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Elinor Ostrom: an intellectual biography

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BOOK REVIEWS

Elinor Ostrom: an intellectual biography, by Vlad Tarko, Lanham, MD, Rowman & Littlefield, 2017, 190 pp., $29.17 (paperback), ISBN 978-1-78348-588-8

Vlad Tarko's *Elinor Ostrom: An Intellectual Biography* is an excellent and concise account of Elinor Ostrom's work and of the Bloomington School of Political Economy. It is also a stimulating contribution, in its own right, to crucial and contemporary themes in political economy, building from, but moving beyond, the work of Elinor and Vincent Ostrom. The book is not merely an intellectual biography of the first woman to receive the Nobel Memorial Prize in Economic Science; its five chapters offer illuminating insights on important debates in political economy and institutional analysis, debates that challenge conventional wisdom on such matters as the robustness of self-governing arrangements, the effectiveness of endogenous bottom-up rules, and the efficiency of emergent contractual and 'quasi-market' decentralized ways of providing public goods.

Tarko presents a solid introduction to the diverse methodologies, intellectual challenges and unique philosophical vision of the Bloomington approach to political economy. He shows how this school of thought began with Vincent Ostrom's work on the efficiency of local public economies, and then how Elinor's fieldwork validated Vincent's original philosophical conjectures. The discussion makes evident that, to fully understand Elinor's work and social vision, we need to view her 'micro-level' empirical findings on local communities alongside Vincent's philosophical work. Both the philosophical and empirical aspects of the Bloomington School are crucial to Elinor's overall humanistic and positive—yet realistic—vision of self-governance and the unique role of the 'art and science' of local association in sustaining a healthy and representative political order. This novel political economic vision of the Ostroms involved a dramatic reconceptualization of 'the public' as a community of fallible yet creative people operating at the local level; this reconceptualization placed the focus on civil society, polycentric governments and smaller forms of collective action rather than on monolithic governments and large-scale arrangements for collective action. The approach examines how creative individuals can choose, without coercion, to collaborate at the local level to solve social dilemmas. It envisions higher degrees of consent and self-governance in local communities as the pillars of a virtuous and cooperative social order.

Chapter 1 explores Vincent and Elinor's work on local public economies, and its relation to the debate around the restructuring and management of local public economies and public services. The debate occurred in the 1950s and 1960s around the common belief that the only way to improve government efficiency and responsiveness to social challenges was through large-scale consolidation and hierarchical centralization. Ostrom, Tiebout, and Warren (1961) presented evidence from local government administrations in metropolitan areas which showed that substantial benefits could derive from decentralization and from competition in 'quasi-market' settings in which overlapping jurisdictions are competitive yet collaborative. They discovered that municipal and public services were provided by different governmental organizations at different scales and that the services were contracted, bought and sold in a 'quasi-market' setting: the de facto organization of metropolitan areas was polycentric, and this polycentric structure was precisely the *structural reason why* the system worked efficiently. Elinor and her team expanded on those insights throughout the 1970s with her work on police departments and the provision of safety and policing services.

This chapter illuminates how public services 'that are "consumed collectively" can be produced by a variety of [hybrid] methods' (p. 49); these hybrid methods do not require a single hierarchal, overarching governmental structure to produce the desired public goods. Communities routinely face new collective challenges due to changes in technology, demography, geography and other social processes. Thus the public administration confronts a complexity problem that entails a sort of 'impossibility theorem' for government: a 'consolidated, hierarchical administration would *unavoidably* lead to massive inefficiencies because *the administrative units operate at rigid scales, while the scale of public issues are varied and always changing*' (p. 40, original emphasis). The inherent inefficiencies of hierarchical public economies, the Ostroms found, can be avoided only through polycentric governance.

Chapter 2 examines the concept of polycentricity. The theory of polycentrism is what might enable us to identify 'the conditions under which we can depart from hierarchical organizations without descending into chaos' (p. 58). Tarko provides three paradigmatic examples that illuminate polycentrism as a form of decentralized social organization: federalism, the scientific community and the system of common law. He then defines polycentricity as a system

> characterized by many autonomous decision centers which are formally independent but functionally interdependent. … [T]he decision centers … develop some overarching rules governing their interactions. … [T]hese overarching rules can and often are created, monitored, and enforced by the decision centers themselves, rather than by an outside agency (p. 64).

Chapter 3 explores the concept of property as a 'bundle of rights' and how this Ostromian concept challenges the narrow conception of private property as merely one of individual or singular ownership: 'The biggest misconception about private property is that it necessarily involves *individual* ownership' (p. 91, original emphasis). This has a bearing on the real limits of private property in resolving particular social dilemmas (such as fisheries). The Ostroms identify 'common-pool resources' (CPRs) as an alternative form of collective property ownership. In CPRs, different individuals might have different sets of rights (and obligations) with respect to resources and tasks. This framework helped Ostrom to conceptualize how groups can self-govern through the creation of diverse ecosystems, overlapping bundles of property rights regimes and types of social position ('owner', 'claimant', 'monitor', 'authorized user', etc.). The Ostroms' thinking on CPRs undermines the false dichotomy between public and private goods by showing that there are other feasible institutional arrangements that might solve collective challenges.

Chapter 4 deals with the concept of institutional resilience, specifically how different institutional arrangements have diverse capacities to cope with shocks, as well as other challenges related to incentive misalignments and knowledge problems. Elinor and her collaborators investigated how the institutional background supports or hinders the long-term resilience against shocks. Moving beyond the static equilibrium approach, with its focus on robustness, absorptive capacity and speed of recovery, the Ostroms stress adaptability and learning, by which the system can, over time, improve upon design errors as they are discovered. 'No governance system is perfect,' Ostrom (2010, p. 552) reminds us, 'but polycentric systems have considerable advantages given their mechanisms for mutual monitoring, learning, and adaptation of better strategies over time.' Thus, according to Tarko, 'a polycentric system tends to be more resilient than a monocentric one because it fares better on all components of resilience' (p. 117).

Chapter 5 surveys Elinor Ostrom's logic of endogenous institutional change, including the concept of social and political entrepreneurship and the Institutional Analysis and

Development (IAD) framework. The IAD framework was created by the Ostroms to provide an alternative view of institutional analysis via institutional development and endogenous transformations. It was conceived as a way of understanding complex institutional arrangements and establishing rules to resolve conflict 'that cannot be properly understood' by treating entities such as states and societies as though they act with intention: 'The IAD framework is the attempt to describe the world in a way that keeps the participants inside the model' (pp. 142–143). Ultimately, the IAD is a non-anthropomorphic framework that allows us to describe complex institutions as 'collections of action arenas, which generate observable outcomes as a result of their internal patterns of interactions' (p. 166).

The chapter also explores the Ostroms' idea of endogenous institutional evolution and how institutional redesign is frequently performed rationally, from the bottom-up, by the same participants *within* the action arena, rather than by some exogenous entity. Here, Tarko analyzes the important concept of public entrepreneurship and the role of ideas and ideology in relation to the Bloomington School.

The usefulness of this book, and of Elinor Ostrom's oeuvre in general, derives from the attention it pays to the power of civil society, broadly conceived as decentralized human association based on consent, to provide collaborative and public—but not state-based—solutions to social challenges while avoiding the need to form a definitive center of power. This framework moves far beyond the exhausted dichotomy between state and markets by uncovering a myriad of valid *institutional possibilities* that individuals can create to solve collective problems without resorting to Leviathan. The Ostroms' work can then be seen as a broad invitation to political economists to engage in comparative institutional analysis focusing on local structures and indigenous prescriptions that determine incentives, monitoring procedures, the varying degrees of 'bounded rationality' and the learning capabilities that individuals can possess only *under specific institutional arrangements*. Focusing on the resilience of different self-governing structures and in the emergence of their rules, enables us to assess more effectively which form of collective action might best serve the autonomy and needs of citizens.

The Tocquevillian background of the Bloomington School underscores the crucial importance of civil society mechanisms and multilateral Coasian bargains for the provision of public goods, the solution to public problems and the development of decentralized mechanisms of local governance. In its skepticism toward bureaucracy and its mistrust of Leviathan, the Ostroms' work has potentially interesting implications for the positive role of anarchy in creating and expanding the collaborative activities that sustain a tolerant social order.

Finally, this book shows how Elinor's work on common pool resources has helped to advance a sophisticated scientific theory of self-organization, providing rigorous and empirically valid foundations for an alternative theory of social order under resilient Tocquevillian forms of collaborative anarchism. This places Elinor Ostrom alongside de Tocqueville among the most important scholars in advancing the 'art and science of association' against the single-sovereign Hobbesian model of the social order. This novel and humanistic vision not only questions our narrow Hobbesian preconceptions about governance, governments and the social order at large but also challenges our unwarranted pessimism regarding the ability of local communities and individuals—rather than bureaucrats—to manage their collective affairs and to overcome social challenges.

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Financialization: The Economics of Finance Capital Domination, by Thomas I. Palley, New York, London, Palgrave Macmillan, 2014, 234 pp., $37.00 (paperback), ISBN 978-1-137-46829-1

Financialization denotes 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein 2004, p. 3). In this book, Thomas Palley analyzes financialization as a dimension of a specific stage of economic development in the United States: the Neoliberal Era (1980–2007). He argues that financialization led to an extremely fragile financial structure, as manifest in the 2007–08 financial crisis, and that the Federal Reserve should shift its focus from inflation targeting to reducing this financial fragility. Palley does not analyze the role of financialization in the operation of international economies.

For Palley, the defining characteristic of the Neoliberal Era was its lack of a link between the rates of growth of real wages and of labor productivity. In contrast, there was such a link during the Golden Age (1950–73), the quarter of a century of broad-based prosperity that followed the Second World War. Palley argues that the link between real-wage growth and the growth of labor productivity during the Golden Age made possible wage-led economic growth. The severance of the link during the Neoliberal Era then created a demand gap in which insufficient aggregate demand tended to depress economic growth.

Palley attributes the demand gap during the Neoliberal Era to a weakening of the organized labor movement, erosion of the welfare state and deregulation of the economy, including deregulation of the financial sector. His focus in this book is on the effects of the deregulation of the financial sector. Palley's thesis is that financial deregulation helped fill the demand gap in the short run but increased the fragility of the financial structure in the long run. He also argues that financial deregulation resulted in the increasing importance of the stock-market valuation of firms to corporate managers, which helped fill the demand gap in the short run but increased financial fragility in the long run.

During the Golden Age, financial institutions were segmented by function. For example, some financial institutions took savings deposits in order to make mortgage loans while other financial institutions took demand deposits in order to make business loans. The interest rates these financial institutions could pay on deposits and charge on loans were subject to ceilings administered by the Federal Reserve System. During the Neoliberal Era, financial deregulation took the form of eliminating market segmentation and interest-rate ceilings. As a result, Palley argues, the floodgates were opened to more lending at higher interest rates, which filled the demand gap in the short run but increased financial fragility in the long run.

To explain the effects of financial deregulation in filling the demand gap in the short run at the expense of a more fragile financial structure in the long run, Palley first divides national