

Effective Governance and the Political Economy of Coordination
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Effective Governance and the political economy of coordination

Dan Greenwood

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Introduction

1.1 The need for governance evaluation

The longstanding question of the kind of institutions required to ensure the suitable scope and operation of markets is of fundamental importance to society and wide open for ongoing exploration. The question arises in relation to a range of contemporary socio-economic challenges facing policy makers. How far to attempt to shape distributive outcomes, given the tendency for markets to create inequalities that are often profound and can become entrenched over generations? How to climate change and various forms of ecological degradation, the costs of which have very often been external to our processes of market exchange? How to achieve effective public service delivery in areas such as health, education and social care? Political debates about overall policy goals in the face of these challenges are frequently highly charged, being shaped by contrasting normative, often ideologically driven, perspectives. Within these debates also lie disagreements about how to establish the most *effective* means for attaining goals, where the question of the role of markets is usually of integral importance. Understandings of policy effectiveness are inextricably connected with, and hence shape, the contours of normative and ideologically driven policy controversies. Within these discussions of policy problems lie questions about which of a range of policy strategies and instruments are most suitable for shaping socio-economic and ecological outcomes (Howlett and Rayner, 2007). The complexity of many policy challenges is also widely emphasised in contemporary literatures on politics and policy (Room, 2011; Head and Alford, 2015; Torfing and Ansell, 2017), which means that policy decisions in one sector will tend to have ramifications elsewhere. In the context of this complexity, broader questions arise about the suitability of the institutional, or 'governance,' arrangements through which policies for shaping markets are formulated and delivered across different scales and sectors. This brings into focus the vital importance of the question of the effectiveness of governance processes, often emphasised as taking the form of 'networks' (Marcussen and Torfing, 2006).

This book proposes a conceptual and methodological approach for evaluating governance and policy making in terms of shaping market outcomes. In other words, the focus is upon evaluating governance in terms of 'coordinative effectiveness.' This approach, it is argued, is required as the basis of a research agenda concerned with the balanced assessment of the full range of institutional possibilities for contemporary governance. This introductory chapter further sets out the need and potential for such a research agenda, within the context of extant research on governance in political science and related fields. As is then explained, the proposed approach draws from heterodox traditions in political economy. Firstly though, there is a need to define some terms and introduce key research fields. *Policy* is a broad term, generally understood to refer to a course of purposive decisions and actions (or inactions) taken by government in response to problems (Hugh Heclo, 1972, pp. 84–85; Hogwood and Gunn, 1984, pp. 19–24; Hill and Hupe, 2014, p. 5). Hence uses of the word range from general fields of governmental activity to specific decisions, from future orientated proposals to their final legislative authorisation (Hogwood and Gunn, 1984, pp. 13–19). The field of policy analysis which became established in academia in the post war years (Hofferbert, 1990), has long had a 'problem orientation,' as it was famously put by Harold Lasswell in his founding early contributions. Openly rejecting the study of phenomena for its own sake (DeLeon, 2006, p. 40)¹, Lasswell stressed the need for policy analysis to have a focus on problem solving, reflecting closely upon the value goals that motivate policy (Lerner and Lasswell, 1951, pp. 9–10). Questions of *effectiveness* have always been of central importance within this albeit rather eclectic field, described by William Dunn (2012) as a "problem-solving discipline." Effectiveness can be defined as ensuring that outcomes reflect the range of goals sought by policymakers, balancing considerations of costs and benefits (Meltzer and Schwartz, 2019, p. 117). Assessing effectiveness thus requires a focus on the choices of means for attaining sought ends.

¹ See, for example Lasswell (1956).

The term 'governance' became prominent in political science and related fields over three decades ago, often being used to refer to a shift having taken place from traditional, hierarchical *government* to more distributed processes of *governance* involving a plurality of actors from the public, private and third sector across multiple scales (Rhodes, 1997; Stoker, 1998; Kooiman, 2003; Bellamy and Palumbo, 2016). Various extensive literatures have since emerged, deploying the concept with reference to different institutional contexts and spheres of decision-making through which policymaking takes place. There are a range of approaches to analysing governance. Much of the literature in political science and public administration on the 'governance turn' is conceptual and explanatory in focus, offering varying understandings of the role of the state. This role is often suggested by governance theorists to involve 'steering' the plurality of different actors involved (Stoker, 1998; van Kersbergen and van Waarden, 2004). Indeed, the term governance can be understood to mean 'to pilot or steer' (Kjær, 2004), reflecting the Greek origins of the term which can be traced to the Greek verb *kubernân*. Others have emphasised the significant continued role for the hierarchical structures of central government as being of continued importance within contemporary governance.

As one would expect, questions about *effectiveness*, given their significance, are often raised in governance literatures, even if only implicitly. Some important, even defining, early contributions emphasise how pluralistic governance networks provide a functional response to complexity and dynamic change (e.g. Kooiman, 1993; Mayntz, 1993). These contributions raise the question of effectiveness by implicitly viewing governance as a process concerned with obtaining certain goals. However, much scholarship on governance in political science has tended not to directly address and explore such questions of effectiveness, which would require consideration of outcomes. While, as Jacob Torfing and Eva Sørensen (2014) note, much early work on network governance was conceptual and explanatory in focus,² a more recent 'second wave' of 'network governance' research recognises the need to further develop frameworks for evaluating governance processes (Torfing *et al.*, 2012, pp. 167–8). However, the question of what the most suitable conceptual and

² Torfing and Sørensen refer to this as the 'first generation' of network governance research (Torfing and Sørensen, 2014, p. 339).

methodological approaches might be for addressing evaluative questions about governance, especially with regard to outcomes, remains very much open.

The concept of governance can be taken to be based upon an implicit acceptance that markets, in some form, are pivotal to achieving efficiency and innovation in complex, modern economies. Nonetheless, there is a need to address more closely the evaluative question of the most suitable role of the private sector and market exchange in society. As Jonathan Davies and Ioannis Chorianopoulos (2018) comment in relation to literatures on network governance, there is a tendency within political science, public administration and related fields to sidestep consideration of the specificity of different governance models in political economic terms. Harold Lasswell's famous comment that politics is about "who gets what, when and how" can be extended to apply to the fundamentally important question of the role of markets in society (Robbins, 2017). There are a number of broad types of practice through which states can and do shape the scope and operation of markets, all of which can be understood in terms of 'governance'. States can initiate and deliver the provision of public goods and services, develop fiscal and regulatory strategies, informational campaigns, establish or reform legislative frameworks. A range of policy strategies and tools can be adopted for engaging in these contrasting practices of governance (Howlett and Rayner, 2007).

The concept of governance is widely used and understood to incorporate recognition of the social significance of public goods that cannot be delivered through the market alone (Frederickson, 2012, p. 233). A small minority of authors advocate a market liberal 'private governance,' or 'anarchism' where there is no state (Stringham, 2015). On this vision, the functions that states typically perform, such as establishing regulatory rules and providing public goods such as defence and transport systems, would be fulfilled entirely by private sector actors. Such 'private governance' can be viewed as one end of a broad spectrum of institutional possibilities, from an entirely market driven system, to models in which the central, hierarchical state continues to occupy a significant role in shaping the scope and operation of markets. Most of these models of political economy have at some stage been considered in terms of

'governance'. The only exception perhaps is the non-market, planned economy where the resources of society are fully allocated by the centralised decisions of political or state actors. The purpose of this book is to provide a conceptual approach for assessing policy processes for shaping market outcomes within the context of this range of possible institutional configurations.

1.2 Heterodox political economy

The approach proposed here to evaluating governance effectiveness in such political economic terms shares with Lasswell a commitment to inter-disciplinary, qualitative research (Lasswell, 1970, p. 11). Since Lasswell's contributions, policy analysis has become, as Fleishman puts it, "by definition, heterodox, eclectic, integrative, and inclusive" (Fleishman, 1990) and as Dunn puts it "a process of multidisciplinary inquiry" (Dunn, 2012)³. Joel Fleishman contrasts policy analysis with political science and economics, which, he says, "define boundaries around themselves" as distinct disciplines (Fleishman, 1990). In addressing the need for a qualitative, interdisciplinary approach to exploring the inter-relationship between institutional arrangements, policy and markets, this book explores the significant potential to move beyond established approaches in political science and public administration. An approach is proposed that draws from the heterodox contributions of the Austrian and Bloomington Schools in political economy. Sharing conceptual underpinnings to a significant extent (Aligica, Boettke and Tarko, 2019), both traditions explore, albeit in different ways, the complexity of policy challenges in pluralistic societies and evaluative questions about institutional effectiveness in ways that can enrich established political science approaches.

Governance research in political science and public administration has tended to overlook the potential to draw from the Austrian and Bloomington Schools. Austrians in these traditions have offered distinctive, normative political-economic proposals.

³ It should be noted that, although Lasswell recognised the need for interdisciplinary analysis of policy problems, given their complexity (Fischer, 2007, pp. 97–98), his approach did have positivist leanings. He saw the role of social sciences as establishing objective grounds for policy solutions to pre-defined problems, through scientific methods (Turnbull, 2008).

Scholarship exploring them has tended to be closely associated with the normative perspective of classical liberalism, especially a scepticism about attempts of centralised states at national level to shape social outcomes (Pennington, 2013, 2017; Aligica, Boettke and Tarko, 2019). Emphasis is placed on the potential offered by decentralised processes through which institutions and property rights might be formed and adapt. Two leading members of the Austrian School in particular, Ludwig von Mises and Friedrich Hayek, are a focus for this book. Both are especially well known as advocates of a classical liberal model, in which the state has a relatively minimal role, understood primarily in terms of establishing private property rights as the underpinning for markets as the primary driver for allocating resources. Under such classical liberalism, the state would provide only a strictly delimited range of public goods, including relatively limited welfare support for the most in need. The two leading figures of the Bloomington School Elinor and Vincent Ostrom do not explicitly advocate any such model of state-market interrelationships. The Ostroms do however emphasise the significant potential for economic actors to address resource allocation problems through decentralised institutional processes involving the establishment and adjustment of property rights. These conclusions have resonance with the classical liberal perspective (Pennington, 2013; Aligica, Boettke and Tarko, 2019). Conclusions reached by the Bloomington School and perhaps especially the normative proposals of leading Austrian economists might be considered to prejudice the conclusions reached by any deployment of their conceptual approach (Greenwood, 2011). This book strongly challenges such a presumption. There is, it is held, an important need to distinguish the rich and insightful conceptual approaches offered by these heterodox traditions from the specific conclusions they reach in their critiques of centralised, state-led decision making. Both traditions, it is argued, can be drawn upon to provide a novel approach and agenda for the balanced assessment of a broad range of forms of governance. The approach offered by this book, while drawing from the Austrian and Bloomington traditions, thus remains open-ended concerning the conclusions that might be reached about the most effective forms of governance across a range of contexts.

Hence, the purpose here is not to necessarily concur with any specific institutional proposals that emerge from authors within the Austrian and Bloomington schools.

Nor even are these heterodox schools taken as providing in full the kind of analytical approach required for reaching such evaluative conclusions in the context of complex, cross-cutting challenges. There is, as the book explores, significant potential to further develop the conceptual approaches they offer. The point is that there is a need to incorporate the insights and conceptualisation of questions offered by these traditions into contemporary governance evaluation across a range of contexts. Doing so, it is argued, can complement established approaches in political science and related fields. Hence, the primary subject of attention here is less upon *what* specific classical liberal proposals may flow from the work of Austrian and Bloomington School authors that are discussed but upon *how* and *why* the classical liberal proposals of these heterodox scholars were formulated.

The important conceptual advances of the Austrian and Bloomington Schools, it is argued here, highlight avenues with rich potential for further empirically orientated investigation. Although the Ostroms applied their approach to an extensive range of international case studies, there remains much scope for further exploration of the evaluative questions they raise in a wide range of contemporary governance contexts. Here, an approach is proposed for more fully realising this potential. This evaluative approach is independent of the classical liberal commitments adopted by so many of the recent commentators who have deployed and further advanced these heterodox approaches. Contemporary work in these traditions, it is highlighted here, does ultimately recognise the contingencies involved in governance effectiveness in different geographical and policy areas. Rather than offering institutional blueprints, a framework for context sensitive evaluation of various forms of governance is provided (Boettke and Leeson, 2004; Pennington, 2013, 2017; Aligica, 2017; Haeffele and van der Horst, 2018; Aligica, Boettke and Tarko, 2019). However, the implications of these contingencies for assessing the conclusions of classical liberal scholarship, it is held here, are under-explored. There is a very much open need to assess a broad range of institutional possibilities, including those incorporating a stronger role for the central state than is countenanced by classical liberals. Indeed, it is suggested, there is potential for challenging the conclusions of classical liberalism in terms of the very same heterodox conceptual approach that classical liberals have deployed.

In exploring these heterodox contributions, the central focus of this book is upon their insights into challenges of *coordination*. The concept of coordination, as is further explored, is primarily concerned with the selection of means for attaining sought goals. While such a focus is of integral importance to governance evaluation, it is not suggested here that the political debates and decisions that shape governance and policy processes can be understood solely in terms of problems of coordination. As was highlighted by Charles Lindblom, whose work includes a close focus on coordination (Greenwood, 2016), processes of choosing between means are inextricably connected with contested questions about choices of ends (Lindblom, 1959). Given the inherently normative character of such political contestation, processes of coordination cannot be viewed in value-neutral instrumentalist terms. Still, by the same token, coordinative challenges necessarily shape these political debates. A focus on the coordination problems involved in policy delivery is vital to fully appraising these debates.

The exploration in this book of heterodox understandings of coordination is organised in terms of the distinction formulated by Jack Knight and James Johnson (2011) between 'first order' and 'second order' coordination. The first order task concerns the substantive shaping of social interactions (Knight and Johnson, 2011, p. 25). First order coordination might be achieved by market or non-market processes, hence there is a need for comparison of the allocative outcomes yielded by these two types of process. Of course, such questions arise all the time in contemporary policy debates about the role of markets in a range of policy areas including education, health, social services, urban planning and environmental management. The extensive contributions of the Austrian School, Mises and Hayek in particular, it is argued, provide a vital analytical focus for exploration of this question. The Austrians are shown to offer especially rich insights into what is referred to as the fundamental 'epistemological' dimension of coordination challenges, attention to which is argued to be of vital significance for governance evaluation. The second order task concerns the institutional arrangements and processes through which first order questions are addressed. In other words, second

order coordination refers to how the overall balance and inter-relationship between market and non-market processes in first order terms is settled upon over time. Second order coordination can thus be considered a 'meta-level' concept, less directly concerned with the substantive shaping of allocative outcomes but rather with the institutional processes through which first order coordination tasks are addressed. The contributions of the Bloomington School can be viewed as complementing those of Austrian political economy, while attending more closely to this second order question, highlighting in particular the need for close attention to questions of the geographical scale at which forms of governance are established. In addition to the Ostroms, a range of other classical liberal contributions, are drawn upon to formulate questions of the relative strengths and weaknesses of different institutional forms for achieving second order coordination. The approach to evaluating governance proposed by this book is shown to be innovative in bringing together insights from these heterodox traditions in a way that remains entirely open to a full range of evaluative conclusions about institutional effectiveness that might either support or challenge classical liberal proposals.

Mises, Hayek and Classical Liberalism

The work of Mises and Hayek especially might seem an unlikely source for achieving a dispassionate assessment of the full spectrum of forms of governance. Their proposed market -orientated, classical liberal model of political economy contrasts markedly with contemporary understandings of governance which emphasise institutional heterogeneity. Mises and Hayek are often referred to as key figures in the emergence of 'free market,' or 'neoliberal' agendas that were established from the late 1970s onwards in which the U.S. Reagan presidency and U.K. Thatcher government had a pivotal role internationally⁴. The writings of the two Austrians certainly reached a wide audience. Starting with their contributions to well-known debates with socialist advocates of a non-market planned economy, Mises and Hayek's case for markets became hugely influential during the twentieth century. Hayek was a key figure in the establishment of the internationally influential Mont

⁴ Hayek's work was a source of inspiration for the emergence of Thatcherism in the UK from the late 1970s (Evans, 2004).

Pelerin society, a group of intellectuals that became a transatlantic network, committed to promoting systems of private property and individual liberty. The Mont Pelerin Society, albeit most directly through the high profile figure of Chicago School economist Milton Friedman (Burgin, 2012), influenced the so-called Washington Consensus, in which the IMF and World Bank adopted policies widely referred to as 'Neoliberal'⁵. The stringency of the Austrian critique of socialist planning and hierarchical state interventions, as well as the force of their case for markets was indeed reflected in later 'neoliberal' agendas. It should be noted though that Hayek distanced himself from the term 'neoliberal,' presenting his ideas as 'classical' liberal.⁶

Mises and Hayek's starting point is a strong commitment to individual liberty and freedom to exercise individual choice through the process of market exchange. They propose that the state should establish a general legislative framework that allows individuals to exercise such liberty in pursuit of their goals and preferences. Given the pluralism of individual motives across society, governments, as Hayek puts it, should refrain from intervening in the economy to promote particular outcomes. This is evident in his account of markets as a 'catallaxy,' enabling individuals to pursue their own ends (Hayek, 1960, pp. 109–111). This approach of proposing fundamental guiding principles for establishing the suitable role of the state has been interpreted by some commentators as treating individual liberty as a deontological value (Gray, 1986). However, in the debates that have ensued, others have suggested that Hayek offers a consequentialist, even utilitarian, case for liberty (Gray, 1986; Kukathas, 1989; Kley, 1994; Plant, 2010; Papaioannou, 2012). It is beyond the scope here to fully resolve this interpretational question. Here, we simply note that, although in places Hayek suggests that liberty is of inherent value (Plant,

⁵ Early usage of the term 'neoliberal' in the 1950s and 60s referred to a more social form of liberalism which differed from Hayek's classical liberalism. During the 1970s, the term came to be used by critics of the market fundamentalism of Pinochet's reforms in Chile which involved significant curtailment to political liberties. These two different usages both contrasted with Hayek's classical liberalism which would seem to explain why he distanced himself from the label (Boas and Gans-Morse, 2009).

⁶ The practice of extending the scope of markets under contemporary neoliberalism has involved some significant state-driven, hierarchical elements (Harvey, 2005; Gürcan and Peker, 2015). These state interventions may have been of a kind that Hayek himself would have cautioned against. Such a role for the state can certainly be juxtaposed against the account in Hayek's later work, discussed here further in Chapter 6, of the institutional framework for markets evolving in a decentralised way. However, as Harvey suggests (Harvey, 2005, p. 152) and as discussed further in Chapter 6, these elements of Neoliberalism in practice may reflect some tensions in classical liberal theory.

2010), his primary emphasis is upon the benefits of markets in consequentialist terms, as is that of Mises. Attempts by policy makers and politicians to substantially shape market outcomes, Hayek contends, will not only infringe individual liberty but also fail to reach the goals being sought. It is argued here that this latter consequentialist line of argument yields insights that can provide a basis for and indeed inspire research on governance effectiveness. Hayek's perspective has pertinence whether one subscribes to his classical liberal conclusions or not.

The Austrians' consequentialist case for markets is initiated by Mises and further developed by Hayek during the socialist calculation debate (Vaughn, 1980; Lavoie, 1985; Horwitz, 1996; Boettke, 2000). Taken together, their contributions emphasise the indispensability of markets as a decentralised process for coordinating the use of resources across society. Markets, they highlight, capture dispersed, complex information concerning individual preferences and their mutual implications for ensuring efficiency. There is a fundamental, knowledge-related, or epistemological, dimension to this conceptualisation of coordination in the context of complexity, especially as articulated by Hayek (Boettke, 1993, pp. 52–53; Horwitz, 1996; Hodgson, 1998). The prices generated by real world markets, by enabling the encapsulation and discovery of knowledge, serve to guide producers and consumers in their economic decisions, fostering the coordination that is required to attain a generally acceptable standard of living across society. In the absence of markets, Mises and Hayek contend, attempts to plan the allocation of resources across a complex economy, would inevitably be plagued by inefficiency, resulting in a huge drop in living standards⁷.

⁷ For Mises, attempts at socialism would result in a society in which the provision of consumption goods is "diminished" (Mises, 1920, p. 130). Hayek similarly suggests that there would be a "decline in the general wealth" (Hayek, 1935). The overall tone of Mises is especially strong. In the early 1920s, he describes attempts to establish socialism and state interventionism as having left society on "the brink of a precipice," threatening civilisation (Mises 1936, p.24). As Steele puts it, the general tone of Mises' thesis suggests that "when an attempt is made to implement world-wide socialism, the collapse will be so great that the prerequisites of large-scale society will be unsustainable and society will fragment into uncoordinated bands" (Steele, 1992). This argument, similar to that offered somewhat more explicitly by Mises in his 1920 article, is evident in the opening chapters of Hayek's *The Constitution of Liberty*. He draws a connection between individual liberty and "civilisation" of the mid-twentieth century, which he suggests was based upon the generation of knowledge concerning the discovery across society of new means for achieving our ends. In Chapter 3, he discusses how the development of such knowledge has resulted in an increase in living standards in the West.

This epistemologically orientated case for markets has vital implications for evaluating mixed models of political economy that might combine state and market decision making in a variety of ways (Ikeda, 1997; Aligica, Boettke and Tarko, 2019), including those evident in contemporary forms of governance that have been subject of such extensive discussions in political science. To provide a fully convincing case for their classical liberal proposals, it was necessary for the Austrians to not only demonstrate the fundamental problems of a non-market planned economy but to also challenge the effectiveness of the state-led policy interventions that are integral to such mixed models. The scope of the initially dualistic debate about markets and socialist planning in which Mises and Hayek were involved shifted after the Second World War to give greater attention to this question of ‘mixed economies’. Social democrats at that time advocated various kinds of mixed model in which the market would still retain an allocative role, though with state planning and interventions, as well as the welfare state, having a substantive role in shaping outcomes. Hayek further developed the Austrian case for classical liberalism through a critique of such proposals. In this regard, a key juncture was the publication in 1944 of Hayek’s famous book *The Road to Serfdom*, where he develops a critique of the Keynesian mixed, welfare statist models advocated by the Labour Party in Britain and other European social democratic parties. The models, he stresses, involve inherent problems concerning how to acquire the knowledge that would be needed to effectively achieve their goals. In this context, for Hayek, political leaders will inevitably have to take arbitrary decisions, which can eventually undermine democracy and constitute a ‘road to serfdom.’ Numerous critics have since challenged the apparent implication of this famous argument of Hayek, that social democracy constitutes a ‘slippery slope’ towards the undermining of democracy (Tomlinson, 1990; McInnes, 1998; Alves and Meadowcroft, 2013). However, aside from this question of how we might interpret his conclusions, Hayek’s critique shows how the Austrian conception of coordination challenges and their fundamental epistemological dimension are pertinent to evaluating policymaking in mixed models of political economy. It is especially in this respect, as this book explores, that Hayek’s work has both ongoing and distinctive relevance for assessing contemporary governance.

The work of these Austrian economists, situated in the early-mid twentieth century, does not fully anticipate the myriad ways in which public and private sector can be combined. Nonetheless, the concepts and insights that the Austrians offer and the questions they raise about the inter-relationship between state and market are vitally pertinent for evaluating contemporary governance and can complement and enrich established approaches in political science and policy studies. Since the collapse of the Soviet Union in 1991, the significant questions and challenges posed by Hayek's work, especially in highlighting the fundamentally important epistemological dimension of coordination challenges in contemporary society, have been recognised by several leading theorists on the left (Griffiths, 2014). This concerns how decision makers acquire the knowledge they need to effectively translate their goals into practice. While the significance of such epistemological challenges is recognised in governance and policy research, the motivational dimension of governance challenges tends to be the primary focus. This book highlights the vital insights and lines of enquiry yielded by the distinctive Austrian treatment of this epistemological dimension and its relationship to the questions of motivation in institutional analysis. The result is an interdisciplinary, outcome-orientated approach that enables more direct engagement with evaluative questions about governance and policy than we find in contemporary political science literatures.

The Bloomington School

Questions and insights offered by the Bloomington School can further complement such an epistemologically orientated approach. The Bloomington School of public choice was led by the pioneering work of Elinor and Vincent Ostrom, whose work is closely concerned with 'governance,' understood to involve institutional arrangements for shaping markets that tend to refrain from reliance upon the hierarchical state⁸. Their contributions explore how institutional effectiveness varies across geographical scales and social contexts, raising vital questions about the appropriate scales of governance for addressing complex problems. Compared with the Austrians, Bloomington School political economy is not articulated with quite

⁸ For example, Vincent Ostrom commented that "We need not think of 'government' or 'governance' as something provided by states alone" (Aligica, 2003).

such an explicit focus upon the role of the market. The focus of the Ostroms is upon 'public economies,' thus concerning how to analyse a diverse range of institutional arrangements for the provision of public goods. Many of their case studies centred upon local or metropolitan scale governance. Their approach to exploring 'institutional analysis and development' through their 'IAD model' involved detailed micro level analysis of individual behaviour and motivations in a range of contexts, mostly concerning the governance of ecosystem 'common pool resources' and public services provision (Polski and Ostrom, 2017). The normative proposals that stem from their work tend to concern questions of the most suitable *scales* of governance. They are drawn upon by this book to engage with the 'second order' question of the most suitable institutional processes and scales of governance for fostering first order coordination.

More strongly than the Austrians, Bloomington scholarship exhibits sensitivity to the limitations and weaknesses of markets as well as their potential strengths. Drawing from Michael Polanyi, the Ostroms use the term 'polycentricity' to conceptualise multi-centred systems of rules and policy-making that shape societies and markets (Ostrom, Tiebout and Warren, 1961; McGinnis, 1999). Starting from classical liberal premises that are shared with the Austrians, the Ostroms question the capacity of centralised states to shape social outcomes. As further explained in Chapter 2, the Ostroms' contributions were part of a broader shift in institutional analysis in both political science and political economy. Hence, aside from the specific conclusions they reach about the relative effectiveness of different institutional arrangements, the Ostroms' contributions are also of significance in terms of how they are reached and their contribution to heterodoxy.

1.3 Outline of the book

To explore the need and potential for an approach to governance evaluation that draws from these heterodox traditions, the book is structured as follows. Chapter 2 sets the context for the exploration of heterodox economics in subsequent chapters. Firstly, the varying degrees to which established approaches in political science engage with evaluative questions about governance are considered. As is explained, positivism was an important early influence in the early years of political science and

economics as academic disciplines, which led to a tendency to refrain from directly engaging with evaluative questions. Since then, significant shifts have taken place in both fields. Evaluative questions concerning governance effectiveness are often raised and addressed in political science research and this is reflected in some recent lines of inquiry in governance research. In economics, heterodox traditions provide cause for questioning strictly positivist approaches. Here the need is recognised to assess economic outcomes in terms of a plurality of values. The heterodox political economy of the Austrian and Bloomington School highlights the need for a balanced assessment of the key functions and apparent limitations of market processes. It is suggested that such a political economy focus is largely lacking in the political science and public administration literature on governance. In this respect, heterodox economics, rather than institutionalist analysis in political science, offers the closest engagement with the challenge of governance evaluation.

Chapters 3-5 address the question of how to balance market and non-market, political processes in fostering coordination in first order terms, with the Austrian School, and especially Hayek, being central. Chapter 3 explores how the Austrian development of the case for markets as a process of fostering coordination can inform assessment of governance and policy effectiveness. 'Coordination,' when understood in Austrian terms, is a concept closely related to 'effectiveness' that, it is argued, can serve as the basis for an outcome-orientated evaluation of governance in the face of complex policy challenges. The Austrian approach is shown to complement the perspective of heterodox traditions that emerged later, including those which were critical of the market-orientated liberalism of Mises and Hayek. Starting from a recognition of the incommensurability of the values and goals that motivate individuals across society, the Austrians and Hayek emphasise the challenge of achieving coordination across society within this context. This shared conceptual ground can serve as the basis for comparative assessment of a full range of market and non-market processes that might shape social outcomes. Hence, there is potential to detach the Hayekian conception of the challenge of coordination from Hayek's own pro-market commitments. A distinctive feature of Hayek's contribution is to highlight the fundamentally important epistemological function of markets in enabling the encapsulation and discovery of knowledge. With their

recognition of the significance and complexities and uncertainties, innovation and knowledge discovery, the Austrian treatment of this challenge of coordination also anticipates some key conceptual tenets of contemporary theorisations of network governance.

This understanding of coordination through markets, with its fundamental epistemological dimension, can serve as the basis for evaluating policy and the wider context of governance. Here, Hayek's work that followed his contributions to the initial debate about the feasibility of a socialist planned economy are of key significance. Starting with *The Road to Serfdom* and further developed in *The Constitution of Liberty*, this later work extends his critique of non-market socialism to social democratic proposals for a mixed model of political economy, which combined a role for markets in production and consumer goods with extensive state-led planning, intervention and welfare provision.⁹ In the face of complexity, the kind of interventions attempted by governments in such mixed models, Hayek stresses, will inevitably have impacts that are arbitrary in terms of the plurality of values held by individuals across society. Hayek's thesis that such interventions undermine the foundations of liberal society might seem exaggerated, as some critics have argued. However, his thesis highlights the potential for negative, unintended impacts of state interventions, which should be considered by states attempting to address problems of markets. As set out in Chapter 4, insights into the epistemological challenges involved in policy delivery resonate in philosophical discussions concerning key objectives for contemporary governance, such as equality of opportunity, social justice and environmental sustainability, even though they are not the primary focus of these debates. These debates suggest that there is potential for defining these goals as 'pattern shaping,' hence taking them to give a broad indication of a sought outcome, while allowing for flexibility in how they are translated into practice. This view of the normative grounds for evaluating governance is rather akin to the concept of 'steering' that is prominent in political science literatures on governance.

⁹ While Hayek's critique of mixed models is more prominent, Mises also expresses a similarly critical view. He suggests that the fundamental problems for non-market socialist planning highlighted by his calculation argument also apply to governmental interventions in markets. For example, he writes "If... private property is necessary, it needs no other justification for existing, and there is no reason why, by partially abolishing it, its social effectiveness should be weakened" (Mises, 1936, p. 268).

As further explored in subsequent chapters, such an approach to policy evaluation is of integral importance to the wider aim of evaluating governance.

In Chapter 5, it is argued that the conception of coordination offered by the Austrians can be detached from the context of the market through which it is developed and used to understand governance and policy processes beyond the market. Hence, still with a primary focus on the first order task, this chapter explores the potential for non-market, including political, processes to address challenges of coordination. As is explained, the Austrian conception of coordination, developed with reference to markets, can potentially be applied beyond the market to understand the functions of democratic politics and other non-market processes. This approach entails a focus upon the potential for pattern shaping goals to be established and translated into practice. Democratic, party-political and policy processes, it is argued, drawing from a range of authors both within and beyond the Austrian tradition, can be viewed as fostering coordination. Analogously to the market process, innovation and entrepreneurship in the face of uncertainty and complexity are pivotal to fostering such non-market coordination. Forms of organisation both within the firm and beyond the private sector that are non-market in form, can also have an important role in fostering coordination, including the development and use of tacit knowledge, with important implications for how we might envisage governance. In highlighting the potential for an Austrian understanding of coordination beyond the market, the chapter draws from a range of contributions in political theory and political economy. These writings are currently rather disparate. Taken together though, they suggest the need for visions of policy delivery and governance which explicitly acknowledge the possibility of coordination beyond as well as through the market.

Chapter 6 turns to the second order task and the questions raised by Knight and Johnson concerning the institutional arrangements for establishing or settling upon appropriate forms and scales of governance within which markets operate. How far, it is asked, does second order coordination require a democratic political process, as Knight and Johnson argue? The potential for coordination through democratic politics discussed in Chapter 5 offers support for the Knight and Johnson thesis. However, as this chapter reviews, heterodox contributions prompt questions about

the Knight and Johnson case for second order coordination through democratic politics. Classical liberal proposals from these heterodox traditions emphasise the potential of decentralised, evolutionary forms of institutional adaptation and selection, even competition, as drivers of second order coordination. Following the Ostroms, this potential is sometimes articulated in terms of the concept of 'self-governance' (Ostrom, 2010; Aligică, 2018). Ultimately, the important insights offered by classical liberals, it is argued, serve to highlight the contingency and context dependency of the question of the second order effectiveness of any given set of institutions. Indeed, in conclusion, the need for empirical, outcome orientated research is emphasised, exploring the contingencies involved in fostering both first and second order coordination.

Building upon the conceptualisation of coordination challenges for governance and policymaking set out in Chapters 3-6, Chapters 7 and 8 propose and apply a distinctive methodological approach for evaluating the 'coordinative effectiveness' of governance arrangements. This, it is explained in Chapter 7, is distinct from, though can complement, established, process-orientated approaches in political science and public administration to analysing governance and policy making in terms of coordination and related concepts. The central line of inquiry follows from the conceptualisation of first and second order coordination challenges set out in the previous chapters. Hence, the focus is on how stakeholders address the 'economic' dimensions of choice, understood in a broad, non-instrumentalist sense, that shape complex policy challenges. The focus is on analysing the understandings, values and motivations that shape policy actors' priorities and decision-making. As is explained, the approach considers a range of stakeholders' perspectives towards both the choices facing policymakers and the anticipated and actual outcomes resulting from the decisions taken. The aim is explicitly one of openness to a spectrum of possible conclusions including those which might run counter to those reached by classical liberals.

Application of the approach for assessing the coordinative effectiveness of governance is illustrated through presentation in Chapter 8 of two UK-focused case studies in the fields of environmental regulation and health services. Both cases are based upon extensive, detailed analysis of a broad range of stakeholder perspectives, through both desk-based research and interviewing. The main purpose

of the two cases is to illustrate the type of findings yielded by the proposed evaluative approach. The policy challenges concerned are complex and the case studies are shown to yield insights into their significant epistemological dimension and the close intertwining of knowledge and incentives problems in the practice of governance and policymaking. Indeed, the epistemological focus of the studies is shown to complement and enrich the kind of insights into the policy process that are achieved by standard, process-orientated approaches. In the cases concerned, the findings do suggest a need for governance to have a more substantive role in shaping social and market outcomes than would typically be countenanced by classical liberals. Hence the case studies offer a counterbalance to the conclusions, generally supportive of classical liberalism, reached by previous empirically orientated evaluative analyses of policy from the Austrian and Bloomington traditions. This further highlights the vital need, set out by this book, for an evaluative research agenda that draws from these traditions, while maintaining conceptual and methodological balance and openness towards the various possible conclusions that such an agenda might yield.

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