

# The Political Economy of the European Union: An Exploration of EU Institutions and Governance from the Perspective of Polycentrism

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## Abstract

The analytical framework of polycentrism—extensively developed by Elinor and Vincent Ostrom—is one of the most prominent theoretical approaches in political economy. According to this theory, social systems with multiple layers of decision-making and a mix of shared and individual responsibilities among subunits often have advantages in the provision of public goods and other aspects of governance. This chapter explores the extent to which the European Union (EU) can be described, categorized, and analyzed as a polycentric governance system. The EU consists of a large number of individual states that retain a certain degree of autonomy, yet operate under an overarching institutional superstructure with a common set of rules. The superstructure itself is characterized by a high degree of decentralization in decision-making authority. Furthermore, many responsibilities for the provision of public goods and services remain in the hands of regional and local governments. Therefore, the division of power within the EU largely mirrors the ideals of polycentricity. In addition to an analysis of the EU’s institutional framework, I investigate polycentric governance “in action” by analyzing (1) the sovereign debt crisis and (2) the international refugee crisis. When facing these major political-economic challenges, the EU’s response consisted of a mix of centralized and decentralized initiatives. As we would expect from a polycentric system of governance, only the *combination* of policies initiated at both levels successfully addressed the consequences of the crises. Finally, I consider theoretical and practical aspects of “leaving a polycentric system,” with a focus on Brexit.

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# Introduction

Elinor and Vincent Ostrom have made many significant contributions to political economy, including Elinor’s famous work on the “tragedy of the commons” (Ostrom, 1990; Ostrom, 1999).<sup>1</sup> However, this chapter focuses on another key aspect of their work: the theory of *polycentric governance* (Ostrom, 1972; Ostrom, 2009; Ostrom, 2010*a*; Ostrom, 2010*b*; Ostrom, Tiebout and Warren, 1961). I apply this framework to the European Union (EU)—a case that has received relatively little attention from theorists of polycentrism. Accordingly, the key research question is: To what extent does Ostromian polycentrism allow us to appropriately describe, categorize, and analyze the EU’s institutions and governance?

Originally, polycentrism was developed to evaluate the provision of public goods in metropolitan areas, that is, conglomerates of towns and cities that are economically and socially interdependent (Ostrom, Tiebout and Warren, 1961; McGinnis, 1999; Aligica and Tarko, 2012, 240–244). However, its insights may go far beyond the local and regional levels. Indeed, considering the significant horizontal and vertical decentralization of decision-making authority in the EU, its structures have several features that echo polycentric principles. Consisting of a large number of member states, political power is distributed in several ways.<sup>2</sup> First, the authority of central EU institutions is dispersed among multiple entities, many of which represent the interests of lower-level governmental units (“subunits”). Second, the provision of public goods and services takes place at different administrative levels—including central EU institutions as well as national, regional, and local governments.

Additionally, responsibilities are often overlapping between political entities (Benz, 2015; Trondal, 2010; Wessels, 2003). Similarly, significant externalities and spillover effects from political, social, and economic developments create incentives for formal and informal regulatory collaboration across borders, including in areas in which supranational solutions are not feasible (Boin, Ekengren and Rhinard, 2013, chap. 4; Eberlein and Grande, 2005). Finally, despite frequent claims that the EU is an overly centralized system, many critical decisions are taken in a deliberative process (Puetter, 2012; Puetter, 2014), in which individual member states (and sometimes even regional governments) have joint influence on the outcome. The European Council—a hybrid institution that connects subunits and centralized structures—exemplifies the principles of collaboration, coordination, and deliberation across multiple levels.

This chapter discusses the above claims in detail and illustrates them with reference to two specific cases. It is structured as follows. First, to establish a background against which we can compare polycentrism, I provide an overview of the literature on EU governance. Then, I introduce the Ostromian theory of polycentric governance. Based on this framework, the EU's institutional structures are evaluated. In my discussion, I argue that polycentrism is an appropriate analytical tool for describing European institutions. In the following sections, I analyze two specific cases of governance "in action," namely the EU's responses to (1) the European sovereign debt crisis 2010–2012 and (2) the refugee crisis 2015–2016. I chose these major political-economic challenges because in comparable, extreme situations, decision-making power in governance systems is often centralized. Accordingly, one of my goals is to assess if polycentric governance was maintained. Indeed, I find that, in both crises, it was only a mix of decentralized *and* centralized policy initiatives that ultimately provided effective responses to the unfolding situation, highlighting the polycentric character of EU governance. Finally, I discuss both theoretical and practical aspects of "leaving a polycentric system," referring primarily to Brexit. Similar to metropolitan areas, significant social and economic interdependence between subunits in polycentric systems makes leaving very costly for any one of them.

## **The Literature on European Governance and the Utility of a Polycentric Perspective**

Several important theories of EU governance exist. [Hooghe and Marks'](#) theory of multi-level governance already closely resemble aspects of the Ostromian perspective ([Hooghe and Marks, 2001](#); [Marks, Hooghe and Blank, 1996](#)). They analyze the EU's complex, multi-tiered system of decision making and the influence of subnational units within it. From their perspective, considering significant economic and social interdependence across units, such a multitiered decision-making structure becomes necessary to effectively address political challenges. [Hooghe and Marks](#) also generally illustrate how political authority is reallocated away from national governments to supranational entities and to regional/local governments.<sup>3</sup> Thus, they are concerned with the reallocation of political power and the reasons behind these developments. Interestingly, while the earlier works of [Hooghe and Marks](#)

on European integration do not include specific references to the insights of the Ostroms, some articles they published later on the general issue of multilevel governance directly take the Ostromian account of polycentrism into consideration (Hooghe and Marks, 2003). This circumstance highlights the potential utility of polycentrism with respect to the EU.

Other contributions on EU governance that have parallels to the framework of polycentric governance include the following: an edited volume by Sabel and Zeitlin (2010) on “experimentalist governance” (the recursive development, comparison, and sharing of best practices in policymaking and implementation);<sup>4</sup> an article by Börzel (2010) on the coexistence of multiple distinct forms of governance in the EU, ranging from market organization to hierarchical structures; a book by Héritier, Knill and Mingers (2011) on the bidirectional influence of states and the EU in the policymaking process; a collection of essays on innovative multilevel governance in different substantive areas (Tömmel and Verdun, 2009); and contributions by Gerstenberg and Sabel (2002) as well as Cohen and Sabel (1997) that develop the idea of “directly-deliberative polyarchy”—with a focus on local learning, self-governance, and policy experimentation in the EU.<sup>5</sup> However, none of these contributions is built on the Ostromian framework of polycentrism. This is also true for Von Bogdandy (2000) and Jachtenfuchs (1995), although they use the term “polycentric” when describing the EU.<sup>6</sup>

In light of the vast existing literature on EU governance and integration, which additional benefits could a perspective based on polycentric theory provide? First and foremost, given the framework’s known utility in terms of analyzing governance structures in metropolitan areas, the perspective of polycentrism may provide a highly useful background against which to evaluate the EU’s effectiveness at delivering public goods, managing internal administrative relations, and responding to major political-economic challenges. The theory is particularly strong at assessing complex, overlapping political authority structures as well as multitiered decision-making processes, making it potentially highly suitable for a comprehensive analysis of the EU’s system of governance. Its theoretical openness in terms of accounting for vast array of governmental and non-governmental actors means that it enjoys a greater flexibility than several existing EU theories that are centered on—or restricted to—specific types of entities.<sup>7</sup> Moreover, its partial focus on (economic) *efficiency* in the delivery of public goods and other aspects of governance also clearly distinguishes it from most other EU-centered

theories, where this aspect only plays a negligible role.<sup>8</sup> Finally, the analysis presented in this chapter could also help to refine and expand the *original* Ostromian theoretical framework in a way that it becomes more broadly applicable to different types of political-economic systems, meaning a contribution to the creation of an overarching governance theory.

Similar to the argument presented here, a recent volume by [van Zeven and Bobić \(2019\)](#) attempts to apply polycentrism to the EU. In multiple chapters, different authors analyze subsidiarity, the internal market, and access to justice in the EU among a number of topics. There are three ways in which the chapter at hand distinguishes itself from this previous contribution. First, this chapter represents a more concise application of polycentric governance theory to the EU than a book-length volume. Second, the set of criteria developed here has overlaps with—but also several differences to—the framework laid out by [van Zeven and Bobić \(2019, esp. 27\)](#).<sup>9</sup> Accordingly, I evaluate a slightly different range of principles. Finally, the contribution at hand has a significant emphasis on polycentric governance “in action,” analyzing the EU’s response to two major political-economic crises, as well as Brexit—topics that are not as prominently featured in the volume by [van Zeven and Bobić](#).

How is it possible to think of the EU as a polycentric system (i.e., one with many decision-making centers and overlapping authorities), if there are numerous EU opponents who claim that it is the exact opposite? Indeed, by its critics, the EU is often characterized as a giant and unresponsive bureaucratic apparatus that concentrates enormous decision-making power in central institutions and negates national and local self-determination.<sup>10</sup> For instance, British journalist [McKinstry \(2016\)](#) calls the EU “a federalist monster that will not stop until nations are abolished.” Similarly, [Bakshian \(2016\)](#) suggests that the EU has “a single giant bureaucracy and an imposed-from-above social model.”

There are multiple responses to these perspectives. First, the EU actually has a comparatively small bureaucracy, which is highly effective considering its size. For instance, in direct comparison with the US federal civil service, the number of EU bureaucrats is marginal.<sup>11</sup> Second, [De Bruycker \(2020\)](#) shows that European policies are very responsive to public opinion when there is a high level of politicization.<sup>12</sup> Furthermore, I will show throughout this chapter that national, regional, and local governments either retain substantial decision-making authority or even gain influence on central EU processes and institutions. This is true with respect to both the supply of public goods and addressing larger

political-economic challenges. Accordingly, the claim that the EU is a giant and unresponsive bureaucratic apparatus—aiming to impose its centralized will on the member states—is at best misleading and at worst entirely inaccurate.<sup>13</sup>

## The Theory of Polycentrism

The term “polycentric” had already been used by a number of scholars before Elinor and Vincent Ostrom began to develop their framework. However, the Ostroms made a major contribution in advancing the term’s theoretical utility by establishing systematic criteria and applying them to practical challenges of metropolitan governance. If the Ostromian framework of polycentric governance had to be condensed into a single sentence, the tentative summary by [Aligica and Tarko \(2012, 237\)](#) is useful. They define a polycentric system as one “of many decision centers having limited and autonomous prerogatives and operating under an overarching set of rules.”

While this definition is a good starting point, for this essay I would like to lay out six separate and specific criteria of polycentric political-economic systems that are based on several key contributions by the Ostroms ([Ostrom, 1972](#); [Ostrom, 2010a](#); [Ostrom, 2010b](#); [Ostrom, Tiebout and Warren, 1961](#); [Ostrom, 2009](#)).<sup>14</sup> Following these works, six essential features related to polycentric systems of governance can be identified:

1. They consist of multiple political-administrative units, facing both *shared* and *individual* (economic, social, and environmental) conditions and challenges.
2. Each of these political units has some degree of autonomous decision-making power.
3. There are overlapping responsibilities and authorities between the administrative units (often mirroring issues and challenges which can spill over between them due to economic, social, or environmental interdependence).
4. All units operate under a shared framework of rules.
5. There is no single, unified chief executive, which has the ultimate political authority.
6. The governance of some issues is pooled at the central level, while the governance of other issues remains decentralized. The pooling versus decentralization of responsibil-

ities is primarily guided by the criteria of (1) responsiveness toward citizens and (2) efficiency concerns.

The opposite of a polycentric system of governance is a political system “with a single dominant center for making decisions” (Ostrom, Tiebout and Warren, 1961, 831), meaning the highest possible level of centralization. In such a system, the power of the executive branch is unified in one institution. Additionally, nonpolycentric (or *monocentric*) systems can be characterized by (strictly) hierarchical relationships between the upper and lower units of government, with a top-down system of decision-making (cf. Ostrom, Tiebout and Warren, 1961, esp. 837–838). In a perfect hierarchical command system, higher-level political units are able to *overrule* decisions taken by subunits, even if the latter have some discretionary power in a specific policy area.

One key disadvantage of fully monocentric political-economic systems is that, regardless of efficiency and responsiveness concerns, they unify and centralize all decision-making authority in a single political entity. While there might be certain aspects of governance that can be efficiently executed at the highest administrative level, it is unlikely that *all* aspects of governance are most efficiently organized by a single central authority.

How can we distinguish polycentrism from federalism? First, “federalism” is a broader and less theoretically dense term, primarily describing the existence of multiple layers of government. While federal systems can be polycentric in character, they are not necessarily so. For example, in federal systems, there could theoretically be a single, unified chief executive at the central level. Furthermore, the pooling versus decentralization of responsibilities for providing public goods may not be guided by efficiency or responsiveness concerns. Accordingly, the concept of polycentrism shares some similarities with federalism but simultaneously goes far beyond it.

To summarize, polycentric systems have a number of key characteristics. Most importantly, multiple political-administrative entities—operating under a shared framework of rules—have autonomous decision-making power, overlapping responsibilities and authorities, without being subject to a hierarchical command structure. Even though there may be a chief executive, this chief executive should not concentrate political power in a single institution. The delegation of responsibility to the central level is guided by the principles of responsiveness toward citizens and efficiency.

# Is the EU a Polycentric System? An Analysis of Institutional Structures and the Division of Political Authority

## The EU's Core Executive and Legislative Institutions

Considering their significance, a discussion of the EU's core executive and legislative institutions at the central level may be the best point of departure for an institutional analysis against the background of polycentric theory. These institutions are the following:

1. The European Council consists of the heads of state or government. It is at the very center of the institutional framework and has authority over the broad trajectory of the political union as a whole. However, it is usually not focused on the practical implementation of the broad goals that it sets (McCormick, 2014, 76–79; Olsen and McCormick, 2018, chap. 9).
2. The European Commission leads the European civil service and has the responsibility to turn the Council's decisions into concrete policy proposals (McCormick, 2014, 79–84; Olsen and McCormick, 2018, chap. 5). Even though it typically does not set broad policy goals, its power in policy development and implementation is substantial.<sup>15</sup>
3. The European Parliament is the lower house of the EU's legislature and consists of directly elected representatives from all member countries. Among others, they approve or reject the policy proposals of the Commission (McCormick, 2014, 87–90; Olsen and McCormick, 2018, chap. 7).
4. The Council of the EU can be seen as the upper house of the EU's legislature and consists of ministers from the EU member states. The Council of the EU, too, is involved in the Union's legislative process (McCormick, 2014, 84–87; Olsen and McCormick, 2018, chap. 6).

Considering that there are multiple different institutions that share political power at the EU's central level—especially the European Council and the Commission (as a form of *dual executive*)—we cannot speak of a single or unified chief executive. Instead, from a horizontal perspective, multiple centers of decision-making authority and administration exist within the executive branch of European governance; and they have both unique and shared

responsibilities (McCormick, 2014, 94–95; Trondal, 2010). While the European Council determines the EU’s broad trajectory, the Commission has much more leeway over the practical implementation of these decisions. Thus, there is effective practical decentralization in decision-making authority among multiple political entities.<sup>16</sup>

Furthermore, the central EU institutions are also not in a perfect hierarchical relationship with national governments. Instead, there is a delicate balance of power between national governments and EU institutions. This balance of power is best reflected by the European Council, which allows individual member states to directly voice their interests at the central level and will be discussed in more detail below.

## **The Centralized Governance of Economic Exchange and Other Policy Areas**

Critics of the EU may claim that the consolidation of certain functions at the central level violates the ideals of polycentrism, but these arguments deserve further scrutiny. First, as shown above, even at the central level, decision-making power is dispersed among multiple units and not concentrated in a single political entity. Moreover, the EU primarily organizes markets, economic exchange, and other issues of strong transnational character<sup>17</sup> (such as agricultural and environmental policy) at the central level (Olsen and McCormick, 2018, chap. 12, 14).<sup>18</sup>

Do these circumstances necessarily violate the principles of polycentrism? One can argue that the centralized organization of certain aspects of European governance—first and foremost internal and external relationships of economic exchange (Spolaore, 2015, 14–15)—does not directly contradict polycentrism. Indeed, as Ostrom, Tiebout and Warren (1961, 837–838) write, some aspects of governance may be most appropriately organized at the central level. Specifically, Ostrom and Ostrom (1977, 18) state that, in order to have a flourishing market economy, “nonmarket decision-making arrangements” are necessary and governments should provide the foundations for economic activity, “including a common medium of exchange, common weights and measures, roads, and so forth.” In a similar fashion, by organizing market exchange at the central level, the EU allows for common standards in these and other economic institutions. This centralized organization enables the

free movement of goods, services, capital, and labor across national boundaries, which leads to a closer-to-optimal geographic allocation of productive assets and human capital.

Moreover, [Spolaore \(2015\)](#) suggests that the centralization of governmental authorities can have two positive effects: (1) the exploitation of economies of scale and (2) the internalization of (cross-unit) externalities.<sup>19</sup> Both advantages directly speak to the important efficiency criterion of polycentrism. Accordingly, the unification of decision-making power in certain areas does not necessarily contradict polycentrism. On the contrary, the Ostroms consider centralization appropriate in certain areas and even *essential* to the optimal functioning of market exchange.

It is important to note that even the politicians and bureaucrats who work for the central EU institutions generally represent their country's national interest to some extent. For instance, as a study by [van Esch and de Jong \(2019\)](#) shows, even in one of the most coherent epistemic communities of the EU—the central bankers of the European Central Bank (ECB)—national culture was more dominant than EU socialization when it came to decision-making in the European sovereign debt crisis.

## **The European Council as a Carrier of Polycentric Principles**

From the perspective of polycentric governance, the European Council deserves special attention. Formally, it is an organization at the central (EU) level and participates in the governance of the EU as a whole. However, it consists of the heads of state and government of the subunits (individual member states). Accordingly, the members clearly have a representative function, and can voice the interests of the political subunits they lead.

Moreover, the *modus operandi* of the European Council is usually deliberative and its members generally attempt to find the widest political consensus ([Puetter, 2012](#); [Puetter, 2014](#)). This method of governing is the opposite of hierarchical top-down processes, in which a unified chief executive makes decisions without the participation of or regard to the interests of subunits. Additionally, the European Council's rotating presidency gives even the governments of smaller EU states possibilities to influence the policy agenda and steer central policies in a specific direction ([Bunse, 2009](#)).

In short, the European Council embodies key principles of polycentric governance for two primary reasons. First, it allows for the active representation of the subunits' political

interests. Moreover, its internal decision-making processes are not hierarchical, but instead deliberative and focused on the achievement of the widest possible consensus.<sup>20</sup>

## **The Role of Regional and Local Governments in the EU**

According to the Ostroms, in the ideal polycentric system, local and regional governments retain influence over policy areas that are most efficiently organized by them. This also allows them to uphold the ideal of local self-governance. Therefore, we must ask: Do local governments lose a substantial amount of their responsibilities in the provision of public goods and/or political power through European integration?

This is not necessarily the case, because EU integration usually leads to the delegation of power away from *national* governments and *national* parliaments to EU institutions (Auel and Höing, 2014, 1184; Hooghe and Marks, 2003; Jensen, Koop and Tatham, 2014).<sup>21</sup> It is much less common for subnational governments to give up authority over aspects of governance that had been under local or regional control. The policy areas over which the EU has gained authority are typically those over which individual local entities did not have influence on in the first place, meaning that integration has not severely reduced their political autonomy.

Furthermore, the pooling of some resources and responsibilities at the central level does not mean that lower-level governments are in a direct hierarchical relationship with central EU institutions, which would mean a severe loss of relative power. On the contrary, Hooghe and Marks (2001) argue that, in many countries, regional governments have actually *gained* relative political power through the EU integration process.<sup>22</sup> Not only might the process have weakened the relative power of national governments, but subnational governments have gained a multiplicity of channels to influence policies.

Additionally, through the allocation of financial aid as part of EU cohesion policy, regional and local governments have enjoyed administrative power over substantial amounts of incoming funds, which may have led to increases in local state capacity (Charasz and Vogler, 2019). All in all, the dominant perspective in EU studies is that regional and local actors have not significantly diminished in political power through European integration, but they might have actually gained influence.

Considering the Ostroms' emphasis on varying local conditions in polycentric systems

(Ostrom, 1972; Ostrom, Tiebout and Warren, 1961), they would likely agree that it makes sense for many responsibilities to remain in the hands of regional and local governments. Indeed, the EU is a community of extremely heterogeneous local conditions, especially different languages and cultures. Many additional factors, including climate, wealth, geography, expectations towards public services,<sup>23</sup> and so on differ vastly across Europe. If the EU had to deal with all of these challenges at the central level—where the aggregation and use of information is most likely imperfect (cf.)(Hayek, 1945; Ostrom, Tiebout and Warren, 1961, 837–838; Rodrik, 2007, chap. 5)—its central institutions would be completely overloaded. Furthermore, national governments have the responsibility of implementing EU-wide policies, giving them limited (but helpful) discretion in concrete execution and timing.

## Summary

My analysis of various aspects of the EU’s institutional structures suggests that they indeed mirror fundamental polycentric principles. They are (1) characterized by significant horizontal and vertical decentralization of political power, (2) do not constitute a perfect hierarchical command relationship between the center and lower-level units, (3) pool responsibilities primarily in areas where it is appropriate to do so (given the criteria laid out by the Ostroms), (4) provide national governments with strong representation in the deliberative body of the European Council, and (5) operate under a shared framework of rules, but also leave significant autonomy for the provision of public services in the hands of local and regional governments (which each face vastly different social and economic conditions). Accordingly, the EU’s institutional framework can generally be described and analyzed from the perspective of polycentrism. [Table 1](#) provides an additional, systematic comparison of the characteristics of the EU.

Table 1: Features of Polycentric Systems of Governance and the EU

Polycentrism	European Union
Multiple political-administrative units, with <i>shared</i> and <i>individual</i> conditions/challenges	28 EU member states (+ regional & local governments), shared and individual conditions/challenges
Political units have some degree of autonomous decision-making power	Member states retain decision-making power in many policy areas, subnational governments often gain additional political power
Overlapping responsibilities and authorities between the administrative units	Significant overlaps in authority through (1) deliberative intergovernmental bodies, (2) cross-border policy coordination
Shared framework of rules	Shared general framework of policy-making + common rules in many other areas (e.g., economic exchange)
No single, unified chief executive with ultimate political authority	Significant dispersion of political power among several political entities + strong representation of subunits
Mix of pooling versus decentralization of responsibilities, based on efficiency/responsiveness	Policies organized at multiple levels: Central level most concerned with policy areas with cross-border spillovers or greatest benefits of centralization (economy, environment)

## Polycentric Governance “in Action” (I): the Sovereign Debt Crisis and the EU’s Response 2010–2012

While an analysis of the EU’s institutional framework can provide crucial insights regarding its compatibility with polycentrism, any such examination should be complemented by an investigation of the polycentric system “in action,” that is when facing a concrete major problem that might be solved through coordination among different entities. With respect to polycentric systems, an analysis of crisis responses would be particularly interesting because a typical reaction to crises is the centralization of decision-making power (Raudla, Douglas, Randma-Liiv and Savi, 2015).<sup>24</sup> Therefore, such a study can give us insights into whether at least some aspects of polycentric governance are maintained in critical situations. Ultimately, crises could also lead to the disintegration—or failure—of polycentric systems (Schimmelfennig, 2018b, 969–970). Accordingly, they offer suitable testing grounds for these systems’ resilience.

Due to their significance, two historical situations appear particularly appropriate for such an analysis: (1) the European sovereign debt crisis 2010–2012 and (2) the refugee crisis 2015–2016. In accordance with polycentrism, I will pay most attention to the interplay between subunits and central actors and institutions. Are policies initiated by *different* actors, that is, a mixture of subunits and central actors? Is decision-making in crises entirely centralized or is it dispersed among multiple entities at different levels of the EU’s administrative hierarchy?

## **Background of the Sovereign Debt Crisis**

The global financial crisis started in 2007–2008 and led to the collapse of major banks by severely restricting liquidity on financial markets around the world (Brunnermeier, 2009). These conditions made it increasingly difficult for many governments to refinance their debt and thereby revealed that their overall debt levels were unsustainable. With their economies facing a prolonged downturn, the ability of a number of European governments to repay their creditors came into doubt as well.<sup>25</sup> Given economic interdependence and the common currency of European Monetary Union (EMU) member countries, the bankruptcy of a single state could have triggered negative and uncontrollable spillover effects, including a breakdown of the entire Eurozone (Biermann, Guérin, Jagdhuber, Rittberger and Weiss, 2019, 251; Buti and Carnot, 2012, 905; De Grauwe, 2013*b*, esp. 163–164; Lane, 2012; Mody and Sandri, 2012; Verdun, 2015, 223–224; Schimmelfennig, 2018*b*, 975, 983; Wasserfallen, Leuffen, Kudrna and Degner, 2019, 5).

## **Decentralized Decision-Making: Policy Initiatives of Subunits**

When the described events took place, the EU had no formal mechanisms to address a problem of this unprecedented magnitude (Gocaj and Meunier, 2013, 240–242; Niemann and Ioannou, 2015, 203; Schimmelfennig, 2018*b*, 970, 976; Verdun, 2015, 219). This made quick innovation—a possible strength of polycentric systems—imperative. Different actors can formulate distinct policy proposals, some of which might be more effective than others at addressing the effects of the crisis.

It is important to note that a significant economic asymmetry exists between the member states of the Eurozone. The Northern and Western European states—particularly

Germany—have more robust economies, which were less severely affected by the financial crisis (Finke and Bailer, 2019, 110–111; Ioannou, Leblond and Niemann, 2015, 165; Laffan, 2017; Schimmelfennig, 2015, 182–185; Schimmelfennig, 2018*b*, 977–978). Moreover, their public finances were more balanced, with a smaller debt-to-GDP ratio, especially compared to Greece—the state that would experience the most significant problems (Buti and Carnot, 2012; OECD, 2019).<sup>26</sup>

However, the worsening financial situations of several Southern European economies put increasing pressure on the Northern and Western Eurozone members to support the struggling members. Although Germany had been hesitant to intervene in the severe crisis of the Greek economy—initially treating it as a Greek domestic matter (Bulmer, 2014, 1253)—when the crisis intensified, the German government began to assume a leadership role.<sup>27</sup> As one of the initial steps, in March 2010, Germany and France issued a joint statement that proposed to complement IMF financing for struggling European economies with bilateral loans. Subsequently, the European finance ministers made a similar public proposal (Gocaj and Meunier, 2013, 241–242).

However, this could ultimately not stabilize financial markets and the situation in May 2010 deteriorated to the point that further action needed to be taken urgently (Gocaj and Meunier, 2013, 243–244). With Germany and France having the greatest influence on the process, representatives of the EU member states came together in the European Council to decide on a practical solution. The result of those meetings was the creation of a new financial entity in May/June 2010: the European Financial Stability Facility (EFSF) (Finke and Bailer, 2019; Gocaj and Meunier, 2013; Niemann and Ioannou, 2015; Verdun, 2015). Its purpose was to give European countries with economic difficulties access to financial markets. To perform this function, the EFSF itself could borrow money—backed up with financial guarantees at the level of €440 billion—and transfer funds to member states in need (Boin, Ekengren and Rhinard, 2013, 127; Verdun, 2015, 226). The guarantees came from the more stable European economies (Biermann et al., 2019, 251–252), with the biggest absolute guarantors being Germany and France and the highest per capita guarantees coming from Luxembourg.

The EFSF was under strict supervision by individual member countries, particularly (as indicated above) Germany and France as the key contributors, and should primarily be

seen as an intergovernmental institution, not an EU-level institution (Gocaj and Meunier, 2013, 245–247; Niemann and Ioannou, 2015, 209). The importance of the member states is underscored by the fact that the EFSF (and an increase in its lending capacity) required the approval of national parliaments (Closa and Maatsch, 2014).<sup>28</sup>

Although initially successful at containing the worst consequences of the crisis, because of the EFSF’s ad hoc and short-term character, a longer-term, more institutionalized solution seemed desirable. Consequently, in 2011, the European Stability Mechanism (ESM) was created and eventually took over the responsibilities of the EFSF. The ESM had a higher lending capacity and was intended to be a long-term institutionalized solution (Boin, Eken-gren and Rhinard, 2013, 128; Gocaj and Meunier, 2013, 247–248; Ioannou, Leblond and Niemann, 2015, 160; Niemann and Ioannou, 2015).<sup>29</sup>

Despite the EFSF’s ad hoc and short-term character, it succeeded in its primary objective of stabilizing the financial situation of several struggling economies and preventing major spillovers to the rest of the Eurozone. Even though a long and rocky way to recovery followed, Greece and other threatened economies were eventually able to overcome the perilous situation they had faced in 2010.

As we would expect from a polycentric system, at several points during the crisis, individual member states and the European Council coordinated with the ECB and the Commission, for example in terms of providing support to Greece (Gocaj and Meunier, 2013, 241). This vertical coordination between political entities at different levels of the hierarchy is a cornerstone of polycentric governance “in action.”

## **Centralized Decision-Making: Policy Initiatives of Supranational Institutions**

Polycentric systems often do not only consist of subunits. Instead, following polycentrism, we would expect that some responsibilities—in cases in which this can be efficiently organized—are located at the central level (Ostrom, Tiebout and Warren, 1961, 837–838). In the case of the Eurozone, because it is a common currency area, the key responsibilities for setting monetary policy are necessarily found in a centralized institution. In the EMU’s case, this central institution is the ECB.

When the sovereign debt crisis accelerated in 2010, policy initiatives were not limited to the individual member states or the hybrid institution of the European Council. For instance, the Commission suggested to create its own stabilization fund, which would have had the ability to sell bonds financially backed by Eurozone members (Gocaj and Meunier, 2013, 243). Even though this proposal did not materialize, it shows that initiatives come from many different actors in the EU’s governance structure.<sup>30</sup> Moreover, the Commission did successfully initiate the first in a series of fiscal rule reforms: the so-called six-pack, a collection of six policies aimed at facilitating long-term budgetary stability (Ioannou, Leblond and Niemann, 2015, 160–162; Laffan and Schlosser, 2016; Menz and Smith, 2013, 197–198; Schild, 2013, 31; Verdun, 2015, 220, 228–229).

Most importantly, Europe’s Central Bank—the ECB—engaged in a wide variety of measures aimed at restoring bank liquidity and allowing struggling governments to refinance their debt (Trichet, 2010). For example, the ECB lowered interest rates, promoted the idea of a banking union (to stabilize European banks), and even bought government bonds (Lane, 2012; Niemann and Ioannou, 2015, 210–211). The ECB’s most decisive step was taken in September 2012, when it announced that it would provide unlimited financial support to struggling Eurozone economies.<sup>31</sup> While this action had been unprecedented and caused concern among some European leaders, the ECB’s unique move helped to swiftly stabilize the situation on the financial markets (De Grauwe, 2013a). These centralized mechanisms provided substantial help, but ultimately only the *combination* with initiatives by individual member states and the European Council (in the form of the EFSF and the ESM) could address the crisis in a comprehensive form.

In general, when analyzing the European sovereign debt crisis, we observe polycentric governance “in action.” The centralized institution of the ECB was able to address some aspects of the crisis, but only cooperation and coordination with and among the subunits (especially the creation of the EFSF) were able to stabilize the situation more comprehensively. No single side of EU governance—neither national governments nor the Commission—was able to handle all aspects of the crisis alone (cf. Finke and Bailer, 2019, 130). Thus, polycentric governance was possible and indeed *necessary*. While the recovery from the sovereign debt crisis took many years, the E(M)U eventually stabilized and established a comprehensive regulatory framework aimed at preventing similar crises (Biermann et al., 2019, esp.

250; Boin, Ekengren and Rhinard, 2013, 128; Börzel and Risse, 2018, 83–84; Finke and Bailer, 2019, 110; Schimmelfennig, 2018*b*, 970, 979–980; Târlea, Bailer, Degner, Dellmuth, Leuffen, Lundgren, Tallberg and Wasserfallen, 2019, 25).<sup>32</sup> This underscores that the crisis was not only a challenge to, but also an *opportunity* for the advancement of joint economic governance (Tosun, Wetzel and Zapryanova, 2014).

In addition to reworking the conditions of the Stability and Growth Pact (SGP) and further inter-governmental agreements regarding economic stability, an important part of the process that followed was the establishment of a banking union (Ioannou, Leblond and Niemann, 2015, 160–164; Laffan and Schlosser, 2016). According to Nielsen and Smeets (2018) this was a collaborative process that involved the joint efforts of both supranational institutions and national governments—as one would expect from a polycentric system.<sup>33</sup>

There are many additional aspects of polycentric economic governance in the EU that could be explored in the future. In particular, new studies could consider the level of public support that EU institutions and policies receive. In this respect, the work by Kuhn and Stoeckel (2014) highlights differences between support for EU economic governance and European integration more broadly.

## **Does Crisis Leadership by Individual Subunits Violate the Principles of Polycentric Governance?**

One might argue that the financial crisis was not a case of polycentric governance because Germany—a single subunit—played such an important role in terms of policy initiatives (Bulmer, 2014; Bulmer and Paterson, 2013; Laffan, 2017, 140). However, there are several arguments in favor of the utility of a polycentric perspective:

1. Even though Germany’s initiative and financial contribution were crucial to solving the crisis, it depended on the cooperation of several other European states, most importantly France, in coordinating the response and stemming the financial burden of stabilization (Degner and Leuffen, 2019; Schild, 2013; Schoeller, 2018).
2. Similarly, without the decisive actions by the ECB—a key central institution—the crisis might have intensified (or at a minimum continued).
3. From a long-term perspective, only the active cooperation of national governments most heavily affected by the crisis can bring a sustainable solution and prevent similar

future situations. For example, part of the EU's support for Greece were required structural reforms that can only be implemented at the national level.<sup>34</sup>

Accordingly, while Germany might have played a leadership role, only coordination and collaboration across different levels of the EU's institutional hierarchy could effectively address the crisis. No single subunit would be able to solve a crisis of this magnitude on its own. Furthermore, none of the criteria about polycentric systems of governance laid out above were violated by the actions taken in the European sovereign debt crisis. Even in "perfect" polycentric systems of governance, individual subunits may play a more prominent role because they might be affected by conditions to a completely different extent and may also have vastly different institutional or economic capabilities. These asymmetries are a core aspect of metropolitan areas as well, meaning that by no means do they contradict polycentrism.

## **Polycentric Governance "in Action" (II): the Refugee Crisis and the EU's Response 2015–2016**

### **Background of the Refugee Crisis**

The combination of the Arab Spring, which started in late 2010, and the Syrian Civil War, which started in 2011, created strong incentives for a large number of people in North Africa and the Middle East to seek a better life in Europe. In 2015, there was an escalation of refugee flows, resulting in numerous humanitarian disasters, especially in the Mediterranean, which put enormous pressures on the EU to find a coordinated policy response (Buonanno, 2017; Carrera, Blockmans, Gros and Guild, 2015, 1; Niemann and Zaun, 2018, 3–4; Schimmelfennig, 2018b, 975–976).

### **Decentralized Decision-Making: Policy Initiatives and Actions of Subunits**

Due to the disproportionately high burden placed on Southern European countries by the massive migrant flows that reached new heights in 2015 (Buonanno, 2017, 113; Schim-

melfennig, 2018b, 977–978), we would expect them to act early to address the crisis. Indeed, following a major humanitarian disaster in the Mediterranean in April 2015, Italian Prime Minister Matteo Renzi demanded an emergency EU summit (BBC, 2015). Moreover, the acceptance of migrants by EU member states had been completely voluntary up to this point. But the governments of the Northern and Western European states knew that, for many migrants, their country would be the final destination (Schimmelfennig, 2018b, 976–978). Therefore, German Chancellor Angela Merkel proposed to distribute refugees among member countries—potentially in accordance with a quota system, assigning a specific share of refugees to each country. She asked for cooperation and compliance of other member states with this proposal. However, resistance against the proposal quickly came from Britain and several Eastern European countries (The Guardian, 2015b; Zaun, 2018).

Initiatives like these came from subunits because the central EU institutions faced criticism that they had not dealt with the situation sufficiently up to this point (Washington Post, 2015). At first glance, the fact that the political leaders of subunits took these initiatives could seem like a weakness of the EU’s system of governance. But from a theoretical perspective, the possibility for subunits to initiate policy making is a key strength of polycentric organization. In line with Ostromian polycentrism, some subunits may face individual challenges and conditions. Their greater awareness of local or regional circumstances makes them a much better point for initiating policy than central institutions that may not fully comprehend the situation “on the ground.”

The result of these calls for action was an emergency summit of the European Council on April 23, 2015 (Carrera et al., 2015, 2–3), which led to a declaration that read in part: “We have ... decided to strengthen our presence at sea, to fight the traffickers, to prevent illegal migration flows and to reinforce internal solidarity and responsibility” (European Council, 2015). Beyond this formal declaration, factual support in the form of more funding was provided to several initiatives, specifically an additional €120 million in emergency funding for border patrols. Furthermore, subunits of the EU governance structure—the governments of Germany, Ireland, and the United Kingdom—sent (military) ships to the Mediterranean to support sea patrol missions (Reuters, 2015; The Guardian, 2015a).

This episode clearly illustrates the *interplay* between the subunits and governance structures at the central level. While individual member states initiated the process and called

for the emergency summit, this summit took place in the European Council. Moreover, it is important to recall that—considering its composition (with the leaders of all subunits being represented there) and the blocking power of subunits—the European Council is a hybrid institution between a completely centralized and a decentralized decision-making mechanism. Finally, the practical implementation, which followed the meeting, was partially organized by central institutions and partially implemented by subunits.

Additional steps were taken later in 2015. For instance, in October, European leaders agreed to set up camps for 100,000 refugees ([New York Times, 2015b](#)). This helped to further stabilize the situation in countries that did not have adequate facilities to house the large number of incoming migrants.

Beyond these policies passed at the central level, several measures were also implemented by individual subunits. Given the struggles that EU border states had with the large number of migrants, the German government decided on August 25, 2015 to no longer send Syrian refugees back to the first EU country they had entered ([Deutsche Welle, 2017](#); [Niemann and Zaun, 2018](#), 4). Furthermore, on September 4, 2015, Germany began to accept refugees from Hungary ([Deutsche Welle, 2017](#)). Although minor by themselves, these individual steps constituted additional measures towards addressing the crisis in a comprehensive form.

## **Centralized Decision-Making: Policy Initiatives of Supranational Institutions**

On April 20, 2015, around the time when individual member states began to call for action, the Commission, too, proposed a ten-point plan to address the crisis. Most importantly, it advanced the idea of reinforcing border and sea patrols ([European Commission, 2015c](#)). In mid-May, this initial plan was complemented by a more comprehensive agenda authored by the [European Commission \(2015b\)](#).<sup>35</sup> Among others, this agenda included proposals for targeting smuggler networks, relocating incoming refugees, and cooperation with countries outside of the EU. But the members of the Commission knew that they could not solve the problem by themselves. Instead, as indicated in the previous section, the cooperation of subunit leaders was needed to comprehensively address the crisis.<sup>36</sup>

Ultimately, even further internal EU measures, such as the establishment of emergency

hotspots in the most severely affected areas, did not fully succeed in dealing with the massive inflows of migrants (Niemann and Zaun, 2018, 5–8). As a large number of Syrian refugees came through Turkey before entering Europe, the EU needed Turkey’s cooperation. Thus, in October 2015, the EU and Turkey created a joint action plan to deal with the migration crisis (Buonanno, 2017, 120; European Commission, 2015*a*; Deutsche Welle, 2017). Most importantly, on March 18, 2016, the two political entities agreed on the following: Turkey offered to host a large number of migrants and the EU provided financial aid for housing and supporting them (Biermann et al., 2019, 259; Buonanno, 2017, 120–121; Deutsche Welle, 2018; Niemann and Zaun, 2018, 8–9; Rygiel, Baban and Ilcan, 2016).<sup>37</sup>

In general, in the refugee crisis, too, we observe an interplay and interdependence between central institutions and subunits, which is a key feature of polycentrism. The crisis could not be solved by entities at one level alone, but instead required the initiative and actions of multiple entities. No side—whether central institutions or the subunits—was able to impose its will on the other, and the subunits had to find cooperative solutions. Accordingly, while the EU’s response to the refugee crisis certainly was not flawless, the analysis at hand provides further support for the perspective that the EU is a polycentric system.

### **Problems of Polycentric Governance in the Refugee Crisis—Systemic Flaws?**

Despite the general successes described above, the polycentric governance of the EU in response to the migrant crisis was not flawless. There were many internal frictions between the subunits themselves as well as between central structures and subunits (cf. Niemann and Zaun, 2018; Scipioni, 2018).<sup>38</sup>

The most important problem might have been that, from the beginning, many Eastern European countries were against taking in refugees through a formal quota system, even though they were asked to host only a relatively small number compared to some other states (New York Times, 2015*a*; Niemann and Zaun, 2018, 6–7; Zaun, 2018). There were several possible reasons for this position. In 2015–2016 many governments in Eastern Europe were headed by populist right-wing parties, which are often strongly opposed to immigration (Börzel and Risse, 2018, esp. 100–101). Additionally, many Eastern European states faced low “migratory pressures,” making them less interested in finding a common political solution (Biermann et al., 2019; Zaun, 2018).

As this example shows, the polycentric system of EU governance often relies on the voluntary cooperation of individual member states.<sup>39</sup> Considering the absence of solidarity by several Eastern European states, the system of formal quotas had to be abandoned eventually. Instead, as requested by the Visegrad Group (consisting of Poland, Hungary, Czechia, and Slovakia), a “system” of so-called flexible solidarity was implemented, which simply refers to a distribution based entirely on voluntary cooperation by member states (EURAC-TIV, 2016). This meant that an important aspect of the EU’s goals was not achieved: The institutionalization of sharing responsibilities among the member states was insufficient (Scipioni, 2018; Zaun, 2018).<sup>40</sup>

In light of these circumstances, it appears that polycentric governance was not entirely effective. However, it can be argued that the observed problems were not necessarily a failure of polycentric governance because there might not have been any other viable course of action. Specifically, if some form of coercion had been used in the distribution of refugees, it could also have led to a further escalation of the refugee crisis, resulting in a major *political* (constitutional) crisis of the EU itself. Even though flexible solidarity meant disproportionate costs to some subunits—that is, those countries and regions that were willing or forced by circumstances to take in the refugees—there was not a complete lack of solidarity between EU member states. Instead, a large number of countries did eventually voluntarily participate.<sup>41</sup> While polycentric governance might have shortcomings, the EU neither experienced (1) a broader escalation of the crisis into a constitutional crisis nor (2) an overall failure in terms of addressing the refugee situation.

## **Leaving a Polycentric System? Theoretical Considerations and the Practical Case of Brexit 2016–2019**

### **Theoretical Considerations**

A specific form of “exit” from a polycentric system finds attention in the work on polycentric governance: citizens exiting one subunit of a polycentric subsystem in order to move to another subunit that they perceive to provide superior public goods or services. This type of exit has been characterized as “vote with their feet” (Oakerson and Parks, 1988; Ostrom, 1972). However, another type of exit, namely the ability of *entire* political-economic subunits

to leave a polycentric system, is not a prominent point of discussion in the original framework of polycentrism as developed by Elinor and Vincent Ostrom (Ostrom, 1972; Ostrom, 2010a; Ostrom, 2010b; Ostrom, Tiebout and Warren, 1961).

The reason for why this may not have been prominently featured in the original works of the Ostroms is that metropolitan areas and their members are often strongly tied together through factual economic, social, and/or environmental interdependence (cf. Hewings and Parr, 2007; Hewings, Okuyama and Sonis, 2001). Towns that are at the (geographic) periphery of a metropolitan area may have multifaceted and deep social and economic ties to the center.<sup>42</sup>

Considering these circumstances of social and economic interdependence, two primary possibilities for “leaving” a polycentric system exist:

1. Leaving the formal system of governance, that is, cutting *political-administrative* ties to the other units, while maintaining *economic* and *social* interaction.
2. Leaving the system of governance *and* cutting social and economic ties, that is, (re-) establishing barriers to economic and social exchange with the other entities.

Depending on the degree of economic and social interaction, cutting all ties to a broader polycentric system (as in the second scenario), could inflict severe economic and/or social costs on the population of the leaving unit. Therefore, the first option of merely leaving the system of governance appears to be the option with fewer costs. But leaving the system of governance comes with other (potentially severe) downsides: The subunit that decides to leave no longer has the same level of influence on how economic and social interaction within the system is regulated. Even if a minor town or city in a large metropolitan area only has small influence on overall policy outcomes, completely leaving the polycentric system of governance will further reduce this influence to zero. In light of this discussion, it becomes clear that, in most polycentric systems of governance analyzed by the Ostroms (metropolitan areas), social and economic ties between units run so deep, that the costs of exiting the system are prohibitive.

## The Practical Case of Brexit 2016–2019

On June 23, 2016 a popular vote took place in the United Kingdom. The government asked its citizens if they wanted to leave or remain in the EU. Even though polls had predicted a slight victory of the “remain” camp, the “leave” camp ultimately won with a narrow margin (Bulmer and Quaglia, 2018, 1089; Clarke, Goodwin, Goodwin and Whiteley, 2017; Gamble, 2018, esp. 1215–1217).<sup>43</sup> As a consequence, since March 2017, there have been negotiations between the EU and the UK government regarding the conditions under which the United Kingdom will leave the EU’s system of governance (Bulmer and Quaglia, 2018; Gamble, 2018). As of the time of this chapter’s writing (July 2019), the negotiations have not been successfully completed yet—the United Kingdom’s politicians are struggling internally with the specific conditions of the Brexit deal. Nevertheless, it is possible to consider the history of the matter up to this point.

Throughout the negotiations, major tensions arose regarding the issues of access to the European single market and the maintenance of freedom of movement for EU and UK citizens. The position of the United Kingdom’s government under Prime Minister Theresa May evolved over time, but the government developed an interest in maintaining some form of access to the European market while reestablishing control over migration into Britain. This position was rejected by representatives of the EU who did not want to assign the same level of market access to nonmember states that did not fully participate in the other “European freedoms,” especially the free movement of citizens (Bulmer and Quaglia, 2018, 1092–1094; Gamble, 2018, 1218–1222; Schimmelfennig, 2018*a*, esp. 1166–1169).

These negotiations were difficult and full of tensions because restricting either the movement of goods or the movement of people would inflict severe economic and/or social costs on both the United Kingdom and the EU. While the United Kingdom was more willing to accept the (primarily) “social” costs of restricting freedom of movement, the EU was more willing to accept the (primarily) “economic” costs of excluding the United Kingdom from the common market (to maintain the integrity of the European freedoms) if no compromise could be reached.<sup>44</sup>

Overall, these problems mirror the issues that any subunit (in the form of a city or a town) would have when attempting to leave a metropolitan area. The United Kingdom has been a member of the European (Economic) Community since 1973 and nearly five decades

of trade and the movement of people have created significant economic and social ties that cannot be cut easily. Thus, wide-ranging economic and social interdependence constitutes severe costs of a complete exit (Gamble, 2018, 1227–1228; Jensen and Snaith, 2016, 1306–1307). The potentially most negative economic consequences for the United Kingdom could be in the area of financial services because Brexit might make other EU states increasingly attractive to actors from this sector (Howarth and Quaglia, 2018).

Accordingly, in line with the previous theoretical discussion regarding the options for leaving a metropolitan area polycentric system, the United Kingdom has two possible courses of action for leaving the EU’s polycentric system:

1. The United Kingdom can maintain existing economic and/or social arrangements (market access, mostly free movement of citizens) and merely leave the formal governance structures of the EU. This outcome would lead to some costs on the United Kingdom’s part, because it would permanently undermine its ability to participate in the EU’s system of governance.
2. Alternatively, the United Kingdom can leave the EU without an agreement (the so-called hard Brexit), meaning that barriers to trade and to the movement of people would immediately be reestablished. Given the level of economic (and social) interdependence between the EU and the United Kingdom, this course of action would likely inflict severe costs on the populations of both entities.

In short, even though metropolitan areas and supranational organizations are different in many respects, subunits may face similar challenges when attempting to *leave* them. Ultimately, the likely reason for why a polycentric system of governance was created (or joined) in the first place is the significant economic and social advantages associated with such a move. While the severe costs of leaving a polycentric system do not make exiting impossible, they make it an extremely costly course of action. A much less costly alternative may exist in the form of “differentiated integration,” which refers to the selective participation in certain areas of common governance without being subject to all regulations or policies (Andersen and Sitter, 2006; De Neve, 2007; Schimmelfennig, Leuffen and Rittberger, 2015; Schimmelfennig and Winzen, 2019).<sup>45</sup>

## Summary and Conclusion

Elinor and Vincent Ostrom’s framework of polycentric governance is a fundamentally important part of their contribution to political economy. Although its original focus was on metropolitan areas, many of its insights may be applicable to other types of systems. While the EU has sometimes been described as “polycentric” in the past (Jachtenfuchs, 1995; Von Bogdandy, 2000), few scholars have considered applying the Ostromian framework of polycentric governance to the EU—and the first such attempts have been very recent (van Zeben and Bobić, 2019). Accordingly, in this chapter, I have laid out key criteria of Ostromian polycentrism and then evaluated the EU’s institutional structures and governance against them. My finding is that the EU indeed has many characteristics that are compatible with polycentric governance, especially substantial vertical and horizontal decentralization of power. The European Council in particular has been found to echo several principles of polycentric governance due to its deliberative character.<sup>46</sup> The perspective of polycentrism has multiple strengths that jointly distinguish it from most other theories of EU governance: (1) its high level of suitability for the analysis of multitiered, complex institutional structures, (2) its theoretical openness and flexibility in terms of integrating many different actors, including non-governmental entities,<sup>47</sup> and (3) its focus on the (economic) *efficiency* and *responsiveness* of public goods provision and political decision-making processes.

In addition, I have investigated polycentric governance ‘in action’ by analyzing two different crises that the EU faced in the last decade: (1) the European sovereign debt crisis and (2) the refugee crisis. In both these crises—as one would expect from a polycentric system of governance—it was only a *combination* of initiatives by subunits (i.e., member states), hybrid institutions that represent actors at multiple levels (such as the European Council), and central institutions (such as the ECB and the Commission) that was able to comprehensively address the situation. Even though polycentric solutions were not perfect, the EU was mostly successful at containing the crises’ negative consequences. In this respect, it is important to emphasize that—just like democracies—polycentric systems may sometimes be slow and produce outcomes that are not as comprehensive as in a completely centralized system. But there could also be advantages to slower, more deliberative processes, because they take the interests of all parties into account and often prevent outcomes that would completely contradict the interests of some subunits.

How can we go forward from here? Since this chapter has already demonstrated that polycentrism is an appropriate framework to analyze the EU's crisis governance, an ideal avenue for future research would be a comparative account of the explanatory power of polycentrism versus other established EU governance theories.

Last but not least, I have addressed the important topic of “leaving a polycentric system” because some students of polycentrism might believe that subunits should be able to freely leave a polycentric system at will. Qualifying this perspective, the key insight of my discussion is that, neither in the case of metropolitan areas—which were the initial object of analysis in the Ostroms' work—nor in the case of the EU/Brexit, leaving a polycentric system of governance comes without substantial and sometimes prohibitive costs to the affected subunit. This is visible in the difficulty of the Brexit negotiations.

Building upon this chapter, future contributions could explore the relationship between polycentrism and competitive governance (Breton, 1998; Weingast, 1995). The federal system of the United States is often considered a case that successfully combines elements of polycentric and competitive governance. In the EU, there certainly are some competitive pressures on national governments, too, but this competition might play out in a different way due to a higher degree of heterogeneity in languages, cultures, and socioeconomic conditions.

Moreover, in the future, the interplay of polycentric governance structures and electoral politics at the national and the European level could be analyzed. A study by Schneider (2013) on the Europeanization of national electoral politics would be a good starting point for such an endeavor. Another interesting question is how the internal polycentric structures of governance affect the EU's *external* relationships with its neighbors. Zaiotti (2007) already shows that the security culture of the EU has important implications for the relations with countries in its vicinity. Similarly, polycentric governance and the associated culture could affect these neighbors in unexpected ways.<sup>48</sup>

Finally, the essay by Scharpf (1988) about the possible downsides of involving subunits in central decision-making processes can be seen as contradicting some of the arguments made here.<sup>49</sup> A direct comparison of the merits of polycentrism versus Scharpf's framework would be of interest. Thus, there are many possible ways in which future contributions can build upon this chapter and explore further aspects of polycentrism in the EU.

All in all, this chapter shows that arguments and findings from the theory of polycentric governance are by no means limited to metropolitan areas. Instead, the theory generated by the Ostroms may also serve as a framework for understanding and analyzing many other political-economic entities, including supranational forms of governance like the EU. Applications to a broad variety of additional political-economic systems should be considered in the future and could show us how much more explanatory power the theory of polycentric governance has.

# Notes

<sup>1</sup>Helpful comments have been provided by Michael Bauer, Tanja Börzel, Mads Dagnis Jensen, Herbert Kitschelt, Gary Marks, Wayne Sandholtz, Frank Schimmelfennig, and Natascha Zaun. Moreover, I am grateful to the participants of seminars at the Adam Smith Fellowship research sequence.

<sup>2</sup>An excellent overview of this topic is provided by [Jensen, Koop and Tatham \(2014\)](#).

<sup>3</sup>See also [Jensen, Koop and Tatham \(2014\)](#).

<sup>4</sup>On the closely related topic of learning in the EU, see [Radaelli and Dunlop \(2013\)](#).

<sup>5</sup>The chapter by [Gerstenberg and Sabel \(2002\)](#) is included in a volume that deals with the general topic of “good governance” in the EU ([Joerges and Dehousse, 2002](#)). Further “classics” on EU governance more broadly are by [Kohler-Koch and Eising \(1999\)](#), [Sandholtz and Sweet \(1998\)](#), and [Marks, Scharpf, Schmitter and Streeck \(1996\)](#). Finally, on the political geography of the EU’s legal governance, see [Kelemen and Pavone \(2018\)](#).

<sup>6</sup>Moreover, several prominent theories of EU integration are related to issues of governance. Among them are (1) neofunctionalism (focused on economic interdependence and spillover effects) ([Haas, 1958](#); [Rosamond, 2005](#); [Sandholtz and Sweet, 2012](#); [Sandholtz and Zysman, 1989](#)), (2) liberal intergovernmentalism (focused on the decisions of national governments) ([Milward, 1999](#); [Moravcsik, 1993, 2013](#)), and (3) new institutionalism (focused on the creation, persistence, and path dependence of institutional arrangements) ([Jupille and Caporaso, 1999](#); [Bulmer, 1993](#); [Bulmer, 1998](#)). For a recent overview of these theories, see [Hooghe and Marks \(2019\)](#).

<sup>7</sup>This greater openness and flexibility may come at the price of less predictive power, however.

<sup>8</sup>It is important to note that the claims of polycentric theory can be seen as—at least to some extent—contradicting arguments by [Scharpf \(1988\)](#) about how the participation of lower-level governments can lead to suboptimal policy outcomes. For recent work on the topic, see also [Falkner \(2011\)](#). From the perspective of polycentrism, however, the involvement of lower-level governments in decision-making processes can greatly improve the quality of policy outcomes by adjusting them to local needs and conditions.

<sup>9</sup>For instance, [van Zeben and Bobić \(2019\)](#) place slightly more emphasis on self-governance, while this chapter places slightly more emphasis on inter-unit relationships and the division of power.

<sup>10</sup>[Ostrom, Tiebout and Warren \(1961, 831\)](#) would call such a system “gargantua.”

<sup>11</sup>While the US federal civil service has approximately 2.7 million employees (2013) (serving more than 300 million Americans) ([U.S. Office of Personnel Management \(OPM\), 2019](#)), the EU central bureaucracy only has approximately 50,000 employees (2019) (serving more than 500 million Europeans) ([European Union, 2019](#)).

<sup>12</sup>However, work by [Pannico \(2017\)](#) shows that national parties bear much responsibility for communicating EU-related issues to local populations.

<sup>13</sup>Perceptions of the EU bureaucracy are often formed by heuristics—rather than precise knowledge or direct experiences with EU institutions ([Vogler, 2019a](#)).

<sup>14</sup>See also [McGinnis \(1999\)](#). The arguments made by [Ostrom and Ostrom \(1977\)](#) will also be relevant to my analysis.

<sup>15</sup>For instance, [Bauer and Becker \(2014\)](#) show that the Commission plays a key role in the EU’s economic governance. Moreover, on the Commission’s hybrid character as a political, normative, *and* administrative body, see [Grande and McCowan \(2015\)](#).

<sup>16</sup>Future contributions could provide a comparative analysis of bicameral governance in national settings and the EU’s legislative process from the perspective of polycentrism. For example, the American system of governance has several parallels.

<sup>17</sup>For instance, as [Begg \(2009\)](#) argues, the possibility of contagious financial crises puts demands on central EU institutions to provide supranational regulation in an area in which decentralized supervision alone may not be able to effectively contain spillover effects. See also [Buti and Carnot \(2012, 905-906\)](#).

<sup>18</sup>For a historical overview of the EU’s supranational responsibilities, see [Börzel \(2005\)](#).

<sup>19</sup>It is important to note that [Spolaore \(2015\)](#) also points out that, the higher the degree of heterogeneity of preferences across subunits, the greater the trade-off between centralization (with its positive effects on the efficiency of governance) and decentralization.

<sup>20</sup>It is important to note that these are only some aspects of governance compatible with polycentrism. As elaborated in the theoretical section, to meet all criteria of polycentric governance, several additional requirements have to be fulfilled.

<sup>21</sup>For example, prior to European integration, economic regulation, monetary policies, product standards, and so on were typically organized at the national and not at the subnational level.

<sup>22</sup>See also [Marks, Hooghe and Schakel \(2008\)](#) and [Jensen, Koop and Tatham \(2014\)](#).

<sup>23</sup>For a discussion of the importance of such expectations, see [Vogler \(2019b\)](#).

<sup>24</sup>For a critical discussion of this topic, see also [’t Hart, Rosenthal and Kouzmin \(1993\)](#).

<sup>25</sup>This was visible in worsening credit ratings by major credit rating agencies (CRAs)—institutions on which many actors on financial markets rely and that played a major role in the crisis ([Eijffinger, 2012](#)).

<sup>26</sup>Two additional factors were constitutive of variation in the vulnerability to external financial shocks: (1) fundamental divergence in political-economic systems ([Hall, 2012](#); [Hall, 2014](#); [Johnston and Regan, 2016](#)) and (2) vast cross-country differences in the interconnectedness of financial sectors ([Târlea et al., 2019](#)).

<sup>27</sup>On the underlying economic ideology of ordoliberalism and its consequences for economic governance, see [Nedergaard and Snaith \(2015\)](#).

<sup>28</sup>On the general role of national parliaments in the EU, see [Benz \(2004\)](#) and [Auel and Benz \(2005\)](#).

<sup>29</sup>On the different national preferences regarding the ESM, see [Finke and Bailer \(2019, 123-126\)](#).

<sup>30</sup>Despite this initiative by the Commission, [Puetter \(2012, 172-173\)](#) suggests that—relative to the European Council—the initial responses of the Commission were not very visible. Instead, the Commission’s contribution took mostly place in the background. See also [Boin, Ekengren and Rhinard \(2013, 126-127\)](#).

<sup>31</sup>Previously, the ECB’s president had already declared that they would do “whatever it takes” to calm financial markets (quoted in: [Schimmelfennig, 2018b, 985](#)). See also [Boin, Ekengren and Rhinard \(2013, 2\)](#).

<sup>32</sup>A critical perspective on whether the resulting regulatory framework is sufficient for this purpose is provided by Jones, Kelemen and Meunier (2016).

<sup>33</sup>Similarly, Falkner (2016) also confirms that only a combined perspective—analyzing both interactions among national governments *and* the decisions of supranational institutions—can comprehensively explain post-crisis policymaking.

<sup>34</sup>On the (hurdles to the) implementation of these policies, see Afonso, Zartaloudis and Papadopoulos (2015) and Ladi (2014).

<sup>35</sup>See also Buonanno (2017, 117).

<sup>36</sup>It is important to note that key central institutions dealing with migration, such as Frontex (the European Border and Coast Guard Agency) and the European Asylum Support Office (EASO), were less politically powerful than their counterparts in economic governance, such as the ECB (Schimmelfennig, 2018*b*, 970, 985). This also meant that the cooperation of subunits was of crucial importance.

<sup>37</sup>Similar to the Eurozone crisis, Germany played an important role in the establishment of this agreement. Germany's dominant role has therefore also received criticism, with some perceiving it as “unilateral” in character (Zaun, 2018, 56).

<sup>38</sup>On the problems associated with the EU's response to the refugee crisis, see also Schimmelfennig (2018*b*, 980–982).

<sup>39</sup>Nevertheless, the Commission—an institution that clearly represents the central level—began working on a policy proposal that would have led to fines for member states that refused to take in their quota of refugees (Deutsche Welle, 2017).

<sup>40</sup>On this issue, see also Carrera et al. (2015, 1).

<sup>41</sup>On the general issue of solidarity in the EU, see also Trein (2020).

<sup>42</sup>Even in cases in which commuters only constitute a weak link between a city center and suburbs, other cross-unit activities, such as consumer mobility or inter-firm activity could be responsible for creating substantial economic interdependence (Shearmur and Motte, 2009).

<sup>43</sup>For a comparative perspective on the reasons for Brexit, see Carl, Dennison and Evans (2019).

<sup>44</sup>Note that there are also economic costs to restricting the movement of people, because labor (or human capital) is an important factor of production as well.

<sup>45</sup>For a perspective on Brexit as a form of “differentiated disintegration,” see Schimmelfennig (2018*a*).

<sup>46</sup>While it is important to also highlight the hierarchical character of some EU governance processes as described by Börzel (2010), I have argued that polycentricity—and not hierarchy—is the *dominant* organizational principle structuring EU governance.

<sup>47</sup>As indicated earlier, this strength may come at the cost of decreased predictive power.

<sup>48</sup>For an overview of major contributions on EU foreign and security policy, see Krotz and Maher (2011).

<sup>49</sup>See also Falkner (2011).

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