

Productive Specialization and Peaceful Social Cooperation through Covenants with and without the Sword

Peter J. Boettke

George Mason University

Abstract

Elinor Ostrom not only had an amazingly curious mind, she was also a gracious individual who had no airs about her. Humble, hardworking, and a lifelong learner, she was an inspiring figure to me from my first encounter with her when I was in graduate school. Her distinction between rules in form and rules in use influenced the way I approached the study of the Soviet economy as well as the puzzle of development economics more generally. I hope readers of the *Journal of Private Enterprise* will enjoy these remarks from Ostrom and my story about the context of that evening. It is my sincere hope that this short essay and her remarks will inspire the young members of the Association of Private Enterprise Education to delve deeper into the work of this brilliant social scientist.

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Elinor and Vincent Ostrom's approach to graduate education influenced my own approach to working with graduate students when I returned to George Mason University in 1998. One of my first acts there was to create the weekly Workshop in Philosophy, Politics and Economics, with the emphasis on workshop, modeled on their program at Indiana University. Words matter, Vincent taught us: words and deeds.

I worked with colleagues Leonard Liggio and William Dennis to help honor Elinor and Vincent with the first lifetime achievement award from the Fund for the Study of Spontaneous Order, and I edited the special issue of the *Journal of Economic Behavior & Organization* the followed from the conference around that award. I then embarked on an effort with my close colleague (and former

PhD student of the Ostroms) Paul Dragos Aligica to provide a book-form summary of the Bloomington School of Institutional Analysis, which was eventually published as *Challenging the Institutional Analysis of Development* (Routledge, 2009). The timing was most fortunate because the book appeared just as Elinor Ostrom became the first woman to receive the Nobel Prize in Economic Science in 2009.

We had arranged a book panel before the announcement, and given the demands on the prize winners, we fully expected that the panel was now out of the question. But not to Elinor. She insisted on honoring her commitment to us, and, in addition to discussing the book, she spent a week at GMU/Mercatus visiting with graduate students and other research institutions on campus. She returned to GMU to help us celebrate James Buchanan's contributions to political economy and social philosophy. Finally, and most relevant for this context, she accepted the invitation to receive the Adam Smith Award from APEE in 2011. It was a joyous occasion.

To make sense of the story I am about to tell you, I should point out that Elinor was also a feisty intellectual who did not like to be pushed into intellectual corners—methodologically, analytically, or ideologically—however compelling the argument might be. She had an uncanny ability to see the value in the other sides of an argument, and she resisted strict dichotomizations in the social sciences. Her APEE talk was such an occasion. Given my relationship with her, we were seated together for dinner, and next to us was none other than the gregarious Edward Stringham.

I had explained to her the general tenor of the APEE audience, and Elinor was set to give a talk to the APEE audience about her work on self-governance, and in particular cooperation without central command. The topic was to be Covenants without the Sword. I was so excited. When she won the Nobel Prize, one of the first pieces I wrote about why she deserved such recognition was on the theme of why those who valued liberty should rejoice in this award focusing on her contributions to our understanding of self-governance.

But over dinner, Ed challenged her to be more radical in her interpretation of the research findings she had presented. If we can realize productive specialization and peaceful cooperation without any recourse to state intervention to define and enforce property rights, isn't her position effectively an anarcho-capitalist one? She pushed back, NO, my position is not "no state" versus "state"; such dichotomies miss important subtleties. Governance takes many

forms, she explained to Ed. But Ed responded, yes, and one form it takes, and the most effective one, is stateless governance—private governance, as he termed it.

No, Elinor argued back. There are collective action problems, and self-governing democratic *state institutions of governance* are required at the local, state, federal, and even global levels, depending on the externality that must be addressed.

That isn't practical, Ed argued back. Quasi-market arrangements suffer incentive problems, knowledge problems, and most important, political privilege and power problems.

Elinor insisted that polycentric governance in the context of state institutions was practical and in fact necessary. Moreover, that is what her long journey with her husband Vincent was all about in their quest to understand the human condition and explain the workings of polycentric order.

The discussion was between two strong-willed people, but it never got heated—just obvious that they saw the world differently. Ed was and is a private governance absolutist; Elinor supported private governance sometimes, but not always; public governance other times, but not always; and believed that what we must recognize in human affairs is the great institutional diversity that is in operation throughout the world and enables individuals to live better together than they ever could apart.

Ed, in his effort to push his position, insisted: Only private governance both generates wealth and protects our rights.

The debate had to stop, as it was now time for Elinor to give her Adam Smith Award lecture.

But, she had the last word, and this is it. Rather than discuss Covenants without the Sword, she pivoted on the spot to answer Ed and others in the audience that didn't see the necessity of collective action and public governance and, most important, the role of public entrepreneurship in solving social dilemmas. She illustrated her argument with a discussion of her PhD work (at UCLA) on the management of water.

In casual conversation, she often remarked that Mancur Olson's famous first book should have been titled *The Theory of Collective Inaction*, because it showed how voluntary cooperation broke down; her work, on the other hand, showed how voluntary cooperation and collective action could succeed. Not only must we choose in groups to solve problems; we can choose in groups a way to solve them that is consistent with self-governing democratic society.

But, it must be stressed, she saw the state in its various manifestations as a critical partner in the success of this cooperation. While Olson committed an error of over-pessimism, her remarks about collective action problems and the role of public entrepreneurship were chosen to suggest to Ed that he was committing an error of over-optimism. Elinor stood between the two polar positions and sought to explain how productive specialization and peaceful social cooperation required that we study covenants both with *and* without the sword. Though she did not discuss it in this lecture, she spent her career exploring and testing this theory of social cooperation and collective action in some of the most hostile of environments and across geographic space, historical time, and over a variety of resources.

The transcript of the talk doesn't capture the full implications she drew from her work. For that, readers should turn to her classic *Governing the Commons* (1990) and, in particular, the concluding section of the book (pp. 214–16). She situates her work in the intellectual tradition of Hume, Smith, Madison, Hamilton, and Tocqueville, and in the contemporary literature of Buchanan, Coase, North, and Williamson (see fn. 22). But, though not mentioned, her main conclusion in that section is straight from Hayek's indictment of the "fatal conceit" by would-be planners. As Ostrom puts it: "The intellectual trap" scholars fall into is working with models of the social world that "presume that they are omniscient observers able to comprehend the essentials of how complex, dynamic systems work." The result is that scholars have the "false confidence of presumed omniscience" and address their proposals to governments who act as if they have "omnicompetent powers." Such a situation, Ostrom argues, is not only an intellectual dead end but a fundamentally undemocratic way of thinking.

An alternative history of that night could have seen Elinor motivating that APEE crowd to engage in field work, to champion multiple methods methodology, and to push the limits of our understanding of polycentric governance. That work is not hidden far from view of anyone who cares to study Elinor's work and read her footnotes.

Elinor was humble, hardworking, and lifetime learning—and, I should add, kind, generous, and engaging. All those wonderful traits were on display that night in her willingness to accept the Adam Smith Award, her engagement with Ed Stringham, and the delivery of her talk. If you were there, I would ask you to remember and

listen and learn, and if you are new to this material, I would ask you to read and absorb it. Elinor Ostrom contributed significantly to the continued development and refinement of the mainline of economic science and liberal political economy.