



## Institutional Diversity and Political Economy: The Ostoms and Beyond

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This begs the question: what *is* American power? Also, her perspective rightfully corrects illusions about the historical stability of US power and world capitalism, focusing instead on sources of conflict and tension. Hence, while the uneven and combined development framework provides scope for theorizing about the balance between cooperation and conflict among states, it tends to focus more on conflict. It might be fruitful to compare Desai's work with other scholars, such as Leo Panitch & Sam Gindin (2012), who emphasize the ways that the American Empire has integrated other parts of the world through the internationalization of states and class relations. Finally, since the 1980s there has been a shift towards Neo-Gramscian international relations theory, which focuses on the ways the American state has been able to present its interests as universal interests. This also provides a way of thinking about class, states and cooperation in the international order that would contrast interestingly with Desai's work. Finally, her discussion of multi-polarity could be more fleshed out. While the BRICS are likely the most significant challenge to American power since the USSR or the non-aligned movement, we still live in a world structured around the American Empire. While Desai's framework does provide a framework for analyzing these movements of world power, her analysis might look somewhat different if she engaged with the discussions that emphasize cooperation in international politics.

Desai's book is one of the most important and challenging studies of American world power to come out in recent years. It deserves careful study and a wide readership.

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## Institutional Diversity and Political Economy: The Ostroms and Beyond

Paul Dragos Aligica

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At the end of her Nobel Prize address, Elinor Ostrom (2010, p. 665) wrote that 'to explain the world of interactions and outcomes occurring at multiple levels, we also have to be willing to deal with complexity instead of rejecting it.' She asserted that institutional theorists across disciplines must go 'beyond markets and states'

to observe the multitude of alternative institutional arrangements that individuals craft to govern their interactions. Inspired by this message, Paul Dragos Aligica embraces the task of synthesizing into a coherent paradigm the underlying themes that resonate throughout Elinor and Vincent Ostrom's political economy, a body of work that is empirically rooted in four decades of case studies analyzing problems of collective action and self-governance. Aligica also explores concepts latent in the Bloomington School that have the potential to spawn new developments in institutional theory for dealing 'systematically with the theoretical, empirical, and normative problems of heterogeneity and its consequence and condition, institutional diversity' (p. xii).

Inspired by Public Choice scholars James Buchanan and Gordon Tullock, Elinor and Vincent Ostrom recognized the distinction between two levels of analysis: the examination of the rules of the game, and the examination of the strategies played within those rules. Building on this dual analytic framework, they stress the tangled nature of 'constitutional craftsmanship' in institutional design that was based neither entirely on choice and reflection nor on accident and force. Aligica argues that the Ostroms' political economy is fundamentally grounded in two interrelated concepts: (1) institutional diversity and the polycentric nature of the rules of the game, which emerge from (2) individual heterogeneity, the analytic precondition for both institutional problems as well as institutional solutions that foster social order. As Aligica states, 'Institutionalism is not only about this or that specific institution, and its specific functions and performance. It is also about the overall capacity of a human society to monitor, assess, calibrate, adjust, and change, via institutional tools. This is an institutional function in itself' (p. 36).

Precisely because we live in a world where institutions are not given but are constantly evolving, as in failed and weak states, the institutional conditions that facilitate social cooperation under the division of labor are not prevalent. Raghuram Rajan (2004, p. 57) has suggested that 'a better starting point for analysis than a world with only minor blemishes may be a world where nothing is enforceable, property and individual rights are totally insecure, and the enforcement apparatus for every contract must be derived from first principles—as in the world that Hobbes so vividly depicted.' Beginning from an analytic position in which the institutional framework of the market process is absent does not necessarily imply a Hobbesian form of anarchy. As Boettke & Leeson (2009) have noted, the ubiquity of entrepreneurial human action entails that limits to the extent of the market provide profitable opportunities to 'truck, barter, and exchange' institutional arrangements to further expand the depth and breadth of potential Smithian gains from trade and specialization.

Aligica points out that the 'problem of endogeneity in the emergence of rules, and the dynamics of discovery and choice in institution building and change are indeed an increasing preoccupation in current political and economic theory. The move is unavoidable once heterogeneity is recognized as a key feature of the social reality to be dealt with' (p. 26). In other words, the heterogeneity of particularized knowledge and cultural values cannot be assumed away in the face of 'social cleavages' (Buchanan & Tullock, 1962, p. 80) that plague the dysfunctional political economy of failed and weak states. According to

Aligica, the Ostroms' brand of institutionalism, by embracing individual heterogeneity of time, circumstance, values and beliefs, charts new territory in social theorizing, in which individuals are neither perfectly rational nor hopelessly caught in Hobbesian social disorder. According to Aligica, the Ostroms' approach:

not only acknowledges the reality of diversity and tries to cope with its challenge, but does that by seeing it as a potential resource, exploring the ways to capture and employ it. What is distinctive about the Ostromian proposition is that it does not theorize institutions as mere remedies to problems of coordination, cooperation, or perverse incentives created by heterogeneity, interdependence, and information asymmetries. It also tries to look at heterogeneity and pluralism and their institutional consequences from a more hopeful and constructive angle (p. 31).

The institutional consequence of individual heterogeneity of a particularized knowledge of time and place manifests itself as polycentricity, the element of the Ostroms' institutional theory that Aligica regards as 'most important' (p. 38). Aligica summarizes the notion of polycentricity as having three basic features: multiplicity of decision centers; an institutional and cultural framework that provides an overarching system of rules; and the spontaneous order generated by evolutionary competition between different decision centers' ideas, methods and ways of experimentation. The fundamental element underlying these basic features of polycentricism is a built-in feedback mechanism for self-correction, calibration and adjustment of institutions through competing and overlapping decision nodes within the institutional framework. Therefore, the division of knowledge within a polycentric market order will yield diverse and changing institutional arrangements, which adapt to orient and facilitate the mutual adjustment of the goals of heterogeneous individuals possessing only bits of such particular and dispersed knowledge.

Precisely because of the empirical nature of institutional diversity and polycentric order, which cannot be derived *a priori*, the Ostroms developed the Institutional Analysis and Development (IAD) framework as a conceptual tool, or 'metatheory of institutional mapping.' As Aligica states, the IAD framework provides a 'general framework, able to accommodate a wide range of perspectives, from hard core rational choice to situational logic praxeological approaches via behavioral theory, or any other theory of relevance' (p. 95). Not only does the IAD framework accommodate different institutional theories, but it also recognizes the 'nestedness' of different levels of institutional analysis. The distinctive feature of the IAD framework for institutional mapping is that 'three levels of rules cumulatively affect any setting: the operational level, the collective-choice level, and the "constitutional" or "constitutive" level' (p. 95). The operational level of analysis refers to the interactions of individuals within the rules of the game. The collective choice level refers to the framework within which the interactions of individuals take place, while the constitutional level of analysis refers to the rules governing future collective decision-making. The IAD mapping process allows institutional theorists to approach fundamental questions about the vast array of institutional arrangements, namely what function rules play in facilitating

social order and how social order is maintained in the face of external shocks and internal opportunistic behavior. Aligica also draws attention to two other key features of the Ostroms' political economy that are related to these institutional questions: institutional resilience and predictability.

Aligica identifies institutional resilience as 'one of the best illustrations of the new avenues that can be opened up for institutionalism by the Bloomington approach, with its focus on heterogeneity, diversity, and polycentricity' (p. 102). In a manner analogous to the notion of 'robust political economy' emphasized in the Austrian School (Boettke & Leeson, 2004), institutions that are resilient or robust provide heterogeneous individuals with the incentives to adapt to external and internal shocks by utilizing their own particular knowledge to craft and learn innovative solutions to such problems. The relationship between individual heterogeneity and institutional diversity is revealed most clearly in the notion of resilience—the idea that under less than ideal conditions individuals craft and learn *institutional* solutions to problems that are *institutional* in nature.

The relationship between predictability and resilience also reveals important implications for the polycentricity and nestedness of different levels of institutional analysis in the Ostroms' paradigm. Crucial to the notion of resilience is institutional predictability. Because human creativity is a necessary but not a sufficient condition to deal with uncertainty, 'containing the threat of uncertainty and chaos requires institutional solutions. Institutions stabilize the range of behavior in predictable patterns' (p. 146). Therefore, institutional predictability is not a form of 'stabilization through rigidity' (p. 147) but a way to provide the conditions for individuals, through voluntary exchange of particularized knowledge, to experiment and discover new rules that will generate dynamic predictability over time. Aligica summarizes this point:

The constitutional level in the Ostroms' approach has precisely the function of stabilizing conditions for the lower-echelon, public choice, and operational levels. In a similar way, the operational level is a hotbed of change, experiments, and innovations that may reach thresholds bubbling up and coming to alter the upper echelon, public choice, and constitutional levels (p. 127).

Although uncertainty is ubiquitous, so is the entrepreneurial capacity for individuals to use their knowledge 'to carve islands of predictability in the ocean of uncertainty' (p. 145). Fundamentally, polycentricity, resilience and predictability are linked by the role of individual heterogeneity in discovering new applications of evolved and established customs, habits and rules to contextual changes of time and place. Institutions not only ground such discovery procedures into social order, but such social order also manifests itself in diverse institutional arrangements.

The fragmentation of political economy into the specialized fields of economics and political science has led to a situation in which institutional and individual heterogeneity have been squeezed out of social theorizing. *Institutional Diversity and Political Economy* puts forth a valuable theoretical framework for the development of a broad intellectual enterprise based on the Ostroms' perspec-

tive, one in which heterogeneous agents are the theoretical precondition for institutional theorizing and social order, rather than a problem to be assumed away.

The connections drawn by Aligica between the Ostroms' concepts of polycentricity, resilience and predictability raise doubts about the ability of benevolent and omniscient actors to engineer centralized, technocratic and bureaucratic solutions to the problems of governance. Aligica's message, built upon foundations laid by the Ostroms, is that 'self-governing, fallible, but capable human beings [must] master the "art and science of association"' (p. 204) in order to transform, through constitutional craftsmanship, situations of social conflict into the conditions for social cooperation.

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## Failure by Design: The Story Behind America's Broken Economy

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This is a concise and very readable introduction to the effects on America's working families of the Great Recession. It is an empirically based treatment and uses a large number of excellent and easy to understand graphs, as one would expect from a 'State of Working America' publication, to illustrate the points made. The argument in a nutshell is that the postwar boom—the so-called 'Golden Age' of Capitalism (or the Long Boom)—that lasted from 1947 to 1973 was characterized by rapid economic growth that was equally distributed among income classes. However, in the decades since then the US economy has underperformed and failed to deliver broad-based growth.

In particular, people in the top 10 per cent of the income distribution claimed just under two-thirds of all income gains from 1979–2007. In contrast, typical