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*__Nobel Prize Winners__*

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# TWO «BORDERLINE ECONOMISTS» HONOURED

The Nobel Prize for economists went in October 2009 to two US Americans: Elinor Ostrom (76) and Oliver E. Williamson (77). While Ostrom creates new hopes for solving the great challenges of the environment, Williams explains why we need firms and bureaucracies besides markets.

They are two distinct temperaments – but in research they have much in common: both stand standard ideas on their heads; both are working on institutions; and here the roles of firms and the state. Both have used methods from other fields outside economics. Williamson used jurisprudence; Ostrom used economics, politics, sociology and anthropology, saying: «I have surpassed the limits of disciplines that are no question».

Born in 1933, since the 1960s Elinor Ostrom is teaching at the Indiana University in Bloomington. She passes for a modest professor, who despite her great reputation even before the Nobel Prize was interested in other cultures. In the 1970s she acted as a Vice President and in mid 1990s as President of the American Association of Political Scientists.

The work of Elinor Ostrom informs about Turkish fishermen allocating a region of the sea via a lottery; about Swiss farmers managing collectively the willow; willows in Mongolia, and water sources in Nepal. All these are commons: goods or scarce resources to be used by individuals but indent upon a community or group of people. She opposes the widespread opinion that commons must be either privatized or regulated by the state. She has based her astonishing findings on a thousand examples. Traditionally, economists and political scientists assume that the common usage of these goods creates only problems. There was the pessimistic view of purely selfish individuals, calculating costs

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Eisen Ronald, Doctor, Professor, University named after J-W. Goethe, Frankfurt-on-Main, Germany.

and benefits, and looking that at the end they have some gains. If all act in common, at the end everybody wants to have more than his share; then there is over fishing, over harvesting and overuse of sources. The biologist Garrett Hardin has drawn this problem in his classic account of social dilemmas as the «Tragedy of the Commons» (Science 162, 1968).

Given this, the standard advice of economists is to divide these commons and give the parts to several private persons – or a (state) administration should control. Hardin's and many economists' view has been challenged by the insights of numerous field studies reported by Ostrom. In her seminal book «Governing the Commons. The evolution of institutions for collective action» (1990), the metaphor of a tragedy is replaced by the emphasis that via stable rules a sustainable management of the commons is possible. There are several examples of communities who organize themselves beyond the state or market.

Human beings behave better in reality than in theory[1]. Many commons are administered exceptionally well. It seems as if human beings are able to govern the commons. Ostrom shows that in many situations people can cooperate, improve their joint outcomes by making rules, keeping them and enforcing them. However, the individualized administration of commons functions only under certain conditions – «and there is no simple model for this». Only a rough direction is possible: The thing works well if the people concerned communicate strongly with each other and have enough information at hands; and everybody must be careful and prepared to sanction transgressions or violations of the rule.

Ostrom is looking for an adapted «institutional design» for an ecological sustainable economic order. Always she is stressing the importance of a large variety of institutional forms: «Variety makes successful».

This idea also connects the two Nobel Prize winners. Oliver Williamson receives his Nobel Prize for his studies along the question why some businesses (or contracts) are made inside the enterprise and not via the market. He is interested in the dependencies and the costs of solving conflicts: The higher the dependencies between two (or more) people the more probable is that they will join in an institution. According to Williamson, large corporations exist because they are efficient – and they end to exist if they cannot deliver anymore these efficiency gains. However, pure solutions via the market fail because the use of the market is not without costs. High transactions costs (e. g. the search for appropriate market partners, the conclusion of contracts and their control) make it attractive to regulate durably and hierarchically specific relationships within an organization such as a firm. With the help of institution theory (neo-institutionalism) he analyzes which different forms of «corporate governance» are stable and ef-

[1] Although there are trials to built up a theory which can explain this behaviour, e. g. by extending the standard rational choice approach and incorporating preferences for reciprocity and equity. This means, that a substantial fraction of the subjects act conditionally on what other subjects do; cf. e. g. A. Falk, E. Fehr and U. Fischbacher, Appropriating the Commons: A Theoretical Explanation, in National Research Council (2002), The Drama of the Commons, Washington, DC (National Academy Press), 157–191.

ficient. This theory can work without the omniscient «homo oeconomicus» and can use a lot of details from law.

Oliver E. Williamson, born 1932, is still teaching at the University of California at Berkeley (UCB). He started also with simple questions and found a plenty of unexpected answers. With his publications, starting in the 1970s, he analyzed some basic questions: Why there are at all firms? Why we do not all our businesses with and on markets if they are so nicely efficient as economists normally say? (See his «Markets and Hierarchies: Some elementary considerations» in AmerEconReview LXIII, 1973, 316–325). In a rough manner Ronald Coase, a former Nobel Laureate, has answered this question: It is transactions costs which can be so high that it is better to do it within hierarchical organizations. Williamson analyzed in detail these transactions costs: the more complex are the transactions, the more interdependent are the partners, and the more complicated it is to regulate the transactions in contracts, the more probable it is that the organizational form of an enterprise is chosen. In case of a conflict there is no need to discuss at length or to go to court; simply the boss decides. This is even underlined by the possibility to behave opportunistically, to seek the own gain to the debit of another if it is not directly or controllable with out incurring additional costs. And here Williamson differentiates between two forms of opportunistic behaviour, firstly with original negotiations, secondly with contract execution or renewal.

His research lead him deeply into practical cases: He wanted to know why some coal mines merge with power stations others not; why some technological conglomerates give work to outsiders others not; why some firms prefer to issue shares, others prefer to issue bonds etc.

Like Elinor Ostrom also Oliver Williamson is looking for practical advices and solutions. And both know that there remains much to do: We developed means and methods but there is still a long way to a general theory of institutions or economic organizations.

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