

**Review of Paul Dragos Aligica and Peter J. Boettke's *Challenging institutional analysis and development: the Bloomington School*. London and New York: Routledge, 2009, 176 pp.**

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This book is about the school that was built by Vincent and Elinor Ostrom at Indiana University, Bloomington (USA). It provides an insight into the origins and philosophical foundations of the 'institutional analysis and development' (IAD) framework of the so-called Bloomington School, which is at the core of Elinor Ostrom's work on governance for which she received the 2009 Nobel Memorial Prize in Economics (jointly with Oliver Williamson). However, this book is actually mainly about the work of Vincent Ostrom as he was the one who provided the philosophical foundations of the Bloomington School.

The book is divided into three parts, which inform the reader about the origins, thesis, and concepts of the IAD framework (part 1); its social philosophy—the most important part—(part 2); and its 'intellectual context' (part 3). At the end of the book short interviews with Vincent and Elinor Ostrom are presented.

## **THE ORIGINS**

The history of the development of the IAD framework starts in the 1960s in debates over the reform of American municipal government. It was generally supposed that the cause of many administrative problems was the existence of a large number of independent public jurisdictions within a single metropolitan area. That was perceived as a recipe for chaos that required replacement by a single coordination centre. The orthodox view that large bureaucracies were more efficient in providing public goods and services and solving administrative problems within an area was based on a well established traditional paradigm of centralization in political science.

## THESIS

Vincent Ostrom developed an alternative ‘political economy approach’ that questioned the traditional view that large bureaucracies are more efficient in providing public goods than decentralized coordination arrangements. He focused on coordination through patterns of inter-organizational arrangements which may induce ‘self-regulating tendencies’. In order to be able to test the hypotheses of the political economy approach, the Ostroms developed the general IAD framework over several decades—a set of theories, concepts and methods to operationalize and measure variables and performance. This book does not aim at providing a comprehensive overview of all the contributions of the Bloomington School, but focuses on the ideas of Vincent Ostrom as the philosophical foundations of the school.

Inspired by the institutional economist Michael Polanyi, polycentrism and monocentrism became central concepts for the Bloomington School. A monocentric political system is one where “the prerogatives for determining and enforcing the rules are vested in a single decision structure that has an ultimate monopoly over the legitimate exercise of coercive capabilities” (Aligica and Boettke 2009, 21). A polycentric political system has many centres of decision-making that are formally independent of each other: “No one has then ultimate monopoly of the legitimate use of force. All rulers are constrained by the ‘rule of law’. This makes the rule systems central in the study of polycentric systems” (p. 21). When developing hypotheses about the efficiency of the two political systems the Ostroms used Polanyi’s insights about the advantages of polycentric systems with respect to their built-in mechanisms for self-correction and institutional innovation.

## THE LOGIC OF POLYCENTRIC SYSTEMS

The structure of the polycentric system is a function of the presence of polycentricity in the governance of each basic type of social activity: governmental arrangements, economic affairs, political processes, and judicial affairs in constitutional rule. For the system as a whole to function well there should be a certain degree of polycentricity in the different domains of the system, that is to say there should be a certain coherence, a certain ‘logic’ between the political, economical, judicial and social domains. Polycentricity describes a complex system of powers, incentives, rules, values, and individual factors combined in a

complex system at different levels. When the logic is disturbed because of, for instance, technological innovations or changes in one of the related domains, then the resulting imbalance will be an incentive for actors to initiate adaptations in related parts of the system. The dynamics of these changes can be understood in terms of the 'logic of the system'.

### **THE NATURE OF THE GOOD**

The nature of a good or service in terms of excludability is basic to the theory of public economics. When a good is not suitable for private production because consumers cannot be excluded from consumption, or only at high costs, then a 'collective consumption unit' has a variety of options to organize the production, such as establishing its own production unit, contracting with a private firm, or contracting with another governmental unit. Centralized production by the state is also an option, but certainly not the only or most likely one.

The nature of the good in most cases is not an ontological given: technological and institutional arrangements have an effect on the degree of choice and accordingly on the way the nature of the good is perceived and its production organised. There is a complex interplay between goods, technology, and institutions. New technology and institutions can destroy forms of exclusion, thereby initiating an institutional change. The dynamics are not only driven by the interaction between technology and institutions, but also the power play between different interest groups. The existing structures serve certain interests better than others would and so changing those structures implies that those interests will be harmed, creating resistance, conflicts and struggle.

### **THE FOUNDATIONS OF SOCIAL ORDER**

In part 2 of the book, Aligica and Boettke discuss the core of the Bloomington School's social philosophy of social order and change, an issue which has not been very well discussed elsewhere and so is considered by the authors to be their major contribution.

Vincent Ostrom developed a theory of human actors that was not based on the abstract formal attributes of an actor, like full rationality, but on stylized facts derived from an anthropological and historical understanding of the central issue in social science: choice. Choice is loosely defined as actors being able to consider alternative possibilities

and to select a course of action after comparing and assessing the consequences of different alternatives. Choice is thus a form of selection.

The analysis in part 2 concentrates on the connection between the theory of choice and the theory of institutions via a theory of learning, knowledge, ideas, and language. According to this approach ‘reason-based choice’ is not relevant to understanding how actors choose, but rules, routines and institutions become crucial. For Vincent Ostrom, ‘threats’, or more general ‘problems’, are the starting point for the analysis of how and what actors choose. Threats like tyranny, potential chaos, and uncertainty demand solutions that are to be found in institutional arrangements that constrain actors in their behaviour, coordinate that behaviour, and reduce uncertainties.

### **CHOICE AND THE IDEA-CENTRED APPROACH**

Central to the work of Vincent Ostrom is the concept of choice. Not the kind of choice familiar from neoclassical models, in which actors are modelled and put into situations where ‘no choice is left’, but the so-called ‘epistemic choice’, that “illuminates the various choice dimensions—operational, public and constitutional—but at the same time emphasizes that choice in institutional matters is ultimately a choice of ideas and is intrinsically linked to learning and knowledge” (p. 131). Actors choose on the basis of ideas, defined as covering “a broad class of beliefs, worldviews, values, motives, intentions, causal beliefs, operational codes, etc.” (p. 91). Ideas both reflect and create social order. They are design concepts and represent both the ontological and epistemological keys of social order. Choice implies selection and when that takes place under constraints one can expect that patterns will emerge. Rarely do institutions emerge as accidents and rarely as the result of deterministic forces: the largest part of them are the result of human construction, of deliberation, reflection, and choice.

### **THE NORMATIVE DIMENSION IN SOCIAL SCIENCE**

In the Bloomington School the value of a theory is its capability to indicate the consequences that can be expected from specific structural conditions. If those consequences are not appreciated by the members of the community they will undertake action to change the structural conditions, like institutional arrangements. In other words, the ‘is’ are compared with the ‘ought’—consequences are assessed in the light of

their contribution to ‘human welfare’—and so one must engage in normative analysis (p. 113). A change in decision-making arrangements can transform patterns of human interaction from “unproductive pathological relationships to productive relationships” (p. 113). But then one also needs solid criteria to determine what is pathological and what is not. In other words, the “science of norms” that Vincent Ostrom advocates should be seen not only in a positive way (as the rules of the game and the mechanical working out of their implications), but also as an exercise in thoroughly reflecting about human values and the criteria for decision and action (p. 113). These foundational aspects rule out the possibility of a value-free social science that is just a replica of natural science. “Value terms are at the core of rule-ordered relationships, and rule-ordered relationships are at the core of political order and social relationships” (Vincent Ostrom, quoted in p. 114).

To understand problems and threats in a community and to design effective policies it is crucial to have a deep knowledge of the institutional environment, and to have a deep understanding of the local knowledge, perceptions, and ideas of the actors. What are the values and norms that drive their actions? The task of the policy analyst is not only to use values as entry points or vehicles for analysis but to apply them. “These values are not ‘given’. One has to derive criteria for choosing one alternative over the other and to assess their consequences” (p. 118). In other words, the applied dimension presses up against the problem of norms not only at the analytical level but also at the decision making one. The world of policy analysis is in the end the world of implementation—i.e., the world of action and decision—and therefore a world of normative commitments.

### **INTELLECTUAL CONTEXT**

The Bloomington School is often incorrectly associated with mainstream thinking on rational choice. So far there has not been a thorough account of the foundational core of the program, but this book fills that gap. Based largely on an examination of the work of Vincent Ostrom the authors demonstrate how over several decades a school of thought was constructed, and a new framework of theories and methods developed, to provide the tools to analyse problems from the perspective of polycentrism. In part 3 of the book, the Bloomington School is discussed in relation to its intellectual context. It is connected to its predecessors in the spontaneous dynamics of social order like M. Polanyi, F. Hayek,

the German ordoliberalism and the Scottish Enlightenment. Aligica and Boettke explain the links (and differences) with Nozick and Buchanan, and show the links with modern authors like Avner Greif. They show how the Bloomington School differs from neoclassical economics and traditional public choice (as it developed over the years), but has clear connections to the Austrian School, Alexis de Tocqueville, and Adam Smith.

It is interesting to note that even facts about the Bloomington School do not 'speak for themselves', but are analyzed and constituted by the theoretical lens of the authors. Aligica and Boettke see many connections to the Austrians but surprisingly no connections with the American Institutionalists (except for a short reference to John Dewey). It is, no doubt, my own specific theoretical lens that shows me how the work of Vincent Ostrom connects intellectually to the world of American Institutionalism. The Bloomington School's ideas about interaction between actors and institutions, of language being constitutive, of normative theory, of facts being theory laden and theories being value laden, about the driver of 'threats' and assessment of consequences (instrumental value theory), of the need for a participant-observer approach, and so on, are all to be found in the work of American Institutionalists like Veblen, Commons, and Ayres, and in the work of their successors (see, e.g., Bush 2009). This does not make the analysis in the book any less worthy. On the contrary, the book is a very valuable contribution to understanding the foundations of an important school in institutional economics and highly recommended to students who are already rather familiar with the world of institutions and interested in more fundamental issues concerning modelling actors in relation to the structures surrounding them.

## REFERENCES

Bush, Paul D. 2009. The neoinstitutionalist theory of value: remarks upon the receipt of the Veblen-Commons Award. *Journal of Economic Issues*, 43 (2): 293-304.

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