Another Nobel for market economics

Elinor Ostrom, winner of the 2009 Nobel Prize in Economic Sciences, is not your average Nobel winner, writes **Julie Novak**.

The announcement that Elinor Ostrom was the co recipient of this year's Nobel Prize in Economic Sciences attracted considerably greater attention than winners in previous years.

Yet some of the popular press coverage misrepresented what Ostrom's work means for the time tested ideas of market capitalism.

For a start, Ostrom was the first female winner of the prize placing her in an elite band of economic thinkers such as Friedrich Hayek, Milton Friedman and James Buchanan.

In the *National Times* the self styled 'econogirl' economics writer Jessica Irvine, praised Ostrom's 'traditionally female approach she has applied to studying systems of economic governance.' She took economics' traditional rational man, or 'homoeconomicus', and refreshed him to better resemble real humans.

In saying this, Irvine overlooked the century long refinement of the Austrian economics school which eschews the unrealistic neoclassical economic agent model. The Austrians favour more realistic settings where humans seek to discover their preferences, leading to economic cooperation and market growth, in real time, and with limited knowledge.

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It is notable that the founders of Austrian economics were men such as Hayek and Ludwig von Mises, so no 'girl power' is needed there to add realism in economic analysis.

The Age newspaper stated that Ostrom's win, based on her original research on the management of common property such as fisheries, forests, water basins and other natural resources, was 'highly topical … amid efforts to tackle climate change.'

Indeed, Elinor Ostrom's views on the climate change issue are highly topical but perhaps not in a direction that some readers of *The Age* might prefer.

After all, she once stated that 'when asked whether easy solutions are likely to be achieved for problems involving large, amorphous groups that face significant problems of communicating, such as the overuse of ocean fisheries or global warming, I always respond in the negative.'

Other media reports have attempted to leap on Ostrom's win as somehow representing another telling blow against economic freedom in the global financial crisis age.

However, even the idea that the intellectual output of Elinor Ostrom represents the latest permutation of anti-market thinking is a gross misrepresentation. To appreciate why this is the case, one must consider her work carefully.

One of the modern orthodoxies in economics is the idea that valuable common-pool resources that no single person technically owns will be

Free market Nobel Prize Winners

Elinor Ostrom	**2009**
Oliver E. Williamson	**2009**
Edward C. Prescott	**2004**
Vernon L. Smith	**2002**
Myron Scholes	**1997**
Robert Lucas Jr.	**1995**
Robert Fogel	**1993**
Douglass C. North	**1993**
Gary Becker	**1992**
Ronald Coase	**1991**
Harry Markowitz	**1990**
Merton Miller	**1990**
James Buchanan	**1986**
George Stigler	**1982**
Theodore Schultz	**1979**
Milton Friedman	**1976**
Friedrich von Hayek	**1974**

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Elinor Ostrom in October 2009, having just won the Nobel Prize in Economics

consumed at a rapid rate by individuals who strive to get their share of the resource before it is depleted.

To prevent this so-called 'tragedy of the commons', most economists have presumed that government intervention is needed to establish rules governing the rights and responsibilities of users of the resource.

In other words, bureaucrats and politicians are somehow required to stop free riding on the resource, encouraging its long term preservation.

The genius of Ostrom was that she demonstrated the need for government involvement in managing these resources is far less than supposed by many economists and policymakers.

Based on decades of fieldwork and empirical analysis, Elinor Ostrom found numerous cases of individuals voluntarily banding together to set out their own rules, including monitoring and enforcement procedures, about how to manage fishing grounds, forests, pastures and other resources.

Ostrom found that successful self governed common pool resources in the real world were managed by simple rules codifying who gets what amount of resources, who is responsible for monitoring resource use, what punishments are meted out for inappropriate use, and how genuine conflicts should be managed.

To be certain, not all voluntary solutions to resolving common pool resources exploitation are successful. By the same token, Ostrom states there is a risk that externally-imposed rules, including from distant governments, will have less legitimacy in affected communities and are likely to be violated.

The collective, yet non-state, interactions that Ostrom analyses are a subset of the rich arena of economic freedom that includes private markets with codified property rights.

Indeed, classical liberal authors have long been acutely aware of the advantages of people voluntarily grouping together to resolve collective action problems such as the management of public goods, provision of social services such as education and health care and, in Ostrom's case, the appropriate use of vast tracts of natural resources.

Ostrom provides a powerful argument that freedom of association can deliver beneficial economic outcomes. This is a view that classical liberals and libertarians will find comforting.