-property resources," the observer frequently wishes to invoke an image of helpless individuals caught in an inexorable process of destroying their own resources. An article in the December 10, 1988, issue of *The Economist* goes so far as to assert that fisheries can be managed successfully only if it is recognized that "left to their own devices, fisherman will overexploit stocks," and "to avoid disaster, managers must have effective hegemony over them."

Public officials sometimes do no more than evoke grim images by briefly alluding to the popularized versions of the models, presuming, as self-evident, that the same processes occur in all natural settings. The Canadian minister of fisheries and oceans, for example, captured the color of the models in a 1980 speech:

If you let loose that kind of economic self-interest in fisheries, with everybody fishing as he wants, taking from a resource that belongs to no individual, you end up destroying your neighbour and yourself. In free fisheries, good times create bad times, attracting more and more boats to chase fewer and fewer fish, producing less and less money to divide among more and more people.

(Romeo LeBlanc, speaking at the 50th anniversary meeting of the United Maritime Fishermen, March 19, 1980; quoted by Matthews and Phyne 1988)

The implication, of course, was that Canadian fisheries universally met that description - an empirically incorrect inference.<sup>6</sup> But many observers have come to assume that most resources are like those specified in the three models. As such, it has been assumed that the individuals have been caught in a grim trap. The resulting policy recommendations have had an equally grim character.

#### CURRENT POLICY PRESCRIPTIONS

##### *Leviathan as the "only" way*

Ophuls (1973, p. 228) argued, for example, that "because of the tragedy of the commons, environmental problems cannot be solved through co-operation . . . and the rationale for government with major coercive

powers is overwhelming." Ophuls concluded that "even if we avoid the tragedy of the commons, it will *only* be by recourse to the tragic necessity of Leviathan" (1973, p. 229; emphasis added).<sup>7</sup> Garrett Hardin argued a decade after his earlier article that we are enveloped in a "cloud of ignorance" about "the true nature of the fundamental political systems and the effect of each on the preservation of the environment" (1978, p. 310). The "cloud of ignorance" did not, however, prevent him from presuming that the only alternatives to the commons dilemma were what he called "a private enterprise system," on the one hand, or "socialism," on the other (1978, p. 314). With the assurance of one convinced that "the alternative of the commons is too horrifying to contemplate" (1968, p. 1,247), Hardin indicated that change would have to be instituted with "whatever force may be required to make the change stick" (1978, p. 314). In other words, "if ruin is to be avoided in a crowded world, people must be responsive to a coercive force outside their individual psyches, a 'Leviathan,' to use Hobbes's term" (Hardin 1978, p. 314).

The presumption that an external Leviathan is necessary to avoid tragedies of the commons leads to recommendations that central governments control most natural resource systems. Heilbroner (1974) opined that "iron governments," perhaps military governments, would be necessary to achieve control over ecological problems. In a less draconian view, Ehrenfeld (1972, p. 322) suggested that if "private interests cannot be expected to protect the public domain then external regulation by public agencies, governments, or international authorities is needed." In an analysis of the problems involved in water resource management in developing countries, Carruthers and Stoner (1981, p. 29) argued that without public control, "overgrazing and soil erosion of communal pastures, or less fish at higher average cost," would result. They concluded that "common property resources *require* public control if economic efficiency is to result from their development" (1981, p. 29; emphasis added).<sup>8</sup> The policy advice to centralize the control and regulation of natural resources, such as grazing lands, forests, and fisheries, has been followed extensively, particularly in Third World countries.

One way to illustrate these proponents' image of centralized control is to modify the Hardin herder game using the assumptions that underlie this policy advice. The proponents of centralized control want an external government agency to decide the specific herding strategy that the central authority considers best for the situation: The central authority will decide who can use the meadow, when they can use it, and how many animals can be grazed. Let us assume that the central authority decides to impose a penalty of 2 profit units on anyone who is considered by that authority to

be using a defect strategy. Assuming that the central agency knows the sustainable yield of the meadow ( $L$ ) and can unfailingly discover and penalize any herder using the defect strategy, the newly restructured game imposed by the central authority is represented in Game 2. Now, the solution to Game 2 is (cooperate, cooperate). Both players receive 10 profit units each, rather than the zero units they would have received in Game 1. If an external authority accurately determines the capacity of a common-pool resource, unambiguously assigns this capacity, monitors actions, and unfailingly sanctions noncompliance, then a centralized agency can transform the Hardin herder game to generate an optimally efficient equilibrium for the herders. Little consideration is given to the cost of creating and maintaining such an agency. This is seen as exogenous to the problem and is not included as a parameter of Game 2.<sup>9</sup>

The optimal equilibrium achieved by following the advice to centralize control, however, is based on assumptions concerning the accuracy of information, monitoring capabilities, sanctioning reliability, and zero costs of administration. Without valid and reliable information, a central agency could make several errors, including setting the carrying capacity or the fine too high or too low, sanctioning herders who cooperate, or not sanctioning defectors. The implications of all forms of incomplete information are interesting. However, as an example, I shall focus entirely on the implications arising from a central agency's incomplete information about the herders' strategies. The implicit assumption of Game 2 is that the central agency monitors all actions of the herders costlessly and imposes sanctions correctly.

In Game 3, we assume that the central agency has complete information about the carrying capacity of the meadow, but incomplete information about the particular actions of the herders. The central agency conse-

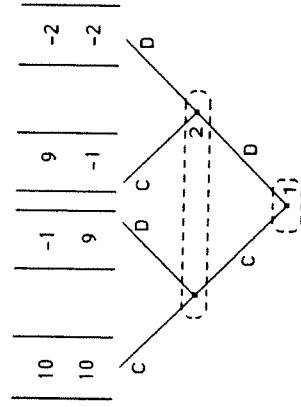


Figure 1.2. Game 2: The central-authority game with complete information.

quently makes errors in imposing punishments. Let us assume that the central agency punishes defections (the correct response) with probability  $y$  and fails to punish defections with probability  $1 - y$  (the erroneous response). Let us also assume that the central agency punishes cooperative actions (the erroneous response) with probability  $x$  and does not punish cooperative actions (the correct response) with probability  $1 - x$ . The payoff parameters are illustrated in Figure 1.3.

A central agency with complete information would make no errors in its punishment level; in that case,  $x = 0$  and  $y = 1$ . Game 2 would then be a special case of Game 3 in which  $x = 0$  and  $y = 1$ . However, if the central agency does not have complete information about the actions of the herders, it imposes both types of sanctions correctly with a probability of 0.7 ( $x = 0.3, y = 0.7$ ). An example of the specific payoffs for this game is shown as Game 4 in Figure 1.4. Given this payoff structure, the herders again face a prisoner's dilemma game. They will defect (overgraze) rather than cooperate (graze within the carrying capacity). In Game 4, as in the original Game 1, the equilibrium outcomes for the herders were (0, 0). In a game in which a central agency sanctions correctly with a probability of 0.7, the equilibrium outcomes are  $(-1.6, -1.6)$ . The equilibrium of the regulated game has a lower value than that of the unregulated game. Given the carrying capacity and profit possibilities of Game 1, the central agency must have sufficient information so that it can correctly impose sanctions with a probability greater than 0.75 to avoid pushing the herders to the (D, D) equilibrium.<sup>10</sup>

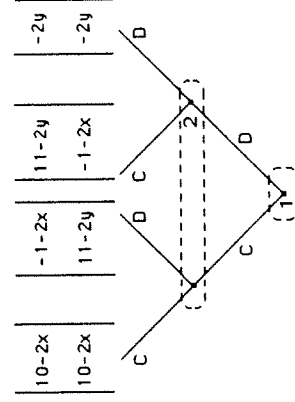


Figure 1.3. Game 3: The central-authority game with incomplete information.



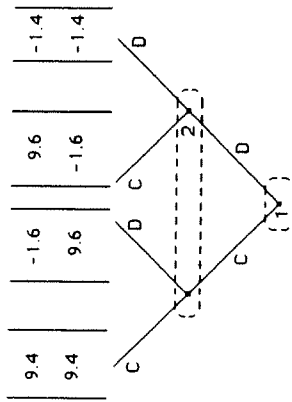


Figure 1.4. Game 4: An example of the central-authority game with incomplete information.

Privatization as the “only” way

Other policy analysts, influenced by the same models, have used equally strong terms in calling for the imposition of private property rights whenever resources are owned in common (Demsetz 1967; O. Johnson 1972). “Both the economic analysis of common property resources and Hardin’s treatment of the tragedy of the commons” led Robert J. Smith (1981, p. 467) to suggest that “the only way to avoid the tragedy of the commons in natural resources and wildlife is to end the common-property system by creating a system of private property rights” (emphasis added); see also the work of Sinn (1984). Smith stressed that it is “by treating a resource as a common property that we become locked in its inexorable destruction” (1981, p. 465). Welch advocated the creation of full private rights to a commons when he asserted that “the establishment of full property rights is necessary to avoid the inefficiency of overgrazing” (1983, p. 171). He asserted that privatization of the commons was the optimal solution for all common-pool problems. His major concern was how to impose private ownership when those currently using a commons were unwilling to change to a set of private rights to the commons.

Those recommending the imposition of privatization on the herders would divide the meadow in half and assign half of the meadow to one herder and the other half to the second herder. Now each herder will be playing a *game against nature* in a smaller terrain, rather than a game against another player in a larger terrain. The herders now will need to invest in fences and their maintenance, as well as in monitoring and sanctioning activities to enforce their division of the grazing area (B. Field 1984, 1985b). It is presumed that each herder will now choose X/2 animals

to graze as a result of his own profit incentive.<sup>11</sup> This assumes that the meadow is perfectly homogeneous over time in its distribution of available fodder. If rainfall occurs erratically, one part of the grazing area may be lush with growth one year, whereas another part of the area may be unable to support X/2 animals. The rain may fall somewhere else the next year. In any given year, one of the herders may make no profit, and the other may enjoy a considerable return. If the location of lush growth changes dramatically from year to year, dividing the commons may impoverish both herders and lead to overgrazing in those parts where forage is temporarily inadequate. Of course, it will be possible for the herder who has extra fodder in one year to sell it to the other herder. Alternatively, it will be possible for the herders to set up an insurance scheme to share the risk of an uncertain environment. However, the setup costs for a new market or a new insurance scheme would be substantial and will not be needed so long as the herders share fodder and risk by jointly sharing a larger grazing area.

It is difficult to know exactly what analysts mean when they refer to the necessity of developing private rights to some common-pool resources (CPRs). It is clear that when they refer to land, they mean to divide the land into separate parcels and assign individual rights to hold, use, and transfer these parcels as individual owners desire (subject to the general regulations of a jurisdiction regarding the use and transfer of land). In regard to nonstationary resources, such as water and fisheries, it is unclear what the establishment of private rights means. As Colin Clark has pointed out, the “tragedy of the commons” has proved particularly difficult to counteract in the case of marine fishery resources where the establishment of individual property rights is virtually out of the question” (1980, p. 117). In regard to a fugitive resource, a diversity of rights may be established giving individuals rights to use particular types of equipment, to use the resource system at a particular time and place, or to withdraw a particular quantity of resource units (if they can be found). But even when particular rights are unitized, quantified, and salable, the resource *system* is still likely to be owned in common rather than individually.<sup>12</sup> Again, referring to fisheries, Clark has argued that “common ownership is the fundamental fact affecting almost every regime of fishery management” (1980, p. 117).

The “only” way?

Analysts who find an empirical situation with a structure presumed to be a commons dilemma often call for the imposition of a solution by an external actor: The “only way” to solve a commons dilemma is by doing

### Governing the commons

X. Underlying such a claim is the belief that X is necessary and sufficient to solve the commons dilemma. But the content of X could hardly be more variable. One set of advocates presumes that a central authority must assume continuing responsibility to make unitary decisions for a particular resource. The other presumes that a central authority should parcel out ownership rights to the resource and then allow individuals to pursue their own self-interests within a set of well-defined property rights. Both centralization advocates and privatization advocates accept as a central tenet that institutional change must come from outside and be imposed on the individuals affected. Despite sharing a faith in the necessity and efficacy of “the state” to change institutions so as to increase efficiency, the institutional changes they recommend could hardly be further apart.

If one recommendation is correct, the other cannot be. Contradictory positions cannot both be right. I do not argue for either of these positions. Rather, I argue that both are too sweeping in their claims. Instead of there being a single solution to a single problem, I argue that many solutions exist to cope with many different problems. Instead of presuming that optimal institutional solutions can be designed easily and imposed at low cost by external authorities, I argue that “getting the institutions right” is a difficult, time-consuming, conflict-invoking process. It is a process that requires reliable information about time and place variables as well as a broad repertoire of culturally acceptable rules. New institutional arrangements do not work in the field as they do in abstract models unless the models are well specified and empirically valid and the participants in a field setting understand how to make the new rules work.

Instead of presuming that the individuals sharing a commons are inevitably caught in a trap from which they cannot escape, I argue that the capacity of individuals to extricate themselves from various types of dilemma situations *varies* from situation to situation. The cases to be discussed in this book illustrate both successful and unsuccessful efforts to escape tragic outcomes. Instead of basing policy on the presumption that the individuals involved are helpless, I wish to learn more from the experience of individuals in field settings. Why have some efforts to solve commons problems failed, while others have succeeded? What can we learn from experience that will help stimulate the development and use of a better theory of collective action – one that will identify the key variables that can enhance or detract from the capabilities of individuals to solve problems?

Institutions are rarely either private or public – “the market” or “the state.” Many successful CPR institutions are rich mixtures of “private-like” and “public-like” institutions defying classification in a sterile dichotomy.

### Reflections on the commons

By “successful,” I mean institutions that enable individuals to achieve productive outcomes in situations where temptations to free-ride and shirk are ever present. A competitive market – the epitome of private institutions – is itself a public good. Once a competitive market is provided, individuals can enter and exit freely whether or not they contribute to the cost of providing and maintaining the market. No market can exist for long without underlying public institutions to support it. In field settings, public and private institutions frequently are intermeshed and depend on one another, rather than existing in isolated worlds.

### An alternative solution

To open up the discussion of institutional options for solving commons dilemmas, I want now to present a fifth game in which the herders themselves can make a binding contract to commit themselves to a cooperative strategy that they themselves will work out. To represent this arrangement within a noncooperative framework, additional moves must be overtly included in the game structure. A binding contract is interpreted within noncooperative game theory as one that is unfaithfully enforced by an

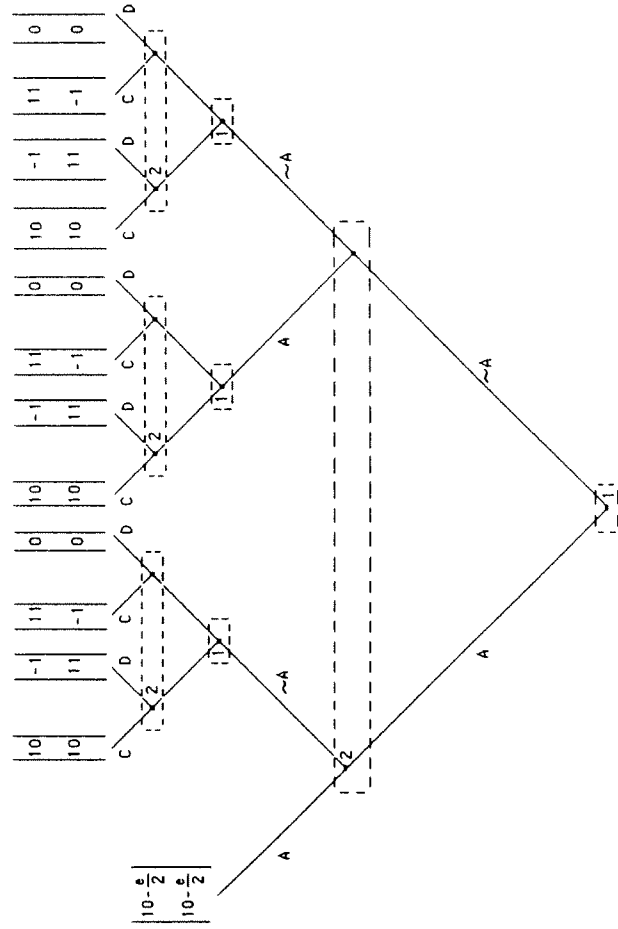


Figure 1.5. Game 5: Self-financed contract-enforcement game.

external actor – just as we interpreted the penalty posited earlier as being unfaithfully enforced by the central authority.

A simple way to represent this is to add one parameter to the payoffs and a strategy to both herders' strategy sets.<sup>13</sup> The parameter is the cost of enforcing an agreement and will be denoted by  $e$ . The herders in Game 5 must now negotiate prior to placing animals on the meadow. During negotiations, they discuss various strategies for sharing the carrying capacity of the meadow and the costs of enforcing their agreement. Contracts are not enforceable, however, unless agreed to unanimously by the herders. Any proposal made by one herder that did not involve an equal sharing of the carrying capacity and of enforcement costs would be vetoed by the other herder in their negotiations. Consequently, the only feasible agreement – and the equilibrium of the resulting game – is for both herders to share equally the sustainable yield levels of the meadow and the costs of enforcing their agreement so long as each herder's share of the cost of enforcement is less than 10.<sup>14</sup>

Further, in Game 5, players can *always* guarantee that the worst they will do is the (defect, defect) outcome of Game 1. They are not dependent on the accuracy of the information obtained by a distant government official regarding their strategies. If one player suggests a contract based on incomplete or biased information, the other player can indicate an unwillingness to agree. They determine their own contract and ask the enforcer to enforce only that on which they have agreed. If the enforcer should decide to charge too much for its services [any number equal to or greater than  $P_i(C, C) - P_i(D, D)$ ,  $i = 1, 2$ ], neither player would agree to such a contract.

The "solution" of a commons-dilemma game through instrumentalities similar to Game 5 is not presented as the "only way" to solve a commons dilemma. It is merely one way. But this way has been almost totally ignored in both the policy-analysis literature and the formal-theory literature. Contemplating such an option raises numerous questions. First, might it be possible for the herders to hire a private agent to take on the role of enforcer? This is not as farfetched as it might seem at first. Many long-term business exchanges have the structure of a prisoner's dilemma.<sup>15</sup> Businesses are hesitant to accept promises of future performance rather than enforceable contracts, especially when beginning new business relationships. To reduce enforcement costs, however, a frequent practice is to use a private arbitrator rather than a civil court as the mechanism to achieve enforcement.<sup>16</sup> In  $N$ -person settings, all professional athletic leagues face problems similar to those illustrated here. During the play of a professional game, the temptation to cheat and break the rules is ever present. Further,

accidents do happen, and rules get broken, even by players who were intending to follow the rules. Athletic leagues typically employ private monitors to enforce their rules.<sup>17</sup>

As soon as we allow the possibility of a private party to take on the role of an external enforcer, the nature of the "solution" offered by Game 5 to the commons dilemma begins to generate a rich set of alternative applications. A self-financed contract-enforcement game allows the participants in the situation to exercise greater control over decisions about who will be allowed to graze and what limits will be placed on the number of animals, as compared with either Game 2 or Game 3. If the parties use a private arbitrator, they do not let the arbitrator impose an agreement on them. The arbitrator simply helps the parties find methods to resolve disputes that arise within the set of working rules to which the parties themselves have agreed. Arbitrators, courts, and other arrangements for enforcement and dispute resolution make it possible for individuals to initiate long-term arrangements that they could not otherwise undertake.<sup>18</sup> Further, as soon as one thinks about a "solution" like Game 5, it is a small step to thinking about the possibility of several arbitrators offering enforcement services at varying charges during the negotiation stage. The payoff-dominant equilibrium is to agree on that arbitrator who will enforce the contract at the lowest  $e$ .

The key difference between Game 5 and Games 2 and 3 is that the participants themselves design their own contracts in Game 5 in light of the information they have at hand. The herders, who use the same meadow year after year, have detailed and relatively accurate information about carrying capacity. They observe the behavior of other herders and have an incentive to report contractual infractions. Arbitrators may not need to hire monitors to observe the activities of the contracting parties. The self-interest of those who negotiated the contract will lead them to monitor each other and to report observed infractions so that the contract is enforced. A regulatory agency, on the other hand, always needs to hire its own monitors. The regulatory agency then faces the principal-agent problem of how to ensure that its monitors do their own job.

The proponents of the central-authority "solution" presume that such agencies have accurate information and are able to change incentives to produce something like Game 2. It is difficult for a central authority to have sufficient time-and-place information to estimate accurately both the carrying capacity of a CPR and the appropriate fines to induce cooperative behavior. I believe that situations like that in Game 3, in which incomplete information leads to sanctioning errors, occur more frequently than has been presumed in the policy literature. The need for external monitors and

enforcers is particularly acute when what is being enforced is a decision by an external agent who may impose excess costs on participants.

A further problem for consideration is that games in which enforcers have been arranged for by mutual agreement may be mistaken by analysts and public officials for games in which there have been *no* agreements about how to cooperate and enforce agreements. In other words, some examples of a "Game 5" may be mistaken for a "Game 1."<sup>19</sup> These situations may be construed to be "informal," carrying a presumption that they are not lawful. This goes to fundamental presumptions about the nature of governments as external authorities governing over societies.

As will be seen in the later discussion of empirical cases, users of CPRs have developed a wide diversity in their own agreements, which are enforced by many mechanisms. Some of the enforcement mechanisms are external governmental agencies. Some enforcement mechanisms involve members of the users' community who have been employed as monitors and enforcers. Some enforcement mechanisms involve the users themselves as their own monitors. When the enforcement mechanism is not an external governmental agency, some analysts presume that there is no enforcement. That is why Game 5 is mistaken for Game 1.

A self-financed contract-enforcement game is no panacea. Such institutional arrangements have many weaknesses in many settings. The herders can overestimate or underestimate the carrying capacity of the meadow. Their own monitoring system may break down. The external enforcer may not be able to enforce *ex post*, after promising to do so *ex ante*. A myriad of problems can occur in natural settings, as is also the case with the idealized central-regulation or private-property institutions.

The structure of the institutional arrangements that one finds in natural settings is, of course, far more complicated than the structure of any of the extremely simple games presented here for discussion. What I attempt to do with these simple games is to generate different ways of thinking about the mechanisms that individuals may use to extricate themselves from commons dilemmas – ways different from what one finds in much of the policy literature. To challenge this mind-set, one needs only simple mechanisms that illustrate alternatives to those that normally are presented as the dominant solutions.

#### *An empirical alternative*

Game 5 illustrated a theoretical alternative to centralization or privatization as ways to solve CPR problems. Let us now briefly consider a solution devised by participants in a field setting – Alanya, Turkey – that cannot be

characterized as either central regulation or privatization. The inshore fishery at Alanya, as described by Fikret Berkes (1986b), is a relatively small operation. Many of the approximately 100 local fishers operate in two- or three-person boats using various types of nets. Half of the fishers belong to a local producers' cooperative. According to Berkes, the early 1970s were the "dark ages" for Alanya. The economic viability of the fishery was threatened by two factors: First, unrestrained use of the fishery had led to hostility and, at times, violent conflict among the users. Second, competition among fishers for the better fishing spots had increased production costs, as well as the level of uncertainty regarding the harvest potential of any particular boat.

Early in the 1970s, members of the local cooperative began experimenting with an ingenious system for allotting fishing sites to local fishers. After more than a decade of trial-and-error efforts, the rules used by the Alanya inshore fishers are as follows:

- Each September, a list of eligible fishers is prepared, consisting of all licensed fishers in Alanya, regardless of co-op membership.
- Within the area normally used by Alanya fishers, all usable fishing locations are named and listed. These sites are spaced so that the nets set in one site will not block the fish that should be available at the adjacent sites.
- These named fishing locations and their assignments are in effect from September to May.
- In September, the eligible fishers draw lots and are assigned to the named fishing locations.
- From September to January, each day each fisher moves east to the next location. After January, the fishers move west. This gives the fishers equal opportunities at the stocks that migrate from east to west between September and January and reverse their migration through the area from January to May (Berkes 1986b, pp. 73–4).

The system has the effect of spacing the fishers far enough apart on the fishing grounds that the production capabilities at each site are optimized. All fishing boats also have equal chances to fish at the best spots. Resources are not wasted searching for or fighting over a site.<sup>20</sup> No signs of overcapitalization are apparent.

The list of fishing locations is endorsed by each fisher and deposited with the mayor and local gendarme once a year at the time of the lottery. The process of monitoring and enforcing the system is, however, accomplished by the fishers themselves as a by-product of the incentive created by the

rotation system. On a day when a given fisher is assigned one of the more productive spots, that fisher will exercise that option with certainty (leaving aside last-minute breakdowns in equipment). All other fishers can expect that the assigned fisher will be at the spot bright and early. Consequently, an effort to cheat on the system by traveling to a good spot on a day when one is assigned to a poor spot has little chance of remaining undetected. Cheating on the system will be observed by the very fishers who have rights to be in the best spots and will be willing to defend their rights using physical means if necessary. Their rights will be supported by everyone else in the system. The others will want to ensure that their own rights will not be usurped on the days when they are assigned good sites. The few infractions that have occurred have been handled easily by the fishers at the local coffeehouse (Berkes 1986b, p. 74).

Although this is not a private-property system, rights to use fishing sites and duties to respect these rights are well defined. And though it is not a centralized system, national legislation that has given such cooperatives jurisdiction over "local arrangements" has been used by cooperative officials to legitimize their role in helping to devise a workable set of rules. That local officials accept the signed agreement each year also enhances legitimacy. The actual monitoring and enforcing of the rules, however, are left to the fishers.

Central-government officials could not have crafted such a set of rules without assigning a full-time staff to work (actually fish) in the area for an extended period. Fishing sites of varying economic value are commonly associated with inshore fisheries (Christy 1982; Forman 1967), but they are almost impossible to map without extensive on-site experience. Mapping this set of fishing sites, such that one boat's fishing activities would not reduce the migration of fish to other locations, would have been a daunting challenge had it not been for the extensive time-and-place information provided by the fishers and their willingness to experiment for a decade with various maps and systems. Alanya provides an example of a self-governed common-property arrangement in which the rules have been devised and modified by the participants themselves and also are monitored and enforced by them.

The case of the Alanya inshore fishery is only one empirical example of the many institutional arrangements that have been devised, modified, monitored, and sustained by the users of renewable CPRs to constrain individual behavior that would, if unconstrained, reduce joint returns to the community of users. In addition to the case studies discussed in Chapters 3, 4, and 5, productive CPR institutional arrangements have been

well documented for many farmer-managed irrigation systems, communal forests, inshore fisheries, and grazing and hunting territories.<sup>21</sup>

Game 5 and empirical cases of successfully governed CPRs provide theoretical and empirical alternatives to the assertion that those involved cannot extricate themselves from the problems faced when multiple individuals use a given resource. The key to my argument is that some individuals have broken out of the trap inherent in the commons dilemma, whereas others continue remorselessly trapped into destroying their own resources.<sup>22</sup> This leads me to ask what differences exist between those who have broken the shackles of a commons dilemma and those who have not. The differences may have to do with factors *internal* to a given group. The participants may simply have no capacity to communicate with one another, no way to develop trust, and no sense that they must share a common future. Alternatively, powerful individuals who stand to gain from the current situation, while others lose, may block efforts by the less powerful to change the rules of the game. Such groups may need some form of external assistance to break out of the perverse logic of their situation.

The differences between those who have and those who have not extricated themselves from commons dilemmas may also have to do with factors *outside* the domain of those affected. Some participants do not have the autonomy to change their own institutional structures and are prevented from making constructive changes by external authorities who are indifferent to the perversities of the commons dilemma, or may even stand to gain from it. Also, there is the possibility that external changes may sweep rapidly over a group, giving them insufficient time to adjust their internal structures to avoid the suboptimal outcomes. Some groups suffer from perverse incentive systems that are themselves the results of policies pursued by central authorities. Many potential answers spring to mind regarding the question why some individuals do not achieve collective benefits for themselves, whereas others do. However, as long as analysts presume that individuals cannot change such situations themselves, they do not ask what internal or external variables can enhance or impede the efforts of communities of individuals to deal creatively and constructively with perverse problems such as the tragedy of the commons.

*Policy prescriptions as metaphors*

Policy analysts who would recommend a single prescription for commons problems have paid little attention to how diverse institutional arrange-

ments operate in practice. The centrists presume that unified authorities will operate in the field as they have been designed to do in the textbooks – determining the best policies to be adopted for a resource based on valid scientific theories and adequate information. Implementation of these policies without error is assumed. Monitoring and sanctioning activities are viewed as routine and nonproblematic.

Those advocating the private-property approach presume that the most efficient use patterns for CPRs will actually result from dividing the rights to access and control such resources. Systematic empirical studies have shown that private organization of firms dealing in goods such as electricity, transport, and medical services tends to be more efficient than governmental organization of such firms; for a review of this literature, see De Alessi (1980). Whether private or public forms are more efficient in industries in which certain potential beneficiaries cannot be excluded is, however, a different question. We are concerned with the types of institutions that will be most efficient for governing and managing diverse CPRs for which at least some potential beneficiaries cannot be excluded. Privatizing the ownership of CPRs need not have the same positive results as privatizing the ownership of an airline. Further, privatizing may not mean “dividing up” at all. Privatization can also mean assigning the exclusive right to harvest from a resource system to a single individual or firm.

Many policy prescriptions are themselves no more than metaphors. Both the centralizers and the privatizers frequently advocate oversimplified, idealized institutions – paradoxically, almost “institution-free” institutions. An assertion that central regulation is necessary tells us nothing about the way a central agency should be constituted, what authority it should have, how the limits on its authority should be maintained, how it will obtain information, or how its agents should be selected, motivated to do their work, and have their performances monitored and rewarded or sanctioned. An assertion that the imposition of private property rights is necessary tells us nothing about how that bundle of rights is to be defined, how the various attributes of the goods involved will be measured, who will pay for the costs of excluding nonowners from access, how conflicts over rights will be adjudicated, or how the residual interests of the right-holders in the resource system itself will be organized.

An important lesson that one learns by carefully studying the growing number of systematic studies by scholars associated with “the new institutionalism” is that these “institutional details” are important.<sup>23</sup> Whether or not any equilibria are possible and whether or not an equilibrium would be an improvement for the individuals involved (or for others who are in turn affected by these individuals) will depend on the particular structures

of the institutions. In the most general sense, all institutional arrangements can be thought of as games in extensive form. As such, the particular options available, the sequencing of those options, the information provided, and the relative rewards and punishments assigned to different sequences of moves can all change the pattern of outcomes achieved. Further, the particular structure of the physical environment involved also will have a major impact on the structure of the game and its results. Thus, a set of rules used in one physical environment may have vastly different consequences if used in a different physical environment.

*Policies based on metaphors can be harmful*

Relying on metaphors as the foundation for policy advice can lead to results substantially different from those presumed to be likely. Nationalizing the ownership of forests in Third World countries, for example, has been advocated on the grounds that local villagers cannot manage forests so as to sustain their productivity and their value in reducing soil erosion. In countries where small villages had owned and regulated their local communal forests for generations, nationalization meant expropriation. In such localities, villagers had earlier exercised considerable restraint over the rate and manner of harvesting forest products. In some of these countries, national agencies issued elaborate regulations concerning the use of forests, but were unable to employ sufficient numbers of foresters to enforce those regulations. The foresters who were employed were paid such low salaries that accepting bribes became a common means of supplementing their income. The consequence was that nationalization created *open-access resources* where limited-access *common-property resources* had previously existed. The disastrous effects of nationalizing formerly communal forests have been well documented for Thailand (Feeny 1988a), Niger (Thomson 1977; Thomson, Feeny, and Oakerson 1986), Nepal (Arnold and Campbell 1986; Messerschmidt 1986), and India (Gadgil and Iyer 1989). Similar problems occurred in regard to inshore fisheries when national agencies presumed that they had exclusive jurisdiction over all coastal waters (Cordell and McKean 1986; W. Cruz 1986; Dasgupta 1982; Panayoutou 1982; Pinkerton 1989a).

A CHALLENGE

An important challenge facing policy scientists is to develop theories of human organization based on realistic assessment of human capabilities and limitations in dealing with a variety of situations that initially share

some or all aspects of a tragedy of the commons. Empirically validated theories of human organization will be essential ingredients of a policy science that can inform decisions about the likely consequences of a multitude of ways of organizing human activities. Theoretical inquiry involves a search for regularities. It involves abstraction from the complexity of a field setting, followed by the positing of theoretical variables that underlie observed complexities. Specific models of a theory involve further abstraction and simplification for the purpose of still finer analysis of the logical relationships among variables in a closed system. As a theorist, and at times a modeler, I see these efforts at the core of a policy science.

One can, however, get trapped in one's own intellectual web. When years have been spent in the development of a theory with considerable power and elegance, analysts obviously will want to apply this tool to as many situations as possible. The power of a theory is exactly proportional to the diversity of situations it can explain. All theories, however, have limits. Models of a theory are limited still further because many parameters must be fixed in a model, rather than allowed to vary. Confusing a model – such as that of a perfectly competitive market – with the theory of which it is one representation can limit applicability still further.

Scientific knowledge is as much an understanding of the diversity of situations for which a theory or its models are relevant as an understanding of its limits. The conviction that all physical structures could be described in terms of a set of perfect forms – circles, squares, and triangles – limited the development of astronomy until Johannes Kepler broke the bonds of classical thought and discovered that the orbit of Mars was elliptical – a finding that Kepler himself initially considered to be no more than a pile of dung (Koestler 1959). Godwin and Shepard (1979) pointed out a decade ago that policy scientists were doing the equivalent of “Forcing Squares, Triangles and Ellipses into a Circular Paradigm” by using the commons-dilemma model without serious attention to whether or not the variables in the empirical world conformed to the theoretical model. Many theoretical and empirical findings have been reported since Godwin and Shepard's article that should have made policy scientists even more skeptical about relying on a limited set of models to analyze the diversity of situations broadly referred to as CPR problems. Unfortunately, many analysts – in academia, special-interest groups, governments, and the press – still presume that common-pool problems are all dilemmas in which the participants themselves cannot avoid producing suboptimal results, and in some cases disastrous results.

What is missing from the policy analyst's tool kit – and from the set of accepted, well-developed theories of human organization – is an ade-

quately specified theory of collective action whereby a group of principals can organize themselves voluntarily to retain the residuals of their own efforts. Examples of self-organized enterprises abound. Most law firms are obvious examples: A group of lawyers will pool their assets to purchase a library and pay for joint secretarial and research assistance. They will develop their own internal governance mechanisms and formulas for allocating costs and benefits to the partners. Most cooperatives are also examples. The cases of self-organized and self-governed CPRs that we consider in Chapter 3 are also examples. But until a theoretical explanation – based on human choice – for self-organized and self-governed enterprises is fully developed and accepted, major policy decisions will continue to be undertaken with a presumption that individuals cannot organize themselves and always need to be organized by external authorities.

Further, all organizational arrangements are subject to stress, weakness, and failure. Without an adequate theory of self-organized collective action, one cannot predict or explain when individuals will be unable to solve a common problem through self-organization alone, nor can one begin to ascertain which of many intervention strategies might be effective in helping to solve particular problems. As discussed earlier, there is a considerable difference between the presumption that a regulatory agency should be established and the presumption that a reliable court system is needed to monitor and enforce self-negotiated contracts. If the theories being used in a policy science do not include the possibility of self-organized collective action, then the importance of a court system that can be used by self-organizing groups to monitor and enforce contracts will not be recognized.<sup>24</sup>

I hope this inquiry will contribute to the development of an empirically supported theory of self-organizing and self-governing forms of collective action. What I attempt to do in this volume is to combine the strategy used by many scholars associated with the “new institutionalism” with the strategy used by biologists for conducting empirical work related to the development of a better theoretical understanding of the biological world.

As an institutionalist studying empirical phenomena, I presume that individuals try to solve problems as effectively as they can. That assumption imposes a discipline on me. Instead of presuming that some individuals are incompetent, evil, or irrational, and others are omniscient, I presume that individuals have very similar limited capabilities to reason and figure out the structure of complex environments. It is my responsibility as a scientist to ascertain what problems individuals are trying to solve and what factors help or hinder them in these efforts. When the problems that I observe involve lack of predictability, information, and trust, as well as high levels

of complexity and transactional difficulties, then my efforts to explain must take these problems overtly into account rather than assuming them away. In developing an explanation for observed behavior, I draw on a rich literature written by other scholars interested in institutions and their effects on individual incentives and behaviors in field settings.

Biologists also face the problem of studying complex processes that are poorly understood. Their scientific strategy frequently has involved identifying for empirical observation the simplest possible organism in which a process occurs in a clarified, or even exaggerated, form. The organism is not chosen because it is representative of all organisms. Rather, the organism is chosen because particular processes can be studied more effectively using this organism than using another.

My "organism" is a type of human situation. I call this situation a CPR situation and define exactly what I mean by this and other key terms in Chapter 2. In this volume, I do not include all potential CPR situations within the frame of reference. I focus entirely on small-scale CPRs, where the CPR is itself located within one country and the number of individuals affected varies from 50 to 15,000 persons who are heavily dependent on the CPR for economic returns. These CPRs are primarily inshore fisheries, smaller grazing areas, groundwater basins, irrigation systems, and communal forests. Because these are relatively small-scale situations, serious study is more likely to penetrate the surface complexity to identify underlying similarities and processes. Because the individuals involved gain a major part of their economic return from the CPRs, they are strongly motivated to try to solve common problems to enhance their own productivity over time. The effort to self-organize in these situations may be somewhat exaggerated, but that is exactly why I want to study this process in these settings. Further, when self-organization fails, I know that it is not because the collective benefits that could have been obtained were unimportant to the participants.

There are limits on the types of CPRs studied here: (1) renewable rather than nonrenewable resources, (2) situations where substantial scarcity exists, rather than abundance, and (3) situations in which the users can substantially harm one another, but not situations in which participants can produce major external harm for others. Thus, all asymmetrical pollution problems are excluded, as is any situation in which a group can form a cartel and control a sufficient part of the market to affect market price.

In the empirical studies, I present a synopsis of important CPR cases that have aided my understanding of the processes of self-organization and self-governance. These cases are in no sense a "random" sample of cases. Rather, these are cases that provide clear information about the processes

involved in (1) governing long-enduring CPRs, (2) transforming existing institutional arrangements, and (3) failing to overcome continued CPR problems. These cases can thus be viewed as a collection of the most salient raw materials with which I have worked in my effort to understand how individuals organize and govern themselves to obtain collective benefits in situations where the temptations to free-ride and to break commitments are substantial.

From an examination and analysis of these cases, I attempt to develop a series of reasoned conjectures about how it is possible that some individuals organize themselves to govern and manage CPRs and others do not. I try to identify the underlying design principles of the institutions used by those who have successfully managed their own CPRs over extended periods of time and why these may affect the incentives for participants to continue investing time and effort in the governance and management of their own CPRs. I compare the institutions used in successful and unsuccessful cases, and I try to identify the internal and external factors that can impede or enhance the capabilities of individuals to use and govern CPRs.

I hope these conjectures contribute to the development of an empirically valid theory of self-organization and self-governance for at least one well-defined universe of problematical situations. That universe contains a substantial proportion of renewable resources heavily utilized by human beings in different parts of the world. It is estimated, for example, that 90% of the world's fishermen and over half of the fish consumed each year are captured in the small-scale, inshore fisheries included within the frame of this study (Panayoutou 1982, p. 49). Further, my choice of the CPR environment for intensive study was based on a presumption that I could learn about the processes of self-organization and self-governance of relevance to a somewhat broader set of environments.

Given the similarity between many CPR problems and the problems of providing small-scale collective goods, the findings from this volume should contribute to an understanding of the factors that can enhance or detract from the capabilities of individuals to organize collective action related to providing local public goods. All efforts to organize collective action, whether by an external ruler, an entrepreneur, or a set of principals who wish to gain collective benefits, must address a common set of problems. These have to do with coping with free-riding, solving commitment problems, arranging for the supply of new institutions, and monitoring individual compliance with sets of rules. A study that focuses on how individuals avoid free-riding, achieve high levels of commitment, arrange for new institutions, and monitor conformity to a set of rules in CPR environments should contribute to an understanding of how in-



dividuals address these crucial problems in some other settings as well.

Let me now give a brief sketch of how this book is organized. In Chapter 2, I define what I mean by a CPR situation and individual choice in a CPR situation. Then I examine a series of crucial questions that any theory of collective action must answer. To conclude the chapter, I examine two assumptions that have framed prior work and discuss the alternatives that frame my analysis. The empirical part of this volume is contained in Chapters 3, 4, and 5, where I examine specific cases of long-enduring CPR institutions and resources, the origin and development of CPR institutions, and CPR failures and fragilities. At the end of each empirical chapter, I consider what can be learned from the cases in that chapter that will contribute toward the development of a better theory of self-organization related to CPR environments. In Chapter 6, I pull together the theoretical reflections contained at the ends of Chapters 3, 4, and 5 and address the implications of these conjectures for the design of self-organizing and self-governing institutions.

## 2

---

### *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

As the government steps in to limit use, should it simply allocate complete property rights to a small sub-group of the users while stripping the rest of their limited communal rights? Alternatively, should it take the resource from its present users and redistribute it? Or should it first take away and then sell back the resource to its present users? (Rolph 1983, pp. 51-2)

What I find remarkable about Rolph's observations in regard to the groundwater cases is that the only policy actor she sees as being relevant is the amorphous, fictitious, and omniscient entity called "the government." The users are viewed as turning to "the government for a program," rather than themselves struggling to find workable and equitable solutions to difficult problems within arenas provided by courts, by legislative bodies, and by local authorities.

The models that social scientists tend to use for analyzing CPR problems have the perverse effect of supporting increased centralization of political authority. First, the individuals using CPRs are viewed as if they are capable of short-term maximization, but not of long-term reflection about joint strategies to improve joint outcomes. Second, these individuals are viewed as if they are in a trap and cannot get out without some external authority imposing a solution. Third, the institutions that individuals may have established are ignored or rejected as inefficient, without examining how these institutions may help them acquire information, reduce monitoring and enforcement costs, and equitably allocate appropriation rights and provision duties. Fourth, the solutions presented for "the" government to impose are themselves based on models of idealized markets or idealized states.

We in the social sciences face as great a challenge in how to address the analysis of CPR problems as do the communities of people who struggle with ways to avoid CPR problems in their day-to-day lives. The theoretical enterprise requires social scientists to engage in model-building,<sup>20</sup> but not limit theoretical inquiry to that specific level of discourse. We need to appreciate the analytical power that can be derived from the prior intellectual efforts of important contributors such as Hobbes, Montesquieu, Hume, Smith, Madison, Hamilton, Tocqueville, and many others.<sup>21</sup> Contemporary studies in the theory of public and social choice, the economics of transactions costs, the new institutional economics, law and economics, game theory, and many related fields<sup>22</sup> are making important contributions that need to be carried forward in theoretically informed empirical inquiries in both laboratory and field settings.

1. REFLECTIONS ON THE COMMONS

1 Attributed to Merrill M. Flood and Melvin Dresher and formalized by Albert W. Tucker (R. Campbell 1985, p. 3), the game is described (Luce and Raiffa 1957, p. 95) as follows: "Two suspects are taken into custody and separated. The district attorney is certain that they are guilty of a specific crime, but he does not have adequate evidence to convict them at a trial. He points out to each prisoner that each has two alternatives: to confess to the crime the police are sure they have done, or not to confess. If they both do not confess, then the district attorney states he will book them on some very minor trumped-up charge such as petty larceny and illegal possession of a weapon, and they will both receive minor punishment; if they both confess they will be prosecuted, but he will recommend less than the most severe sentence; but if one confesses and the other does not, then the confessor will receive lenient treatment for turning state's evidence whereas the latter will get 'the book' slapped at him. In terms of years in a penitentiary, the strategic problem might be reduced" to the following:

		Prisoner 2	
Prisoner 1	Not confess	Confess	
Not confess	1 year each	10 years for prisoner 1 3 months for prisoner 2	
Confess	3 months for prisoner 1 10 years for prisoner 2	8 years each	

R. Kenneth Godwin and W. Bruce Shepard (1979), Richard Kimber (1981), Michael Taylor (1987), and others have shown that commons dilemmas are not always prisoner's dilemma (PD) games. Dawes (1973, 1975) was one of the first scholars to show the similarity of structure.

2 Hardin's model easily translates into the prisoner's dilemma structure. Many problems related to the use of common-pool resources (CPRs) do *not* easily

translate. Simple games such as "chicken" and "assurance" games are better representations of some situations (M. Taylor 1987). More complex games involving several moves and lacking dominant strategies for the players are better able to capture many of the problems involved in managing CPRs.

- 3 Hardin recommends "mutual coercion, mutually agreed upon" as a solution to the problem, but what "mutual agreement" means is ambiguous given his emphasis on the role of central regulators; see Orr and Hill (1979) for a critique.
- 4 A howling debate raged for some time, for example, regarding whether the number of participants involved was positively, negatively, or not at all related to the quantity of the good provided (Buchanan 1968; Chamberlin 1974; Frohlich and Oppenheimer 1970; McGuire 1974). Russell Hardin (1982) resolved the controversy to a large extent by pointing out that the effect of the number of contributors was largely dependent on the type of collective benefits being provided - whether or not each unit of the good was subtractable. Thus, the initial debate did not lead to clarification until implicit assumptions about the type of good involved had been made explicit.
- 5 J. A. Moore (1985, p. 483), reporting on the education project for the American Society of Zoologists.
- 6 See, for example, Berkes (1987), Berkes and Kislalioglu (1989), Berkes and Pockock (1981), A. Davis (1984), K. Martin (1979), Matthews and Phyne (1988). For strong critiques of Canadian policy, see Pinkerton (1989a,b) and Matthews (1988).
- 7 Michael Taylor (1987) analyzes the structure of Hobbes's theory to show that Hobbes proposed the creation of a Leviathan in order to avoid the equilibrium of situations structured like prisoner's dilemmas. See also Sugden (1986).
- 8 Stullman (1975, p. 13) points out that those who see "a strong central government or a strong ruler" as a solution implicitly assume that "the ruler will be a wise and ecologically aware altruist," even though these same theorists presume that the users of CPRs will be myopic, self-interested, and ecologically unaware hedonists.
- 9 The form of regulation used in Game 2 would be referred to in the resource economics literature as a "pure quota scheme." Alternative regulatory instruments that are frequently proposed are a "pure licensing scheme" and a "pure tax scheme." As Dasgupta and Heal (1979) point out, however, it is "the" government in each of these schemes that takes control of the resource and sets up the regulatory scheme. "The idea, in each case, is for the government to take charge of the common property resource and to introduce regulations aimed at the attainment of allocative efficiency" (Dasgupta and Heal 1979, p. 66). All of the models of these various schemes assume that the costs of sustaining these systems are nil (as in Game 2). Dasgupta and Heal repeatedly stress that these costs are *not* nil in field settings and may affect whether or not any of them actually will solve a commons problem or the relative efficiency of one scheme versus another. But Dasgupta and Heal's careful warnings about the importance of the relative costs of various constitutional arrangements are rarely heeded in the policy literature.
- 10 More accurately, the sum of the two types of errors must be less than 0.50, given the fixed parameters of this game, for the restructured game to have a (C, C) equilibrium. I am grateful to Franz Weissing, who suggested this par-

ticular analysis for illustrating the problem of incomplete information on the part of a central agency.

- The last two decades of work in social-choice theory also have revealed other problems that may be involved in any system where a collective choice about policy must be reached through mechanisms of collective choice. Even if complete information is available about the resources, problems associated with cycling and/or agenda control can also occur (McKelvey 1976, 1979; Riker 1980; Shepsle 1979a).
- 11 This overlooks the fact that in a dynamic setting the decision whether to manage the meadow at a sustainable level or to "mine" it rapidly will depend delicately on the discount rate used by the private owner. If the discount rate is high, the private owner will "overuse" a commons just as much as will a series of unorganized co-owners. See Clark (1977) for a clear statement of how overexploitation can occur under private property.
- 12 And it should be pointed out that the private-rights system is itself a *public* institution and is dependent on public instrumentalities for its very existence (Binger and Hoffman 1989).
- 13 My thanks again to Franz Weissing, who suggested this symmetric version of the contract-enforcement game. I had originally modeled Game 5 giving one herder the right to offer a contract, and the second herder only the right to agree or not agree to it.
- 14 See the interesting paper by Okada and Kleimt (1990), in which they model a three-player contract-enforcement game using the rule that any two (or three) persons who agree can set up their own contract to be enforced by an external agent. They conclude that three persons will not make use of a costless enforcement process, whereas two may. The article helps to illustrate how very subtle changes in conditions make important differences in results.
- 15 Williamson (1983) argues, however, that the numbers of actual unresolved PD situations in long-term business relationships have been exaggerated because economists have overlooked the contracts that businesses negotiate to change the structure of incentives related to long-term contracts.
- 16 Much of the literature in the new institutional economics tradition has stressed the importance of private orderings in the governance of long-term private contracts (Galanter 1981; Williamson 1979, 1985).
- 17 When considerable competition exists among arbitrators for the job of monitoring and enforcing, one can assume that arbiters are strongly motivated to make fair decisions. If there is no competition, then one faces the same problem in presuming fair decisions as one does in relation to a public bureau with monopoly status.
- 18 Simply iterating the PD game is not a guaranteed way out of the dilemma. The famous "folk theorem" that cooperation is a possible perfect equilibrium outcome is sometimes misrepresented as asserting that cooperation is the only equilibrium in repeated games. In addition to the "all cooperate at every iteration" equilibrium, many other equilibria are also possible. Simple repetition without enforceable agreements does not produce a clear result (Güth, Leininger, and Stephan 1990).
- 19 Private orderings frequently are mistaken for *no* order, given the absence of an official formal legislative or court decision. See Galanter (1981) for a review of the extensive literature on private orderings.

- 20 The formal game-theoretical structures and outcomes of this and three other sets of rules for allocating fishing sites are analyzed by Gardner and E. Ostrom (1990).
- 21 See, for example, the cases contained in National Research Council (1986), McCay and Acheson (1987), Fortmann and Bruce (1988), Berkes (1989), Pinkerton (1989a), Ruddle and Akimichi (1984), Coward (1980), and Uphoff (1986c). In addition to these collections, see citations in F. Martin (1989) for the extensive literature contained in books, monographs, articles, and research reports. There are also common-property institutions that break down when challenged by very rapid population growth or changes in the market value of the products harvested from the CPR. As discussed in Chapter 5, however, fragility of common-property systems is much more likely when these systems are not recognized by the formal political regimes of which they are a part.
- 22 That the "remorseless logic" was built into Hardin's assumptions, rather than being an empirical result, was pointed out by Stillion (1975, p. 14): "But the search for a solution cannot be found within the parameters of the problem. Rather, the resolution can only be found by changing one or more of the parameters of the problem, by cutting the Gordian knot rather than untying it."
- 23 See Shepsle (1979a, 1989a), Shepsle and Weingast (1987), Williamson (1979, 1985), North and Weingast (1989), and North (1981).
- 24 One can search the development literature long and hard, for example, without finding much discussion of the importance of court systems in helping individuals to organize themselves for development. The first time that I mentioned to a group of AID officials the importance of having an effective court system as an intervention strategy to achieve development, there was stunned silence in the room. One official noted that in two decades of development work she had never heard of such a recommendation being made.

## 2. AN INSTITUTIONAL APPROACH TO THE STUDY OF SELF-ORGANIZATION AND SELF-GOVERNANCE IN CPR SITUATIONS

- 1 For physical resources, this translates into the relation between usage and natural deterioration, on the one hand, and investments made in maintenance and repair, on the other hand (E. Ostrom, Schroeder, and Wynne 1990).
- 2 Let me state at this point that the term "appropriator" is used in some legal systems to denote a person who has a particular legal *claim* to withdraw resource units. In Chapter 4, for example, certain groundwater pumpers are referred to as "appropriators" in a legal sense as those whose claim to water is not based on their using water on their own land; it is based on a "first-in-time, first-in-right" basis. Other than in Chapter 4, I always use the term "appropriator" to refer to all individuals who actually withdraw or somehow utilize the resource units of a CPR, regardless of the source of their legal claim to do so. Some actual appropriators may have no legal claim (e.g., squatters). In Chapter 4, I try to indicate carefully when the term is being used as a legal term for right-holders and when it is being used in the more general sense that I have just defined.

- 3 See, for example, the debate about the effect of group size on the provision of a good, as summarized by Hardin (1982, ch. 3).
- 4 The early work on public goods was written by Bowen (1943) and P. Samuelson (1954, 1955). See the distinction between public goods and CPRs in V. Ostrom and E. Ostrom (1977a). For recent reviews of the literature on collective goods, see Cornes and Sandler (1986).
- 5 Thus, this distinction between a public good and a CPR is nontrivial. A person who contributes to the provision of a pure public good does not really care who else uses it, or when and where, so long as enough other individuals share the cost of provision. A person who contributes to the provisions of a CPR cares a great deal about how many others use it, and when and where, even if the others all contribute to its provision.
- 6 See Radnitzky (1987) and Stroebe and Frey (1980) for a similar approach.
- 7 The concept of average yield may not be meaningful in regard to all biological resources (Schlager 1989).
- 8 See Berkes (1989) for a description of the strategies temporarily adopted by the Cree Indians near Hudson's Bay when an influx of nonnative trappers threatened the beaver stock. Legislation passed in 1930 legally recognized American-Indian communal and family territories, allowing the Cree to anticipate long-term survival for a key CPR. Since 1930, the Cree have successfully managed the beaver stock using the rules that had been tested by centuries of trial and error prior to the arrival of Europeans on the North American continent.
- 9 See Coleman (1987c, 1990) and Opp (1979, 1982, 1986) for extended analyses of the relationship between norms and rational-choice theory.
- 10 Sequential, contingent, and frequency-dependent behaviors may, of course, occur in unorganized settings. Some very interesting game-theoretical results have relied on the potentialities of individuals to rely on such forms of coordinated activities alone, without changing the underlying structures (Kreps et al. 1982; Levhari and Mirman 1980; Schelling 1978).
- 11 An important aspect of organizing a legislative process, for example, is the set of rules that specify the steps through which a bill must be processed before it becomes a law.
- 12 Changing the positive and negative inducements is the type of intervention that has received the most attention in the social sciences.
- 13 Alchian and Demsetz (1972) overtly posit that the key problem underlying reliance on a firm to organize behavior, rather than reliance on the independent actions of buyers and sellers in a market institution, is that of an interdependent production function. When the production function is interdependent, the marginal contribution of any one owner of an input factor will depend on the level of other inputs. One cannot tell from an examination of outputs alone how much any individual contributed. Rewarding inputs requires high levels of monitoring that are not needed when factors are combined additively. Williamson (1975), drawing inspiration from Coase (1937), argues that this is only one source of the need for organized firms. Williamson relies more on the costs of transacting in a market in which all act independently, as contrasted with a firm in which individuals agree ex ante to coordinate their activities ex post.
- 14 This stylized version does not do full justice to the extensive work on the theory of the firm, and I certainly do not recommend any policy prescriptions