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The announcement of the [2009 Nobel Prize in Economics](#) is an important moment for all of us in the profession who understand that, as another great Nobelist Gary Becker once remarked when remembering his friend Milton Friedman, economics is not just a game to be played by clever people, but a discipline that is supposed to help us understand and improve the world around us.

Elinor Ostrom's work demonstrates the amazingly diverse ways in which human societies can achieve social cooperation. And Oliver Williamson opens our eyes to the many roles that firms play in society.

Both Ostrom and Williamson bring the real world back into focus for the study of economics. They blend theory and practice to take us beyond the unrealistic models in economics to recognize the rich institutional diversity in the world. For Ostrom this includes studies of municipal public goods production and distribution as well as underdeveloped nations, and for Williamson this includes the strategy and structure of the firm and the evolution of modern managerial capitalism.

For the past year, the discipline of economics has been under assault for being unrealistic and blind. The debate has focused on those who believe markets never fail and those who believe the market always fails. Ostrom and Williamson demonstrate that this debate is confused – and that the world is much more interesting than that.

People who will claim this as a vindication of either stultified point of view miss the point – and the significance of this award.

Ostrom, in particular, demonstrates the extraordinary capacity of individuals to solve problems without resorting to top down plans. Through innovative field work she has shown the wisdom of decentralized governance – making sure that the people who have the most relevant and local knowledge are empowered to make decisions about how to allocate resources. Her work with her husband Vincent adds a complimentary concern not just with self-governance, but with cultivating the characteristics among the citizenry that enable self-governance.

The world confronts us with a wide diversity of institutional forms and organizational arrangements. Some of these arrangements are conducive to social cooperation and human betterment, others are not so helpful.

But if we are to make progress, we must first be intellectually open to seeing the institutional diversity and then analyzing the mechanisms at work. The stale debate about markets working vs. markets failing fades away, and instead we see a variety of “markets” and recognize the importance of the institutions and policies that shape their operation.

Rational actors are still at the core of the explanation, but they are rational choosers that are human and not computers. Or as the Ostroms describe it, “The betterment of mankind depends on the ability of fallible human beings to make decisions, manage resources, and govern themselves.” Markets still allocate resources through relative price movements and profit and loss accounting, but the institutional environment within which markets operate not only affects the incentives of prices and

profit and loss, but also the meaning and accuracy of those signals and the interpretation of those signals by economic and political actors. Moreover, market relations are but one example of the vast array of voluntary civil associations that promote social cooperation in human societies.

We always see things through a personal lens and this is no different.

I have spent a good deal of my career working within the frameworks that Ostrom and Williamson helped to pioneer. Williamson arbitrated the theoretical insights of Ronald Coase on the nature of the firm with the business history of Alfred Chandler to delve inside the “black box” of the firm and move the discussion away from production functions and cost curves to an examination of organizational form and business strategy. His work transformed the study of industrial organization within the economics profession, both at a theoretical and policy level.

Vincent and Elinor Ostrom are significant contributors to the field of public choice economics in which I was educated by James Buchanan, Gordon Tullock, and Robert Tollison. Elinor has been a significant contributor to New Institutional Economics, and in particular the institutional analysis of development. She is an intellectual ally of my friend and colleague Vernon Smith, and especially his work on trust, reciprocity and ‘ecological rationality’. Her main subject of study has been the mechanisms of self-governance and “polycentricity” in a variety of complex situations – from local public economies in US cities to rural systems of irrigation in under-developed countries. As a political economist and as a development economist, there is much to be learned from a careful study of Elinor Ostrom’s work.

Several years ago, we organized a [conference at the Mercatus Center](#) in cooperation with the Fund for the Study of Spontaneous Orders to focus on the contributions to political economy made by Elinor and Vincent Ostrom (the papers were subsequently published in the [Journal of Economic Behavior and Organization](#)) with the hope of bringing a broader recognition among economists to their work.

Obviously, the intellectual world is different today after this announcement, and now many young scholars in economics and political economy will have the opportunity to study Elinor’s work in public choice, institutional analysis, and development economics.

I have also learned from Elinor’s embrace of her role as educator and mentor – the [Workshop on Political Theory and Policy Analysis](#) has always focused on training students as apprentices and that has informed my own work at the [Mercatus Center with our graduate students](#). The students that the Workshop trains embrace the research agenda as scholars that excited them as students. [Paul Dragos Aligica](#), my co-author on our [recently published book on the Ostroms’ contribution to political economy](#) is testament to the quality that this approach produces.

The Nobel committee makes a significant statement with their selection. And this prize once again honors that great intellectual agenda that I am proud to say George Mason University economics has embraced and in many ways has come to represent, one that combines the insights of Hayek, Buchanan, Coase, Vernon Smith, Douglass North, and Elinor and Vincent Ostrom.

I consider it a success when our students, like Elinor’s students, [leave GMU](#) with a passion for the world and a vision to continue the inquiry that they began under our program. At Mercatus we have promoted this close study of institutional diversity by supporting [research](#) and [graduate education](#) that has entailed classroom study of political economy and institutional analysis, and field study in [developing countries](#), [transition economies](#), and [recovering](#) or [declining U.S. cities](#). A major focus of our work in these areas has been the distinction concerning the difference between “rules in form” versus “rules in use” – to use Elinor’s language (or as Doug North says “formal” and “informal” rules).

We have termed this research program "the political economy of everyday life" and we have seen a new generation of researchers and teachers develop their research along these lines and publish articles and books ranging from the birth of modern finance, to the [spread of economic ideas throughout Eastern Europe](#), to the [economic examination of pirates](#), to [efforts of after war reconstruction](#), to [enterprise development in Africa](#), to the [role of civil society in post-natural disaster recovery](#), to [modern finance and public policy](#).

There is a reason why we pursue the ideas developed in these streams of thought in political economy. Ultimately, if we are truly concerned about advancing truth and useful knowledge as Gary Becker so poignantly suggested is the economist's purpose, we must recognize that our field is about exchange and the institutions within which exchange takes place. And we must recognize that the world is too interesting to fit into neat little boxes, let alone to let "black boxes" persist.

The "rules of the game" are critical to understanding our world, and it is the institutions that ultimately determine whether peace and prosperity emerge, or violence and poverty dominate. It is ultimately that simple, and that profound.

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October 12, 2009