THE 2009 NOBEL PRIZE IN ECONOMICS

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On 12th October 2009, Elinor Ostrom and Oliver E. Williamson won the Nobel prize in Economics. Ostrom and Williamson have written extensively about *non-market institution* in their long spanning careers. Specifically, they have given the economics profession a notion of where non-market institutions exist and when they may be able to allocate resource efficiently as compared to markets. As economist, we are very aware of how limited the scope of markets are. Where market fails, often non-market institutions take over. These non-market institutions are every where, be it, *firms, clubs, societies, associations, universities and colleges, communities, caste, ethnic groups, class* and *family*. Studying them systematically became possible only with the advent of modern quantitative tools in economics and Williamson and Ostrom were early pioneers, who led the way.

Since I broadly work in the area, I thought I would write down something briefly about what I think is the significance of Williamson and Ostrom's work. This also sets the tone for some of the ideas we will explore in detail this year. Of course, this is a very personal view of the scholarly work by Ostrom and Williamson.

Ostrom, in her work, has shown that the "*problem of the commons*" can be solved through local non-market institution. We often find that the problem of the commons is not as widespread as we would expect it to be. There are many many institutions that remain invisible to us, which keep the problem of the commons in check. The most interesting example that comes to mind is the grasslands of Asia. If you look at satellite photographs of the grasslands in Asia, you find green (well looked after portions) and yellow (not so looked after portions) tracts of land. When you superimpose national boundaries over them you find that the green portions lie in Mongolia and the yellow portions in erstwhile USSR and China. Erstwhile USSR and China experimented with collectivisation and thus one could conjecture that they broke the local non-market institutions that had evolved in those societies over the centuries. We could also conjecture that Mongolia may have preserved its non-market institution that allow the commons to be managed efficiently by local communities.

Williamson, in his work, has shown how firms, as non-market institutions, are very good at resolving the conflict within them. A firm can only exist in a market environment if it functions as a non-market institutions. In this way, the markets lie at the periphery of the firm and in this defines the boundary of the firm.

Williamson also finds that firms and similar non-market institutions are not very good at limiting the abuse of power within the institution. So, they are two very different sides of various non-market institutions, a beneficial and a undesirable side. Williamson's scholarly work on how various types

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of institutions evolve in a society at different rates and create friction in the society has been insightful and enhanced our understanding of the world that surrounds us.

This body of work is especially important if you think in terms of the welfare of the society. The non-market institutions are wide spread. Ostrom and Williamson's contribution has been to quantify, what has always seemed absolutely unquantifiable. Their work has allowed us to understand which institutions should be crowded out and which retained as society transform itself over a period of time.

I find that elements of Williamson's and Ostrom work strangely evocative of some of Marx's ideas, especially his notion of the clash between the superstructure (read slowly evolving institutions) and the current realities in the society. Of course, there is a very big difference in the methodology used. Ostrom's and Williamson's use of modern quantitative methods have given us answers, which are more precise and more aware of its own limitations than Marx seems to have been.

I am sure it is not a coincidence that the work on non-market institutions has been acknowledged in a year when financial markets have unravelled spectacularly. Most economist are very sceptical about unfettered markets but the society at large does still seem to believe in it.

This prize highlights the rich tradition of scepticism about unfettered markets in economics and reminds us of the seminal work that has robustly shown us that non-market institutions, where they exist, may allocate resources efficiently. So, we should be very careful of crowding them out in the process of transformation.

If you would like to read further in this area, my suggestion would "The New Institutional Economics: Taking Stock, Looking Ahead" by Oliver E. Williamson (Journal of Economic Literature, Vol. 38, No. 3 (Sep., 2000), pp. 595-613).