

Coordination Without Consolidation: How Systems of States Multiply Inward and Integrate Upward

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Abstract

Written for the 250th anniversary of 1776, this essay reconsiders the United States as a “system of states” and asks whether federative and polycentric orders can coordinate at scale without drifting toward centralisation. Classical liberal and polycentric theories rightly emphasise the virtues of decentralised authority: competition, exit, experimentation, local knowledge, and institutional diversity. Yet successful systems of states do not merely coordinate across existing units. They also multiply inward, generating new municipalities, agencies, districts, regulatory bodies, and subordinate jurisdictions. This proliferation deepens polycentricity, but it also creates denser interdependence and greater demands for coordination.

The essay argues that centralisation is not simply an

external imposition on decentralised systems, nor merely a failure of constitutional design. It is often an emergent property of successful coordination. As federative systems scale, proliferating units require shared standards and interpretive authority, complex hierarchies with structural integration, and collective capacity in the face of systemic risks. The American experience illustrates this federation paradox: a system designed to preserve decentralisation has become more locally differentiated and more centrally integrated at the same time. Nor can exit fully solve the problem, since integration itself raises the costs of exit and reduces the meaningfulness of jurisdictional alternatives.

The challenge for polycentric and interpolity orders is therefore not simply to create decentralised systems, but to sustain meaningful decentralisation as coordination becomes increasingly necessary. The task is coordination without consolidation.

Introduction: The Idea of a System of States

1776 is most often remembered as the moment a new nation was born. It marked a decisive break from imperial rule—the assertion of political independence by thirteen colonies that would go on

to form the United States. Yet it can also be understood in a different, and in some ways more revealing, light. What emerged in its aftermath was not simply a new nation-state, but a political architecture for holding many states together without wholly dissolving them into one: a system composed of multiple states, each retaining a degree of autonomy while bound together within a shared framework.

In retrospect, this can be read as an early large-scale experiment in what later theorists would call polycentric governance (Ostrom, Tiebout, and Warren 1961; Ostrom 1973; Ostrom 2010; Aligica and Tarko 2012). Authority was deliberately distributed rather than concentrated. The federal government was assigned limited and enumerated powers, while substantial responsibilities remained with the states. The system was designed to enable coordination—particularly in areas such as defence, trade, and diplomacy—without dissolving the independence of its constituent units. It sought to combine scale with diversity, and unity with plurality.

This vision has had a durable afterlife. It continues to shape contemporary thinking about federalism,

decentralisation, and the organisation of political authority more generally. In recent years, it has been revived and extended in libertarian and classical liberal work on interpolity relations, which treats governance not as the domain of a single sovereign, but as a system of interacting polities (Christensen 2021; Christensen 2022; Christensen 2024a; Christensen 2024b; Christensen 2025). In this view, jurisdictions function analogously to firms in a market: they compete, adapt, and specialise, while individuals and organisations move among them in response to differences in policy and performance. Coordination emerges through interaction rather than command, and authority remains distributed across overlapping and interdependent units.

Underlying this perspective is a powerful and compelling assumption: that decentralised systems, if properly structured, can scale (Hayek 1939; Eichenberger and Frey 2006; Ostrom 2010). They can expand in size and complexity while preserving their essential character. Multiple jurisdictions can coexist within a larger framework, coordinating where necessary while maintaining autonomy where possible. Diversity need not be sacrificed for integration; centralisation need not be

the price of order.

The American experience is often taken as evidence of this possibility. A system that began as a loose confederation of states has grown into one of the largest and most complex political economies in the world, while retaining a formally federal structure. The continued existence of state governments, local jurisdictions, and layered authority appears to demonstrate that decentralisation can endure even as systems expand.

And yet this interpretation sits uneasily alongside another, equally familiar observation: the gradual but persistent expansion of central authority. Over time, the federal government has assumed a more prominent role in economic regulation, fiscal coordination, and legal interpretation. Institutions originally conceived as limited have taken on broader responsibilities. The system has become more integrated, more standardised, and, in important respects, more centralised.

This tension points to a more fundamental question. Is this trajectory a deviation from the original design—a consequence of political choices, institutional drift, or historical contingency? Or does it reflect something more systematic about

how decentralised systems evolve as they scale? Put differently: can a system of states remain fundamentally decentralised as it grows, or do the very processes that enable its expansion generate pressures toward centralisation?

This essay takes up that question directly. It argues that centralisation is not merely an external imposition on polycentric systems, nor simply the result of institutional failure. Rather, it emerges as a property of successful coordination. The danger is not always immediate consolidation into a single state, but the quieter centralisation of the authority needed to coordinate a system of states. As systems expand—through both increasing interaction among existing units and the internal proliferation of new units such as municipalities, agencies, and subordinate jurisdictions—the mechanisms that enable coordination generate pressures toward standardisation, hierarchy, and integration. The very capacities that allow such systems to function at scale may also become the channels through which their decentralised character is transformed. Over time, these pressures reshape the distribution of authority, often in ways that favour central institutions.

The argument unfolds in four steps. Section 2 reconstructs the case for polycentric governance, highlighting its advantages in terms of competition, diversity, and adaptability. Section 3 develops the core theoretical claim, showing how the scaling of polycentric systems generates coordination pressures that tend toward centralisation. Section 4 applies this framework to the evolution of federal systems, with particular attention to the United States as a system of states. Section 5 examines the limits of exit and competition as mechanisms for constraining authority in large, integrated systems. The conclusion returns to the meaning of 1776 for contemporary debates about federalism, interpolity order, and proposals for ever-larger federative systems.

The Promise of Polycentric Order

The appeal of polycentric governance, especially from a classical liberal perspective, lies in its promise to reconcile coordination with liberty: to sustain cooperation across large and complex societies without placing decisive authority in a single political centre. Rather than concentrating power, polycentric systems distribute decision-making across multiple, formally

independent units that interact within a shared institutional framework. This arrangement offers a vision of governance that is both decentralised and ordered—capable of supporting large-scale cooperation without collapsing into uniformity, monopoly, or central control (Polanyi 1951; Ostrom, Tiebout, and Warren 1961; Aligica and Tarko 2012).

In the work of Vincent Ostrom and Elinor Ostrom, polycentricity is not understood as fragmentation or disorder, nor simply as the multiplication of governing units. It refers to a structured system of overlapping and interdependent authorities, in which multiple centres of decision-making operate with a degree of autonomy while remaining capable of mutual adjustment within a broader order of rules (Ostrom, Tiebout, and Warren 1961; Ostrom 1973; Aligica and Boettke 2009; Ostrom 2010; McGinnis and Ostrom 2012). These units coordinate through shared norms, institutionalised channels of interaction, and mechanisms for resolving conflict. The result is a system that combines independence with interdependence—a form of governance in which authority is neither fully centralised nor entirely dispersed.

A central mechanism underpinning this vision is the role of competition and exit. Tiebout's famous account of individuals "voting with their feet" captures one formal version of a broader classical liberal claim: dispersed political authority becomes more accountable when individuals, firms, capital, and associations can move among jurisdictions (Tiebout 1956; Buchanan 1965). Polycentric systems are therefore often likened to markets in which governance units compete for residents, resources, and legitimacy. Under favourable conditions, this process produces a form of decentralised discipline: inefficient or unresponsive jurisdictions lose population, revenue, and influence, while more effective ones attract them. Governance, in this framework, is constrained not primarily through electoral mechanisms alone, but through mobility and the competitive pressures it generates.

This analogy to markets highlights one of the central strengths of polycentric systems: their capacity for discovery and adaptation. By allowing multiple jurisdictions to experiment with different policies and institutional arrangements, polycentric orders create a landscape of variation from which more effective solutions can emerge. No central

authority needs to know in advance which arrangement is best; variation permits discovery (Hayek 1945; Vihanto 1992; Vanberg and Kerber 1994). Local governments, closer to the conditions and preferences of their constituents, are better positioned to utilise dispersed knowledge and tailor policies accordingly. Failures remain contained, while successes can be observed and, in some cases, imitated. In this way, polycentric governance aligns closely with broader insights about the role of decentralisation in facilitating learning, experimentation, and innovation.

Together, these arguments form a family resemblance rather than a single doctrine: polycentric governance, jurisdictional competition, and institutional discovery all point toward the same broad possibility (Aligica and Boettke 2011; Aligica and Tarko 2012; Boettke, Lemke, and Palagashvili 2015; Aligica, Boettke, and Tarko 2019). Political order need not be monopolised by a single sovereign centre. It may instead emerge through a structured ecology of competing, cooperating, and mutually adjusting units.

Closely related is the value of institutional diversity. A system composed of multiple

decision-making units can accommodate a wider range of preferences and conditions than a uniform, centralised regime (Ostrom 1990; Ostrom 2010; Aligica 2014). Different communities can adopt different approaches to taxation, schooling, policing, land use, infrastructure, or regulation, reflecting variations in culture, economic structure, and social priorities. This diversity not only enhances responsiveness, but also provides a form of systemic resilience. Where a centralised system risks uniform failure, a polycentric system distributes risk across multiple units, increasing the likelihood that at least some will perform effectively under changing conditions.

These advantages raise a natural question: how can such systems scale? If polycentric governance is effective at local or regional levels, can it be extended to larger and more complex societies without losing its core features? The Ostromian answer to this problem lies in the concept of nested enterprises (Ostrom 1990; Ostrom 2010; Ostrom 2012). Rather than replacing decentralised units with a central authority, larger-scale coordination is achieved by layering institutions. The attraction of nesting is that it promises to match governance to the scale of the problem: local matters can remain

local, regional matters can be handled regionally, and system-wide matters can be coordinated through broader institutions. Local units remain intact, but are embedded within frameworks that facilitate interaction across levels. Higher-level institutions provide coordination for issues that exceed the capacity of individual units, while lower-level units retain control over more localised concerns.

In this conception, scaling need not require centralisation. It requires organisation across levels. Polycentric systems can grow by adding layers of governance that correspond to the scale of the problems being addressed, creating an order that is structured but not monocentric. Each level performs functions appropriate to its scope, and authority remains distributed rather than concentrated in a single centre. The result is a vision of large-scale governance that preserves the advantages of decentralisation while addressing the demands of coordination.

The framework is compelling because it avoids a familiar but misleading dichotomy in political thought: the choice between anarchy and hierarchy, fragmentation and centralisation. It suggests that

complex societies can be governed through overlapping, interacting units rather than through a single sovereign authority. And it provides a normative foundation for contemporary arguments in favour of decentralisation, federalism, jurisdictional competition, and interpolity order (Buchanan 1975; Frey 2001; Eichenberger and Frey 2006; Fink 2012; Salter and Young 2019; Christensen 2021).

Yet this account raises a further question—one that becomes more pressing as systems expand. This question does not refute the polycentric ideal; it identifies the point at which its most difficult problem begins. If polycentric systems scale through nesting and coordination across levels, what happens to the structure of authority as units proliferate and their interactions intensify? Does layering preserve the distributed character of the system, or does it gradually transform it? More pointedly, do the mechanisms that enable coordination at scale—shared rules, common frameworks, and higher-level institutions—remain neutral supports for polycentricity, or do they become channels through which the system is reshaped in a more centralised direction?

The Scaling Problem

The difficulty begins with scale. The case for polycentric governance rests on a powerful intuition: decentralised systems, composed of multiple autonomous decision-making units, can coordinate effectively without requiring central authority. Through competition, mutual adjustment, and institutional diversity, such systems can generate efficient and adaptive outcomes. Yet this intuition, while compelling at smaller scales, becomes increasingly strained as systems expand. The central difficulty is not whether coordination can occur, but how it is sustained as the number of actors, interactions, and interdependencies grows.

A crucial but underappreciated feature of this scaling process is that polycentric systems do not expand solely by coordinating across a fixed set of units. They also scale through proliferation: the creation of new subordinate, specialised, or local units within the system. This is different from the familiar image of smaller units merely federating upward; here the existing system expands by producing new units downward and internally. As systems succeed—economically, demographically, and institutionally—they generate new layers of

organisation: municipalities, specialised agencies, regulatory bodies, and, in some cases, entirely new jurisdictions. This process increases the number of decision-making centres within the system, deepening its polycentric character at the local level.

In the United States, this dynamic is particularly pronounced. The American system of states did not simply grow outward; it multiplied inward. The expansion of population and economic activity has been accompanied not by consolidation into fewer units, but by the proliferation of counties, municipalities, school districts, special-purpose authorities, regulatory agencies, and other administrative bodies. Far from diminishing polycentricity, this process intensifies it—multiplying the number of actors, jurisdictions, and institutional interfaces through which coordination must occur. The system becomes not simply larger, but more internally differentiated and structurally complex.

This proliferation has a direct and cumulative consequence. As units proliferate, so too does the density of interaction among them. Each additional jurisdiction or agency introduces new

relationships—legal, fiscal, regulatory, and administrative—that must be managed. The system becomes more interconnected, more interdependent, and more demanding in its coordination requirements. What begins as a decentralised system of relatively autonomous units evolves into a dense network of overlapping responsibilities and shared dependencies (Eusepi and Wagner 2011; Wagner 2016).

It is at this point that nesting emerges—not merely as a design principle, but as an endogenous response to proliferation. The multiplication of units creates the need for higher-order coordination structures: mechanisms capable of aligning behaviour, standardising rules, and mediating interactions across an increasingly complex field of actors (Ostrom 1990; McGinnis and Ostrom 2012; Ostrom 2012). This is not simply the familiar process of smaller units combining upward into a federation. It is also the reverse dynamic: an existing federal or polycentric order expanding downward and inward by generating new subordinate units, which then require coordination in turn. These structures often begin as facilitative arrangements—shared frameworks, cooperative agreements, and limited oversight institutions.

Over time, however, they tend to stabilise, formalise, and accumulate authority.

In this way, the expansion of polycentricity generates the conditions under which centralisation becomes functional. The system does not move from decentralisation to centralisation in a simple or linear fashion. Rather, it evolves through a dual process: increasing local differentiation and increasing system-wide integration. The proliferation of units intensifies the need for coordination; the need for coordination generates the structures through which authority becomes concentrated. Centralisation, in this context, emerges not despite polycentricity, but through its expansion.

This dynamic reframes the problem of scale in polycentric governance. The challenge is not simply that more interaction requires more coordination. It is that successful systems produce more units, and more units produce disproportionately greater coordination demands. The mechanisms through which these demands are addressed—standardisation, hierarchy, and integration—are therefore not external impositions, but endogenous developments. Institutional

economics, complexity theory, and historical political economy each point toward the same pattern: systems that successfully coordinate at scale tend to develop hierarchical and centralised structures (Simon 1969; Tilly 1985; Williamson 1985; North 1990).

Coordination, Standardisation, and Interpretive Authority

As interaction expands within a system, the costs of coordination become more difficult to manage. In the language of institutional economics, these are transaction costs: the costs of searching, negotiating, monitoring, and enforcing agreements. Douglass North argues that institutions reduce these costs by stabilising expectations and structuring interaction (North 1990). Oliver Williamson similarly emphasises that governance structures evolve to economise on the frictions inherent in exchange under conditions of uncertainty and opportunism (Williamson 1985).

At smaller scales, coordination can rely on informal norms and localised practices. However, as systems expand and proliferate internally, heterogeneity becomes a source of friction. Divergent rules, incompatible practices, and uncertain expectations

increase the cost of interaction across jurisdictions, agencies, and other governance units. A common response is standardisation: the development of shared rules, common procedures, and uniform frameworks that reduce complexity and facilitate exchange across a growing number of actors (Farrell and Saloner 1985; Katz and Shapiro 1985; Williamson 1985; North 1990).

Standardisation, however, does not eliminate uncertainty; it transforms it. As rules become generalised and applied across diverse contexts, disputes arise over their meaning and application. This generates demand for authoritative interpretation and enforcement. The historical evolution of the law merchant—the body of merchant customs and dispute-resolution practices that governed trade across jurisdictions—illustrates this dynamic (Milgrom, North, and Weingast 1990; Benson 1990; Benson 1992; Greif 2006). Initially decentralised, it relied heavily on reputation, commercial norms, and informal enforcement. As trade expanded and interactions became more complex, these mechanisms became increasingly strained. Standardised practices required more formal adjudication, leading over time to the incorporation of commercial norms into

state-backed legal systems and the rise of centralised courts.

The broader implication is that standardisation, while enabling coordination across proliferating units, simultaneously generates the need for authority. The more a system depends on shared rules to manage its internal complexity, the stronger the demand for institutions capable of interpreting and enforcing those rules consistently. Authority thus emerges not as an external imposition, but as a functional requirement of coordination at scale.

Complexity, Hierarchy, and Structural Integration

A complementary insight arises from complexity theory. In his analysis of “The Architecture of Complexity,” Herbert A. Simon shows that hierarchical organisation is a recurring feature of complex systems (Simon 1962). As systems grow in size and internal differentiation, the number of potential interactions among components multiplies rapidly. Without structure, such systems become unstable and difficult to manage.

Hierarchy provides a solution by organising

components into subsystems and layers. In what Simon terms “nearly decomposable systems,” interactions are dense within subsystems but mediated across levels (Simon 1962; Simon 1969). This reduces the informational and coordination burden: instead of requiring all-to-all interaction, coordination is channelled through structured pathways. Crucially, this hierarchy is not necessarily imposed from above. It emerges because it can make coordination more tractable.

Applied to polycentric governance, this insight takes on particular significance. As units proliferate internally—generating more jurisdictions, agencies, and functional bodies—the complexity of coordination increases substantially. The system becomes less able to rely on purely horizontal coordination among all units. Instead, pressure builds for vertical structures: coordinating bodies, regulatory frameworks, and administrative hierarchies that manage interactions across levels.

Over time, these structures tend to accumulate authority. What begins as coordination becomes governance; what begins as facilitation can become control. In this way, hierarchy emerges as a response to the complexity generated by

proliferation; centralisation is the recurrent danger of that hierarchy. The system does not abandon polycentricity, but reorganises it within a layered structure in which authority becomes increasingly concentrated at higher levels.

Systemic Risk, Security, and Collective Capacity

A third mechanism reinforcing this dynamic arises when coordination problems become systemic. Security is the clearest historical example. Analyses of state formation, most prominently associated with Charles Tilly, emphasise the role of warfare in driving political integration (Tilly 1985; Tilly 1990). In competitive environments, polities must coordinate resources, align strategies, and mobilise collective action to survive. Fragmented systems, in which authority is dispersed across proliferating units, face significant disadvantages when failure cannot be contained locally.

Systemic pressures of this kind amplify the demands generated by internal differentiation. A system composed of many local units must develop mechanisms for collective defence, resource mobilisation, crisis response, and strategic coordination. This leads to the creation of central institutions—fiscal systems, command structures,

administrative bodies, and emergency capacities—that are capable of acting at the level of the system as a whole. These institutions, once established, tend to persist and expand (Mann 1986; Brewer 1989; Tilly 1990; Spruyt 1994).

Importantly, this dynamic does not replace the earlier mechanisms; it intensifies them. Systemic pressures increase the urgency of coordination, accelerate standardisation, and deepen hierarchical integration. The same pattern appears, in milder form, wherever failure is treated as system-wide: financial crises, public health emergencies, infrastructure breakdowns, cyberattacks, or national security threats all create demands for coordinated action that lower-level units cannot easily supply alone. The result is a further consolidation of authority. Systems that cannot coordinate under such conditions are often placed at a serious disadvantage.

Synthesis: Proliferation, Coordination, and Centralisation

Taken together, these mechanisms reveal a coherent and generalisable pattern: polycentric success generates proliferation; proliferation generates coordination problems; coordination problems

generate centralising institutions. Polycentric systems scale through internal differentiation, generating increasing numbers of decision-making units. This proliferation produces escalating coordination demands, which are addressed through standardisation, hierarchy, and integration: standardisation reduces friction across units; hierarchy structures complexity; integration consolidates decision-making under shared constraints.

These processes are mutually reinforcing. Standardisation enables hierarchy by creating uniform frameworks; hierarchy concentrates coordination capacity and thereby supports integration; integration, in turn, deepens interdependence, further increasing the need for coordination.

The result is a dynamic in which centralisation emerges as a structural response to the success of polycentric systems themselves. The system does not merely drift toward central authority because of political failure or exogenous shocks. Rather, it evolves in response to the internal pressures generated by its own expansion. In this sense, the success conditions of polycentric systems can also

become their centralising conditions at scale.

This reframing has significant implications. It suggests that polycentric systems are not stable equilibria that persist automatically once established. They are dynamic configurations that, over time, generate the conditions for their own transformation. Centralisation, in this sense, is the process through which consolidation becomes a recurring possibility. The central problem for polycentric governance is therefore not simply how to enable coordination without central authority, but how to sustain decentralisation in the face of the centralising logic of coordination itself.

The Federation Paradox

Federalism is often understood as the institutional solution to the problem of scale. It promises a way to preserve decentralised governance while enabling coordination across a larger political system (Hayek 1939; Riker 1964; Ostrom 1973; Weingast 1995; Bednar 2009). The original American design is perhaps the most influential articulation of this idea. It was not merely a compromise between nationalism and localism, but an institutional attempt to hold a political plurality together without fully consolidating it. In this

vision, the United States was not conceived as a simple nation-state, but as a system of states—a layered order in which local self-government could coexist with collective action at higher levels.

This vision aligns closely with the polycentric ideal described above (Ostrom, Tiebout, and Warren 1961; Ostrom 1973; Bednar 2005). Multiple centres of authority operate simultaneously, allowing for experimentation, local responsiveness, and jurisdictional competition. Higher-level institutions exist, but they are meant to remain constrained and limited in scope. Coordination is achieved without dissolving the autonomy of constituent units or placing all authority in a single political centre. In principle, such a system appears capable of scaling without collapsing into centralisation.

Yet the historical trajectory of the United States suggests a more complex reality. Over time, the system has not remained a stable balance between decentralisation and coordination. Instead, it has evolved through a dual process of internal proliferation and central integration. This movement reflects the dynamic outlined in the previous section: polycentric systems expand not only through coordination across existing units, but

through the proliferation of units within them. That proliferation, in turn, creates the conditions under which centralisation becomes functional (Rodden 2006; Bednar 2011; Eusepi and Wagner 2011).

From the early republic to the present, the United States has experienced an extraordinary expansion in the number and variety of governance units operating within its federal structure. Counties, municipalities, school districts, special-purpose authorities, regulatory agencies, and administrative bodies have multiplied alongside population growth, economic development, and territorial expansion. The system has become more finely grained, more specialised, and more locally differentiated. In this sense, American federalism has become more polycentric over time, not less (Ostrom, Tiebout, and Warren 1961; Ostrom 1973; Bednar 2011).

But proliferation has not meant independence. As the number of units has increased, so too has the density of interaction among them. Local governments depend on state frameworks; states interact through shared markets and regulatory spillovers; specialised agencies operate across jurisdictional boundaries. The resulting system is

highly interconnected, with overlapping responsibilities and shared constraints. Managing this complexity requires coordination at a scale and level of consistency that is difficult to sustain through purely local or horizontal arrangements (Rodden 2006; Bednar 2009; Wagner 2016).

The response has been the gradual expansion of federal authority—not as a sudden break with the founding design, but as a cumulative process of integration. Economic coordination has driven the extension of federal regulatory power, most notably through the interpretation of interstate commerce and the expansion of national regulatory capacity during and after the New Deal. Fiscal coordination has expanded through federal taxation, grants-in-aid, conditional funding, and transfer systems that link local and state governments to federal resources (Brennan and Buchanan 1980; Rodden 2006). Legal coordination has deepened through the role of federal courts in interpreting constitutional authority, standardising rules, and resolving disputes across jurisdictions. In each case, the justification has been functional: the need to manage interdependence in an increasingly complex system (Weingast 1995; Bednar 2009; Bednar 2011).

What is striking is that this expansion has occurred alongside, rather than in place of, continued local proliferation. The United States has not centralised by eliminating lower-level units. Instead, it has centralised through the management of those units. The American system of states has multiplied inward and integrated upward: federal authority has grown as a coordinating layer over an expanding and increasingly differentiated field of subnational governance. The result is not a simple shift from decentralisation to centralisation, but a reconfiguration of the system into a more tightly integrated, multi-level structure (Rodden 2006; Bednar 2009; Wagner 2016).

This is the federation paradox: the institutional form designed to preserve decentralisation also creates the channels through which central authority expands. Federal systems distribute authority across multiple levels. Yet in doing so, they also create the institutional environment in which centralisation becomes both necessary and legitimate. The proliferation of units within the system increases the demand for coordination; the mechanisms developed to provide that coordination—regulation, fiscal systems, and judicial authority—tend over time to accumulate

power at the centre (Weingast 1995; Bednar 2005; Rodden 2006; Bednar 2009).

Seen in this light, the evolution of the United States is not an aberration or a simple failure of federal design. It is an instance of a more general pattern. The same dynamic can be observed, albeit in different form, in other federal, federalising, or quasi-federal systems. The European Union is not a federation in the same sense as the United States, but it illustrates the same logic in a more contemporary and incomplete form. What began as a limited arrangement for economic cooperation among sovereign states has deepened into a system in which shared markets require common rules, and common rules require institutions capable of interpreting and enforcing them. The result has been a gradual expansion of supranational authority—legal, regulatory, and, increasingly, fiscal—alongside the continued formal sovereignty of member states. As in the American case, coordination has generated convergence, and convergence has generated centralisation (Frey and Eichenberger 1996; Pierson 1996; Hooghe and Marks 2003; Kelemen 2004).

The key point is not that all federations must

converge to a single institutional endpoint, nor that centralisation is inevitable in a strict sense. Rather, it is that the forces pushing in that direction are endogenous to the functioning of federative systems themselves. The more effectively a system of states enables interaction—shared markets, economic exchange, mobility, and regulatory coordination—the more it generates the need for common frameworks. And the more those frameworks are relied upon, the greater the role of the institutions that define and administer them (Pierson 2000; Bednar 2009; Wagner 2016).

This reframing has important implications for how we understand both the past and the future of federal and federative systems. It suggests that the central question is not simply how to design institutions that limit central authority, but how to manage the structural pressures that arise from scale, interdependence, and internal proliferation. Constraints on central power may slow or shape the process, but they do not eliminate the underlying dynamics. As long as the system continues to expand—through population growth, economic integration, institutional differentiation, and the multiplication of subordinate units—the demand for coordination will persist, and with it, recurring

pressures toward centralisation (Buchanan and Tullock 1962; Bednar 2009; Bednar 2011; Wagner 2016).

In this sense, the American experience is not just a historical case, but a demonstration of a broader principle. A system founded on decentralisation can, through its own success, generate the conditions under which central authority expands. The challenge for any system of states is therefore not merely to establish a balance between levels of government, but to sustain that balance in the face of forces that continually reshape it. If federal coordination tends to weaken the autonomy of constituent units, the next question is what, if anything, can discipline that drift.

The Limits of Exit

The first answer, from within the polycentric tradition, is jurisdictional competition and exit. Decentralised systems are disciplined not only by internal governance mechanisms, but by the possibility that individuals, firms, capital, and associations may leave. If people and resources can move across jurisdictions, governments face pressure to compete to attract and retain them. Poorly performing units lose population, revenue,

and legitimacy; better-performing ones gain them. In this way, authority is constrained not by design alone, but by the threat of departure (Tiebout 1956; Buchanan 1965; Vanberg and Kerber 1994; Eichenberger and Frey 2006).

This idea, most clearly articulated by Charles Tiebout's account of individuals "voting with their feet," provides one of the most powerful arguments for decentralisation (Tiebout 1956; Buchanan 1965). It offers a mechanism through which diversity and competition can generate efficient outcomes without requiring central oversight. In its idealised form, exit transforms governance into a discovery process: individuals sort into jurisdictions that better match their preferences, and jurisdictions adapt in response to those movements. The result is a dynamic equilibrium shaped by choice, mobility, and competition.

The relevant issue, however, is not merely formal exit, but effective exit. Formal exit may exist whenever individuals or firms are legally free to relocate. Effective exit requires more: the ability to leave at tolerable cost, to move toward an alternative that differs in ways that matter, and to do so without losing access to essential networks,

opportunities, or protections. Exit disciplines authority only when these conditions are present. Where they are absent, mobility remains possible in principle but weak as a practical constraint (Buchanan and Goetz 1972; Leeson and Subrick 2006; Pennington 2011).

The first obstacle to effective exit is switching cost. Relocating across jurisdictions is rarely a trivial decision. For individuals, it may involve financial costs, disruption to employment, separation from family and social networks, and the loss of place-specific knowledge or opportunity. For firms and associations, exit may involve regulatory uncertainty, contractual disruption, loss of market access, or the cost of rebuilding relationships elsewhere. These frictions limit responsiveness to differences in policy and governance. Even where formal mobility is permitted, practical mobility is often constrained (Buchanan and Goetz 1972; Friedman and Taylor 2020).

A second obstacle is the erosion of meaningful alternatives. Exit disciplines only when jurisdictions differ in ways that matter. Yet the very processes of coordination and standardisation discussed earlier tend to reduce such differences.

As jurisdictions interact more intensively, shared markets, regulatory harmonisation, common legal standards, and fiscal entanglements can narrow the range of available alternatives. In a federal system, this means that moving across state lines may preserve formal choice while reducing substantive institutional difference. While this convergence facilitates coordination, it also diminishes the practical value of exit. The more coordination produces convergence, the less exit can discipline coordination (Vanberg and Kerber 1994; Rodden 2006; Vanberg 2016).

A third obstacle is network dependence. In highly integrated systems, participation in shared infrastructures and institutional networks becomes essential. These may include financial systems, licensing regimes, regulatory frameworks, supply chains, professional networks, or administrative systems of recognition. Exiting a jurisdiction may therefore entail losing access to these networks, or incurring substantial costs to reconnect elsewhere. The result is a form of lock-in: individuals, firms, and associations may remain within a system not because it is optimal, but because departure is costly and uncertain. The same interdependence that enables coordination thus raises the barriers to

exit (Farrell and Saloner 1985; Katz and Shapiro 1985; Arthur 1994; Pierson 2000; Wagner 2016).

This is where Hirschman's distinction between exit, voice, and loyalty becomes important (Hirschman 1970). Tiebout supplies the competitive ideal; Hirschman explains why exit is often costly, delayed, or displaced into voice. Where exit is easy, it can operate as a mechanism of discipline. Where exit is costly, constrained, or directed toward alternatives that differ little in practice, actors are more likely to rely on voice—attempting to change the system from within—or to remain out of loyalty, resignation, or inertia. As systems grow more complex and integrated, the balance shifts away from exit and toward these alternative responses.

There is also a systemic dimension to exit. Exit does not occur in a vacuum; it has consequences for the system as a whole. Large-scale departures can undermine the provision of public goods, destabilise fiscal systems, and impose external costs on those who remain. For this reason, federative systems often develop devices that soften, channel, or discourage exit—not always through formal prohibition, but through fiscal,

legal, administrative, and infrastructural entanglement. In seeking to preserve stability, the system can further weaken the very mechanism that is meant to discipline it (Buchanan and Goetz 1972; Brennan and Buchanan 1980; Rodden 2006; Wagner 2016).

The cumulative effect of these pressures is that exit becomes less effective precisely as systems become more successful at coordinating large-scale interaction. In small, fragmented systems, exit can be a powerful discipline. In large, integrated systems, it is attenuated by switching costs, convergence, network dependence, and systemic entanglement. The disciplining mechanism does not disappear, but it becomes less reliable, often substantially so.

This observation reinforces the broader argument of the paper. The same processes that enable polycentric systems to scale—proliferation of units, increased interaction, standardisation of rules, and integration of functions—also erode the conditions under which exit can operate effectively. As a result, one of the key safeguards against centralisation becomes progressively less reliable. Exit is meant to discipline centralisation, but

integration disciplines exit.

The implication is not that exit is irrelevant, but that it is insufficient on its own. It cannot fully counterbalance the structural pressures toward coordination and integration that arise in large-scale systems. The expectation that decentralisation will be preserved through competition and mobility alone rests on assumptions that become increasingly fragile as systems expand. The more a system succeeds in coordinating its parts, the harder it becomes for those parts to discipline the system by leaving it (Boettke and Leeson 2004; Leeson and Subrick 2006; Pennington 2011).

Conclusion: The Fate of a System of States

1776 was not only an act of political separation. It was also the beginning of an experiment in holding political plurality together without fully consolidating it. The American founding is often remembered as a rejection of imperial authority, but it can also be understood as the creation of a system designed to reconcile autonomy and coordination across multiple jurisdictions. The United States, in its original conception, was not simply a new nation-state, but a system of states—a polycentric order in which authority would remain

distributed even as collective action became possible.

That experiment has, by many measures, been remarkably successful. It has supported economic growth, territorial expansion, institutional innovation, and large-scale cooperation on a scale rarely matched in history. It has also demonstrated the enduring appeal of polycentric governance as an alternative to both fragmentation and centralised control. The idea that multiple jurisdictions can coexist, compete, and cooperate within a shared framework continues to inform contemporary debates about federalism, decentralisation, and interpolity order (Ostrom 1973; Ostrom 2010; Christensen 2021; Christensen 2025).

At the same time, the American experience reveals a deeper and less frequently acknowledged dynamic. The system has not remained fixed in its original form. It has expanded, differentiated, and integrated. More precisely, it has multiplied inward and integrated upward. New layers of governance have emerged; interactions have intensified; coordination has become more complex. In responding to these developments, authority has shifted—gradually, often incrementally, but

persistently—toward central institutions capable of managing the growing interdependence of the system (Rodden 2006; Bednar 2009; Wagner 2016).

This is the federation paradox. The institutional form designed to preserve decentralisation also creates the channels through which central authority expands. The American case does not show that federalism simply fails, or that decentralisation is merely an illusion. It shows something more subtle: a system founded on decentralised authority can, through its own success, generate the conditions under which centralisation becomes functional, legitimate, and increasingly difficult to resist (Weingast 1995; Rodden 2006; Bednar 2009).

The broader lesson is that centralisation is not merely imposed on decentralised systems from the outside. It can emerge from the very processes that make large-scale coordination possible. Polycentric success generates proliferation; proliferation generates coordination problems; coordination problems generate centralising institutions. Standardisation, hierarchy, and integration are not always hostile to polycentric order. Often they are

the means by which such orders function at scale. But for that very reason, they can also become the channels through which distributed authority is transformed (Simon 1969; Tilly 1985; Williamson 1985; North 1990).

Nor can this tendency be fully checked by exit alone. Exit remains one of the central virtues of polycentric systems: it gives individuals, firms, and associations alternatives, and it disciplines authority by making departure possible. Yet as systems become more integrated, exit itself becomes less effective. Coordination produces convergence; integration produces dependence; institutional entanglement raises the cost of departure. Exit is meant to discipline centralisation, but integration disciplines exit (Tiebout 1956; Hirschman 1970; Buchanan and Goetz 1972).

This has important implications for contemporary proposals that extend the logic of polycentric governance to ever larger scales. Advocates of interpolity systems, global federalism, or networked governance architectures often envision a world in which political authority remains distributed across multiple overlapping jurisdictions, coordinated through shared rules and institutions. The aspiration

is to preserve diversity and local autonomy while enabling cooperation on problems that exceed the capacity of any single polity (Frey and Eichenberger 1996; Frey 2001; Eichenberger and Frey 2006; Christensen 2021; Christensen 2025).

That aspiration is attractive, and it should not be dismissed. But the analysis developed here suggests a note of caution. Ever-larger federative systems do not merely scale decentralisation; they transform it. A world of interoperable polities would not remain a flat network. It would generate centres of coordination and authority, whether formal or informal, constitutional or administrative, political or embedded in technical and institutional standards. The more such a system succeeds in coordinating its parts, the more it will face pressures toward common frameworks, shared enforcement, and centralised interpretation (Pierson 2000; Hooghe and Marks 2003; Kelemen 2004).

This does not mean that large-scale polycentric systems are impossible or undesirable. It does mean that they are intrinsically dynamic. They do not preserve their character automatically. Their success creates new units, new interactions, new

dependencies, and new demands for coordination. The challenge is therefore not simply to design systems that distribute authority, but to understand the forces that reshape that distribution over time (Bednar 2009; Ostrom 2010; Wagner 2016).

Returning to 1776, the American experiment should not be treated as a static model to be replicated, nor as a failed promise to be lamented. It is better understood as an evolving demonstration of the central problem of federative order: how to coordinate without consolidating, how to scale without homogenising, and how to preserve meaningful decentralisation when the practical demands of governance continually pull authority upward.

Coordination is among the great achievements of complex societies. It enables cooperation across distance, specialisation across functions, and integration across diverse communities. But it also carries within it a quiet and persistent tendency: the concentration of authority required to make that coordination work. The task is not to escape coordination, but to prevent coordination from quietly becoming consolidation. That problem is as old as 1776, and as urgent as any future world of

federated polities.

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