ECONOMIC AND CORPORATE GOVERNANCE

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Introduction

"Governance" has emerged in the social sciences and public policies only in the last two decades, although, according to Webster's Collegiate Dictionary, the word is rooted in Middle English. There, however, it was identified with government, i.e. with state authorities. Nevertheless, it was hardly used until recently.

With its re-invention, governance is no longer confined to public government but it now reflects renewed interest in diversity and comparative structures, processes and performance of allocation mechanisms, (economic) systems, or organisational forms through which economic agents interact and get coordinated. The shift is indicative of the fact that the ideal, competitive "market", largely viewed as the optimal system and measuring-rod by mainstream economics and economic policies, is far from being the problem-solving device in a complex world and, therefore, has to be complemented, (re-) embedded or substituted by competing forms of coordination. Hierarchy (bureaucracy, private and public), network forms of cooperation and their hybrid forms are at stake. "Governance" now pertains to diverse forms of coordination of agents beyond the ideal "market".

The issue of "allocation" and distribution of resources, information, power, rights and duties, as well as income and wealth, has become more open with the recognition that forms of coordination can be quite diverse. Moreover, each coordination mechanism may have a number of sub-versions. The problem of economic coordination and performance, thus, can no longer be fruitfully dealt with in the axiomatic world of the "pure" logic of (general) "market" equilibrium models.

The new relevance of governance expresses the fact that we face complex economic conditions that call for more adequate forms of coordination beyond (1) the "market", (2) the "black box" of the (isolated) firm and (3) a largely non-reflexive state. In a genuinely complex world, only forms of coordination which can deal with this increased complexity are capable of maintaining and improving economic performance. Starting from a simple "baseline" for any coordination mechanism, i.e. structure + governance = performance, the economic problem, basically, is to work through a potentially great number of combinations of structural forms of these mechanisms, procedural rules, and resulting levels of economic efficacy.

Here, the rules that shape the processes which may lead to coordination, given a certain structure, and in order to generate high economic performance, are at the core of governance. In other words, governance is about "governing", "policing" and "managing" problem-solving processes through certain rules and principles. "The challenge is less that of building capacity to compete, but capacity to evolve in order to compete" (Amin, Hausner 1997, 28).

"Governance" has experienced proliferating, and increasingly vague meanings. At present, a general definition is not at hand. Any debate on economic development, from LDCs to local communities, from "governance" of the global system to the corporation, from "transitional" economies to "structural reforms" of the welfare state, is increasingly anchored around "governance", where its vague content is prone to be used or misused in many ways. Against this background, it seems reasonable to anchor its meaning to some basic theoretical framework. So we will try to reduce the "complexity" of its use and to focus on a basic explanation.

Definitions

The Commission on Global Governance, in a 1995 report, defined governance as "the sum of the many ways (…) [agents] manage their common affairs. It

is a continuing process (…) It includes formal (…) as well as informal arrangements (…)" (Commission on Global Governance 1995, 3). The understanding here seems to be that governance reflects (1) the existence of many agents involved who have (2) common problems to be solved, which in turn requires (3) continuing processes rather than a single "rational" calculus, and which lead to the (4) emergence of informal institutional arrangements together with the deliberate installation of formal institutions. In 1997, the United Nations Development Program (UNDP) took a step further by connecting governance with the (continuing) interaction among diverse agents (public, private, commercial and societal) which will lead to a form of lasting cooperation, i.e., that was termed a network (United Nations Development Program 1997). Schmitter has defined governance as "a method/mechanism for dealing with a broad range of problems/conflicts in which actors regularly arrive at mutually (..) binding decisions by (…) cooperating in the implementation of these decisions" (Schmitter 2002, 53; also, e.g., Prakash, Hart 1999, 2).

Governance seems to make sense only if understood in the framework of a genuinely socio-economic and societal conception where more than one agent are involved who are directly interdependent with each other, i.e., beyond arm's length relations defined by "markets", and recurrently interacting, in this way entering open-ended processes that may result in collectively learned and self-sustaining coordination, through institutionalised cooperation, in order to solve problems that are common, but nevertheless involve incentive structures that render individual interests mixed, i.e. both partly converging and conflicting.

We can easily agree, therefore, that a definition of "governance as the art of complexity" (Jessop 1997, 101), is in contrast to ideal "markets" and hierarchies. Governance can be defined as the set of principles and rules that determine the interaction processes (i.e., exchange, collective learning) among individual agents in specific allocation mechanisms (i.e., hierarchy, network, "market", and hybrids), with specific structures, in order to obtain high and increasing levels of performance (i.e., production, innovation). We will not delve deeper into specific variants and applications of governance such as "global", "local" and "multilevel" governance (for overviews of such applications, s., e.g., Pierre 2000; Wolf 2002). In the following we will stick to a more basic view.

Economic "Mainstream" Governance Agenda

The objective of neoclassical approaches, and "neo-liberal" political postulates, is the avoidance of the full implications of complexity. This applies to the "general market" theory, i.e., GET, to Hayek, and to Coase's understanding of man-nature interactions, as well as man-to-man bargaining in his theory of social costs. This avoidance saves isolated individualist rationality and, thus, the ideal "market" form of coordination. It even downplays the conception of transaction costs, which can be infinitely high in situations involving strong uncertainty.

From the "neo-liberal" policy perspective, governance is primarily an instrument to increase "market efficiency". A major application is public administration efficiency, which rationalizes the reduction of welfare state activity. The mainstream's political programme, therefore, is about ideal, unrestricted property rights, privatisation of any commons, and about generating, by de-regulation, a maximum of liberties in the exercise of such property rights.

Hidden Governance of the (Ideal) "Market Economy"

Ideal "markets" can not cope with complexity originating in direct interdependencies among individual agents, as they are systems of isolated individual agents who have only man-good relationships. These relations are determined, in the general equilibrium of a "market economy", through a price vector that depends on the aggregated supply and demand decisions of all isolated sellers and buyers in the different "markets". Agents are indirectly interdependent in that the equilibrium price vector depends on the all other agents taken together. However, as no decentralised, direct man-to-man interactions (i.e., exchange bargaining) can be accommodated in the GET, mere existence of a general equilibrium of the "market economy" is feasible only by accepting the fiction that any decentralised exchange cannot be allowed before the equilibrium price vector is determined. This, in turn, implies that the "market economy" is governed by a central, authoritarian entity, i.e., the auctioneer. The hidden governance of the general equilibrium and optimality conception, with its specific structure, thus, turns out to pervert its initial governance postulates of individualism, perfect liberties and rights into the most centralised and dictatorial governance comprehensible (for a critical discussion of the neoclassical research programme, s., e.g., Mirowski 1989; Potts 2000; Wellhoener 2002). The "market economy" cannot be comprehended in any sense as an institution-free construct in a pure physical-mechanical analogy. Its governance implications have drastically reduced its applicability and scientific attractiveness and have lead to different approaches within the framework of "free markets".

Hayekian Evolutionary "Market"

The Hayekian approach relaxes the informational assumptions for the individual agent and, in this way, permits roles for uncertainty, search and adaptation,

which, in turn, comprise an evolutionary approach to the "market" mechanism. However, other basic assumptions remain unchanged so that the consideration of complexity, and of different allocation mechanisms, is avoided. In the Hayekian world, "market" prices still contain and diffuse enough information to enable individual agents to effectively search, behave and adapt as isolated and individualistically rational units. Direct interdependencies are avoided, and the decentralised "market" remains the optimal mechanism, in some "evolutionary" sense, though. Under informational restriction, individuals may search and learn, even from each other, but they behave in their isolated, optimal way.

Jessop is right to qualify this as an a priori reduction of complexity to save the "market" ideal: "Such incrementalism is sub-optimal from a governance viewpoint because it is based on short-run, localised, ad hoc responses" (Jessop 1997, 101). In contrast, mutual direct interdependencies and related "socially complex orders defy both centralized and spontaneous forms of governance" (Amin, Hausner 1997, 27), specifically, they defy isolated individualist forms of spontaneous self-governance that ignore the full implications of complexity.

Transaction Cost Economics: the "Market" and Corporate Governance

The transaction cost analysis of governance takes place in the framework of the theory of the firm, that is, between the twin forms of "market" versus "hierarchy" (Zingales 1997). Economising transaction costs and their influential conditions form the basis of the attempt to delimit these two basic governance regimes against each other (Williamson 1996, 93ff.). The "organisational theory" branch of transaction cost economics pertains to the relative efficiencies of the two mechanisms. The corporate governance branch, being closer to real-world problems, proceeds from informational limits of some kind (namely bounded rationality) and from the incompleteness of contracts. This gives way to opportunism and moral hazard in principal-agent relations. The latter apply to owner/shareholder-management relations, being extended to capital market issues, and to management-employee relations, including labour market issues.

Governance then is defined as "(serving) to mitigate hazards related directly to bounded rationality and opportunism" (Williamson 1996, 12; s. also Zingales 1997, 500f.). According to Williamson, contracting gives rise to "bilateral dependency" (not the other way round!), out of a "large numbers-supply condition" (in the "market" as well as in the commons). Mutual dependency, in turn, specifically when combined with asymmetric information, gives rise to the problem of moral hazard (Williamson 1996, 13ff.). Governance, then, involves the set of mechanisms that shape the ex-post bargaining over the distribution of the economic effects generated in the course of an incomplete contract (also Zingales 1997).

Utilising the theoretical conceptions and ideas of the transaction as the basic unit of analysis, limited rationality and asymmetric information, incomplete property and contracts, institutions, mutual dependency (beyond the price relation), (strong) uncertainty, adaptation and evolution, Williamson's organisational approach to governance contrasts with mainstream analysis and aligns itself with institutional(ist) and evolutionary approaches (Williamson 1996, 3ff., 93).

Nevertheless, with respect to spontaneous, self-governing arrangements, Williamson favours a spontaneous competitive "market" which presumably produces arrangements that minimize opportunism/moral hazard in and between companies/employees. This approach clearly supports a neoclassical "'nearly' hands-off" political view (Williamson 1996, 145ff.).

Institutional(ist) Governance Agenda

In the Original Institutional Economics, governance is viewed as a participatory, inclusive and discursive form of management to cope with complex economic problems that have a genuinely socio-economic, i.e. societal, character.

In the Twenties and Thirties, Commons developed an elaborate system of governance for a society that is characterised by ubiquitous conflicts of interest over the bundles of rights and duties connected with transactions. Physical exchange of a "good" consists of a variety of transactions involving different rights and duties, liberties and exposures. The allocation of rights and duties to different agents constitutes direct interdependencies beyond price-determined and arm's length "market" relations. Consequently, it is social institutions which determine these allocations, bargaining processes, relative prices, and the distribution of income, wealth and power. The institutions may be changed in manifold ways to better serve future negotiations of interest conflicts. Resulting prices and distributions must be transparent and reasonable for the different social groups. Thus, the structure of values that may minimise the level of conflict has the character of a collective good. These, in turn, can be generated only through all agents taking their common future into account (futurity). Effective collective action, not at least public action, is needed to shape the institutional conditions for the generation of an overall reasonable structure of values.

This is the idea behind the negotiated economy concept, which is connected to an institutional reform policy agenda (Commons 1934/1990). It is a participative policy conception. At its basis are transactions involving direct man-to-man relations.

As institutions determine the allocation of rights and duties, they are restrictions as well as enablers of individual action. They restrict, and free, individual action. Without institutions, action could easily be blocked, misled, reduced or distracted in a complex, turbulent and highly uncertain environment.

Obviously, governance is a non-trivial issue that requires "processuality", futurity, institutionalisation and continuous institutional reform in order to solve complex collective problems with mixed interests, through societal coordination and coherence. So, for instance, the institutionalist analysis of corporate governance that was established by Berle and Means in the early thirties involved the relative power of organisation both within and outside of contracts, and inside and outside of hierarchy (for example, vis-à-vis households and the general public), and its distributional effects (Berle, Means 1932).

Other institutional economists like Polanyi (1957) and Boulding (1970) have dealt with the real-world diversity of coordination mechanisms and their hybrids that realise relative efficacies in evolving processes. The processes involve collective learning of forms of coordination in complex environments, where the common future is important to the agents and where the emergence of trust, commitment and institutional behaviour are supportive.

This institutional analysis of governance is far from assuming any kind of "optimality", "efficiency" or "teleology" of interactions and processes. Rather, it is about ubiquitous potential blockage of action and of forms of "wrong", "outmoded", or "petrified" forms of coordination where institutions that once helped coordinating agents have become "sclerotic" and rigid (institutional hysteresis), prematurely age, and coordinated behaviours become locked-in (also, e.g., Arthur et al. 1985; David 1985; Schoenig 2001, 313-330; Javary 2001). Whether and in which ways this may happen is analysed using path dependence. Blocked or locked-in processes call for continuing examination of institutionalised governance to renew collective action capacity in order to leave an "old" path and a locked-in situation when their efficacy has decreased to non-acceptable levels.

Real World Governance Problems Today: Interdependence, Complexity, Uncertainty, and Networks

The economy is a socio-economy in the sense that its agents are directly interdependent in manifold ways. Particularly, the modern economy has assumed a more de-regulated, net-based, and clustered character through continuing intensification of direct interdependencies, where the outcome for A directly depends on the behaviour of B, and vice versa.

Direct interdependencies are genuinely complex, and complex situations, in turn, cause non-trivial coordination problems. They involve direct interactions of agents, which can neither be effectively conceptualised nor performed by the ideal "market". Prices do not account for direct interdependencies and, therefore, are incapable of generating and diffusing information and the formation of future expectations required to effectively coordinate agents. They cannot stimulate the collective action capacity required in complex situations.

"Neo-liberal" globalisation is a political and administrative project, regulated by highly selective strategies of de-regulation and empowerment of capital and corporate concerns (e.g., Elsner 2003). The global layer of exclusive activities has become dis-embedded from the social institutions that used to exist in the nation-states and in national, regional, and local cultures. The "neo-liberal" construction of the global space has deliberately reduced collective action and social control capacities. It has, thus, become a system of social fragmentation (in addition to spatial fragmentation) and can be called a system in "institutional disequilibrium" (Padoan 2001). Being "under-socialized", it does not provide enough "structure". This is true even for the most powerful individual corporate agents. Hence, the corporate economy, being insufficiently co-ordinated, faces increased uncertainty and turbulence. As a result, instability and transaction costs (especially, information costs) have increased. Consequently, powerful corporate organizations find it necessary to increase their power even more to keep control over their socio-economic environment and, thus, the global system has increasingly become a power-based, and re-distributive, mechanism, generating ubiquitous negative external effects on third parties, the social commons and the natural environment, rather than a mechanism for comprehensive, sustainable and deliberate innovation and capacity enhancement. Increased uncertainty, instability and turbulence generally have assumed levels that are counterproductive for problem-solving.

Note that we are discussing true uncertainty which is "strategic" in the sense that, with ever more fragmentation, the individual agent can neither know at the outset nor calculate with a certain probability, the strategic choices of other agents (e.g., Dequech 2001, 919f.).

Globalisation has also increased the momentum of vertical disintegration in value-added chains and the redefinition of the boundaries of corporate organization in an effort to reduce labour costs and to control an enhanced labour force world-wide. Value-added chains not only have been spatially fragmented by selecting labour and suppliers at optimal locations around the globe, they have also become functionally fragmented.

Functional fragmentation involves securing technological compatibility and complementarity in the chain in an effort to create coordination and quasi-reintegration of production and innovation (on a fragmented basis). Again, it has involved

individualistic, power-led solutions on a hierarchical basis, e.g., the transnational corporation and its centralized hub&spoke supplier networks.

In addition, the "new" economy is characterised by net-based technologies. As such, no decision can be made without a technical dimension, and no technically influenced decision can be made without technical complementarity and compatibility with others. In this way, each decision, piece of information, and innovation possesses positive or negative externalities. Every decision is relevant for effective communication and interaction among agents.

This is but one aspect of the fact that information today increasingly displays the features of a collective good. Information has always been characterized by non-rivalry in consumption. Regardless of the fact that generating and exploiting asymmetric information is a dominant and "rational" opportunistic strategy in an individualist environment, joint use (joint consumption) of information is welfare-enhancing and increasingly becomes a basic necessity for social coordination. It is well known in economic theory that the total societal benefit of information, as with collective goods in general, increases with the number of its users. Basic information, thus, is systemic - and it is generated collectively from billions of acts of behaviour and learning. Against this background, production and innovation have become systemic as well. Digital microelectronic technologies have added another characteristic to the collective-good property of information: the (re-)production of most information takes place at near-to-zero marginal costs. Further, microelectronic information has virtually become subject to non-exclusion, rendering information a full-fledged collective good (e.g., Gallaway, Kinnear 2002).

Finally, information and technological knowledge are increasingly user- and context-specific and tacit, and must be developed and learned in a dense, common interactive process.

With accelerating innovation and competing (initially, non-standardized) technologies, uncertain, reluctant and passive, or even completely blocked agents have become an ubiquitous latent feature of the economy (e.g., Tirole 1995, chp. 10.6). The introduction of color TV, video-systems, high-definition TV and computer operating systems are examples from the recent industrial history that demonstrate the ubiquity of latent collective blockages and impeded dissemination of innovation.

It has become more difficult under these circumstances to collect profit in the conventionally commercial way, i.e. through "markets". The recent political and administrative efforts to secure and increase profits through ever more protected “intellectual property rights”, in turn, endanger a continued process of rapid generation and diffusion of new information, knowledge, and cultural material. This agrees with the artificial "construction of scarcity" of information which could easily be provided as a public good and largely be available for free. The enforced power structure, thus, "is increasingly at odds with technological reality" (Gallaway, Kinnear 2002, 446).

Besides huge global private power-led (“hub&spoke”) networks, international private-public bureaucracies have been established to assist the development of technological standard-setting, interface definitions and transfer protocols in order to prevent potential blockages from becoming effective (e.g., Weitzel, Westarp 2002).

All production, exchange, and innovation increasingly include the dimension of a collective good or a social dilemma. Here, individual agents have to actively cooperate (i.e., to give some sacrifice of immediate self-interest) to generate an effective outcome, but at the same time have individualistic incentives not to do so, and even to gain an extra one-shot profit by exploiting others, if these contribute to the collective outcome. This is a complex situation where coordination is non-trivial.

The corporate economy, including SMEs, has developed new spatial forms of organisation such as local clustering in order to establish solutions to compensate for the coordination failures of the markets. Here, agents may enter into processes of collective learning of correlated behaviour that coordinates them in a non-"market" way and helps them solve the collective dilemma problems in the background. And clusters may be an effective basis for a more consciously developed kind of coordination, i.e. networks, normally established by some subset of firms in the cluster, and on the basis of the trust that has emerged (e.g., Elsner 2000, 413).

Self-Governing Network Coordination in a Complex Environment?

However, can “progressive”, i.e., problem-solving networks spontaneously evolve, and be self-sustaining and self-governing?

Real worlds of collective-goods and social dilemmas are complex with their multiple relations among agents (e.g., Delorme 2001). As every decision/action even in any real "market" has to contribute to some collective framework good, i.e., the (re-)production of the environment of social rules (e.g., Callon 1998; MacEwan 2000, chp. 4), this also reflects the fact that the economy inevitably is a socio-economy and that production, exchange and innovation have a collective and dilemma-prone dimension. Effective action becomes feasible only by way of complexity reduction. Decreasing the number of potential multiple relations down to some effective coordinated way of behaviour is feasible only through collectively learned institutions of cooperation.

There are many approaches and models to formalize cultural-evolutionary processes which employ mechanisms of "selection", "crossing",

"mutation" and individual adaptation through learning (from one's own experience, through imitation, etc.). They formally show that cultural evolution in dilemma-prone settings may result in the emergence of an institution of cooperation, where reciprocal cooperation may be self-sustaining, specifically through the built-in sanction mechanism (e.g., Axelrod 1984; Hirshleifer 1997; Dixit 2001; s. Elsner 2004, for an overview of the argument).

The behaviour which results habitually excludes or restricts the strive for short-run maximization, i.e., a social institution of cooperation emerges in spite of continuing incentives to defect. Individuals, then, can reasonably be expected to act effectively, i.e., to manage the now reduced level of uncertainty. In this way, they become capable and inclined to innovate, that is, to develop more comprehensive and continuous solutions through future-bound collective-action capacity.

"Network Failure", and Network Lifecycles

Networks can be viewed as real-world forms of such emergent cooperation. Progressive networks are structures and governance regimes that solve problems and are innovative in a wide sense, but do not generate and protect invidious power.

However, the reality of power-centered de-regulated "market" economies imply that networks become dominated by powerful corporate agents. Being private solutions, unregulated networks, in the reality of power-based economies, display tendencies towards exclusion and collusion, and, thus, also may hamper comprehensive and sustainable innovation (see for instance, the recent attack of the Microsoft-Intel "Trusted Computing Platform Alliance" (TCPA) on open source networks, namely Linux; s., e.g., Anderson 2003). And even highly innovative networks may petrify and become locked-in forms of coordination in the course of their life-cycle. Therefore, to make an operational distinction between progressive and regressive networks one may also refer to a set of properties that define the position of the corporate agents affected in the life cycle of their products, technologies, industries and regions.

"Good" Network Governance

Progressive networks have inspired, with their structures and governance regimes, contentions about the possibility of self-governing cooperation.

One form of progressive network is what we call the Linux paradigm. It is based upon a radical open source strategy. Its structure is largely characterized by decentralization, where hubs do not exert much power, but, rather, assume the role of organizers and moderators (e.g., Cohendet et al. 2001; McKelvey 2001; Raymond 2001). This form of network is largely public and highly communicative, nearly anarchic, and is one of the biggest success stories of the "new" economy. Linux, itself, possesses unprecedented and sustainable high speed and high quality of innovation, exceeding that of the system built by one of the most powerful hierarchical structures, Microsoft, i.e., the MS-DOS/Windows operating system.

Interestingly, a core finding of "hackerdom" is that structures of low power and flat hierarchy and governance regimes, intended to open information flows and non-exclusion, are network properties that favour cultures of effective learning of cooperation and, subsequently, enhance the speed and sustainability of innovation in a broad sense (also, e.g., Foray 1998). If the "network equation" holds

structure + governance = performance

(Elsner 2004) then we may conclude that the principles developed and applied in this case may be highly relevant as a model of sustainingly innovative networks.

"Good governance" principles and rules aim to promote effective collective action and to avoid the restrictive/collusive character of networks, which makes them vulnerable to sharp external changes and premature aging. These principles include informational openness, guaranteed and continuous entry and exchange with the environment, parallel and even "redundant" processes among network participants, the exertion of the voice mechanism irrespective of differences of size and power of participants, learned reciprocity, and others (e.g., de Bruijn, ten Heuvelhof 1995, 168ff.; Maggioni 1997, 238-49; Jessop 1997, 103ff.; Elsner 2004). Sustainably effective networks of this kind could well be ineffective in the short-run, especially, for powerful individual agents.

The Case for Hybrid Governance

A problem that cannot be solved through private rationality in an individualistic culture is the continuing existence of the basic social dilemma. This is reflected by the fact that the spontaneous evolutionary process may be highly time-consuming and fragile. The more individualistic the culture is, i.e., the stronger the dilemma-structure, the greater the incentive will be to defect, and, especially, to deviate even from an established institution. Both lab experiments and model simulations have illustrated that hundreds, even thousands, of interactions may be necessary to establish cooperation and that, even then, cooperation may be unstable and occasionally collapse because of small external changes or internal dynamics. The "cooperation vs. competition dilemma" (Jessop) remains.

Further, economies of scale and sunk costs of investments in collective learning, building trust and institutionalised cooperation may lead members to close the network in order to maintain high effectiveness at the expense of future flexibility. Therefore, basic dilemmas about "openness vs.

closure" or "effectiveness vs. flexibility" also exist (e.g., Jessop 1997, 118ff.).

Finally, there is no guarantee that the collective goods are confined to the limits of these networks, even those that are well-governed. The most effective networks generate considerable positive external effects not only among their members but also beyond their limits. And the collective goods relevant here normally are functionally, personally and/or spatially more far-reaching than the boundaries of any private-agents networks.

It seems necessary, therefore, to introduce a more comprehensive and deliberate supra-individual(istic) rationality into spontaneous evolutionary processes, and even into "well-governed" networks. Specifically, a public-policy framework is needed either to initiate (i.e., de-block, un-lock) or to accelerate and stabilize the institutionalisation of cooperation. Generally speaking, the societal character of any production and innovation requires an integration even of "well-governed" networks in a larger, i.e., public environment (e.g., Maggioni 1997; Elsner 2000, 435ff.). Social problem-solving can be promoted by gradually weakening the social dilemma structure and, in this way, supports a more cooperative behaviour. This allows for a leaner policy approach which already proved to be useful in fields of industrial policy and regional and local development. Relatively small rewards for cooperation may be effective here and define a 'leaner' policy. And it could be demonstrated that with gradual relative changes in the incentive structure or in futurity, cooperation is more likely to emerge and increase speed and stability (also Elsner 2001).

A leaner policy approach constitutes an increasingly established form of governance which of course needs to be managed carefully. Its design includes the definition of aims and the use of (pecuniary and non-pecuniary) promises and rewards, threats and punishments (de Bruijn, ten Heuvelhof 1995, 173ff.; Elsner 2001, 76).

Additionally one may increase the "discount parameter" by increasing the probability for the agents to meet again. As Axelrod (1984) already has pointed out, the public agent can increase the importance of future interaction, for instance, through more frequent meetings, dividing projects into several sub-interactions, connecting different projects, etc. so that the same agents will meet in different arenas and become more aware of their interdependence and common future.

Thus, a leaner policy becomes feasible because the cooperation/network mechanism permits a clearer allocation of the relative interests, or benefits, as well as of the relative responsibilities, or costs, of the private and public agents. The fuzzy "public-private partnerships" in fashion today, in contrast, lack clear designation of responsibility and run the risk of "privatising politics" or "statization" (Jessop) of the private, though collective, sphere.

Obviously, there is opportunity for the public agent to deliberately shape the conditions of private interaction to promote collective learning and institutionalisation of cooperation, that is, to shape the private governance. Thus, this policy approach works by affecting the interaction process of the private agents (e.g., Amin, Hausner 1997, 18ff.). Operational policy conceptions have already appeared for this approach (e.g., Lindberg, Campbell 1991; Mizrahi 1998; Yu 2000; Elsner 2001).

Meritorisation

We assume that the potential outcome of the private interaction process can be related to a policy objective in such a way that it is subject to social valuation or "meritorisation". The private agents are assumed to be capable of collective production of a "good" that has a potential public value in addition to its private values. The merit good concept been developed into one that is substantiated on the basis of "community preferences" that have evolved from processes of interaction outside the "market" (Musgrave 1987, 452). This implies an evaluation of the "market" outcome using a form of social valuation which is broader than, independent of, and superior to the "market".

For our purpose we will define a merit good as one which was originally a collective good but can basically be produced by the spontaneous interaction process described (i.e., a "private good"). This is evaluated with respect to its quantity, quality, relative price, and the probability, speed and stability of providing it through private interaction.

Specifically, the conception of the negotiated economy has been developed to emphasize the "market" must be embedded in a wider socio-political process (above and, e.g., Commons 1934/1990, 612ff., 649ff.; Ramstad 1991; Nielsen 1992; Jessop 1997, 113ff.). We will assume here the existence of an economic policy agent who is legitimised through a process of participatory democratic decision-making. In this decision-making process, public policy objectives can be created which provide the criteria for "meritorisation".

Other branches of hybrid governance approaches view the state as an endogenous factor in a "second-order public good" game-theoretic argument, hence extending the Folk Theorem approach (e.g., Hirshleifer 1997, 500f.).

Potentials and Limitations of Governance Regimes – An Outlook

A "hybrid" system of coordination, a "New New Deal" for enhanced collective-action competence, with well-defined "good" (self-)governance of well-structured cooperative network-arrangements together with a new public policy approach has been outlined here. The policy approach relates specific policy measures to the private interaction system. It

also permits the combination of strengths, rather than weaknesses, through a clear-cut allocation of responsibilities and benefits of private and public agents. As such, it is specified through a general interactive and institutionally oriented governance.

The conception of governance is relatively unexplored vis-à-vis the traditional political, state and democracy model that is constituted by national sovereignty, free, equal and secret elections, majority rules etc. Can any governance system provide similar formal legitimacy and collective responsibility compared to that model? Is governance a "political" conception in this sense? Can it become one? And should it become one? Presently, it seems to be capable of preparing, rather than substituting, official political decisions.

The conception of "interactive policy" clearly distinguishes between private coordination regimes, namely, "well-governed" networks, and the official public realm and state policy arena, however participative and transparently negotiated.

Nevertheless, "governance" has become a central notion of any socio-economics. It has the potential to deal with complex relations among different and diverse agents who may act, each at different portions, in different environments and allocation mechanisms, including "markets".

Governance suggests the vision of "re-embedding" (e.g., Ruggie 1997), i.e., the understanding that "thin" and lean coordination forms can, in a complex world, not be "pure" ones. Inclusive and participatory coordination forms "would help to improve the chance of a sustainable outcome by associating all the relevant actors (…)" (Gbikpi, Grote 2002, 18). Its potential, thus, includes high requirements, and high legitimacy, both on its input and output sides.

Finally, governance points to "mid-sized" platforms, such as "mid-size" groups, sectors, clusters, networks and regions, as the arenas where complex interactions and coordination problems can be solved and (coordinated) action capacity be gained. It thus also is a cornerstone in what is to become a new, interactive, meso-economics (e.g., Elsner 2000, 440ff.).

See Also: Accountability; bureaucracy; civil and common law; collective action; complexity theory and governance; constitution; corporate governance 1&2; corporatism; disembedded economy; economics and law; environmental governance: global/local/national &regional; financial system regulation and deregulation; game theory analysis of governance; global and regional alliances, agreements and protocols; global and regional systems of production and distribution; global justice and solidarity movements; globalisation; governance 2; governance: global/local/ national; industrial relations in a global age; institutionalist policies; journals of governance and policy; justice, morality and ethics; legal foundations of capitalism; modes of regulation; moral hazard and adverse selection; multiculturalism; neoliberalism and globalisation: opposition; non-profit enterprise governance; organisational capital; policy ineffectiveness proposition; policy networks; property rights laws and institutions; public goods, externalities and governance; public goods: global; social and cultural capital; state and market; theories of the state; uncertainty and risk; urban and regional policy issues; welfare state; worker control and participation; workplace agreements.

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