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SOME CRITICAL REFLECTIONS ON THE POLITICAL ECONOMY APPROACH

by

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DISCUSSION PAPER

on

Peter Ordeshook's

THE REINTEGRATION OF POLITICAL SCIENCE AND ECONOMICS
AND THE PRESUMED IMPERIALISM OF ECONOMIC THEORY

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SOME CRITICAL REFLECTIONS ON THE POLITICAL ECONOMY APPROACH:

Comments on Peter Ordeshook's "The Reintegration of Political Science and Economics and the Presumed Imperialism of Economic Theory."*

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Let me begin by summarizing Peter Ordeshook's assessment of the contribution of the economic approach to the study of the political realm. Following Ordeshook's lead, I shall go on to indicate that what some see as economic imperialism in the study of public or collective choice is a basic challenge to neoclassical economic theory as well. A constructive response to that challenge is likely to require quite a different approach to the study of social phenomena than we have seen in the past century and a half.

Ordeshook identifies the essential "thread uniting the two disciplines" of economics and political science as "the rational choice paradigm" (6). This paradigm he identifies with methodological individualism and the presupposition that individual action is motivated by self-interest. But, as he notes, these core concepts are "constantly questioned, criticized, defended and reformulated" (5). Gerard Radnitzky in "Cost-Benefit Thinking" indicates that the "principle of economy" applies to all forms of life and is by no means confined to either an economic subject-matter nor to a specific discipline (Radnitzky and

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Bernholz, 1987: 284). I would argue that a principle of economy applies at least to all forms of choice.

Ordeshook in referring specifically to Buchanan and Tullock's Calculus of Consent is appreciative of contributions they have made to the study of the effects that institutions have upon the allocation of scarce resources and to a conception of institutions as human creations (25). However, Ordeshook puzzles that "if we examine the flow of ideas more deeply, the nature of the presumed imperialism becomes less clear" (27). Mancur Olson's Logic of Collective Action, for example, has striking parallels in Rousseau, Hume, and Hobbes (28-29). In the abandonment of methodological individualism, "political scientists somehow forgot their roots" (28).

The principle sections of Ordeshook's paper argue that choice in politically structured processes, such as voting in elections and taking decisions in representative assemblies, demonstrates the inadequacies of the first generation of such studies undertaken by economists. New modes of analysis were required. These were variously contributed to by political scientists, philosophers, sociologists, economists, and others. The use of methodological individualism and the principle of economy to specify assumptions about actors required, in addition, a specification of elements in action situations:

1. "[M]arkets and elections are organized differently" (15).
2. "The central questions of politics . . . concern how political institutions such as elections, representative assemblies and committees, in conjunction with the procedural details of these institutions, translate preferences into a social decision" (12).
3. Rather than the presumed independence of choice in perfectly competitive markets, the study of collective choice required "the treatment of strategic and cooperative action" in interdependent choices (5).

4. As a consequence, "the theoretical apparatus of economics suffers from fundamental theoretical inadequacies" (5).
5. In such circumstances, economics provides "a general and malleable theoretical structure" (8) that facilitates collegial and collaborative efforts among economists, political scientists, sociologists, game theorists, philosophers, and others.

I concur both in the general thrust of Ordeshook's paper and in his specific references to the multidisciplinary contributions to the work that is emerging from the application of the rational choice paradigm to the study of political phenomena. The rational choice paradigm is itself being changed. That paradigm has become a more "general and malleable theoretical structure" than was used in neoclassical economic theory.

I wish to elaborate upon this theme to offer some critical reflections on Ordeshook's paper. In doing so, I shall focus upon two minor points and then expand upon these points to call into question some of the conceptions that Ordeshook uses to frame his analysis and, at the same time, question much of the work in the political economy tradition.

Ordeshook in his discussion of public choice construes "a central thrust" in Buchanan's work "to render the field of public finance less normative and more descriptive -- or at least to ensure that its normative prescriptions are descriptively realistic" (26). This statement is correct to a point; but it obscures some important issues. When one shifts to a constitutional level of analysis, normative considerations also come to the foreground; and we see Buchanan becoming concerned with liberty and justice as well as efficiency considerations. This problem comes into critical focus where Ordeshook suggests that Mancur Olson has transformed "our thinking about interest group politics . . . , while simultaneously questioning Madison's premise that threatened interests in a democracy will defend those interests and produce an efficient balance of forces" (28).

Madison was not saying that people in a democracy will spontaneously defend their interests when threatened by adverse majority decisions and produce an efficient balance of forces. Rather, Madison was saying that democratic societies are highly vulnerable to dominance by majority coalitions ("factions"). To avoid the perverse consequences associated with majority coalitions, a series of safeguards had to be built into a system of democratic governance so that interests could be mobilized and veto capabilities exercised. All authority might then be subject to limits. Majority coalitions might then be effectively constrained when they act "adverse to the rights of other citizens or to the permanent and aggregate interests of the community" (Federalist 10). These safeguards refer not only to a separation of powers with checks and balances in any one unit of government but to a reiteration of such principles in a federal system of government where "all of our political experiments [rest] on the capacity of mankind for self-government" (Federalist 39). "[A]n efficient balance of forces" for Madison, if I construe him correctly, was not to be achieved in any one unit of government but by the way that multiple units of government and their diverse instrumentalities of governance were constituted and linked to an open public realm so that equilibrating tendencies could be achieved to overcome the perverse effects associated with the likely dominance of a majority coalition where majority voting prevails in any one unit of government.

Both Madison and Hamilton were aware that many perverse tendencies operate in collective choice arrangements, including Olson's logic of collective inaction (see Federalist 25; V. Ostrom, 1987: 115-117). They addressed such tendencies as calling for distinct decision-making arrangements which would reduce the vulnerability of a democratic society

to the perversenesses associated with majority coalitions. They presumed that such safeguards might yield stalemates; but they reasoned that

the oftener . . . [a] measure is brought under examination, the greater the diversity in the situation of those who are to examine it, the less must be the danger of those errors which flow from the want of due deliberation, or of those missteps which proceed from the contagion of some common passion or interest (Federalist 73. My insertions.).

These are calculations inherent in cost-benefit thinking applied to constitutional and collective choice in a multi-centered political order.

Conflict in the political realm is a process that can be used to elucidate information, clarify alternatives, and induce innovations. By structuring political processes so as to facilitate conflict and conflict resolution, Madison was presuming that collective decision making could be organized so as to search out mutually productive relationships rather than allow simple-majority factions to prevail. A methodology might then work in the processes of government available in diversely structured situations so that collective action might be consistent with criteria of liberty, justice, and mutually productive relationships. This is what is implied by a due process of law; and these are the conditions necessary for an efficient balance of forces. Madison would not have expected such circumstances to occur among large multitudes of people acting spontaneously.

Important issues arise about the rule-boundedness of human actions. These issues pertain to the relationship of the constitutional level of analysis to collective choice and within the realm of collective choice to expenditure decisions as distinguished from the enactment of legislation. The economic approach seriously neglects some important aspects of the architecture of rules in the constitution of order in human societies (E. Ostrom, 1986; Gardner and E. Ostrom, 1987).

Jack Hirschleifer in an essay on "The Expanding Domain of Economics" (1985: 53) argues that "[t]here is but one social science" (Hirschleifer's emphasis), and economics constitutes "the universal grammar of social science." Economics does provide us with a powerful universal grammar; but it is extremely doubtful that this is the only universal grammar appropriate for inquiry in the social sciences. We are likely to find that the links among languages, thoughts, and actions turn upon an even deeper grammar. That grammar is probably related to Chomsky's quest for a basic grammar. If economists were to draw upon an epistemic grammar relating languages, thoughts, and actions, they would become less puzzled about "the grip of ideology" in human societies (Hirschleifer, 1985: 54). The grammar of economics also needs to be supplemented by a grammar of rules with its deontic operators and their right-duty/power-liability correlates. The language of law as a medium for ordering human relationships is quite different than the language of money and prices. Price theory as articulated in neoclassical economics is not a sufficient basis for addressing the nature and constitution of order in human societies.

Ordeshook's statement about "normative prescriptions" being "descriptively realistic" obscures the place of deontic operators (must not, may, must) which refer to what is prohibited (forbidden), permitted, and required, and the correlation of right-duty and power-liability relationships in a grammar of rules. This grammar is characteristic of all rule-ordered relationships. Normative considerations pervade the language of rules and are not confined to free floating normative prescriptions that might be linked to realistic descriptions. It is acting in relation to rules that is constitutive of order in human societies (Searle, 1969). Unfortunately, this problem is largely ignored in the grammar of economics.

When John R. Commons addressed himself to this problem, his pioneering work was not taken seriously by mainstream economists (Commons, 1959).

Let me illustrate the problem by reference to a recent paper by Mancur Olson on "Toward a More General Theory of Governmental Structure." Olson begins that paper with these assertions:

A theory of governmental structure begins most naturally with why we need governments. Governments are not needed to perform any function that markets perform perfectly. Thus a theory of governmental structure naturally begins with market failure (Olson, 1986: 120).

Olson has used a neoclassical conception of market relationships to refer to something that he calls markets. Governments are conceived as being exogenous to markets. He has ignored the universal character of rule-ordered relationships; and the way that rules are constitutive of market orders, governmental institutions, or any other form of ordered relationships in human societies. Having neglected the grammar of rules, Olson provides us with what I presume to be a serious distortion of social reality in order to get that reality to fit into his grammar of economic discourse.

The same problems in formulating rules, using rules, enforcing rules, and judging the application of rules in commercial exchange relationships exist as rules apply elsewhere in human societies. Markets are also constituted by reference to rules; and markets can be constituted in quite different ways (e.g., the New York Stock Exchange). The standing of persons (competence/incompetence) capable of consummating commercial transactions, the nature of commercial transactions (e.g., realty transactions), and what is exchanged in commercial transactions are all governed by rules. Basic aspects of these rules apply alike to commercial and noncommercial relationships. One's standing in a political community

is as much a function of property rights as one's standing in commercial relationships. There is no reason to assume that commercial relationships have always been, always are, or always need to be constituted in accordance with a neoclassical economic theory of perfectly competitive markets.

Because economic theory postulates law and order as a parameter specified by stipulation does not mean that the constitutive character of rules and rule-ordered relationships are exogenous to an economy. One might argue as Harold Berman does in Law and Revolution (1983: Ch. 11) that market organization is derivative of merchant law and developed among self-governing merchant republics which were associated together in leagues or confederations of free cities in Medieval Europe. Berman views law to be a capital asset as much as farmland and machinery (Berman, 1983: 557; also Buchanan, 1975: Ch. 7, for a fuller elaboration). Law also establishes how human beings are conceptualized as principals, agents, or property (serfs/slaves).

It takes a sophisticated system of governance for markets to perform well. While for some purposes, it is appropriate for economists to proceed with an analysis of governments as though they were exogenous to markets, such an approach engenders serious potentials for error when applied to the political realm or to the political-economy nexus. Thus, I consider Olson's assertion that governments are not needed to perform any function that markets perform perfectly as potentially applicable only in a grammar of economics. Such an assertion is in serious error when considered in light of a grammar of rules.

Buchanan in his work has consistently distinguished two levels of analysis: a choice of rules and acting in accordance with rules. The

architecture of rules requires reference to a grammar of rules and the choice of rules entails two different forms of calculation. But, problems arise when Buchanan, the economic theorist, does not allow Buchanan, the constitutional theorist, to go as far as he might in advancing the frontiers of inquiry on the constitutional level of analysis. This relates to a central problem in political theory. Let me try to explain the magnitude of that problem.

In The Limits of Liberty (1975), Buchanan sets himself the task of exploring the question of "How can Leviathan be chained?" (13). The reference is to Hobbes's Leviathan. Hobbes built his analysis upon methodological individualism and postulated that human life involves a continual striving for something better (avoiding something worse). His treatise was largely focused upon rule-ordered relationships and he advanced the thesis that the only way to constitute a commonwealth is to have reference to a unity of power. This is the kernel of his theory of sovereignty. For the next century and a half, a principal preoccupation of some of the ablest minds in Europe was provoked by Hobbes's formulation in an effort to answer the question of "How can Leviathan be chained?" Locke, Spinoza, Montesquieu, Rousseau, Hume, Smith, and Kant were among the many who took up the challenge. This challenge was the driving spirit of the American Revolution and the subsequent American experiments in constitutional government. Difficulties arose and the problems of chaining Leviathan were considered in both theoretical and juridical terms, but not within the confines of a grammar of economics narrowly construed.

Alexander Hamilton addressed the problem as one that has reference to "the general theory of a limited constitution" (Federalist 81 and 78). The arguments advanced by Alexander Hamilton and James Madison in The

Federalist papers in support of the U.S. Constitution were grounded in that general theory of a limited constitution and how a constitution might be formulated where the exercise of all governmental prerogatives could be subject to a rule of constitutional law. I would argue that Madison and Hamilton achieved an explanation for how to chain Leviathan. Thus, they accomplished the "constitutional revolution" that Buchanan called for in his concluding chapter in The Limits of Liberty (V. Ostrom, 1987).

Buchanan, I believe, holds that this is what the Founding Fathers attempted, but that they failed in that attempt. We, thus, have questions that bear upon the logical sufficiency of an explanation and its viability for addressing empirical contingencies.

Buchanan in The Limits of Liberty makes the following observation:

Under regimes where individual rights to do things are well specified and recognized, the free market offers maximal scope for private, personal eccentricities, for individual freedom in its most elementary meaning (18).

Buchanan, then, goes on to puzzle about "romantic anarchists" who are willing to abandon a regime of individual rights associated with free markets for antithetical principles of organization. What Buchanan says about romantic anarchists can also apply to romantic liberals who presume that one-person, one-vote, majority-rule government is good government and that good governments do good. The concern about majority tyranny has disappeared. Maintaining the limits appropriate to a system of constitutional government is no longer seen as problematical. Both free markets and constitutional governments can become victims of romantic anarchists and romantic liberals.

Why did not Buchanan conclude that free markets fail in the presence of romantic anarchists in the same way that he implicitly concludes that

the American experiments in constitutional government failed? I conjecture that Buchanan the economist intervened. Buchanan the economist presumed governments to be exogenous to markets and posed the problem of government in The Limits of Liberty as one pertaining to "a state" or "the state." In a more recent article, Vanberg and Buchanan argue that the state is an organization while the market is not. "The state" is defined as "the political organization of persons who live in a society, and it normally holds a monopoly position in its role as a protective agency (Buchanan, 1975), establishing and enforcing the legal framework within which social interaction takes place" (Vanberg and Buchanan, 1986: 217). The term organization is defined as applying to circumstances where the "resources that are pooled by the individual members are subject to unitary control" (Vanberg and Buchanan, 1986: 216).

If a monopolist controls the power of establishing and enforcing rules in a society, such a monopolist cannot be confined to a "protective" role. This is the basic dilemma of Leviathan; and why the struggle to chain Leviathan has been so central to political theory.

Those who sought to chain Leviathan from Locke onward have continued to challenge the presumption of "unitary control" as the only way to constitute a political order and have argued for a plurality of control. In the case of the American Federalists, this was not only elaborated into a separation of powers, with checks and balances achieved through multiple veto points in any single unit of government, but by the reiteration of those pluralistic features among multiple units of government in a federal system of government. The whole system is permeated with pluralistic structures where "power is used to check power" to use Montesquieu's expression (Montesquieu, 1949: 150) amid a general architecture of

"opposite and rival interests" to use Madison's expression (Federalist 51). Such a system was designed to achieve equilibrating tendencies where officials, citizens, and persons were all subject to a rule of law. These structures, which were expected to manifest equilibrating tendencies, were not articulated in a grammar of economics but in a grammar of rules.

It is a great irony then that Buchanan, who recognized that the choice of rules is different than the choices made when acting in accordance with rules and who is no romantic liberal, sought to construe the plurality of power structures existing in the American system of government as though they were subject to unitary control in a state. By so doing, he moves back to Hobbes's solution. The Limits of Liberty is in many ways a masterpiece of constitutional analysis; but a further shift in perspective is needed to conceptualize the basis for constitutional revolutions.

Let me further conjecture that when economists view government as exogenous to markets and construe multiple power structures as having the unitary structure of a monopoly, they also neglect the emergent properties that are characteristic of pluralistic systems of governance. By analogy it would be like seeing multitudes of firms without seeing the dynamics of markets. Unfortunately, we do not have the language appropriate to this distinction in the vocabulary of political science or economics. Let me use the term polycentricity to refer to the processual aspects in an interorganizational field as distinguished from a multiplicity of organizational units as structural elements in that field. The polycentricity of a market is characterized by commerce or trade and economics has done much to elaborate the emergent properties of markets. Market polycentricity is characterized by cooperation between trading partners, but depends critically upon competition which pertains to the

availability of choice as among trading partners. Conflict as such cannot be resolved by trading.

The dynamics of political processes in a multiorganizational structure is driven by conflict and the efforts to achieve conflict resolution. A due process of law, then, is the organization of conflict in accordance with rules of law that facilitate conflict resolution. There is no single type of structure nor any single process that will suffice for constructively addressing all different types of conflict, reinforcing the tendencies to have recourse to multiple structures in systems of governance. Opportunities for cooperation abound, but dangers arise whenever cooperators collude to impose deprivations upon others. This is the danger associated with majority coalitions. Competition in the political realm facilitates choices among both potential cooperators and conflict-resolving arrangements. The challenge is how to process conflict and achieve constructive resolutions.

In political processes, it is the dynamics of conflict subject to orderly procedures which elucidates information, clarifies alternatives, and induces innovation in much the same way as trading does in a competitive market. Organizations, including states, which are subject to unitary control tend to repress conflict and in doing so repress information about problematical situations and alternatives that might be available to cope better with problematical situations. Innovation is dampened in such circumstances.

James Madison understood how a system of fragmented power structures could be set into motion by building upon opposite and rival interests to include the distribution of "the supreme powers of the State" (Federalist 51). Any system of equilibrating structures acquires operational

characteristics by the way that parts interact with one another rather than by the way that one part dominates the other parts. In an equilibrating system, the parts contribute to a systemic order that has emergent properties which are distinguishable from the parts. In a system of dominance, the dominating part is presumed (but erroneously presumed) to impart order to all other parts of the system by virtue of its dominance and their subordination. A polycentric order is capable of achieving a rule of law that applies to all of the parts without recourse to a ruler that is exogenous to society (Polanyi, 1951: especially Ch. 10). Such societies achieve self-governing capabilities; and states as power monopolies wither away.

Madison was also well aware that in every political institution, "a power to advance the public happiness involves a discretion which can be misapplied and abused" (Federalist 41). It is for this reason that "ambition must be made to counteract ambition" and that the "private interests of every individual be made . . . a sentinel over the public rights" (Federalist 51). Such conditions cannot prevail in organizations characterized by unitary control. But polycentric systems are vulnerable to romantic liberals who presume that majority governments are good governments and who, in their private and public capacities, become preoccupied with winning elections and enjoying the short-term fruits of victory.

The economic calculus in neoclassical economic theory which emphasizes the impersonal (nontuistic) pursuit of short-term self-interest is not an appropriate calculus to be applied in the choice of rules as contrasted to the choices of goods that are available when conditions and rules appropriate to a competitive market situation prevail. The calculus in the

choice of rules requires interpersonal comparisons as each chooser seeks to take the perspective of the other, attempts to discount one's own peculiar self-interests, aspires to impartiality and reaches a consensus on what would be a fair set of rules for addressing problematical situations. Hobbes is explicit about this calculus in the concluding paragraphs of his Chapter 15. David Hume builds his theory of justice upon this same calculus as does Adam Smith in The Theory of Moral Sentiments (Kaufmann, Majone, and V. Ostrom, 1986: Ch. 11). This is the calculus which Alexis de Tocqueville characterizes as "self-interest, rightly understood" (Tocqueville, 1945: Vol. II, Second Book). Hobbes in his parable of man in a state of nature provides a hypothetical proof that reliance upon an impersonal pursuit of short-term self-interest is an insufficient basis for the constitution of order in human societies. The calculus appropriate to normative inquiry is grounded in the core teaching of the Hebraic-Christian tradition which Hobbes articulates as "Do not that to another, which thou wouldst not have done to thyself" (Hobbes, 1960: 103). Summing in this calculus is quite different than summing income and expenditures in monetary units of account. Conceptual unanimity as articulated by Buchanan and Tullock is the appropriate summation.

With Bentham's introduction of utility as a concept that might in principle serve as a measure of all values, a sharp break was made with the calculus that Hobbes, Hume, and Smith had used to address a theory of justice appropriate to a choice of rules. The presumption that utility might be summed on a cardinal scale yielded for Bentham the presumption that the greatest good of the greatest number was the appropriate rule for collective choice. Constitutional limitations upon representative assemblies were presumed to be perverse. What utilitarianism is for

economics, behavioralism is for political science: voting and the counting of votes is the critical consideration in collective choice when the greatest good of the greatest number is presumed to prevail.

The work of Ordeshook and his colleagues concerned with the application of the majority-vote rule to expenditure decisions has made important contributions to a positive analysis of the fiscal problems that arise in democratic societies. They are clarifying calculations that are relevant to a diagnosis of limits that apply to majority voting and some of the perverse consequences which arise when voters and their elected representatives pursue temptation strategies to raid public treasuries. Madison was certainly aware of such possibilities. Buchanan's concern with a fiscal constitution requires us to move to a different level of analysis, which also preoccupied Madison, and address the issue of a fiscal constitution that places limits upon the opportunism that is available to majority coalitions. Pure majority rule only begins to tap the variability of voting rules and veto mechanisms operable in collective choice situations; and such situations need not be confined to the unitary structure of sovereign states.

Mancur Olson's principle of fiscal equivalence (Olson, 1969) takes us an important step along the way in exploring the problem of budget reform and a theory of fiscal federalism (the topic to which Olson, 1986, was addressed). Olson cannot resolve that problem by relying only upon a grammar of economics. If he were willing to use a grammar of rules in the context of a richly multi-centered political order, he might specify the type of fiscal federalism which could maintain a dynamic equilibrium grounded in the principle of fiscal equivalence. That task cannot be accomplished by viewing governments as exogenous to markets. Rather,

governments will need to be viewed as a way of organizing collective-consumption functions in public economies in contrast to market economies. Such public economies might manifest significant degrees of competitive rivalry under quasi-market conditions (V. Ostrom, Tiebout, and Warren, 1961; Bish, 1971; V. Ostrom and E. Ostrom, 1977).

Let me conclude at this point by indicating my concurrence with Peter Ordeshook's conclusion that exploring the frontiers of political economy will demonstrate shortcomings in both economics and political science over this last century. We are making what I believe to be important steps forward. We shall not go far if we confine ourselves to the grammar of economics. Buchanan and Tullock opened our intellectual vistas to the importance of the choice of rules, but we need to recognize that different forms of political order are possible. As we become more aware of the importance of a grammar of rules, we could learn how to build upon the achievements fashioned from the twelfth century onward with the beginning of the scientific study of law (Berman, 1983: Ch. 3) and the blossoming of a related tradition of inquiry in the seventeenth and eighteenth centuries.

But, we shall probably have to go beyond the confines of a grammar of rules to a more general grammar of epistemology. We might then learn how to relate an evolutionary epistemology (Radnitzky and Bartley, 1987) to an evolutionary social science that uses both a grammar of economics and a grammar of rules to study patterns of order and development in human societies. The common ingredients will be human beings thinking and acting with reference to one another and the world in which they live. The modes of calculation that apply to a grammar of economics will be different than those which apply to a grammar of rules. This is why utilitarianism fails when applied to the study of law and the constitution of order in human societies.

Finally, let me apologize to Peter Ordeshook for focusing upon two minor passages in his paper about Olson's logic of collective inaction and about normative prescriptions being descriptively realistic. These passages raise important issues in exploring the application of economic theory to rule-ordered relationships. There are other issues that deserve further discussion.

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