



# Methodological individualism, spontaneous order and the research program of the Workshop in Political Theory and Policy Analysis

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## Abstract

This paper is an exercise in the archeology of knowledge that seeks to understand the intellectual precursors to the Workshop in Political Theory and Policy Analysis. This perspective reveals that the research agenda of the Ostroms draws significantly from the ideas and themes developed in the first half of the 20th century by Knight, Mises, and Hayek. In so doing, we argue, they usefully deploy and expand the economic way of thinking beyond its traditional boundaries while avoiding most of the criticisms of economic imperialism.

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## 1. Introduction

One of the most exciting developments in the 20th century in social sciences is the rapid expansion of the style of reasoning and techniques of measurement common in economics into other disciplines. History, law, political science, and sociology were transformed in the 1950s and 1960s through what has become known as the “rational choice” revolution.

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The earliest developments along these lines were simply focused on the notion that the human actor had to find a central role in any analysis of social life. In other words, the adoption of *methodological individualism* was the crucial step taken by the original scientific revolutionaries. This was in direct contrast to the way the social sciences were carved up at the end of the 19th century and beginning of the 20th century. As areas of study, history focused on the past, anthropology the exotic, law the courts, politics the state, and economics the market. Durkheim, in the face of this intellectual division of labor, decided that sociology would trump all these disciplines by insisting that the “social” was in everything. In the process, he transformed sociology from a general science of human action (which is what it was in the hands of Spencer, Weber, and Simmel) to a discipline focused on the social forces that underlie social reality. Whatever merits the Durkheim approach could be said to have, the consequence of this system of thought was to lose sight of the human actor, the incentives he faces, the information he must process, and his ability to adapt to changing circumstances.

The success of *methodological holism* never impacted economics as a discipline. In the early part of the 20th century, there were heterodox voices that challenged the methodological individualism of the marginal revolution, and certainly, the Keynesian hegemony from 1940s to 1970s rejected the methodological individualism of economics. But throughout this time, microeconomic analysis never disappeared from its dominant place within the discipline, and thus methodological individualism never lost its strong foothold in economics. The other social sciences were not in the same situation. The reintroduction of methodological individualism to those disciplines was seen as part and parcel of the movement that would be termed “economic imperialism.”

By the time the original “imperialists” were either exporting (in the case of James Buchanan) or importing (in the case of William Riker or James Coleman) the basic economic model, the nature of the discipline of economics had transformed itself such that working with the economic model meant not just methodological individualism but an approach to modeling and measuring in the social sciences. Modeling the individual meant optimizing behavior and measuring meant finding statistical significance. Critics of economic imperialism focused on three targets, which are not necessarily interconnected: (1) inappropriateness of methodological individualism, (2) the unrealism of the maximization model as a description of human behavior, and (3) the (a) empirical failure of the maximizing model in terms of statistical tests, and (b) inappropriateness of tests of statistical significance in disciplines hoping to generate *understanding* as opposed to prediction. Many of these criticisms may indeed be valid.

There are at least three problems with this critical tact toward economic imperialism. First, it is unclear that methodological individualism necessarily commits a scholar to maximization models and tests of statistical significance. Second, as compared to existing methodological collectivist explanations, even the most obnoxious maximization and statistical modeling exercise might be superior. In other words, the parsimonious explanations will defeat the more complicated analysis that includes all the social forces that impact the situation under examination. Third, perhaps an empirical approach to the social sciences can be found that both deploys a model of human action in a broader context than maximization models do and focuses on issues of human meaning and understanding the context of choice rather than prediction.

We hope to show that in the first half of the 20th century a vision of the social sciences as unified, where the human actor was central and the goal was understanding and not prediction, was promoted by economists such as Mises, Knight, and Hayek. In the second half of the 20th century, this research program would be picked up most identifiably in the work of Buchanan and the development of the Virginia School of Political Economy. This imperialism is of a different sort than that practiced by the Chicago School, which is often forgotten in an effort to homogenize all the attempts to work with the economic way of thinking outside the realm of the market. For example, Ronald Coase has rejected the imperialism reflected in Richard Posner's brand of law and economics while most people credit Coase with leading that revolution in legal scholarship. Douglass North finds himself in a similar predicament with regard to cliometrics and scholarship in economic history.

One of the best examples of the methodological individualist research program of the early 20th century being pushed in a new direction and developed further is the work of Vincent and Elinor Ostrom and the Workshop in Political Theory and Policy Analysis at the University of Indiana. The "Bloomington School" is recognized as one of the three main schools associated with the development of public choice theory—the other two are Rochester (Riker) and Virginia (Buchanan and Tullock). The workshop was founded in the 1970s and, as the name suggests, is grounded in the intellectual commitment to collaborative scholarship between faculty and graduate students and emphasizes the interconnection between problems in theory and the practical problems in public policy. Building on early work done by the Ostroms on the polycentric nature of municipalities and of public goods provision, the workshop has pursued research on federalism, common-pool resources, and the institutional analysis of development. In each of these endeavors, we will argue, the Ostroms' research builds on and refines the approach to the social sciences laid out by Mises, Knight, and Hayek in terms of methodological individualism and spontaneous order.<sup>1</sup> In so doing, they usefully deploy and expand the economic way of thinking beyond its traditional boundaries while avoiding most of the criticisms of economic imperialism.

## 2. Intellectual predecessors

Thorstein Veblen was one of the first major critics of the neoclassical conception of the maximizing man. Veblen argued that the anthropological foundations of modern economics were ill founded and failed to account for the complexity of human choice in a dynamic world. Economics had yet to take an appropriate evolutionary turn in its analysis. Instead, in one of the most famous criticisms of economics penned by an economist yet, [Veblen \(1899, pp. 232–233\)](#) charged that

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<sup>1</sup> Our exercise is actually one of the archaeology of knowledge, as the influences are not direct in terms of pedagogical lineage nor are they always evident in the citation patterns. We are trying to unearth an underlying set of themes. In fact, one could argue that in the archaeology of knowledge one could find a source that influenced the ideas in Knight, Mises, and Hayek that independently influenced the Ostroms' project, such as Tocqueville. As an aside, it has been told to us by an historian of the Mont Pelerin Society that Hayek originally toyed with the idea of naming the Mont Pelerin Society the Tocqueville–Acton Society, but Knight, among others, objected to name the society in this manner due to the Catholicism of Tocqueville and Acton.

The hedonistic conception of man is that of a lightening calculator of pleasures and pains who oscillates like a homogeneous globule of desire and happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before. Spiritually, the hedonistic man is not a primer mover. He is not the seat of a process of living except in the sense that he is subject to a series of permutations enforced upon him by circumstances external and alien to him.

Veblen found himself in an awkward position with regard to the Austrian economists and, in particular, Menger. He argued that the discussion of marginal utility and subjective valuation must be seen as an appropriately evolutionary approach to the problems of human choice. Unfortunately, Veblen argued that the Austrians' faulty conception of human nature derailed the project. But what was Veblen's alternative?

Herein lies the problem with all non-methodological individualist models of social interaction. If the focus of our analytical attention is to be a dynamic theory of social change, then we must have agents of social change. Unless we fail to focus on these agents of change and instead concentrate on social forces beyond the individual's control, then we will not be able to develop a theory of social change. Veblen's institutionalism, like the caricature of neoclassical economics he penned, does not provide a theory of the process of living, but must see change as enforced upon us by circumstances external and alien to us.

The question of the alternative framework must always be considered in these methodological discussions because the real determining factor in the social sciences is not so much truth-value, but pragmatic value of the approach. We might not have the true explanation of phenomena, but we might have a useful explanation. The criticism of the homogenous globule engaged in a hedonistic calculation of pleasure and pain should not be directed at descriptive accuracy of whether we have or will behave in such a fashion. The question, instead, is one of whether viewing men in this manner serves our scientific purpose. And clearly for many purposes it does not.

This was recognized by economists such as Mises, Knight, and Hayek, all of whom reject in some form or another the fiction of "economic man." On the other hand, all three of them are committed methodological individualists and, as we will argue, were the founding fathers of the universal applicability of rational choice theory across the disciplines.

Knight agitated for many years at the University of Chicago for an educational and research program that would blend elements of neoclassical economics with institutional economics. This program never got off the ground in an institutional sense, but Knight's influence on his students was immense. Knight, however, was conflicted on the issue of economics as a science and the broader discipline of political economy. In his essay, "What is truth in economics?", Knight defends the logical foundations of economics against the positivist charge: "The fundamental propositions and definitions of economics

are neither observed nor inferred from observation in anything like the sense of the generalizations of the positive natural sciences or of mathematics, and yet they are in no real sense arbitrary” (Knight, 1940, p. 154). The methodology of the natural sciences is not applicable to the human sciences, yet the human sciences are capable of generating knowledge of reality. What ensures scientific progress is not positivistic methods, but good scientists. As Knight points out, “Without a sense of honor (as well as special competence) among scientists – if, say, they were all charlatans – there could be no science” (p. 157). Reasoned debate among competent economists is what produces “truth” in economics.

At the core of economic discourse is the economizing human actor. “All discussion of economics,” Knight wrote, “assumes (and it is certainly ‘true’) that every rational and competent mind knows that (a) some behavior involves the apportionment or allocation of means limited in supply among alternative modes of use in realizing ends; (b) given modes of apportionment achieve in different ‘degrees’ for any subject some general end which is a common denominator of comparisons; (c) there is some one ‘ideal’ apportionment which would achieve the general end in a ‘maximum’ degree, conditioned by the quantity of means available to the subject and the terms of allocations presented by the facts of the given situation” (p. 164). Knight even goes on to argue that we *know* these economic propositions better than we know any natural science propositions that are derived through observation. We possess knowledge, as it were, from “the inside” because we ourselves are economic actors. Just as we know we are writing rather than just making black markings on a white surface or reading rather than just seeing dark markings, we know the core propositions of economics by living in the world.

Technical economics is limited in scope in Knight’s view, and largely consisting of what could be termed *negative knowledge*, informing on what is wrong with the current situation or a line of thought. Comprehensive social control of individual economic action through the techniques of science is both impossible and abhorrent to humane thinking. Economics cannot serve as a tool for social control, but instead serves as a tool for critical thinking. To move beyond the negative role of economics, the social thinker moves into the realm of value judgments. In order to make such a move legitimately, Knight argues, what is needed is “an interpretative study (*verstehende Wissenschaft*) which, however, would need to go far beyond any possible boundaries of economics and should include the humanities as well as the entire field of the social disciplines” (p. 177).

Mises, building on Knight and Weber as well as Menger, attempted to develop a framework for *verstehende Wissenschaft* grounded in the logic of individual action. He entitled the discipline *praxeology*, for the simple reason that the discipline of sociology had, between the time of Weber and Mises, been dominated by methodological collectivism. In this intellectual atmosphere, the economic and sociological perspective that Mises was developing would be met with incomprehension. Instead, as an action oriented approach to the social sciences, he thought *praxeology* better captured his disciplinary and methodological intent. “Out of the political economy of the classical school,” Mises argued, “emerges the general theory of human action, *praxeology*. The economic or catallactic problems are embedded in a more general science, and can no longer be severed from this connection. No treatment

of economic problems proper can avoid starting from acts of choice<sup>2</sup>; economics becomes part, although the hitherto best elaborated part, of a more universal science, praxeology” Mises (1949, p. 3).

Mises argued forcefully for methodological individualism. “Nobody ventures to deny that nations, states, municipalities, parties, religious communities, are real factors determining the course of human events. Methodological individualism, far from contesting the significance of such collective wholes, considers it as one of its main tasks to describe and to analyze their becoming and their disappearing, their changing structures, and their operation. And it chooses the only method fitted to solve this problem satisfactorily” (p. 42). In short, Mises is a methodological individualist and a rational choice social scientist, but he emphatically rejects the mechanical version of rational choice, *homo oeconomicus* (p. 62). Instead, Mises insists that, “Economics deals with real actions of real men. Its theorems refer neither to ideal nor perfect men, neither to the phantom of a fabulous economic man (*homo oeconomicus*) nor to the statistical notion of an average man (*homme moyen*). Man with all his weaknesses and limitations, every man as he lives and acts, is the subject matter of catallactics. Every human action is a theme of praxeology. The subject matter of praxeology is not only the study of society, societal relations, and mass phenomena, but the study of all human action” (p. 651).

Hayek, building on these ideas of Knight and Mises, developed an argument for the uniqueness of the human sciences, methodological individualism, and the compositive method in order to study complex phenomena.<sup>3</sup> For the social scientist, “The problems which they try to answer arise only insofar as the conscious action of many men produce undesigned results, insofar as regularities are observed which are not the result of anybody’s design. If social phenomena showed no order except insofar as they were consciously designed, there would indeed be no room for theoretical sciences of society and there would be, as is often argued, only problems of psychology. It is only insofar as some sort of order arises as a result of individual action but without being designed by any individual that a problem is raised which demands a theoretical explanation” (Hayek, 1979, pp. 68–69).

<sup>2</sup> This starting point for Mises is essential on several grounds, but for our present purposes, we want to highlight that we begin with an individual chooser because it is at the level of the individual that we can attribute meaning to human action in terms of purposes and plans. On the non-arbitrary nature of this starting point for praxeology, see Mises (1949, p. 39).

<sup>3</sup> The exemplar of the compositive method is the explanation of the origin of a common medium of exchange. Mises is often read as stressing the logic of human action, while Hayek is read as stressing the spontaneous emergence of social phenomena. However, this reading underestimates Mises’s appreciation of spontaneous order and underestimates Hayek’s appreciation of the logic of choice as an essential building block in the compositive method of analysis. See Mises (1949, p. 405) where he states that, “Carl Menger has not only provided an irrefutable praxeological theory of the origin of money. He has also recognized the import of his theory for the elucidation of fundamental principles of praxeology and its method of research.” Also see Hayek (1948, pp. 33–56) where he discusses how the logic of choice is a necessary, but not sufficient component to the development of a theory of the market process. The complement to the logic of choice is to be found in an empirical examination of the epistemic properties of alternative institutional arrangements. Empirical knowledge of how actors learn, and how effective that learning is with regard to coordinating their plans with others and utilizing scarce resources in the most efficient manner possible within different social settings, constitutes the complementary scientific knowledge that is able to translate the mere tautologies of the logic of choice into empirically meaningful statements.

The goal of the social scientist is two-fold according to Hayek. First, social phenomena must be rendered intelligible in terms of the purposes and plans of individuals in striving to serve their own interests (methodological individualism). Second, the unintended consequences of those actions must be traced out (spontaneous order). While methodological individualism was at the core of his research project, Hayek rejects the atomism often associated with methodological individualism. And, like Mises, Hayek rejects the homo oeconomicus model of man.

Instead, what we get from Hayek is a research program in the social sciences and political economy that is grounded in an analysis of rational choice as conducted by human actors (and not robots) where beliefs, norms and habits guide the choosing actor.<sup>4</sup> The program, however, is not content with the examination of the situational logic that the actor pursues. The unintended consequences of those actions generate the social order that is the object of study. The most important examples resulting from human action, but not from human design, that Hayek gives in his work of social phenomena are language, cultural norms and mores, money and markets, and law. Social cooperation under the division of labor emerges when the norms and mores of a society support and reinforce the formal institutions of property and contract that enable the expansion of a market economy. Modernity and civilization itself are products of the development of a market economy. In this regard, Hayek is the 20th century representative of a line of thought that can be traced back to 18th century figures like David Hume and Adam Smith.

### 3. Municipalities, development and self-organization

It is our contention that this basic Humean and Smithian project in the social sciences is what animates the Ostroms' joint project in political economy and public policy. Vincent Ostrom has often complained about social theorists who work in broad-brush categories: market versus planning, free market versus government intervention, civil society versus state, private versus public, and so on, but the characterization of classical political economy as working with such broad-brushes is, of course, a mistake. The Scottish enlightenment thinkers were not blunt, but complicated theorists, who understood the complexities of social intercourse. Modern neoclassical economics might be guilty of being unsubtle, but not Hume and Smith, who understood the multidimensionality of human motivation, the institutionally contingent nature of social cooperation, and the law of unintended consequences in human affairs.

Vincent Ostrom recognized that this more subtle approach to political economy is required for a viable research program in public choice. "Neoclassical economic theory relies on a 'model' presuming a perfectly competitive market economy in which fully informed actors participate as buyers and sellers when a price equilibrium is achieved at a point where demand at that price equals the supply offered at that price" (Ostrom, 1997, p. 98). But this "model" of human interaction has its problems and limitations in social settings, mainly being divorced from reality. The problem of "model-thinking" is a serious one that often

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<sup>4</sup> For an overview of Hayek's research program, see Boettke (1999). For a more detailed analysis of Hayek's research analysis, see Caldwell (2003).

leads to free-floating abstractions rather than engaging in the examination of the realities of human affairs.<sup>5</sup> The absurdities that can result from the pristine economic model are perhaps best exemplified when the model is extended beyond the realm of market exchange to questions in politics, religion, sociology and law.<sup>6</sup> “Continuing to adhere to an orthodox way of applying ‘economic reasoning’ to non-market decision-making does not allow for learning to occur. An openness to uncertainty, social dilemmas, anomalies, and puzzles as presenting problematics, allows for learning, innovation, and basic advances in knowledge to occur” (Ostrom, 1997, p. 99).

The framework of analysis that was developed at the workshop was grounded in an examination of the incentive structures that individuals face in different decision-making contexts, or action arenas. In addition to incentives, the framework also seeks to highlight the knowledge and information that actors acquire and utilize within these different decision contexts. Vincent Ostrom argued that contextualizing the human condition enabled the scholar who wanted to do policy analysis to steer a course between the abstractions of economic theorists and the approach that defined German historicists and American institutionalists: compiling facts upon facts without a theoretical language to sort through them. Instead, by developing a framework for institutional analysis, the scholars associated with the workshop were able to bridge the gap between free-floating abstractions and momentary concreteness.

The first applications of this evolving framework were in the field of public good provision by municipalities, such as water supply (see Ostrom, 1967, p. 31, in McGinnis, 1999b; Ostrom and Ostrom, 1972, in McGinnis, 1999b). Theoretically, the framework had to refine the definition of institutions in order to develop. Institutions have three separate meanings in the literature: (1) institutions as equilibrium strategies, (2) institutions as rules of the game, and (3) institutions as norms (see Crawford and Ostrom, 1995, in McGinnis, 2000). We do not see why there should be any reason why a structure induced equilibrium style of

<sup>5</sup> Vincent Ostrom draws on the work of both Euken (1940) and Albert (1984) to criticize “model-thinking”. Mises’ was a major critic of the “model-thinking” of modern economics as well. We suspect that he is not mentioned in the Ostroms’ work because many people interpret Mises’ methodology as closing off the empirical side of social science, but this is actually a fallacious interpretation. It is true that Mises rejects the positivist epistemology of falsifiability, but this does not mean that his system is blind to empirical reality. “All theorems of economics are necessarily valid in every instance in which all the assumptions presupposed are given. Of course, they have no practical significance in situations where the conditions are not present” (p. 66). In other words, the criteria is not falsifiability, but applicability; either a theory is applicable or not, and that is a function of empirical information that the scientist knows. There has been great misinterpretation about the Austrian position as laid out by Mises over the years, including by some of his closest followers, but it could be clarified by recognizing that there are three levels of analysis in Mises’ system: pure theory, applied theory (or institutionally contingent theory) and economic history. The pure logic of choice is a necessary foundation of all economics, but the institutionally contingent is what translates exercises in pure deduction into practically relevant propositions, and the use of both pure theory and applied theory to provide an interpretative framework for doing history is in fact the purpose and entire justification for doing theory.

<sup>6</sup> It is important to note, however, that neither Vincent nor Elinor Ostrom rejects the applicability of methodological individualism in the analysis of market and non-market settings. The question is whether a rigorous *model* is specified. They prefer the term “framework” rather than model to describe the approach that guides their analysis. A model is more closed by definition in their system of thought. See Ostrom (1990, pp. 214–215) and Ostrom (1997, pp. 105–114).



reasoning cannot absorb all three meanings into a framework of analysis.<sup>7</sup> First, the most productive definition of institutions is probably as the formal and informal rules of the game that are in operation in any decision context. These rules dictate the equilibrium behavior that actors exhibit, not the other way around. Second, we must also address the question of enforcement of the rules of the game. In a world where the informal rules (norms) legitimate the formal rules, the costs of enforcement will be lower, and in a world where the informal and formal rules are in conflict, the costs of enforcing the formal rules may often be prohibitive.

In examining the decision rules within municipal governments, Vincent Ostrom (first in joint work with Tiebout and Warren and then on his own) developed the concept of polycentricity in the organization of government. “Polycentric connotes many centers of decision-making that are formally independent of each other” (Ostrom, Tiebout, and Warren 1961, pp. 31–32, in McGinnis, 1999a). The organizational arrangements and the performance of polycentricism is again a function of rules of the game at the “constitutional level.” At any point in time, a framework of analysis must respect the nested games that are in operation and the strategic interactions each game sets in motion. Competition among the different decision centers can stimulate individuals within the system to tend toward ‘efficiency’ in production and exchange. “With the development of quasi-market conditions in production, much of the flexibility and responsiveness of market organization can be realized in the public service economy” (Ostrom, Tiebout, and Warren, 1961, p. 45, in McGinnis, 1999a). But scholars must be cognizant of the possibilities for pathology that exist even within a polycentric system of public goods delivery. Without full property rights and a free market pricing system, the problems of economic calculation will present perversities in the production and exchange of goods and services. “Several difficulties in the regulation of a competitive public service economy can be anticipated. Economic pricing and cost allocation are dependent upon the development of effective measurement of municipal services. Since the preferred states of affairs in a community cannot be converted to a single scale of values such as dollar profits in a private enterprise, it may be more difficult to sustain an objective competitive relationship in a public service economy”<sup>8</sup> (Ostrom, Tiebout, and Warren, 1961, p. 45, in McGinnis, 1999a).

Polycentrism emerges because a unified hierarchy organizing the public services of a large metropolitan area is grossly ineffective (e.g., the problems of incentives and calcula-

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<sup>7</sup> It is not our purpose here, but we believe there is confusion in the literature with regard to Menger and Hayek. Following Schotter’s (1981) work, many have claimed that Menger and Hayek view institutions as equilibrium behavior. We disagree with that; institutions are what brings forth the equilibria, that structure incentives, dictate the use of information, and the discovery of new knowledge. Clearly, there is an ambiguity in the writings of Menger and Hayek because the concept of institutions as guide posts to action in a world of uncertainty and ignorance is somewhat ambiguous, but in reading Hayek, we believe, you can parse out the following: full coordination results from the perfect dovetailing of individual plans; this is what is referred to as equilibrium (mutual plan consistency); social order can emerge that tends toward coordination but is not there at one point in time, and that state of affairs is defined by mutually reinforcing sets of expectations; finally, there is a general framework of rules to provide the context within which actors pursue their plans, and it is this framework that generates the social order (mutually reinforcing expectations) that enables actors to coordinate their plans with one another (equilibrium).

<sup>8</sup> This problem of the pricing of public goods was recognized by the Italian public finance theorists who greatly influenced the research program of Buchanan. The pricing problem has its roots in the analysis of the problem of factor pricing within a socialist economy that was identified by Mises in the 1920s.

tion would be compounded in such a hierarchical arrangement). But as we have seen, the polycentric system has its own pathologies that must be addressed. Vincent Ostrom saw the path to a solution to these problems at the constitutional level of analysis, through general rules (Ostrom, 1982, in McGinnis, 1999b). “Polanyi’s emphasis upon a general system of rules as providing a framework for ordering relationships in a polycentric system is an issue that was seriously neglected in Ostrom, Tiebout, and Warren. . . . The task of formulating a general system of rules applicable to the conduct of governmental units in metropolitan areas and of maintaining institutional facilities appropriate to enforce such rules of law is a problem we failed to treat. *Whether the governance of metropolitan areas can be organized as a polycentric system will depend upon whether various aspects of rule making and rule enforcing can be performed in polycentric structures*” (Ostrom, 1972, p. 58, in McGinnis, 1999a, italics original).

At this point, it is important to highlight the connection between the notion of spontaneous order and polycentrism. It is critical to recall that the notion of spontaneous order does not jettison purposeful action on the part of individual actors. In stark contrast, a spontaneous order is the outcome of purposeful behavior. At the highest level, it is clear that no central planner could purposefully design a complex system of polycentric governance to function in the way that it does in fact operate. The notion of spontaneous order is not intended to mean that a system arrives at some fixed equilibrium in the absence of purposeful human action. Rather, the main idea is that there are unintended consequences to purposeful human action. These unintended consequences play a significant role in constituting the overall order of the system. As a result, what is needed is a set of institutions that allow individuals to act purposefully and make adjustments to the unintended consequences of those actions.

One can envision two kinds of order in society. There is what Hayek called “organization,” that are actions that are consciously thought out and implemented. The second type of order is spontaneous in that it is independent of anyone’s oversight or direction. It is critical to keep in mind that the claim being made is not that all complex phenomena must be spontaneous. Rather, the more complex the order, the more we will have to rely on spontaneous forces to generate that order.

Given this dichotomy of the types of order, one can see that polycentric systems of governance clearly display both types of order. Within the overall system, there are complex rules and institutional mechanisms that facilitate social interaction and conflict resolution. The stock of local and tacit knowledge of “how to get things done” within the polycentric system can be seen as a spontaneous order that is continually changing. What can be called the cultural aspects of the social order, how to interact with others, solve problems, and so on can be characterized as a spontaneous order. Individuals purposefully interact with others, but the set of norms that evolve are an unintended result of those purposeful interactions. In stark contrast to the idea that a spontaneous order is some static equilibrium that is generated in the absence of purposeful behavior, it is precisely because we cannot know all future situations that we need an institutional environment that is malleable and can handle ever-changing circumstances. In sum, the very notion of spontaneous order expunges any notion of a static equilibrium and requires an emphasis on the mechanisms that allow individuals to deal with unique situations that arise. The emphasis on these mechanisms for dealing with unintended consequences pervades the Ostroms’ work on polycentric systems of governance.

It is within this context that one can make a connection with Vincent Ostrom's notion of public entrepreneurship. Public entrepreneurship involves the ability of individuals to engage in joint problem solving. The need to deal with new conflicts is precisely an outcome of the fact that there are unintended consequences of purposeful action that cannot be known in advance. If future situations were known in advance, the notion of public entrepreneurship would be vacuous.

An essential ingredient in the research program of the workshop is a demand to connect real-world problems with the human condition. To gain access to these problems, fieldwork, experiments, and detailed case studies are utilized. Water supply, irrigation systems, police, indigenous institutions addressing common-pool resources, and the process of economic development in less developed economies have all been the focus of institutional analysis by scholars associated with the Bloomington school. In order to engage in this analysis, the emphasis has been first on identifying the organization and the social mechanisms in operation without addressing their performance. The assessment of performance and the sustainability of the existing system are conducted after clarifying exactly the organizational structures in operation in any given societal context.

The analysis proceeds from context to the action arena to incentives to patterns of interactions to outcomes, which are evaluated and, in turn, influence the interactions. The context is defined by the physical and material conditions existing in a society, the attributes of the community in question, and the rules that are in use in that society. The different action arenas generate incentives that, in turn, engender a pattern of social interactions. The pattern of interactions results in outcomes that either reinforce the context of choice or conflict with it.

This has been an extremely productive research program and has successfully challenged the artificial division of the disciplines in the social sciences in terms of both the positive institutional analysis of existing social interactions, identifying dysfunctional situations and suggesting policy changes to affect social change. Public choice, positive political economy, and new institutional economics are interwoven in the work of scholars associated with the workshop under the rubric of comparative institutional analysis. However, unlike much of the work in these research programs, the scholars associated with the Bloomington school are more engaged in empirical work, and in particular, in close up case studies derived through fieldwork, in which multiple forms of evidence including in-depth interviews and surveys are placed on the table. As a result, the richness of the details in the institutional analysis is able to unearth not just the formal rules that are in operation, but the informal norms and rules that govern social intercourse.

In her work on common-pool resource problems, Elinor Ostrom has been able to demonstrate how local customs and knowledge in LDCs provide solutions to the commons problems without adopting the formal rules present in more developed economies. An important implication of this analysis is that the search for one true model that fits all situations must be abandoned. Another implication is that formal models such as the prisoners' dilemma and the tragedy of the commons do not have the universal applicability that is often attributed to them. We know this because of the empirical reality as evidenced with experiments and fieldwork. But while local customs and knowledge may provide solutions to social dilemmas, they possess other imperfections that must be accounted for and that make them vulnerable and limited in promoting social order beyond certain limits. Someone may counter that these customs are more robust than what might be first thought as demonstrated by their

longevity. However, the alternative interpretation, which stresses the pathological nature of customary solutions to PD games and common problems, is that the solution only works within small group settings of relatively homogenous agents, and such institutional settings are limited in their ability to generate wealth creation and generalized development in any society.

There are major dilemmas of governance that the workshop research project excites in a scholar's imagination. Primary among these is the problem of self-enforcement. A free society works best when the need for a policeman is least, that is, when contracts are largely self-enforcing and the benefits of association outweigh any gains from deviant behavior. But as a modern society expands beyond small group settings of relatively homogeneous agents, the focus shifts from self-enforcement to formal rules of the game which police social intercourse effectively so individuals can realize the gains from association. Following Tocqueville, the Ostroms have sought to develop a science and art of association so that they realize the mutual gains from exchange and production within a diverse society.<sup>9</sup> The legal framework adopted in a society either reinforces or conflicts with the self-governing associations that take place outside the realm of the state, but once it is recognized that the law can buttress the existing self-governing associations in operation, the question remains as to how you can protect the arena of self-governance from being perverted by the formal rules that give coercive power to the state.

“Since rules are not self-applying and self-enforcing, any system of constitutional rule depends upon a knowledgeable use of the prerogatives of government and citizenship to maintain and enforce limits inherent in a system of constitutional law. Knowledge, both of techniques and design criteria, is thus essential to the conduct of the American experiments in constitutional rule. This knowledge provides the appropriate criteria to evaluate performance and methods that can be used for officials to check and limit one another, and for citizens to maintain proper limits in their relationships with officials. Any such structure of relationships is vulnerable to the development of coalitions that attempt to dominate all decision structures. The viability of a system of constitutional rule depends, in turn, upon awareness of these exposures and the willingness of others to resist such usurpations of authority” (Ostrom, 1982, p. 164, in McGinnis, 1999b).

There are two important points that this passage highlights. First, the political economist must appreciate the vulnerability of any social system that requires the introduction of the coercive power of the state to overcome the breakdown of self-enforcement to maintain social order. In building the political institutions that will address the situation beyond self-enforcement, the theorist must seek to minimize the vulnerability.<sup>10</sup> The Tocquevillian answer lies in civil associations that are self-governing; the Madisonian answer lies in political structures that pit ambition against ambition. A free society must have both in a wide scope for non-governmental social associations and political and legal institutions that

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<sup>9</sup> Part of our purpose in this paper is to highlight the similarities of the research project of the Ostroms and scholars such as Knight, Mises, and Hayek. We would like to point the reader to the core chapter in Mises's *Human Action* on what he terms “Ricardo's Law of Association.” Sympathy and friendship are the fruits of social cooperation, not the cause of it. See Mises (1949, pp. 143–176).

<sup>10</sup> Hayek puts it this way in describing the classical liberal political economy of Hume and Smith: “the chief concern was not so much with what man might occasionally achieve when he was at his best but that he should have as little opportunity as possible to do harm when he was at his worst” (Hayek, 1948, p. 11).

		THEORETICAL PREDISPOSITION	
		THIN	THICK
EMPIRICAL PREDISPOSITION	DIRTY	Analytic Narrative Approach to Political Economy of Weingast/Bates, etc., and the Institutional Analysis of Policy Approach of the Ostroms	Anthropology and Sociology
	CLEAN	Mainstream economics	Statistical Political science

Fig. 1. The landscape of the social sciences.

minimize the domination of some by others by making the competition between the interest groups checkmate one another (see Ostrom, 1997, p. 273).

#### 4. Conclusion

The research program of the Workshop in Political Theory and Policy Analysis is both sophisticated and relevant to the analysis of real-world problems. With a multiplicity of insights from across disciplines, a framework is forged that enables the theorist to engage in a comparative institutional analysis that is rich in details and historical context. Moreover, the analysis is capable of generating evaluation and designing institutional remedies to the pathologies and perversities that exist in any given structure.

It is important to stress that the analysis is grounded in methodological individualism and the economic way of thinking. In contrast to the model-thinking of mainstream neoclassical economics, an archeology of knowledge perspective reveals that the research agenda of the Ostroms draws significantly from the ideas developed in the first half of the 20th century by Knight, Mises, and Hayek.

The methodological importance of the Ostrom approach cannot be underestimated. The landscape of the social sciences can be categorized as follows (Fig. 1):

The missing cell in the social sciences was an attempt to combine the logical structure of economic reasoning with the rich institutional details of history and anthropological and sociological analysis. The Workshop in Political Theory and Policy Analysis has bridged the gap between the free-floating abstractions of mainstream economists and the naïve empiricism of historicism and older institutionalism, but these scholars have also steered clear of the pseudo-scientific sophistication of tests of statistical significance unaided by a theoretical framework. The data does not speak itself, but this also does not mean that the data should never be allowed to speak at all.

Through their own work and the collaborative work of generations of scholars, Vincent and Elinor Ostrom have pursued a research program that has had the effect of reinvigorating a tradition in political economy that can be dated from Hume and Smith down to Knight, Mises, and Hayek. The Ostroms have given this research program both empirical content and a normative thrust grounded in a respect for the self-governing properties of civil

associations. These civil associations empower citizens by helping constrain the power of the state to grant special privileges to some at the expense of others and by enabling diverse individuals to realize the mutual benefits from exchange and production so that wealth is created and social cooperation, rather than conflict, characterizes the societal order. The classical liberals from Smith to Tocqueville understood that a society of free and responsible individuals simultaneously achieves individual liberty, wealth creation, and peaceful cooperation. The work of Vincent and Elinor Ostrom have elaborated on that grand intellectual tradition and enriched its scientific content.

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