

30. Doing Institutional Analysis Digging Deeper Than Markets and Hierarchies

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A major problem in understanding institutions relates to the complexity and diversity of contemporary life and the resulting specialization that has occurred within the social sciences. The central aim of the social sciences is to explain human behavior. But what kind of human behavior? Within which kinds of institutional settings?

As we go about our everyday life, we interact in a diversity of complex situations. Many of us face a morning and evening commute where we expect that others, who are traveling at great speeds, will observe the rules of the road. Our very lives depend on these expectations. Those of us who work in large organizations—universities, research centers, business firms, government offices—participate in a variety of team efforts. In order to do our own work well, we are dependent on others to do their work creatively, energetically, and predictably and vice versa.

Many of us play sports at noon-time, in the early evening, and on the weekends. Here, again, we need to learn the basic rules of each of the games we play, as well as finding colleagues with whom we can repeatedly engage in this activity. During the average week, we undertake activities in various types of market settings—ranging from buying our everyday food and necessities to investing funds in various types of financial instruments. And, we spend some hours each week with family and friends in a variety of activities that may involve worship, helping offspring with homework, taking care of our homes and gardens, and a long list of other activities undertaken with family and friends.

The formal study of institutions is typically divided into the study of separate kinds of situations. Students are confronted with the need to choose between the study of markets offered by Departments of Economics and the study of hierarchies or states offered by Departments of Political Science. The study of communities is sometimes offered in Anthropology or Sociology Departments, but may not be offered at all in some universities. Are markets and hierarchies entirely “different” structures? Do they, in turn, share little with families, neighborhoods, and committees? Are there no underlying universal building blocks of organized life analogous to the underlying universal building blocks of individual organisms?

In this chapter, I address the question of whether underlying components of markets and hierarchies (and, many other complex situations) constitute the elemental parts of multiple, complementary theories that explain regularities in human behavior across diverse and complex situations. In other words, I assert that there are universal components of all markets and other frequently encountered situations and provide a framework that can be used in analyzing any type of institutional arrangement.

Contemporary ways of organizing scientific knowledge have not encouraged pursuing this question. Whole disciplines have been built up around the presumption that they offer a *unique* perspective on the study of particular types of situations. Markets and hierarchies are presented in some courses as fundamentally different “pure types” of organization. Not only are these types of institutional arrangements perceived to be different but each is presumed to require its *own* explanatory theory. Recent works in transaction cost economics do, of course, bridge these structures in the discussion of choosing firms or markets to organize activities (Williamson 1991).

When we study or teach about these situations, behavior is presented as coming from separate worlds. Psychologists tend to study the way that single individuals acquire and process information and skills and how this affects individual choices. The theories of individual behavior developed in psychology are little known or used outside of psychology. Many economists develop their own theories of individual behavior that are not consistent with the work undertaken in contemporary psychology. Political scientists tend to study various kinds of collective-choice mechanisms (legislatures, executives, courts, and the selection of officials through voting) and are eclectic in the theories and approach they use. The discipline of law is taught in separate schools and usually made available only to those interested in becoming lawyers by profession. Social scientists rarely take any biology—and vice versa—even though recent developments in biology are highly relevant for understanding human behavior.

In each discipline, a separate set of languages is emphasized that makes diverse assumptions about the

- kinds of goals that individuals seek, the images they share, and the mechanisms they use in making decisions;
- variables that are important in affecting the structure of the situations in which individuals make choices;
- capabilities of individuals and the extent of freedom that individuals have to affect the structure of these situations; and
- range of outcomes that is likely to be achieved in the relevant situations.

The development of separate languages is a barrier to more general explanatory frameworks and closely related theories that help analysts make cross-institutional comparisons and evaluations.

What we have learned from all of our separate disciplinary work is that there is no single cause of human behavior—even though some scholars tend to push one or another all-encompassing cause such as poverty, population, or