

Public good markets

The possible role of hybrid governance structures in institutions for sustainability

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Outline

1. Introduction
2. The 'market' concept
3. Governance
 - Private goods
 - Public goods
4. Conclusion

Introduction

*« Analysing the role of political, economic and social institutions for sustainable development requires **new analytical frameworks** to understand and design rules for governing the increasing complex interaction between ecological and social systems of modern societies. »*
(Padmanabhan and Beckman, 2009)

Objective: apply existing theories on governing the markets of private goods to the supply of public goods

Introduction

« Finding rules and regulations that integrate all dimensions of sustainability » (Hagedorn, 2002)

⇒ Public good market creation to arrive at more sustainability

⇒ In the case of **agriculture** and natural resource management

⇒ Our hypothesis: **hybrid governance structures** may facilitate the functioning, not only of private, but also of public good markets

2. The market concept revisited

What is a market?

- Public place
- Group or organization
- Sub-division of population
- Interaction between
suppliers and buyers
- Specific organizational forms
- Governance structure



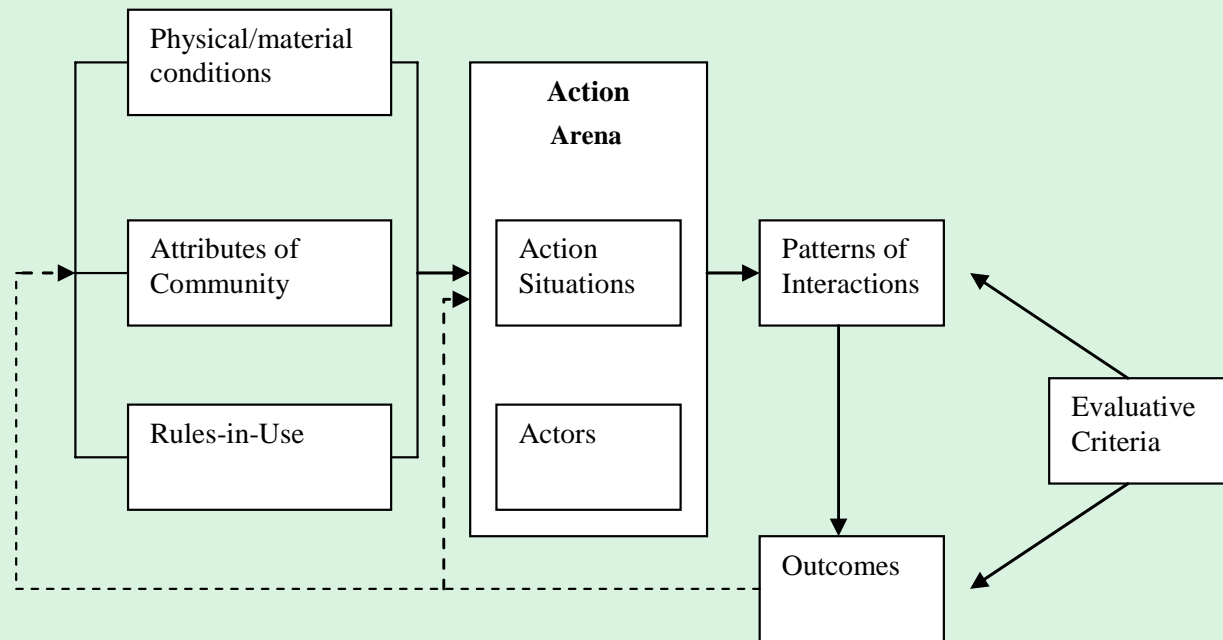
Variations = a reflection of diverging analyses (*Ménard*)

- **Neo-classical economics:** interaction of supply and demand, without institutions
 - **New social theories:** a specific type of social structure
 - **New institutional economics:** the neo-classical model + institutional constraints + external conditions
- => NIE = markets are institutions that shape the behavior of actors

Different levels of institutions (*Williamson*)

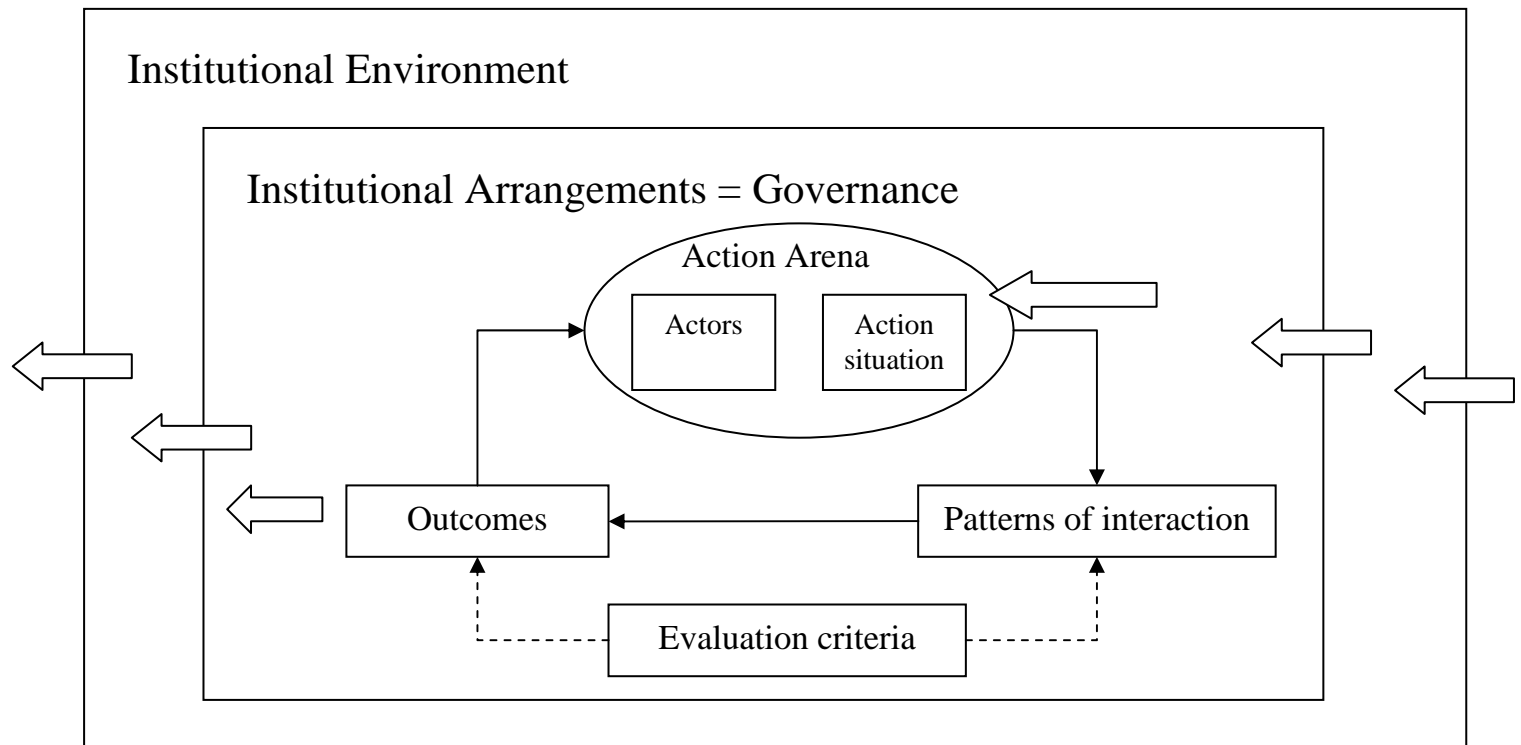
Level	Core element
Level 1: Social theory	Institutional embeddedness: informal rules, customs, traditions, norms, religion
Level 2: Economics of property	Institutional environment: formal rules of the game – especially property (policy, judiciary, bureaucracy)
Level 3: Transaction costs economics	Institutional arrangements, governance: play of the game – especially contract (aligning governance with transactions)
Level 4: Neo-classical economics	Resource allocation and employment (prices and quantities; incentive alignment)

Level 4 in NIE can be described as the action arena (*Ostrom*)



Combination

Institutional Embeddedness



Thus ...

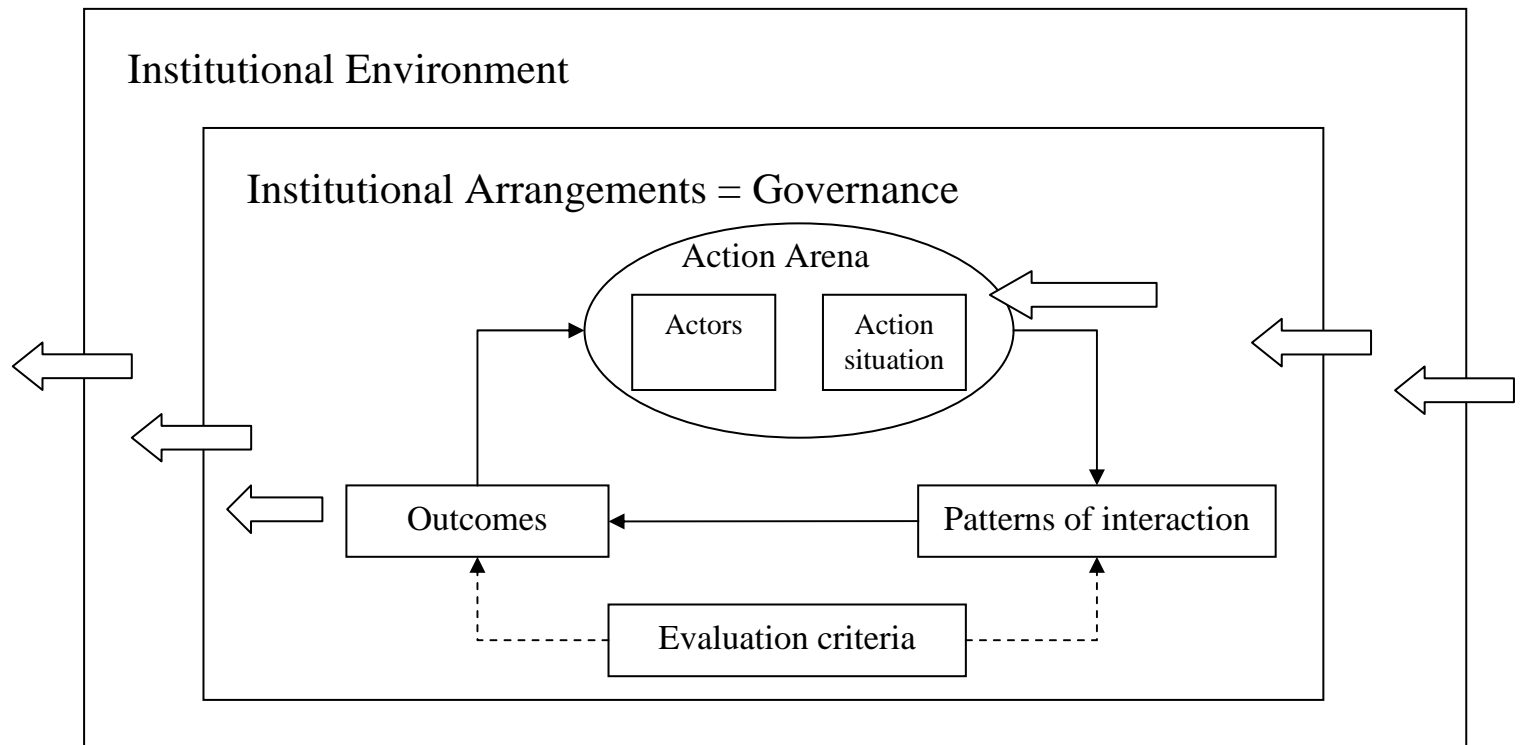
The market is a **nested set of institutions**, of rules within rules, guiding the interactions and decisions of actors within a certain action arena

⇒ The market model is based on **networks**, on social relations between people

⇒ How is this market organized (at governance level)?

Combination

Institutional Embeddedness



3. Governance structures

Between the actors: transactions

These have **costs**, depending on

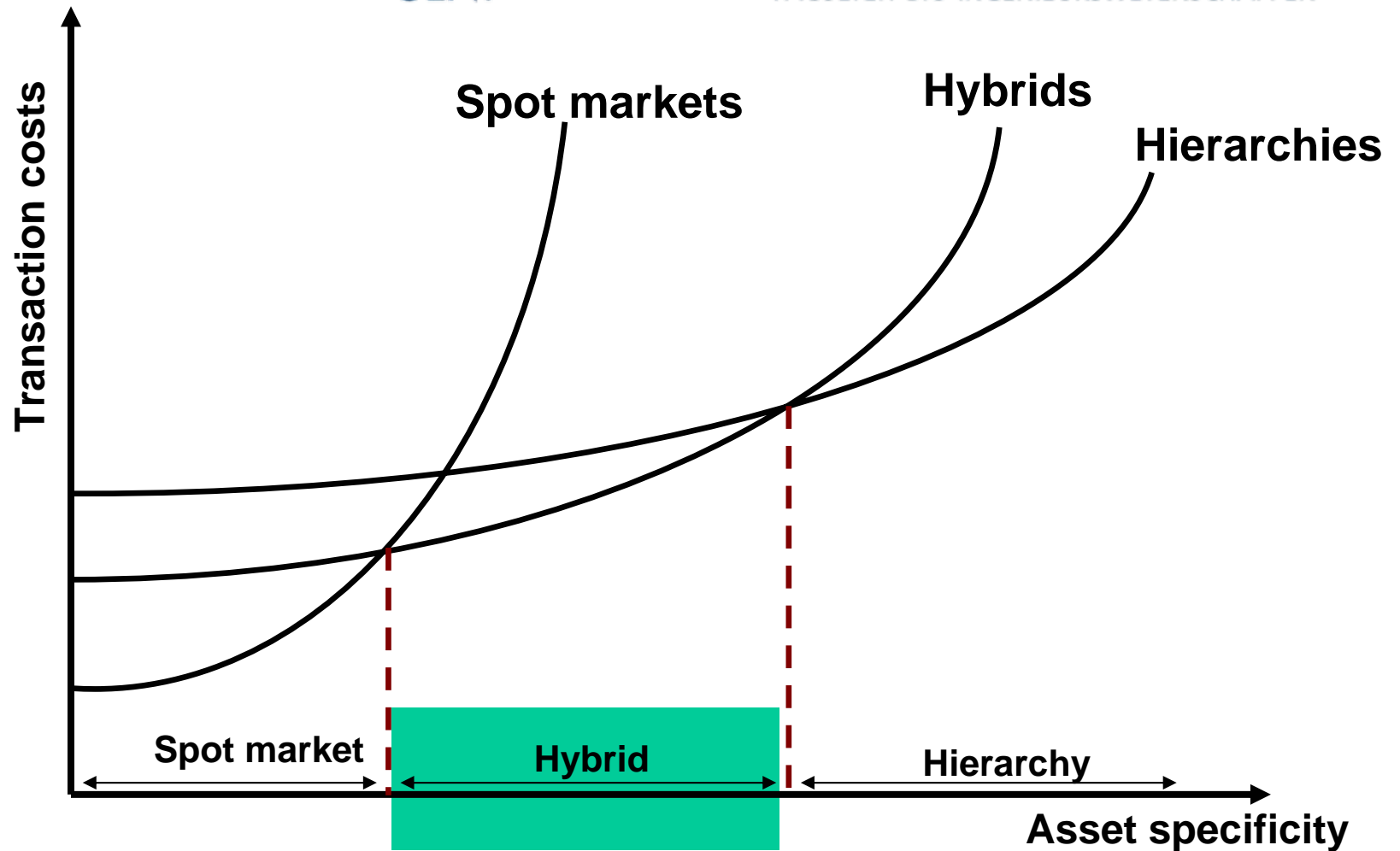
- uncertainty,
- complexity,
- frequency,
- relationship specific assets

Choose a governance structure as to **minimise transaction costs**

Private Goods



Governance structures vary from
spot market (*loose contact between buyer and seller*) over
hybrid governance (*ranging from open group forms
of governance to formal governments*) to
hierarchy (*integration of sellers and buyers in
one structure*).



Hybrids: **characteristics**

1. Pooling resources, with property rights still divided amongst actors
2. Relationships regulated by contracts
3. Competition between the actors and with alternative organizational forms exists

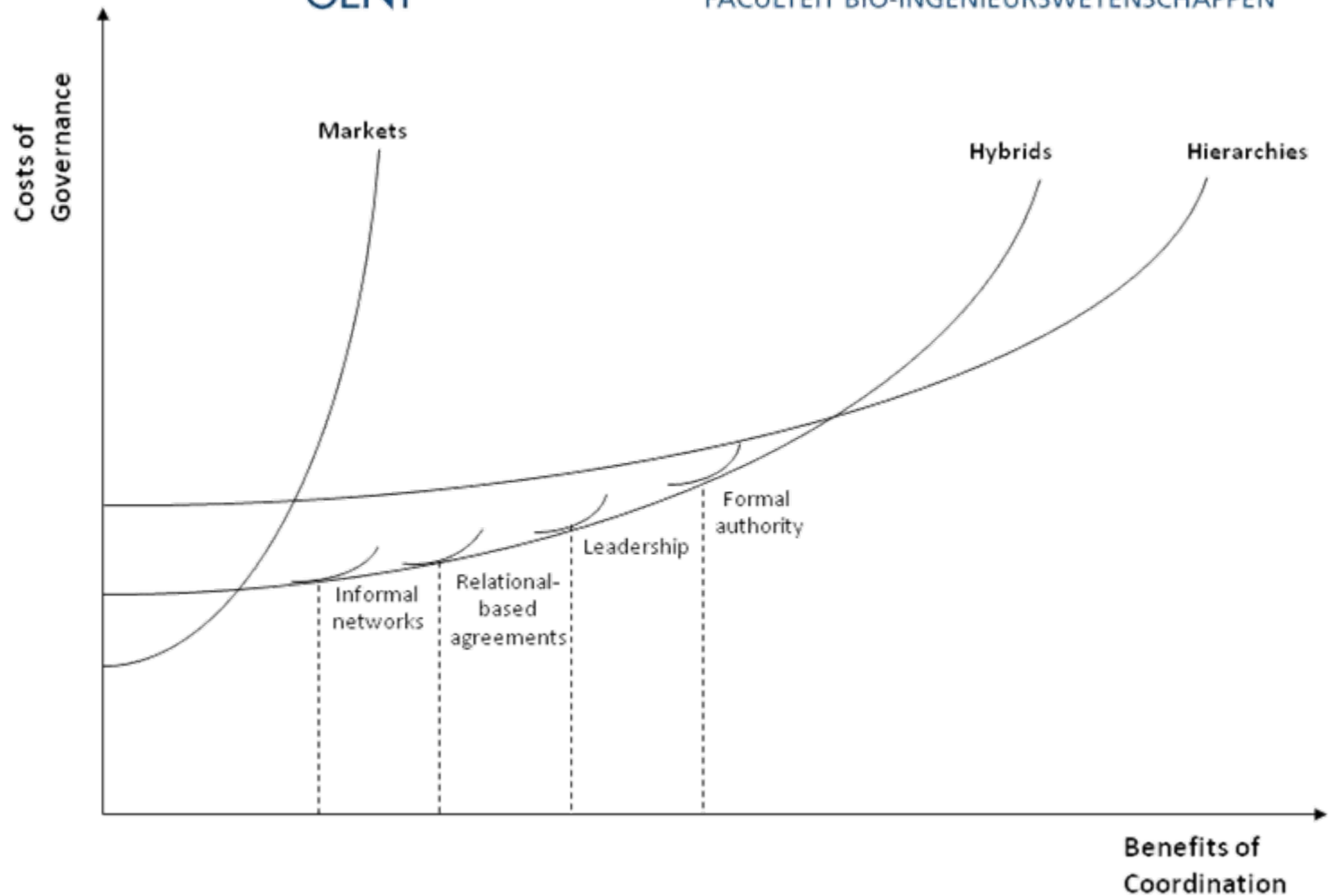
How do you **coordinate** these hybrids?

1. Using information devices
2. Based on contracts
3. E...ous regulator or
4. Cre...vn

Biomelk Vlaanderen

Carrefour





Public Goods

Difference between private and public good markets:

- Existence of externalities
- Position of public actors

=> Action arena in which public body demands goods/services and private agents can provide these goods/services



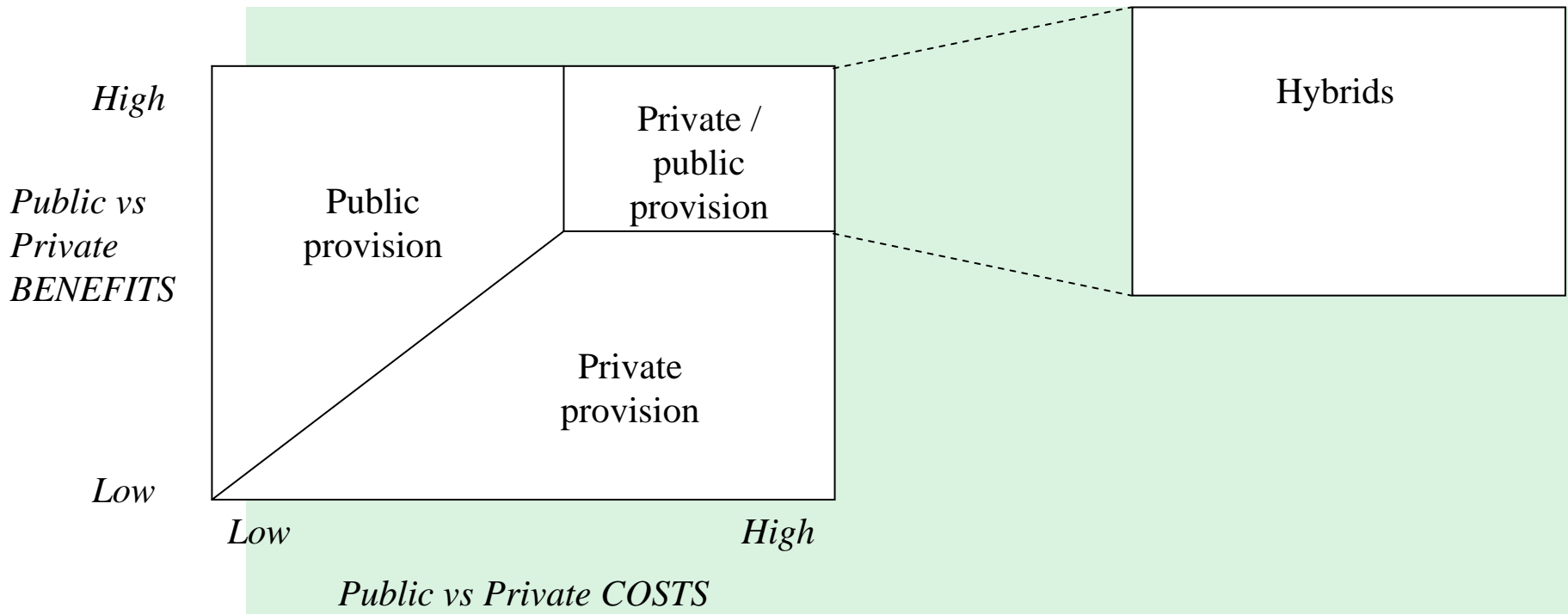
Provision of public goods

How to govern this action arena?
private, public or in a hybrid form

Transaction based on the **trade-off** between:

- Public and private benefits
- Public and private resource costs

Provision of public goods



Which hybrid structure to choose?

Simple hybrid, such as a contract

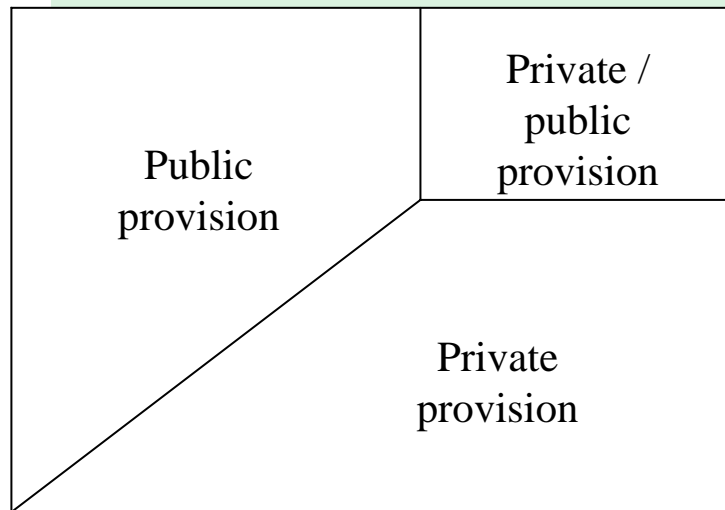
OR

More advanced hybrid, such as trusts, cooperatives, ...

Provision of public goods



High
Public vs
Private
BENEFITS



High
Private
governance
cost

Low

Contractual
arrangements

Other hybrid
forms

Low

Low

High

Public vs Private COSTS



Coordinating hybrid institutions providing public goods

1. Information devices

Ex: regional landscape centre



Which hybrid structure to choose?

Need for a systemic analysis of the governance structures in the case of public markets.

Some attempts have been made:

⇒ The **choice depends** on:

⇒ Measurement problems and the required safeguards
(*Williamson, Boughera et al. 2007*)

⇒ (A)symmetric information and uncertainty vs specific investment needs (*Ducros, 2007*)

⇒ *Comparing the drivers for development of hybrid with kinds of partnership (Ménard 2007)*

Ménard 2007

Drivers for PPP development

- Mutual dependency
- Uncertainty of outcomes
- Expected social gains
- ...

Elements infl. governance structure:

- Institutional environment
- Path dependency
- Specificity of investments
- Rent protection and division
- Consequential uncertainty
- ...

Choice of public /
private
governance
structure

Performance of
coordination
centre

Overall
results

Hybrids wil be beneficial when:

The assets of stakeholders are very specific
(e.g. maintenance of typical regional landscape)
AND

the investment needs are very specific and
expensive

(e.g. investment in irrigation installations)

Which might be the case for nested markets

Evaluating hybrid institutions providing public goods

- Take into account the performance of the **'coordination centre'**
- Analyse mutual relations, competition, influence and conflicts among different and with other structures (in a **polycentric governance system**)
- Take into account the degree of **(de)centralisation** (which might influence transaction costs)

4. Conclusion

Hybrid governance structures may contribute to the proper functioning of markets, private as well as public.

They help to foster better allocation of public goods and their development.

=> Research need for a more systematic theoretical and empirical analysis of the role of hybrid governance structures in public markets

Thank you for your attention!

Questions or remarks?