For discussion only!
Please do not quote!

# The New Institutional Economics
## - Its Start, Its Meaning , Its Prospects -

by

Rudolf Richter

This paper deals with the early stages, meaning, and prospects of the New Institutional Economics - a generic term introduced by Oliver Williamson (1975, 1). It became soon a standard (or banner) under which a diverse group of economists assembled, who shared one common intellectual ground: institutions matter, the relationship between institutional structure and economic behavior requires attention, the determinants of institutions can be analyzed with the aid of economic theory.

## 1.Start and Take-off Phase of the NIE

### 1.1 A brief quantitative report:

Checking EconLit for the subject "New Institutional Economics" [1] I found 395 records starting with four papers which appeared in the conference issue of our first International Seminar on the New Institutional Economics. It was held in 1983 at Mettlach (Saar), Germany and published in the *Zeitschrift für die gesamte Staatswissenschaft*, March 1984.[2] The conference issue contained actually 12 papers on what we considered to be problems of the NIE (plus 12 contributions by discussants), but the term was only used in four of them. Authors of the 12 papers were Douglass North, Terence Hutchison, Armen Alchian, Dieter Schmidtchen, Harvey Leibenstein, Carl Christian von Weizsäcker, Charles Rowley, Kenneth Scott, Wernhard Möschel, Eirik Furubotn and Steven Wiggins, Oliver Williamson. Ronald Coase concluded the conference with a brief final comment. The reason for the incompleteness of the records of EconLit is, that it selects only by typed in subjects (NIE), not by context. My sample shows only the number of publications containing the term "New Institutional Economics" and that literary, i.e., only in the English language. Keeping these shortcomings in mind, we may use the EconLit records as an indicator of the spread of the field of NIE.

[1] Cut-off date: 12/31/2002.
[2] Coase (1984), Oehler (1984), Scott (1984) and an editorial preface by Furubotn and Richter (1984).

The complete series of EconLit records up till now is presented in Fig. 1. It zigzags upwards until 2000. It consists of books, articles in collective volumes and in journals. The irregular appearance of collective volumes and of our JITE activities contributed much to the zigzaging. Corrected for articles in collective volumes and in JITE[3] we receive a much quieter running and steeper growing time series of NIE publications starting with one paper in 1984 up to a Maximum of 20 publications in 1999 and 2001 (Fig. 2).[4] These "net" publications consist of one discussion paper, some 40 books and 100 journal articles.

About here Fig. 1 and Fig. 2

As a former editor of JITE I was, of course, interested to find out which journals next to JITE published most of the "NIE articles" during the 19 years under investigation. The maximum number (next to JITE) is six papers in *World Development*, next five papers in the *Journal of Economic Issues*; three papers in the

*European Journal of Law and Economics,*
*Journal of Agricultural Economics,*
*Journal of Bioeconomics,*
*Journal of Development Studies,*
*Journal of Economic Behavior and Organization.*

A couple of journals published two NIE articles and some 35 journals put out one NIE article during the reference period.

Noticeable specialties of the journals, inclusive JITE, are:

Agriculture,
Development,
Evolution.
History,
Institutions,
Law,
Organization.

---

[3] I counted 69 articles in JITE and 4 in its predecessor, the *Zeitschrift für die gesamte Staatswissenschaft.*
[4] We found 18 publications for 2002.

Interestingly, neither the *Journal of Law, Economics and Organization* (JLEO) nor the *Journal of Law and Economics* appear in the EconLit records - which may rise the question of the reliability of the EconLit output.

### 1.2 The evolution of the meaning of NIE: First steps

**1.2.1 Williamson (1975, 1),** creator of the generic term NIE, subsumes under it "Aspects of mainline microtheory, economic history, the economics of property rights, comparative systems, labor economics, and industrial organization…".

The common threads tying these studies together were: (1) that received microtheory "…operates at too high a level of abstraction to permit many important microeconomic phenomena to be addressed in an uncontrived way;" and (2) "that the study of "transaction" ………. is a core matter and deserves renewed attention."[5]

A few pages later Williamson (1975, 7) describes the principal differences between the earlier literature and his approach as follows:

„(1) I am much more concerned than are prior treatments with tracing out the ramifications of bounded rationality; (2) I expressly introduce the notion of opportunism and am interested in the ways that opportunistic behavior is influenced by economic organization; and (3) I emphasize that it is not uncertainty or small numbers, individually and together, that occasion market failure but it is rather the *joining* of these factors with bounded rationality on the one hand and opportunism on the other that gives rise to exchange difficulties."

Williamson concentrates in his own work on what he called transaction cost economics (TCE) which he says is "part of new institutional economics" (Williamson 1985, 16).

The term NIE seems to have remained largely dormant during the following five or so years. Leonard Silk mentioned the term in the New York Times of September 24, 1980 as a possible "new direction that will gradually draw economists away from their tired repetition of stale and sterile arguments."[6] I myself "discovered" it around that time on page one of Williamson's 1975 book. Shortly before I had become editor of the time-honored *Zeitschrift für gesamte Staatswissenschaft* (founded in 1844), at that time still a

[5] Among the studies that deal, directly or indirectly, with the NIE Williamson mentions (1975, 1, n.1): Alchian and Demsetz (1972, 1973), Arrow (1969, 1974), Davis and North (1971), Doeringer and Piore (1971), Kornai (1971), Nelson and Winter (1973), Ward (1971) and his own contributions Williamson (1971, 1973).

[6] See Langlois (1986, 1).

German language journal on general economics.[7] I wanted to "internationalize" the *Zeitschrift* and looked for a suitable specialty, a niche, coming close to its original field, the "entire science of the state.[8]" Public Choice and Law and Economics were already well covered by journals, thus the New Institutional Economics in the sense of Oliver Williamson appeared to be a promising choice.

**1.2.2 Furubotn and Richter (1984)** started in June 1983 the above mentioned *International Seminar on the New Institutional Economics* at Mettlach (Saar). The result of this first conference is summarized in the editorial preface as follows:

> " ……the change in approach has not resulted from any deliberate attempt to set up a new and distinct body of doctrine in conflict with conventional theory. Rather, the tendency to introduce greater institutional detail into economic models has come about gradually over time because of the recognition that standard neoclassical analysis is overly abstract and incapable of dealing effectively with man current problems of interest to theorists and policy makers. Unlike the earlier historical-descriptive institutionalists, the new institutionalists have no fundamental quarrel with deductive theory. For the most part, the new group accepts the tenets of classical marginalism and respects its essential usefulness. Marginalism is not rejected; but the emphasis now is on extending the scope of orthodox microtheory by taking account of previously neglected features of the economic system." (Furubotn and Richter 1984, 1).

We noted that practitioners of the NIE employ a number of different approaches of which we distinguished "at least three separate categories" (1984, 3):

Property-rights economics,

Institutional evolution,

Constitutional choice.

At that conference participants still used the term NIE rather restrictively. North (1984), Alchian (1984) or Furubotn and Wiggins (1984) didn't use it at all in their papers, Coase (1984) used it only politely in the opening paragraphs of his final comment. He then prefered to speak of "modern institutional economics". As for its links with neoclassical

[7] Among them, after all, the 1965 paper by Reinhard Selten for which he later (in 1994) received the Nobel Prize.

[8] On the German science of the state see Lindenfeld (1997).

economics Coase (1984, 231) makes a reservation regarding the assumption that man is rational utility maximizer. This seems to him both unnecessary and misleading. Instead:

> "Modern institutional economics should study man as he is, acting within the constraints imposed by real institutions. Modern institutional economics is economics as it ought to be." (Coase 1964, 231)

**1.2.3 Furubotn and Richter (1985, 1986)** As the conference series went on, the final discussants of the following two Seminars – Williamson 1984 and North 1985 - opened their comments with reference to the above quoted two sentences of Coase. They agree that the NIE is at base a study of contract (Williamson 1985, 190, North 1986, 231).

After what I have told about our first NIE Seminars it may seem, that the afterwards growing application of the term NIE was a consequence of our 1983 conference. Alas, that was not the case. Some invisible hand mechanism was at work. That seems to be true at least for the seven or so later conferences on the NIE (until 1999) organized by other scholars than us. None of the editorial prefaces of their conference volumes relates to our 1984 issue or to our born again journal of institutional economics. The term NIE seems to have soon been sufficiently salient to become a "self propelling" expression.[9]

### 1.3 The NIE as a Unifying Standard

How did the use of the term evolve from a generic to a standard term? One short way to get an idea of what various authors took the term NIE to mean is to look at the editorial prefaces of collective volumes, mostly conference issues. I will report briefly.

**1.3.1 Langlois (1986)** published eight papers on divers topics presented at a conference in March 1983 which he described as essays on "the New Institutional Economics." The eight papers were given by Ronald A. Heiner, Axel Leijonhufvud, Stephen Littlechild, Brian J. Loasby, Richard R. Nelson, Gerald P. O'Driscoll, Jr., Andrew Schotter, Oliver E. Williamson. He added an introductory essay by himself on "The New Institutional Economics: An Introductory Essay." The NIE would be a bundle of identifiable strands, principal among them "… the evolutionary theory of Nelson and Winter (1982 and other work influenced by Joseph Schumpeter…; the modern Austrian school (Kirzner 1981), especially as influenced by the work of F.A. Hayek (1948, 1967); the transaction-cost economics of Oliver Williamson (1975, 1979); and certain aspects of the property rights approach inspired by Ronald Coase (1937, 1960)." The influence of Herbert Simon (1955) is briefly mentioned.

[9] That is confirmed by Langlois (1986, 2) who writes, the term „is now widely known" and its principal advantage would be "its currency. Along with the fact that it captures one of the main themes that sets the ideas in question apart from the main stream view."

Viewing evolutionary economics as the center piece of the NIE Langlois understandably takes the view that Carl Menger has "... perhaps more claim to be the patron saint of the new institutional economics than any of the original institutionalists [like John R. Commons who is quoted by Williamson]." (loc. cit. 5)

**1.3.2 Nabli and Nugent (1989)** produced a collective volume about application of the NIE to Development Economics. It is the result of an extensive collaboration among scholars at the University of Southern California and the University of Tunis. The editors give first a thorough review of what they think is meant by the term "New Institutional Economics" followed by a set of case studies to show how the NIE can be applied to development economics. Their aim is to give development economics a theoretical structure.

According to Nabli and Nugent (1989, 10 ff.), the NIE includes two salient general approaches:

1. transaction and information costs, and
2. the theory of collective action.

ad (1) The first general approach on transaction and information costs would contain

- transaction cost economics as "….stimulated by the…work of Oliver Williamson (1975, 1979, 1985)," the
- property rights approach "….based on the pioneering work of Alchian (1959, 1961), Coase (1960) and Demsetz (1967),…." and (what we now call)
- contract theory[10].

I add: This approach is targeted at the transaction (production, exchange) of private goods.

ad (2) The second general approach of the theory of collective action would deal with "collective outcomes in terms of individual motivation" (Hardin 1982, 2). It is targeted at the provision of public goods, defined by the two properties: jointness of supply and impossibility of exclusion.

**1.3.3 Werin and Wijkander (1992)** edited a collective volume on *Contract Economics* with papers presented at a symposium held at Saltsjörbaden, Sweden, in August 1990, under the auspices of the Nobel Foundation. Papers were presented by Roger Guesnerie, Steven Cheung, Allan Schwartz, Robert Townsend, Benjamin Klein, Sherwin Rosen, Hans

[10] The authors speak of themes "concerned with incomplete information and asymmetric information in particular." (p. 12)

Wijkander, Michael Jensen and William Meckling, Joseph Stiglitz. The Symposium was concluded with statements by Ronald Coase, Robert Hall and Oliver Hart.[11] Werin and Wijkander (1992, 2 f.) distinguish in their introductory chapter four major currents of contractual economics:

- the Arrow-Debreu paradigm faced with modern theories of contracting (problems of asymmetric information),
- the new institutional economics or "property-rights-transaction-cost school,"
- the implications of asymmetric information and information costs for the structure of contracts (what we now call "formal contract theory"),
- the law and economics of contracts, e.g., the nature of contractual obligations, the emergence of new contractual forms, the explanation of legal doctrines and practices in terms of economic theory.

The only contribution which carried the term "New Institutional Economics" in its title was that by Cheung (1992). He writes, what is "new" of the NIE (as compared with the "old" institutional economics) is "…that we are now able to explain why the observed institutional arrangements are as they are. The breakthrough consists of two parts. First, ….., the new practitioners are well versed in modern economic theory and they use it routinely. Second, the new practitioners are far more interested in the constraints of the real world. ……the presence of transaction (institutional) costs is now taken as a constraint of paramount importance." (Cheung, 1992, 62).

Garry Becker (1992, 67) discusses Cheung's paper. He warns that institutions don't evolve only to increase efficiency but also to increase the well-being of powerful groups that "exploit" other groups, even when efficiency suffers. Institutions would evolve for many reasons, including "exploitation" of weak groups.

**1.3.4 Harriss, Hunter and Lewis (1995)** edited a collection of papers presented at a conference on development economics at the London School of Economics in 1993. Keynote speakers were Douglass C. North, Robert H. Bates and John Toye. Special papers on development issues were presented by fourteen specialists in development economics.

In their introduction, Harriss, Hunter and Lewis (1995, 1) give three reasons for the importance of the NIE to development economics:

- It starts out "within the frame of neoclassical economics, but offers answers to what remained puzzles in neoclassical theory."

---

[11] Discussants were A.A. Alchian, G.S. Becker, P. Bolton, H. Demsetz, T. Eggertsson, N. Gottfries, B. Holmstrom, J. Moore, J. Tirole, O.E. Williamson.

- It is important because it has challenged the dominant role of the market in economic policy of the 1990s. The NIE provides a new justification of the role of the state and state intervention.
- It offers a "grand theory" of development in terms of social and economic change in terms of appropriate institutional change (which fosters economic growth).

Moreover, the NIE is a body of economic theory which ascribes an important role to ideas and ideologies. "It provides scholars with a means of dealing rather more rigorously with the issue of distinguishing between the real world and individuals' and groups' perception of it." The concept of "mental models" suggests "…that the NIE can go a considerable way toward bridging a very real gulf between the perfectly rational actors of neo-classical theory and the often seemingly irrational decisions of economic actors in history…" (loc. cit. p. 2).

North (1995, 17 f.) summarizes in his keynote the essential characteristics of the NIE as follows:[12]

> "The new institutional economics is an attempt to incorporate a theory of institutions into economics. However, in contrast to the many earlier attempts to overturn or replace neoclassical theory, the NIE builds on, modifies and extends neoclassical theory[13] to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken. What it retains and builds on is the fundamental assumption of scarcity and hence competition – the basis of the choice theoretic approach that underlies microeconomics. What <u>it abandons</u> is <u>instrumental rationality</u> – the assumption of neoclassical economics that has made it an institutional-free theory."

As for the latter, North relates to Herbert Simon: Information is incomplete and there is a limited mental capacity by which to process information. "Human beings, in consequence, impose constraints on human interaction in order to structure exchange. There is no implication that the consequent institutions are efficient. In such a world <u>ideas and ideology</u> play a major role in choices and transaction costs result in imperfect markets." The NIE "…extends economic theory by incorporating ideas and ideologies [mental models] into the analysis<u>, modeling the political process</u> as a critical factor in the performance of economies, as the source of the diverse performance of economies, and the explanation of 'inefficient' markets." (p. 19)

---

[12] This is drawn from a lecture North gave at the AER meeting January 1992, published in the *American Economist* (Spring 1992:3-6) under the title "Institutions and Economic Theory".

[13] p. 19: it employs price theory as an essential part of the analysis of institutions; and sees changes in relative prices as a major force inducing change in institutions.

Comment: The editors stress again the positive relation of the NIE to neoclassical economics but (together with North) emphasize also the imperfections of individual rationality. Institutions are understood as instruments to overcome these imperfections. The political feedback mechanism, which characterizes a real life market economy, is allowed for. Economic decisions cannot only be made on markets (by exchange) or within firms (by giving orders) but also "round the back" via the political process (North 1971, 118). Insofar the NIE deals not only with institutional arrangements but also with the institutional environment.

**1.3.5 Drobak and Nye (1997)** edited a collection of papers which were written for a conference held at Washington University in March 1995 to celebrate the award of the 1993 Nobel Prize in Economics to Douglass North. Eighteen contributors participated: Douglass North, Robert William Fogel, Phillip T. Hoffmann and Jean Laurent Rosenthal, Avner Greif, Stanley Engerman, John Nye, Lee Alston, Gary Libecap and Bernado Mueller, Jean Ensminger, Robert Bates and Kenneth Shepsle, Barry Weingast, John Drobak, Andy Clark, W. Brian Arthur, Paul David and Warren Sanderson.

Drobak and Nye (1997, xivi) write in their editorial preface, the new institutional economics would be less a distinct school "…..than a particular set of shared concerns grounded in existing economic theories and doctrines." New institutionalists would appreciate neoclassical price theory as a powerful tool for predicting many, but not all, economic outcomes in the real world. "They tend to make use of a diverse but related set of methodologies. "Of late, there has been greater interest in abandoning or at least weakening the assumptions of rationality itself."

The new institutionalists would generally focus on

1. transaction costs and property rights,
2. political economy and public choice,
3. quantitative economic history,
4. cognition, ideology, and the role of path dependency.

Only few scholars would embrace all four of these perspectives.

North's more recent views about the limits of the neoclassical rational choice assumption and his suggestion, to draw lessons from cognitive science or learning are emphasized. North (1997, 10 f.) remarks on this issue that while Herbert Simon's emphasis was on bounded rationality, North's concern with ideologies

> "focuses more on the information available to the actor and the imperfect feedback that the actor received as a result of the choices he or she made. ……..An understanding of how human learning occurs appears to be the

> most promising approach to the mental constructs that humans develop to explain and interpret the world around them."

The cognitive science/institutional approach to history would offer the promise to explain the economic past and the diverse performance of economies in the present.

Comments: Of course, this issue deals with North's approach, which differs quite a bit from Williamson's transaction cost economics – or so it seems. What really distinguishes the two views is the object of research: private goods in case of the TCE, public goods in the case of North's theory. The working hypotheses have to differ therefore. The differences, though, may be smaller than they seem as we hope to be able to show further below.

**1.3.6 Clague (1997)** put out a conference issue of another conference on the application of the NIE to development issues. The conference was held by the Center on Institutional Reform and the Informal Sector (IRIS) at the University of Maryland at College Park in October 1994. Sixteen papers were presented among them by Mancur Olson, Elinor Ostrom, Philip Keefer and Christopher Clague himself.

In his introductory chapter Clague (1997, 2) writes that the NIE is only part of a broader "new academic literature on institutional analysis", though an important one. He continues that the NIE "…in its various branches represents an expanded economics, in the sense that it relaxes some of the strong assumptions of traditional economics with respect to the motivation of, and the information available to, individual decision makers, and it widens the scope of economics to include political phenomena and the evolution of institutions. Institutions are the "rules of the game": the humanly devised constraints on social interaction. *The emergence and evolution of these rules is understood in terms of the motivations and decisions of the individual actors in the collectivity."* (Emphasis in the original).

Clague stresses the need to focus, in development studies, on the feedback from economic policies to the political process in development studies. The administrative capacity of government would have been "relatively neglected by economists". (loc. cit. 3) The NIE "… called attention to the vital role of government capacity in shaping the institutional environment of business. Moreover, the NIE – and in particular the new economics of organization may help to explain why bureaucracies perform well or badly ……." (ibid.)

In his final remarks on the research program of the NIE in the field of economic development, Clague (1997, 368) summarizes:

The research program of the NIE "…is the assessment of the determinants and the consequences of different institutional structures. These structures include

- the constitutional order (the fundamental rules),
- the institutional arrangements (the operational rules devised with the constitutional order), and
- the cultural endowments (the behavioral norms and mental models shared by society; see Feeny 1993)."

Comment: That was actually the program of the old German *Staatswissenschaft* (science of the state) of the 18th and 19th century, as described and explained by Lindenfeld (1997).

### 1.3.7 The "Wallerfangen Conference"

The *International Seminar on the New Institutional Economics* continued to be held annually from 1986 onward until 1999 at Wallerfangen (Saar)/Germany and therefore dubbed "Wallerfangen Conference". Organizers were until 1994 Eirik Furubotn and Rudolf Richter, afterwards alternately Erich Schanze, Ekkehart Schlicht and Timur Kuran, Jürgen Eichberger, Herbert Hax, Christian Kirchner and Rudolf Richter. Technical facilities were provided by the *Center for the Study of the New Institutional Economics,* University of Saarland. Since 2000 the conference series is being continued by Christoph Engel and Urs Schweizer at other places and under the auspices of the *Max Planck Institute for Research on Collective Goods*, University of Bonn. As before, only invited scholars participate. Papers and discussions are published in the March issues of the *Journal of Institutional and Theoretical Economics* (JITE). A short overview of topics, contents and names of participants of the so far organized 21 NIE seminars are provided in the appendix.[14]

## 1.4 The Foundation of the International Society for New Institutional Economics (ISNIE)

With the foundation of the *International Society for New Institutional Economics* (ISNIE) - its first conference was held at Washington University, St. Louis, MO[15] in September 19 – 21, 1997 - the NIE came "off age." The organizers advertised in the internet the conference to scholars "…..working on transaction costs, contracting, political rules of the game, the rules of law, norms and culture, and who pursue these interests using standard scientific methods." (Furubotn and Richter 1997, 780).

At the inaugural conference, North, Williamson and Coase – in this order – described the NIE basically as above. Although the immediate objective of the NIE is to replace the abstract, static models of neoclassical economics, Coase cautioned that a frontal attack on

[14] See also http://www.mpp-rdg.mpg.de/oekinst.html
[15] See the brief report by Furubotn and Richter (1998).

neoclassicism would be neither needed nor desirable. For appropriable theoretical development to be achieved, it is sufficient to focus on factual matters.

A selection of the papers presented at the second annual conference of ISNIE at Paris in September 1998 has been published by Claude Ménard (2000), among them again contributions by the old guard: Ronald Coase, Douglass North, Oliver Williamson, Harold Demsetz, Yoram Barzel but also by Masahiko Aoki who supported the concept of the institution-as-equilibrium-of-a-game concept. Coase and North stress again that the representatives of the NIE don't want to replace neoclassical theory but are trying to use these analytical tools "to study the working of the economic system" (Coase 2000, 4), meaning the institutions of a country, "its political system, its educational system, its culture and so on. In effect it is the institutions that govern the performance of an economy, and it is this that gives the 'new institutional economics' its importance for economists." (loc. cit. 5).

The conferences are open to the public and since 1999 preceded by a several days workshop on Institutional Analysis of the *Ronald Coase Institute Workshop*, organized by Mary Shirley

### 1.5 Start and Take-off Phase of the NIE: Quick Motion, Short Comments

Williamson (1975, 1) introduced the "NIE" as a generic term for a divers group of already existing modern economic studies of institutions, including his own field of transaction cost economics (TCE) being a part of it (Williamson 1985, 16).

The term NIE was apparently mentioned here and there but it took eight years until it was first used by conference organizers. In March 1983, Langlois ran a conference on "Economics as a Process". His conference issue carries the subtitle "Essays in the New Institutional Economics" (Langlois 1986). In June 1983, Eirik G. Furubotn and Rudolf Richter organized a symposium on the NIE with the special purpose "to clarify the nature of this emerging field of study and to consider how it can be expected to develop in the future." (Furubotn and Richter 1984, 1). The term was still used only hesitantly and in an apologetic manner. It took some more 10 or 15 years until it became a unifying standard of a group of economists interested in the economics of institutions. Nevertheless, up till now neoinstitutionalists never tired to underline their distance to the "old institutional economics" by stressing their basic appreciation of neoclassical theory. They typically argue:

The new institutional economists both draw on microtheory and, for the most part, regard what they are doing as complementary to, rather than substitute for, conventional analysis. (Williamson 1975, 1)

The NIE build on, modifies and extends neoclassical theory. (North 1995)

The representatives of the NIE don't want to replace neoclassical theory (Coase and North 2000).

The various modern institutional economic fields mentioned as part of the NIE in above literature are

1. property rights economics,[16]
2. transaction cost economics,[17]
3. evolutionary economics,[18]
4. constitutional choice,[19]
5. collective action theory,[20]
6. public choice theory, [21]
7. economic contract theory,[22]
8. new institutional economic history.[23]

These eight theories were mostly developed by different individual scholars during the 1960s and early 1970s. Core fields of the NIE became transaction cost economics (Coase, Williamson) property rights economics (Coase, Alchian), economic contract theory (formal: Spence, Mirrlees, Stiglitz, informal: Williamson, Macneil) and new institutional economic history (North).

While property rights economics, the formal part of contract theory assume perfect rationality this cannot be said of TCE (an informal version of contract theory) and the new economic history of North.

Williamson (1975, 4) views man as being boundedly rational, North (1995, 18 f.) writes that a theory of institutions has to begin with a "modification of the instrumental rationality assumption". To add: Coase (1984, 231) also regards the assumption "that man is a rational utility maximizer" to be both "unnecessary and misleading."

As a result we may distinguish between two different branches of NIE: A perfect rational and an imperfect rational one. The latter splits again into two different branches[24]: The

[16] Williamson (1975, 1), Furubotn and Richter (1984, 3), Langlois (1986, ), Nabli and Nugent (1989), Werin and Wijander (1992), Drobak and Nye (1997).
[17] Williamson (1985, 16), Nabli and Nugent (1989), Werin and Wijander (1992), Cheung (1992, 62), Drobak and Nye (1997).
[18] Furubotn and Richter (1984, 3), Langlois (1986, ), North (1995).
[19] Furubotn and Richter (1984, 3).
[20] Nabli and Nugent (1989, 10 ff)
[21] North (1986, 235), Drobak and Nye (1997, xivi).
[22] Williamson (1985, 190), North (1986, 231), Nabli and Nugent (1989).
[23] Williamson (1975, 1), North (1986, 233).
[24] Eggertsson (1990, 10, n. 12).

transaction cost economics (TCE) of Oliver Williamson (1985) and the NIE of history (NIEH) in the sense of Douglass North (1986). Both approaches are rooted in Coase's (1937, 1960) insights. Both, Williamson and North, are leading representatives of the NIE.

## 2.The Meaning of NIE

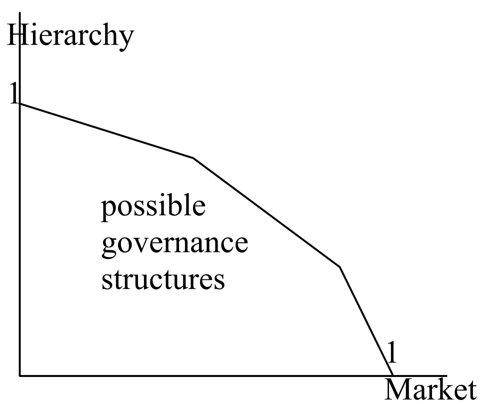
I'll restrict my considerations to above mentioned two approaches of Williamson and North. The first is an example of "partial institutional analysis", the second of "total institutional analysis" – both under conditions of transaction costs and imperfect rationality. Partial analysis (TCE) is part of total analysis (NIEH) – similar to the theory of demand and supply as part of general equilibrium theory.

I'll proceed as follows: I'll first describe the core ideas (or concept) of TCE. Then, on the basis of these ideas and some additional concepts, I'll try to sketch what may be called a general theory of the state in the sense of the NIEH.

### 2.1 Partial Institutional Analysis: The Core Ideas of Transaction Cost Economics (TCE)

Description: Oliver Williamson points out that non-standard contracts may, but need not, result from monopolistic practices. The reason is that transaction specific investments can play an essential role after conclusion of contract. Williamson illustrates this by use of the concept of *fundamental transformation*: After contract conclusion the parties find themselves locked into a bilateral monopoly situation, whereas before they were free to choose with whom to trade. Transaction specific investments of whatever kind (if only in form of time invested in search, inspection, and bargaining) are the reason for this transformation. In addition, Williamson takes into account the fact that we don't know what the future will bring. Under uncertainty it is impossible to write a complete contract that details all possible future contingencies – even if transaction costs were zero. Therefore, contracts contain unavoidably loopholes and the lock-in of the parties may invite opportunistic behavior of the other side because, due to information costs (a special kind of transaction costs), the parties may be unable to verify their case to a third party (e.g., a court). Thus, court ordering may have to be supplemented or even substituted by private ordering to effectively protect the parties against opportunism of their trade partners. There exist various ways to organize the governance structure of a contractual relationship. Their efficacy depends on particular circumstance, *inter alia*, the size of specific investments and the frequency of transactions between the parties.

<u>Discussion</u>: Williamson's TCE is, as I understand it, a theory of contracts under conditions of uncertainty and asymmetric information, where legal enforcement and self enforcement complement one another. Both, court ordering *and* private ordering characterize the governance structure (or "organization") of non-standard contractual relationships. Attentive actors agree before they come to terms on a governance structure that they regard suitable. Market and hierarchy are two of the imaginable ideal types in a n-dimensional space of possible governance structures. Important to see is that the choice of an efficient (better "efficacious") governance structure results not from optimizing some target function subject to a set of constraints. It may rather be understood as a form of boundedly rational or "suitable" choice from a set of governance structures (see Figure 1) - in the sense of Selten's hypothesis of the *casuistic structure of boundedly rational strategies* (see Furubotn and Richter 1997, 165). Which governance structure the parties choose depends on the existing situation. The problem for the parties then is to agree about both the "right" diagnosis and the "best" cure (governance structure). Williamson's (1985, 79) table of "efficient governance" provides an example of how to think, not an answer to the parties' decision problem. - The idea is to think less like a physicist more like a physician.




N-dimensional space (N=2) of possible governance structures. Here: market and hierarchy, 1 = ideal types.

<u>Figure 1</u>

**2.2 An Interlude: The Nature of the State á la Ronald Coase (1937)**

**2.2.1** A simple total institutional analysis goes as follows: Assume a number of socially unstructured, equally powerful, perfectly rational individuals (i.e., individual utility maximizers) with perfect foresight entering an unoccupied zero transaction cost world, an island containing a set of physical objects, potential private and public goods. Actors wish to maximize their individual utility. For this purpose they have to coordinate their plans. In this frictionless world evolution, conclusion and execution (enforcement) of social order (the institutional environment) and social agreements (the institutional agreements) would be problem-free. A social order will evolve spontaneously whose governance structure would be irrelevant for the economic outcome. The same would be true for the social arrangements (like exchange contracts) concluded given this spontaneous order. Any kind of institutional environment and institutional arrangements would lead to efficient results[25]. It does not matter whether a supreme authority (a state) or whether firms exist or not.

This zero transaction cost society may be understood as an extension of neoclassical general equilibrium theory. It is extended by assuming that it is in no way socially pre-structured (as, e.g., in Hume) and includes the provision of public goods in a general sense.[26] It is an extreme, ultra liberal, theory of the state which differs from North's "neoclassical theory of the state" (1981, Ch. 3) who assumes the existence of a ruler and, implicitly, of transaction costs.

**2.2.2** The situation changes as soon as we assume positive transaction costs (and thus a socially pre-structured model world whose individuals are no more perfectly rational). Now institutions matter – among them "hierarchies" (public or private bureaucracies) like the state or business firms. Seen from this angle, both state and firms are of a similar nature. Both are devices to save on transaction costs. For both, size and organizational form (governance structure) matters. There exists no once and for all "best" size or governance structure of the firm or the state. Which size and governance structure is best depends, i.a., on the initial conditions (is "path dependent"), on transaction costs, on the state of organizational and technical knowledge, and on transaction specific investments. One way to introduce transaction costs is to assume that a basic social structure (e.g., rules of the game) is given at the outset.[27] That is typically done in contract theory (principal agent theory, theory of incomplete contracts etc.) or more direct applications of game theoretical models like in the equilibrium of game approach to institutions (see below).

### 2.3 Total Institutional Analysis: Sketching a General Theory of the State

We start out from TCE. While the basic ideas of TCE can be described assuming two actors, i.e., one bilateral relationship,[28] the description of the basic ideas of total institutional analysis, as needed for the NIEH, requires more than two actors (more than

[25] See Furubotn and Richter (1997, 8 ff.).
[26] We consider agreements or laws valid for all actors also to be public goods.
[27]Note: Game theory assumes that social structure (formalized as "rules of the game") matters which requires at least "spots" of positive transaction costs like in formal contract theory (Furubotn and Richter 1997, 246 ff.).
[28] Williamson (1993, 56) concedes: "Transaction cost economics mainly works out a dyadic set-up."

one bilateral relationship). It can be graphically represented by use of the concept of social network analysis, i.e, of systems of relational ties (= social relations) between pairs of actors[29].

The word "social relation" (relational tie) will be understood in this context as a generic term for "transaction". In the positive transaction cost world, social relations (of whatever kind) "matter", i.e., affect the economic outcome of society. And they are not simply "there" but have first to be established. That requires specific investments of actors in social relationships (i.e., the formation of "social capital" in the sense of Burt 1992[30]). Examples are investments in customer relationships between producers and consumers; in political relationships between the leaders and members of a political party; in family relationships between members of a clan. It would also include investments in what Max Weber calls affectual social relationships.[31] In any case, in the positive transaction cost world, all shades of social asset specificity matter.

Williamson's *fundamental transformation* can be applied analogously to the NIEH or other types of total institutional analysis (the analysis of complex social systems). Actors pay an "entry price" for becoming members of an already existing system of social relationships, for positioning themselves in that system etc. - and are afterwards locked-in to this social system - to a degree at least (measurable by "switching costs"[32]). Their being locked-in may invite ex post opportunism of participants. Thus, the execution stage of transaction (social relations) becomes a problem. The choice of the "governance structure" of transactions matters.

Before we continue a brief interjection:

> "Governance structure" (Williamson 1985) is another term for "order" (Eucken 1952), "social structure" or "institution." They are constraining transactions (social relations) between actors. North (1990) speaks of "institutional arrangements" being a subclass of an "institutional environment" (a set of fundamental political, social, and legal ground rules that govern economic and political activity, see Davis and North 1970, 133). Sociologists go further by emphasizing the embeddedness of actors in "ongoing social relations" as a general constraint of social relations (Granovetter 1985, 53).
>
> Thus, one may say (strongly simplified):

[29] Social networks consist of actors, attributes of actors and relations (links) between pairs of actors (Wasserman and Faust, 1994, 18 ff., 89).

[30] It includes investments in what Max Weber calls affectual social relationships. They cannot be created ad hoc by rational acts, and time often is involved. The connection between feelings and ideologies must be considered. Ideologies, or comprehensive systems of cognitive and moral beliefs, figure prominently in social life and require study (North 1978, 972ff.).

[31] "determined by the actor's specific affects and feeling states" as do the traditional social relationships that are determined by "ingrained habituation" (Weber 1968, 25).

[32] The costs of "voting with ones feet."

- TCE analyses the "institutions of governance" given the institutional environment and social embeddedness level.
- NIEH analyses the "institutional environment" and its social embeddedness (ideology).
- New economic sociology (NES)[33] studies the "social embeddedness" (social structure, "ideology").[34]

TCE abstracts from the connection between economic and political decision making and takes norms, customs, mores, tradition etc. as givens, the latter with the argument that "institutions at this level change very slowly – in order of centuries or millennia …" (Williamson 2000….). TCE may do so because it concentrates on the limited task to offer a theory which shows that non-standard contracts need not result from monopolistic machinations.

NIEH, on the other hand, has a much wider object: the development of "a useful theory of institutional change." (Davis and North 1970, 131) It has to go a long way back to explain the changes of institutional environment. To do this, it has to cover, among others, "the possibility of making economic decisions via the political process" (North 1971, 118) and the "social embeddedness level". The latter is necessary, because ideologies, "comprehensive systems of cognitive and moral beliefs," figure prominently in social life (North 1978, 972 ff.). In deed, as the results of marketing or political propaganda demonstrate, individual preferences can be influenced. Social norms are malleable - to a degree even in the short term.

To continue:

The governance structure (institutional environment, rules of the game, social structure) need to be guaranteed or enforced. There seem to be two extreme enforcement mechanisms imaginable:

(1) The rules are enforced by an authority (a third party) with the power to punish, if necessary by use of physical force. (But who supervises the supervisors?)

(2) The rules are self enforcing.

In the final analysis, both mechanisms are self enforcing, the first indirectly – the second directly. The first one (e.g. court ordering) works somewhat clumsy (in any case more visible) but is for a number of purposes preferable, the second one (e.g., private ordering) works more elegantly (is less visible). Which one is chosen depends, i. a., on the level

[33] A brief description is given in Richter (2004).
[34] I borrowed the terminology from Williamson (2000, Fig. 1).

and type of monitoring and verifying costs. Both mechanisms may be (and probably are in general) mixed.

Instrumentally rational (*zweckrational*)[35] examples of self enforcement are the threat of "exit" (as in Telser 1980[36]), "tit-for-tat" (as in Axelrod 1984) or of social sanctions (as in Elster 1989a, 104). Value rational examples (*wertrational*)[37] of self enforcement are based on the personal convictions of what seems to actors "… to be required by duty, honor., ..a religious call, personal loyalty, or the importance of some 'cause' …" and carried out "regardless of possible cost to themselves…" (Weber 1968, 25).

> Weber's concept of "value rational behavior" seems to go beyond North's idea of "ideological conviction" (1981, 44). Still, both may be understood as a "focal point" (Schelling 1960) method to solve society's coordination problems under conditions of imperfect information and foresight. Arrow (1974, 26) writes: "Societies in their evolution have developed implicit agreements to certain kind of regard for others,…which are essential to the survival of a society or at least contribute greatly to the efficiency of its working." Trust among people "is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other people's word."[38] (Arrow 1974, 23)

Both, TCE and NIEH give reasons of why institutions matter. But there are many possibilities. Why hierarchy of all possible institutional forms, why a supreme authority? The reasons Williamson (1985, 78) gives for "unified governance" cannot simply be applied to issues of NIEH. The analogy between the business firm and the state ends with the observation that firms produces private goods, the state public goods. "Free riding" is the "public good version" of ex post opportunism. Both are problems of credible commitments which is unknown in the zero transaction cost world. The commitment problem of collective actors in a (partially) positive transaction cost world can be illustrated by use of a prisoner's dilemma game (Hardin 1982). They promise *ex ante* to contribute, but *ex post* they don't. Since everybody knows this in advance nothing will happen. Public goods will not be provided.

The classical method to make promises credible (among perfect rational actors) is to require that the promisor surrenders hostages or collaterals to the promisee.[39] In a socially pre-structured world, i.e., given positive transaction costs, potential collective actors are

---

[35] Weber (1968, 24).

[36] Generally: a Nash equilibrium of a repeatedly played prisoner dilemma game.

[37] Weber ibid.

[38] What made the Roman Empire possible? The classical answer to the question is: "Moribus plus quam legibus stat res Romana".

[39] The hostage can be anything (or anyone) of value to the hostage giver, not necessarily the hostage taker. The hostage taker threatens to destroy the hostage if the other party fails to perform. Collaterals are valued by the collateral taker as well. (Kronman 1985, 12)

rooted typically in a geographic area (by family ties, ownership in land, education, language, culture, etc. – i.e., are socially pre-structured). Their subjection to a territorial state (a supreme authority that has the power to make and enforce laws) can be understood as the provision of collaterals or hostages (in person or in material wealth). This explains also why the supreme authority has to define and to protect private property (or, under socialism, to prevent emigration = "exit"). The flip side of this answer to the collective action problem is: the supreme authority itself may behave opportunistically. The ex post opportunism problem of collective action is two sided – as is the case in private relationships. Because of their specific investments, constituents are more or less locked into their citizen relationship and can be ripped off. To remain sufficiently attractive ("efficient") the open state has also to commit itself credibly. It can do so by establishing a suitable constitution. In this sense the democratic constitutional state may be understood as a method to minimize opportunism (misbehavior) in both directions - "upstream" and "downstream." Democracy is a self enforcing mechanism in which the costly threat of "exit" (or of a revolt) is complemented by the less expensive threat of "voice", of voting the ruler out of office. Its function is comparable with that of corporate governance.

There are, as we have seen, similarities and differences between state and firm – the two objects of NIEH and TCE. The main difference concerns the use of power.[40] The state is the sovereign, the supreme authority that has the power to give orders, to make law, to administer law. It can raise revenue by imposing taxes; it has the monopoly over the use of coercive force and can require of its constituents to fight and risk death. By contrast, the firm is no sovereign, it is not allowed to use coercive force towards its business partners. Rather, it has to obey the laws of the state. It can gain revenue only through trade, not through levies towards its production costs.

So far our sketch of a general theory of the state. It contains the building blocks of North's (1981, 7) theory of institutions:

1. a theory of property rights that describes the individual and group incentives in the system;
2. a theory of the state, since it is the state that specifies and enforces property rights
3. a theory of ideology that explains how different perceptions of reality affect the reactions of individuals to the changing "objective" situation.

While Williamson's interest is limited on understanding why non-standard contracts come about (an IO problem) North (1981, 21), being a historian, wants to understand a wider set of questions, viz., "the kind of property rights that come to be specified and

---

[40] Power, in the sense of Max Weber, means the "probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, ..." (Weber 1968, 53).

enforced by the state and to explain the effectiveness of enforcement;….” and the “…changes in the structure and enforcement of property rights over time.”

## 3. Prospects of the NIE

There is much to be speculated about the future of the NIE. I abstain from that temptation in my paper. Instead, I will comment briefly on things which actually happened but are not part of the NIE as described above. They overlap with the NIE and are of interest for new institutional economists. I chose three fields:

1. the “equilibrium-of-a-game view” of institutions,
2. the new institutionalism in sociology,
3. the new institutionalism in political science.

Transaction costs, in a sense, can be found in all three fields.

### 3.1 The “Equilibrium-of-a-Game View” of Institutions

As mentioned, self enforcement plays an important role in the NIE. Its ideal typical interpretation is provided by the Nash equilibrium, and not amazingly, Schotter’s (1981) game theoretic interpretation of institutional thought is finding increasing interest. Among today’s representatives of this “equilibrium-of-a-game view” of institutions areAvner Greif and Masako Aoki.

Avner Greif (1997), an economic historian, requires for his historical institutional analysis also a broad operational concept of institutions and defines institutions

> “as the non-technologically determined constraints on behavior which are self-enforcing.” (1997, 84)

He argues, similar to Schotter (1981), that game theory provides a natural theoretical framework to examine self-enforcing institutions and to view an institution as an coordination equilibrium. In this approach the two main institutional components are expectations and organizations. Different from above the socially unstructured ultra liberal world one assumes here an exogenously given “underlying social structure” (viz., an underlying game) with the interesting result that multiple equilibria may exist, which possibly can be ordered in efficient and inefficient ones.

> “Thus,..., by viewing institutions as self-enforcing equilibria requires (advancing the empirical analysis of institutions in history) context-specific strategic modeling and an *inductive* historical analysis.” (1997, 85, emphasis added)

According to Greif’s “historical institutionalist” view, path dependence and ideas (ideology) matters – as was stressed before by North.

Aoki (2001) distinguishes between the "equilibrium-of-the-game view" of an institution and the "rules-of-the-game view". According to the first view, an institution is defined as a salient Nash equilibrium of a recurrent "super game" about the way a given "underlying game" is repeatedly played.[41] Differently expressed, an institution is not an exogenously given (by a visible hand "constructed"[42]) set of "rules of the game", as defined by North (1990, 3 f.). Rather, it is the product of an "invisible hand mechanism" in the sense of a Nash equilibrium of a repeatedly played underlying game (e.g., a prisoner dilemma game), i.e., a state in which no actor (player) has an incentive to deviate from his action plan provided no other actor deviates.[43] Expectations play a vital role, viz., each agent's expectation of how he will be rewarded or punished for his actions by the other agents. Insofar, the equilibrium-of-the-game view institution may be understood as "a *self-sustaining system of shared beliefs* about a salient way in which the game is repeatedly played." (Aoki 2001, 10)

As we argued above, game theory supposes the pre-existence of a social structure[44] - which may be understood as the result of transaction costs. Still, there is a hitch. Game theory, in its present strategic form, is a language in which one describes all possible strategic interactions. It demands very detailed information about what can happen, and this requirement is inconsistent with the bounded rationality and unforeseeable events assumptions of the NIE. Hence, from a strict neoinstitutionalist viewpoint, the institution-as-an-equilibrium-of-the-game view can at best be employed as a metaphor, an informal way of thinking, not as a formal model.

A way out may be to switch to evolutionary game theory (cf. Young 1998). In this case, a Nash-equilibrium may be the end result of a long-term adaptive process, of an "invisible-hand mechanism", during which actors are only incompletely informed. An example is the well known process of Cournot's duopoly theory in which myopic players content themselves with alternate maximizing their individual returns *given* their competitor's present quantity of supply - until they reach the intersection of the Cournot duopoly reaction curves (a Nash equilibrium). The theory of (individual) learning in games starts from here (cf. Fudenberg and Levine 1999), so does the somewhat differently structured evolutionary game theory (cf. Mailath 1998). These are certainly interesting extensions of classical game theory.[45] This line of research is developing into a specialized field of which I, so far, did not keep track of.

I presume that the armchair economist's style of reasoning comes here to an end. It is hard to imagine that an evolutionary theory can be developed by continuing to think up human

---

[41] Schotter (1981) was perhaps the first to base the notion of institutions on game-theoretic notions of equilibrium.
[42] Not of "intentional origin" as Menger (1883, 145) called it.
[43] Nash (1951).
[44] E.g., the "underlying game".
[45] See, i.a., Berninghaus and Schwalbe (1996b), Young (1998), Berninghaus, Güth and Kliemt (2003).

behavior. Empirical research on human behavior or of how the human brain works seems to be unavoidable. Average regularities in human behavior may be attributable to underlying neuro-biological, socio-biological, social-psychological etc. laws. Economists increasingly become aware of these possibilities (see, e.g., Robson 2001). Examples of sociological behavioral concepts are power, trust, solidarity or altruism which play an important role in sociology.

In any case, the “organic” comprehension of institutions in the general sense of Hume – Menger – Hayek or in the more special sense of Schotter – Greif – Aoki seems to be limited to a „grand view“ of institutional “structure and change”. Menger (1883) himself agreed that his "pragmatic" interpretation of institutions is just as indispensable as the "organic" (148), though the former would be theoretically without interest. Yet in real life, there are hardly any institutions of purely "organic" origin because of the existence of transaction costs, differences in the abilities and “powers” of actors and lack of perfect rationality. As a result, supposedly organic institutions like money, villages, language, law, state, are in fact all mixed forms. Of interest is that without any kind of self enforcement none of these institutions would last very long (be stable). Insofar, the capability of self enforcement is a vital property of institutions.

### 3.2 The New Institutionalism in Sociology

Sociologists study social structure, a topic which would be incompatible with the zero transaction cost assumption. They also allow for various types of human action, including rational ones, not only (or at all) perfect rationality. (Smelser and Swedberg 1994, 4). Furthermore, institutions belong to the classical objects of sociology . Insofar, the research interests of sociologists are close to (or overlapping with) the research interests of new institutional economists. Not amazingly, a form of neoinstitutionalism developed also in sociology. According to Powell and DiMaggio (1991, 8), the New Institutionalism in Sociology “comprises a rejection of rational choice models, an interest in institutions as independent variables, a turn toward cognitive and cultural explanations, and an interest in properties of supra-individual units of analysis …” While economists would assume that actors construct institutions that achieve the outcomes they desire, sociologists would reject such functionalist explanations. They would focus instead “on the ways in which institutions complicate and constitute the paths by which solutions are sought.” (loc. cit., 11). An important role in the debate among sociologists of the NIE plays the concept of “embeddedness”, as used by Granovetter (1985). He argues that “economic action takes place within the networks of social relations that make up the social structure.” Social network analysis enters and becomes also increasingly of interest for economists (e.g. Kranton 1996, Kranton and Minehart 2000).

> The level of embeddedness varies considerably in societies. It is, e.g., low in capitalist societies and probably in hunter- and gatherer societies. Social actions are influenced by the governance structure of the ongoing network; examples are the "market approach", the cultural approach" and the authority approach" of organization theory. (Hamilton and Biggart 1988). Sticky prices may be explained by network analysis. In "capitalist societies prices are set through economic as well as social forces," (Granovetter and Swedberg 1992, 12).

As North, sociologists understand institutions to be "social constructions"[46], the product of visible hands. Thus, e.g., there is no "invisible hand" behind the creation of a market but sharp interest struggles (Granovetter and Swedberg 1992, 17). Further, institutions need *not* be the result of [purely] rational choice. "..failures are often needed in economic life to show how things can be done right" (op. cit. 14). That is, trial and error may be the way to do it, which may be understood as a form of boundedly rational action. Another form may be habitualized actions, which precede any institutionalization. (Berger and Luckman 1966, 53)

> "Institutions … imply historicity and control. Reciprocal typifications of actions are built up in the course of a shared history. They cannot be created instantaneously. Institutions always have a history of which they are the products." (op. cit. 54)

Again, as North argues, path dependency of institutions matters - not necessarily efficiency. Most famous is the QUERTY example (David 1986 and Arthur 1989). The most efficient solution does not always win out. As Scott (1994, 78) points out that rule-driven behavior may have [boundedly] rational aspects. Hamilton and Biggart (1988/1992, 182) emphasize the cultural view of organizations: "…industrial enterprise is a complex modern adaptation of preexisting patterns of domination to economic situations in which profit, efficiency, and control usually form the very conditions of existence."[47]

### 3.3 The New Institutionalism in Political Science.

Political science – as political economy – makes only sense under conditions of "imperfections" of the classical model, i.e., in a model world with positive transaction costs. It's subject is therefore also suitable for the analytic style of the NIE. In fact, as in sociology, the new institutional economics movement has been applied in various fields of political science in recent years. The areas affected include the theory of the state (Levi 1988), government organization (Shepsle and Weingast 1987), public administration (Weingast 1984), (Moe 1990), international organization (Keohane 1984), the American Congress

---

[46] Granovetter and Swedberg (1992, 16).

[47] For more see Richter (2001, 2002).

(Weingast and Marshall 1988), the theory of international organizations (Keohane 1984), the emergence and change of (political) institutional arrangements (Knight and Sened 1995), federalism (Weingast 1995). Actually, this new institutionalism embraces many approaches. Hall and Taylor (1996, 943) rank this line of contemporary political science among „rational choice institutionalism", a line of thought which emphasizes the importance of property rights, rent-seeking, and transaction costs, and also employs general insights of explicit models of game theory like Greif (1998).[48]

Community life without a minimum degree of voluntary cooperation among its members is impractical. One hundred percent dictatorship, a perfect command community, would be too expensive. Thus, implicit (or explicit) political agreements among individuals play an important role in society, even under dictatorship. Yet this system of agreements will be tolerably stable only if they are in some sense self-enforcing. This is the theoretically fascinating part of the economic theory of the state - in particular, the theory of the modern representative democracy. It is here where the institution-as-an-equilibrium-of-a-game approach enters political science as promoted, e.g., by Calvert (1995). The game theoretic approach in general is also related to strategic concepts like "credible commitment" or "reputation" (Miller 1997, 1194 ff.).Though, the basic assumptions of game theory contradict those of the new institutional economics, understood as a metaphor, as an informal way of thinking about strategic behavior, it may be used together with the methods of the NIE proper.

As was mentioned above, the institution-as-an-equilibrium approach may lead to the important general insight why a polity can get stuck in a bad equilibrium, and why its politicians, who are themselves part of the game, are unable to undo such a coordination failure. It helps also to better understand such concepts like credibility and reputation, which play such an important role in day-to-day life. They are an important part of what Drazen (2000) or Persson and Tabellini (2000) call "political economy", a huge field of its own, which includes other big subjects such as public choice or collective action.

Hall and Taylor (1996, 940) mention "sociological institutionalism" with its "cultural approach" (as Wuthnow and Witten 1988) as another branch of the new institutionalism in political science. This school of thought explains the persistence of institutions by noting that many conventions cannot readily be subject to individual choice. In a third approach the two contrasting methodologies are used by some political scientists as an eclectic "historical institutionalism" (like Steinmo 1993). A detailed review of the latter is provided by Thelen (1999).

The effect of economics on contemporary political science in general has been surveyed by Miller (1997).

---

[48] After finishing my text I read with interest the arguments of Immergut (1998) and Korpin (2001) on, or in line of, *new institutionalism* in political science.

## References

Alchian, A.A., 1959, "Private Property and the Relative Cost of Tenure", in Bradley, Ph.D., ed., *The Public Stake in Union Power,* Chapter 16, Charlottesville: University of Virginia Press, 350–371.

Alchian, A.A., 1961, *Some Economics of Property,* RAND D-2316, Santa Monica, CA.

Alchian, A.A. (1984), "Specificity, Specialization, and Coalitions," in: Furubotn and Richter (1984a), 34 – 49.

Alchian, A.A. and Demsetz, H., 1972, "Production, Information Costs, and Economic Organization", *American Economic Review,* 72, 777-795.

Aoki, M., 2001, *Toward a Comparative Institutional Analysis,* Cambridge, MA: MIT Press.

Arrow, K.J., 1969, "The Organization of Economic Activity: Issues Pertinent to the Choice of Market versus Non-Market Allocation" in *The Analysis and Evaluation of Public Expenditures: The PBB-System,* Joint Economic Committee, 91st Congress, lst Session, Vol.. 1, Washington, DC.

Arrow, K.J., 1974, *The Limits of Organization,* New York.

Arthur W. B. (1989), "Competing Technologies, Increasing Returns, and Lick-In by Historical Events," *Economic Journal*, 99, 116 – 131.

Axelrod, R., 1984, *The Evolution of Cooperation,* New York.

Becker, G.S. (1992), Comments on Cheung, in: Werin, and Wijkander, (1992), 66 71.

Berger, P.L. and Luckman, Th. (1966), *The Social Construction of Reality: A Treatise in the Sociology of Knowledge,* New York: Anchor Books.

Berninghaus, S.K. and Schwalbe, U., 1996b, "Evolution, Interaction, and Nash Equilibria", *Journal of Economic Behavior and Organization*, 29, 57–85.

Berninghaus, S.K., Güth, W. and Kliemt, H., 2003, "From Teleology to Evolution. Bridging the Gap Between Rationality and Adaptation in Social Explanation", to appear in *Journal of Evolutionary Economics.*

Burt, R.S., 1992, *Structural Holes. The Social Structure of Competition*, Cambridge, MA: Harvard University Press,

Burt, R.S., 1992b, "The Social Structure of Competition", in N. Nohria and R.G. Eccles eds., *Networks and Organizations. Structure, Form, and Actions*, Boston, MA: Harvard Business School Press, 57-91.

Calvert, R.I., 1995, "The Rational Choice Theory of Social Institutions", in J.S. Banks and E.A. Hanushek, eds., *Modern Political Economy*, New York: Cambridge University Press, 216–166.

Cheung, St.N.S. (1992), „On the New Institutional Economics," in: Werin, and Wijkander, (1992), 48 – 65.

Clague, Chr. (ed.) (1997a), *Institutions and Economic Development, Growth and Governance in Less-Developed and Post-Socialist Countries,* Baltimore and London: Johns Hopkins University Press.

Clague, Chr. (1997b), "Introduction", in: Clague (1997a), 1 – 9.

Coase, R.H, 1937, "The Nature of the Firm", *Economica,* 4, 386-405.

Coase, R.H, 1960, "The Problem of Social Cost", *Journal of Law and Economics,* 3, 1-44.

Coase, R.H, 1984, "The New Institutional Economics", *Journal of Institutional and Theoretical Economics,* 140, 229-231.

Coase, R. H. (2000), "The New Institutional Economics", in: Ménard (2000a), 3 – 6.

David, P.A. (1986), "Understanding the Economics of QUERTY: The Necessity of History," in: W.N. Parker (ed.), *Economic History and the Modern Economist,* New York, N.Y., 30 – 49.

Davis and North 1971, *Institutional Change and American Economic Growth,* Cambridge: Cambridge University Press.

Demsetz, H., 1967, "Toward a Theory of Property Rights", *American Economic Review, Papers and Proceedings,* 57, 347-359.

Doeringer, P. and Piore, M. (1971), *Internal Labor Markets and Manpower Analysis*, Boston: D.C. Heath and Company.

Drazen, A., 2000, *Political Economy in Macroeconomics*, Princeton, NJ: Princeton University Press.

Drobak, J.N. and Nye, J.V.C. (1997b), "Introduction", in: Drobak and Nye (1997a), xv – xx.

Drobak, J.N. and Nye, J.V.C. (eds.) (1997a), *The Frontiers of the New Institutional Economics*, San Diego et al.: Academic Press.

Eggertsson, T., 1990, *Economic Behavior and Institutions,* Cambridge, MA.

Elster, J., 1989a, "Social Norms and Economic Theory", *Journal of Economic Perspectives*, 3, Fall, 99–117.

Eucken, W., 1952, *Grundsätze der Wirtschaftspolitik,* edited by Eucken, E. and Hensel, K.P., Tübingen, 5. Auflage 1975.

Feeny, D. (1993), “The Demand for and Supply of Institutional Arrangements,” in: Ostrom, V., Feeny, D. and Picht, H. (eds.), *Rethinking Institutional Analysis and Development: Some Issues, Choices and Alternatives,…………*

Fudenberg, D. and Levine, D.K., 1999, *The Theory of Learning in Games*, Cambridge, MA.

Furubotn, E.G. and Richter, R. (1984b), “Editorial Preface”, in: Furubotn and Richter (1984a), 1 - 6.

Furubotn, E.G. and Richter, R. (1985b), “Editorial Preface”, in: Furubotn and Richter (1985a), 1 - 3.

Furubotn, E.G. and Richter, R. (1997), [Foundation of ISNIE report], *Journal of Institutional and Theoretical Economics,* 150, 589-608.

Furubotn, E.G. and Richter, R. (1997), *Institutions and Economic Theory. The Contribution of the New Institutional Economics,* Ann Arbor, MI: University of Michigan Press.

Furubotn, E.G. and Richter, R. (eds.) (1984a), *The New Institutional Economics*, Symposium June 6 – 10, 1983, Mettlach/Saar, *Zeitschrift für die gesamte Staatswissenschaft*, Heft 1, 140, 1984.

Furubotn, E.G. and Richter, R. (eds.) (1985a), *The New Institutional Economics*, Symposium June 26 – 29, 1984, Mettlach/Saar, *Zeitschrift für die gesamte Staatswissenschaft*, Heft 1, 141, 1985

Furubotn, E.G. and Richter, R. (eds.) (1986), *The New Institutional Economics*, Symposium June 1985, Saarbrücken, *Zeitschrift für die gesamte Staatswissenschaft*, Heft 1, 142, 1986

Furubotn, E.G. and Wiggins, S.N., 1984, "Plant Closings, Worker Reallocation Costs and Efficiency Gains to Labor Representation on Boards of Directors", *Journal of Institutional and Theoretical Economics,* 140, 176-192.

Granovetter, M., 1985, "Economic Action and Social Structure: The Problem of Embeddedness", *American Journal of Sociology,* 91, 481-501.

Granovetter, M. and Swedberg, R. (eds.) (1992), *The Sociology of Economic Life*, Boulder et a.: Westview Press.

Greif, A., 1997, "Microtheory and Recent Developments in the Study of Economic Institutions Through Economic History", in D.M. Kreps and K.F. Wallis, eds., *Advances in the Economics and Econometrics: Theory and Applications.* Proceedings of the Seventh World Congress of the Economentric Society, Vol. III, 79-113, Cambridge, MA.: Cantor, U.P.

Greif, A., 1998, "Self-enforcing Political Systems and Economic Growth: Late Medieval Genoa", in R.H. Bates, A. Greif, M. Levi, J.-L. Rosenthal, B.R. Weingast, *Analytic Narratives,* Princeton: Princeton University Press 1998, 23–63.

Hall, P.A. and Taylor, R.C.R., 1996, "Political Science and the Three New Institutionalisms", *Political Studies*, 44, 936–957.

Hamilton, G.G. and Biggart, N.W., 1988/1992, "Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East", *American Journal of Sociology, Supplement,* 94, S52–S94, Reprinted, in M. Granovetter and R. Swedberg 1992, 181–221.

Hardin, R. (1982), *Collective Action*, Baltimore and London: Johns Hopkins University Press.

Harriss, J., Hunter, J. and Lewis, C.M. (1995b), "Introduction: Development and Significance of NIE", in: Harriss, Hunter, and Lewis (1995a), 1 – 13.

Harriss, J., Hunter, J. and Lewis, C.M. (eds.) (1995a), *The New Institutional Economics and Third World Development*, London and New York: Routledge.

Hayek, F.A. (1948) *Individualism and Economic Order*, Chicago: University of Chicago Press.

Hayek, F.A. (1967), *Studies in Philosophy, Politics, and Economics*, Chicago: University of Chicago Press.

Immergut, E.M. (1998), „The Theoretical Core of the New Institutionalism," *Politics and Society*, 26, 5 – 34.

Keohane, R.O., 1984, *After Hegemony. Cooperation and Discord in the World Political* and the Competitive Contracting Process", *Journal of Law and Economics,* 28, 297-326.

Kirzner, I.M. (1981), "An 'Austrian' Perspective on the Crisis," in: D. Bell and I. Kristol (eds.), *The Crisis in Economic Theory,* New York: Basic Books.

Knight, J. and Sened, I., (eds.), (1995), *Explaining Social Institutions,* Ann Arbor, MI.: University of Michigan Press.

Kornai, J. (1971), *Anti-equilibrium,* Amsterdam: North-Holland.

Korpi, W. (2001), "Contentious Institutions. An Augmented Rational-Action Analysis of the Origins and Path Dependency of Welfare State Institutions in Western Countries," *Rationality and Society*, 13, 235 – 283.

Kranton, R.E., 1996, "Reciprocal Exchange: A Self-Sustaining System", *American Economic Review,* 86, 830–851.

Kranton, R.E. and Minehart, D.F., 2000, "Networks versus Vertical Integration", *RAND Journal of Economics,* 31, 570–601.

Kronman, A.T., 1985, "Contract Law and the State of Nature", *Journal of Law, Economics, and Organization,* 1, 5-32.

Langlois, R.H., 1986, "The New Institutional Economics: An Introductory Essay", Kapitel 1 in R.H. Langlois, ed., *Economics as a Process, Essays in the New*

*Institutional Economics,* New York.

Levi, M., 1988, *Of Rule and Revenue*, Berkeley: University of California Press.

Lindenfeld, D. F. (1997), *The Practical Imagination. The German Sciences of State in the Nineteenth Century,* Chicago: Chicago University Press.

Mailath, G.J. (1998), Article "Evolutionary Game Theory", in P. Newman ed., *The New Palgrave Dictionary of Economics and the Law*, Vol. 2, 84 – 88.

Ménard (2000b), "Introduction", in: Ménard (2000a), xix – xxiv.

Ménard, C. (ed.) (2000a), *Institutions, Contracts and Organizations*, *Perspectives from New Institutional Economics*, Cheltenham, UK: Edward Elgar.

Menger, C., 1883, *Untersuchungen über die Methode der Socialwissenschaften and der Politischen Oekonomie insbesondere,* Leipzig, Neuauflage Tübingen 1969

Menger, C., 1884, *Die Irrtümer des Historismus,* Wien, Neuauflage Tübingen 1970.

Miller, G.J., 1997, "The Impact of Economics on Contemporary Political Science", *Journal of Economic Literature*, 35, 1173–1204.

Moe, T.M., 1990, "Political Institutions: The Neglected Side of the Story", *Journal of Law, Economics and Organization, Special Issue,* 6, 213-253.

Nabli, M.K. and Nugent, J.B. (1989b), "The New Institutional Economics and Economic Development: An Introduction," in: Nabli and Nugent (1989a), 3 – 33.

Nabli, M.K. and Nugent, J.B. (eds.) (1989a), *The New Institutional Economics and Development*, *Theory and Applications to Tunesia*, Amsterdam et al.: North Holland.

Nash, J., 1951, "Non-Cooperative Games", *Annals of Mathematics,* 54, 286–295.

Nelson, R. and Winter, S. (1982), *An Evolutionary Theory of Economic Change,* Cambridge, MA.

Nelson, R. and Winter, S. (1973), "Towards an Evolutionary Theory of Economic Capabilities," *American Economic Review, Papers and Proceedings,* 63, 440 – 449.

North, D.C. (1971), "Institutional Change and Economic Growth", *Journal of Economic History,* 31, 118 – 125.

North, D.C., 1978, "Structure and Performance: The Task of Economic History", *Journal of Economic Literature,* 16, 963-978.

North, D.C., 1981/88, *Structure and Change in Economic History,* New York, deutsch: *Theorie des institutionellen Wandels,* Tübingen 1988.

North, D.C., 1984, "Government and the Cost of Exchange", *Journal of Economic History,* 44, 255-264.

North, D.C. (1986), “The New Institutional Economics”, in: Furubotn and Richter (1986), 230 – 237.

North, D.C. (1990), *Institutions, Institutional Change and Economic Performance,* Cambridge, MA,

North, D.C. (1995), “The New Institutional Economics and Third World Development”, in: Harriss, Hunter and Lewis (1995a), 17 – 26.

North, D.C. (1997), “Prologue”, in: Drobak and Nye (1997a), 3 – 12.

North, D.C. (2000), “Understanding Institutions,” in: Ménard (2000a), 7 – 10.

Oehler, W. (1984), Comments on Scott in: Furubotn and Richter (1984a)

Persson, T. and Tabellini, G., 2000, *Political Economics. Explaining Economic Policy,* Cambridge, MA: MIT Press.

Powell, B.W. and P.J. DiMaggio 1991, "Introduction", in Powell and DiMaggio, eds., 1991, 1–38.

Powell, B.W. and P.J. DiMaggio, eds., 1991, *The New Institutionalism in Organizational Analysis*, Chicago: University of Chicago Press

Richter, R., 2001 "New Economic Sociology and New Institutional Economics", Paper presented at the annual meeting of the *International Society for New Institutional Economics*, *ISNIE,* September 2001, manuscript http://ww16srv.wiwi.uni-sb.de/richter/home-eng.htm

Richter, R., 2002b, "On the Social Structure of Markets: Market Sociology from the Viewpoint of New Institutional Economics", Paper presented at the 2002 conference of the *International Society for New Institutional Economics*, *ISNIE,* at Cambridge, MA, http://ww16srv.wiwi.uni-sb.de/richter/home-eng.htm

Robson, A.J., 2001, "The Biological Basis of Economic Behavior", *Journal of Economic Literature,* 39, 11-33.

Richter, R. (2004), “The Attack of New Economic Sociologists on Oliver Williamson’s Transaction Cost Economics” to appear in *Festschrift for Oliver Williamson*. For an earlier version see http://ww16srv.wiwi.uni-sb.de/richter/home-eng.htm

San Francisco*:* Institute for Contemporary Studies Press.

Schelling, T.C., 1960, *The Strategy of Conflict,* Cambridge, MA.

Schotter, A., 1981, *The Economic Theory of Social Institutions,* Cambridge, MA.

Scott, K. E. (1984), “Corporate Governance and the New Institutional Economics,” in: Furubotn and Richter (1984a), 136 - 152.

Scott, K., 1994, "Bounded Rationality and Social Norms: Concluding Comment", *Journal of Institutional and Theoretical Economics,* 150, 315-319.

Scott, R.E., 1990, "A Relational Theory of Default Rules for Commercial Contracts", *Journal of Legal Studies,* 29, 597-616.

Selten, R., 1965, "Spieltheoretische Behandlung eines Oligopolmodells mit Nachfrageträgheit", *Zeitschrift für die gesamte Staatswissenschaft,* 121, 301-324.

Shepsle, K.A. and Weingast, B.R., 1987, "The Institutional Foundations of Committee Power", *American Political Science Review,* 81, 85-104.

Simon, H. (1965), "A Behavioral Model of Rational Choice," *Quarterly Journal of Economics*, 69, 99 – 118.

Smelser, N.J. and Swedberg, R., eds., 1994a, *The Handbook of Economic Sociology,* Princeton, N.J. and New York: Princeton University Press and Russell Sage Foundation.

Smelser, N.J. und Swedberg, R., eds., 1994b, "The Sociological Perspective on the Economy", in N.J. Smelser and R. Swedberg, 1994a, 3–26.

Steinmo, S., 1993, Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State, New Haven, CT: Yale University Press.

Telser, L.G., 1980, "A Theory of Self-Enforcing Agreements", *Journal of Business,* 53, 27-44.

Thelen, K. (1999), "Historical Institutionalism in Comparative Politics", *Annual Review of Political Science,* 2, 369 – 404.

Ward, B.N. (1971), "Organization and Comparative Economics: Some Approaches," in: A. Eckstein (ed.), *Comparison of Economic Systems*, Berkeley: University of California Press, 103 – 121.

Wasserman, S. and Faust, K., 1994, *Social Network Analysis. Methods and Applications,* Cambridge: Cambridge University Press.

Weber, M., 1968, *Economy and Society. An Outline of Interpretative Sociology*, ed. by Roth, G. and Wittich, C., Berkeley: University of California Press.

Weingast, B.R., 1984, "Congressional-Bureaucratic System: A Principal Agent Perspective, with Applications to SEC", *Public Choice,* 44, 147-191.

Weingast, B.R., 1995, "The Economic Role of Political Institutions: Market Preserving Federalism and Economic Development", *Journal of Law, Economics, and Organization,* 11, 1–31.

Weingast, B.R. and Marshall, W. (1988), "The Industrial Organisation of Congress," *Journal of Political Economy*, 96, 132 – 163.

Werin, L. and Wijkander, H. (1992b), „Introduction", in: Werin L. and Wijkander (1992a), 1 – 11.

Werin, L. and Wijkander, H. (eds.) (1992a), *Contract in Economics*, Oxford, UK: Blackwell.

Williamson, O.E., 1971, "The Vertical Integration of Production: Market Failure Considerations", *American Economic Review, Papers and Proceedings,* 61, 112-123.

Williamson, O.E., 1973, "Markets and Hierarchies: Some Elementary Considerations", *American Economic Review, Papers and Proceedings,* 63, 316-325.

Williamson, O.E., 1975, *Markets and Hierarchies. Analysis and Antitrust Implications,* New York.

Williamson, O.E., 1979, "Transaction-Cost Economics: The Governance of Contractual Relations", *Journal of Law and Economics,* 22, 233-261.

Williamson, O. E. (1985a), "Reflections on the New Institutional Economics," in: Furubotn and Richter (1985a), 187 - 195.

Williamson, O.E. (1985b), *The Economic Institutions of Capitalism,* New York

Williamson, O.E., 1988, "Corporate Finance and Corporate Governance", *Journal of Finance,* 43, 567-591.

Williamson, O.E., 1993, "Calculativeness, Trust, and Economic Organization", *Journal of Law and Economics,* 36, PT. 2, 453–486.

Williamson, O.E., 1993a, "The Evolving Science of Organization", *Journal of Institutional and Theoretical Economics,* 149, 36-63.

Williamson, O.E., 1993b, "Contested Exchange versus the Governance of Contractual Relations", *Journal of Economic Perspectives,* 7, 1, 103-108.

Williamson, O.E., 1993c, "Transaction Cost Economics Meets Posnerian Law and Economics", *Journal of Institutional and Theoretical Economics,* 149, 99-118.

Williamson, O.E., 1993d, "Transaction Cost Economics and the Evolving Science of Organization", Manuscript, Mai.

Williamson, O.E., 1993e, "Transaction Cost Economics and Organization Theory", *Industrial and Corporate Change,* 2, 107-156.

Williamson, O.E., 2000, "The New Institutional Economics: Taking Stock, Looking Ahead", *Journal of Economic Literature*, 38, 595-613.

Wuthnow and Witten (1988), ……..

Young, H.P., 1998, *Individual Strategy and Social Structure. An Evolutionary Theory of Institutions,* Pinceton, N.J.: Princeton University Press.

# APPENDIX

**International Seminars on the New Institutional Economics**

**1983-2003**

**organized by**

Eirik G. Furubotn and Rudolf Richter (1983 - 1994)

Erich Schanze (1995)

Ekkehart Schlicht and Timur Kuran (1996)

Jürgen Eichberger (1997)

Herbert Hax (1998)

Christian Kirchner and Rudolf Richter (1999)

Christoph Engel and Urs Schweizer (2000-2003)

**The New Institutional Economics I, 1st Symposium on the New Institutional Economics (JITE 140, No.1, 1984)**

The basic objective of the first symposium on the New Institutional Economics as to clarify the nature of this emerging field of study and to consider its likely course of development in the future. Conference papers dealt with the fundamentals of the new approach: its historical evolution, property-rights analysis, transaction-cost economics, issues of constitutional choice, etc.

Contributions by: Armen A. Alchian, Ronald H. Coase, Eirik G. Furubotn, Terence W. Hutchison, Harvey Leibenstein, Wernhard Möschel, Douglass C. North, Charles K. Rowley, Dieter Schmidtchen, Kenneth E. Scott, Carl-Christian von Weizsäcker, Steven N. Wiggins, Oliver E. Williamson.

**The New Institutional Economics II , 2nd Symposium on the New Institutional Economics (JITE 141, No.1, 1985)**

The second symposium in the series followed the policies established in the first conference and, thus, had as its main purpose the discussion and critical assessment of current contributions to the literature of modern institutionalism. Papers presented at the conference illustrated how modern institutional analysis could be applied to such disparate questions as: intellectual property rights, long cycles of economic activity, the legislative process, the behavior of the firm, bankruptcy law, and problems of the nursing home industry.

---

Contributions by: Yoram Barzel, Peter Behrens, Michael A. Crew, Harry E. Frech III, Herbert Hax, Paul R. Kleindorfer, Manfred Neumann, A. Allan Schmid, Wolfgang Seyfert, Robert E. Summers, Oliver E. Williamson.

**Some Perspectives on Industrial Policy, 3rd Symposium on the New Institutional Economics (JITE 142, No.1, 1986)**

Fundamentally, this conference was motivated by a desire to learn more about how to utilize the methods of contemporary institutional analysis in considering public policy issues. The following public choice issues of industrial policy were considered: the incentive to innovate, rent seeking behavior, public choice aspects, outcomes of industrial policies (steel industry) pursued in the U.S., Germany and Japan.

Contributions by: Michael A. Crew, Terence W. Hutchison, Erich Kaufer, Heinz König, Kazutoshi Koshiro Richard McKenzie, Douglass C. North, Philip K. Porter, Timothy Roth, Charles K. Rowley, Hans K. Schneider, Gerald Scully, Daniel Slottje, Gordon Tullock, Klaus F. Zimmermann.

**Some Perspectives on the Modern Theory of the Firm, A Conference in Honor of Armen A. Alchian, 4th Symposium on the New Institutional Economics (JITE 143, No.1, 1987)**

Recognizing the limitations of the orthodox, neoclassical approach, writers in the new tradition have sought to develop a more comprehensive and penetrating explanation of the nature of productive organizations. The issue contains brief assessments of Armen Alchian’s work and papers on a variety of problems of the corporation such as the assignment of risks, the role of transaction costs, information and decision making, dividends and capital structure, private and public ownership, the firm and the evolution of market systems, and general reflections on the theory of the firm.

Contributions by: Armen A. Alchian, Peter Bernholz, Peter R. Brucato, David G. Davies, Louis DeAlessi, Harold Demsetz, Arthur DeVany, Raymond P.H. Fishe, James D. Hess, Christian Kirchner, Charles R. Knoeber, Steven N. Wiggins, Ulrich Witt, Susan Woodward.

**Some Perspectives on Contractual Relations**

**5th Symposium on the New Institutional Economics (JITE 144, No.1, 1988)**

---

The issue deals with aspects of relational or incomplete long-term contracts. Topics covered include, i.a., contract remedies, the impossibility defense, opportunism and transaction costs, contests and tournaments in organizations, the sociology of relational contracts, applications of the concept of relational contracts in economic analyses of franchising, international investments, and the use of money.

Contributions by: Victor P. Goldberg, Siegwart Lindenberg, Ian R. MacNeil, Scott E. Masten, Peter C. Müller-Graff, Rudolf Richter, Sherwin Rosen, Erich Schanze.

**The New Institutional Approach to Economic History , 6th Symposium on the New Institutional Economics (JITE 145, No.1, 1989)**

The methods used in the new institutional economics can be applied fruitfully to problems in economics history. This fact was demonstrated effectively by conference papers that undertook analysis of a wide range of historical topics: contracting for property rights in the U.S., economic development, institutional persistence and change, corruption, labor relations in the American South before 1950, agriculture in old-regime France, history of banking institutions in Germany, U.K. and the U.S., free-riding in organizations.

Contributions by: Lee J. Alston, Brian R. Binger, Joseph P. Ferrie, Elizabeth Hoffman, Philip T. Hoffman, Gary D. Libecap, Johan Myhrman, Douglass C. North, Barbara Sands, Hansjörg Siegenthaler, Richard H. Tilly, John J. Wallis.

**Different Approaches to the Economics of Institutions , 7th Symposium on the New Institutional Economics (JITE 146 No.1, 1990)**

The objective of this conference was to bring representatives of the literary and mathematical approaches to institutional economics together in order to facilitate an exchange of ideas on how research in the field is best carried out. Topics covered by the first group include the role of efficiency in property rights and transaction cost analysis, applications to debt and equity financing and cooperative banking, the role of risk aversion in modelling. Representatives of the second group dealt with a game-theoretic analysis of the calculus of consent, principal-agent models of trade and monitoring among agents, backward integration.

Contributions by: Louis DeAlessi, Holger Bonus, Eirik G. Furubotn, Victor P. Goldberg, Herbert Hax, Bengt Holmström, Leonid Hurwicz, Siegwart Lindenberg, Paul Milgrom, Michael H. Riordan, Georg Schmidt, Urs Schweizer, Hal Varian, Oliver E. Williamson.

**New Views on Antitrust, 8th Symposium on the New Institutional Economics (JITE 147 No.1, 1991)**

Since the early seventies a revolution of sorts has been underway in antitrust analysis, and traditional policy views have been strongly challenged. New institutionalist ideas lie at the heart of discussion and influence current thinking on antitrust measures. This issue starts with an assessment of the goals of antitrust and then deals, i.a., with the influence of antitrust policy on employment, the division of labor, on innovation, the commercialization of new technology, resale price maintenance, competitive effects of shareholding by banks, foreclosure effects of vertical mergers.

Contributions by: Armen A. Alchian, Patrick Bolton, William Breit, Richard J. Gilbert, Thomas M. Jorde, Henry G. Manne, Wernhard Möschel, Doris Neuberger, Manfred Neumann, William F. Shugart III, Michael D. Whinston, David J. Teece, Robert D. Tollison, Carl-Christian von Weizsäcker.

**Eastern European Reconstruction Problems, 9th Symposium on the New Institutional Economics (JITE 148 No.1, 1992)**

The ninth conference brought scholars interested in the new institutional economics together so that an assessment could be made of what comparative institutional analysis is able to contribute to our under-standing of economic organizations and their transformation. Papers presented dealt with such matters as corruption and ownership, institutional transformation, privatization in Eastern Europe, institutions and rational choice, measuring Soviet economic growth, investment decisions in labor-managed firms, transition of the economic policy framework, East-West joint ventures, the Israeli Kibbutz.

Contributions by: Andrzej Brzeski, Peter Galasi, Amir Helman, Maciej Iwanek, Christian Kirchner, Siegwart Lindenberg, John H. Moore, Svetozar Pejovich, Karl-Ernst Schenk, Joachim Zentes, Eirik G. Furubotn.

**The New Institutional Economics – Recent Progress; Expanding Frontiers, 10th Symposium on the New Institutional Economics (JITE 149 No.1, 1993)**

The idea of the 10th conference was to offer an overview on developments in the field of modern institutional economics during the years since the first conference in 1982 and to deal with its expanding frontiers into the fields of law, political organization and sociology. The aim was to take stock of the methodology of the NIE and to bring representatives of various fields of its application together so that a fuller exchange of ideas can occur.

Contributions by: Douglass C. North, Oliver E. Williamson, Richard A. Posner, Ronald H. Coase, Erich Schanze, Urs Schweizer, Ekkehart Schlicht, James Coleman, Hartmut Esser, Barry Weingast, Thomas W. Gilligan, Bruno S. Frey.

**Bounded Rationality and the Analysis of State and Society, 11th Symposium on the New Institutional Economics (JITE 150 No.1, 1994)**

The conference was concerned with the general topic of contractual behavior as undertaken by decision makers operating subject to bounded rationality. General hypotheses concerning behavior under bounded rationality from the viewpoint of psychology, sociology of law, game theory and anthropology, as well as applications of these basic theoretical themes were considered.

Contributions by: Daniel Kahneman, Ken Binmore, Robert Boyd, Robert C. Ellickson, Siegwart Lindenberg, Hubert Rottleuthner, Erich Schanze, James M. Buchanan, Christoph Engel, Terry Moe, Arnold Picot & Birgitta Wolff, Beth V. Yarbrough, Georg Ress, Kenneth E. Scott, Oliver E. Williamson.

**Market Organization and Market Behavior, 12th Symposium on the New Institutional Economics (JITE 151 No.1, 1995)**

The conference dealt with the organization of markets and its influence on the behaviorof buyers and sellers. Its cue was the remark by COASE that "although economists claim to study the working of the market, in modern economic theory the market itself has an even more shadowy role than the firm."

Contributions by: Knut Wolfgang Nörr, Alan Schwartz, Harrison C. White, Erich Schanze, Asher Wolinsky, Konrad Stahl, John Tilton, Lutz Müller-Hagedorn, Dennis W. Carlton, Paul Joskow, Christian Kirchner.

**Transformations in the Institutional Structure of Production , 13th Symposium on the New Institutional Economics (JITE 152 No.1, 1996), Organized by Erich Schanze**

The principle theme was how changes in knowledge, technology, and transaction costs effect trans-formations in the institutional structure of production. An important subsidiary theme was the role of external and internal restraints, through law, markets, custom and force, either alone or in combination, in coordinating complex economic systems.

Contributions by: Erich Kaufer, Lajos Vékás, Arnold Picot & Tanja Ripperger & Birgitta Wolff, Geoffrey P. Miller, Edward L. Rubin, Claude Menard, Walter W. Powell, Christian Kirchner, Christine Windbichler, Sherwin Rosen, Alan Schwartz.

**Religion and Economics, 14th Symposium on the New Institutional Economics (JITE 153 No.1, 1997), Organized by Ekkehart Schlicht and Timur Kuran**

The topic of this conference epitomizes the interplay of culture and economics. Recent developments in institutional economics increasingly emphasize the importance of the cultural underpinnings of market processes by stressing the importance of custom, standards of behavior, atmosphere, and the productive contribution of social relations ("social capital").

Contributions by: Jean Ensminger, Timur Kuran, Franz-Xaver Kaufmann, Laurence R. Iannaccone, Dieter Schmidtchen & Achim Mayer, Benjamin Beit-Hallahmi, Eilert Herms, Hans Albert, Howard Margolis, Russel Hardin.

**Financial Institutions in Transition: Banks and Financial Markets, 15th Symposium on the New Institutional Economics (JITE 154 No.1, 1998), Organized by Jürgen Eichberger**

The past two decades have seen the emergence of financial markets for new assets, like options, futures and many other derivatives, and of new financial institutions like investment and mutual funds. In combination with the internationalization and deregulation of the banking and finance sectors in many countries, these developments are beginning to shape a new system of financial institutions. This conference gathers contributions of economic historians, of economists and of law scholars which shed light on these institutional changes. The future role of banks and financial markets is the central theme of these papers.

Contributions by: Richard H. Tilly, Charles Calomiris, Geoffrey Miller, Kenneth E. Scott, Günter Franke, Johannes Köndgen, Colin Mayer, Ernst-Ludwig von Thadden, Sudipto Bhattacharya, Martin Hellwig, Thomas Saving.

**Corporate Finance and Corporate Control, 16th Symposium on the New Institutional Economics (JITE 155 No.1, 1999), Organized by Herbert Hax**

Control of capital owners over firm managers has been recognized to be one of the central problems for the functioning of capital markets and for corporate finance. While capital structure is irrelevant under perfect market conditions, financial contracting is of strategic importance when information asymmetry and opportunistic behavior are taken into account. Conference papers deal with the institutional foundations of corporate control and the design of control mechanisms, including aspects of accounting and auditing.

Contributions by: Kenneth E. Scott, Monika Schnitzer, Philippe Aghion, Patrick Bolton and Steven Fries, Michael Adams, Theodor Baums, Peter Nippel, Sunil Dutta and Stefan Reichelstein, Ralf Ewert, Robert E. Verrecchia, Jonathan M. Karpoff.

**Big-Bang Transformations of Economic Systems as a Challenge to New Institutional Economics, 17th Symposium on the New Institutional Economics (JITE 156 No.1, 2000, forthcoming), Organized by Christian Kirchner and Rudolf Richter**

There was considerable agreement that "big-bang" transformations are undesirable. Economists, also New Institutional Economists, pay too little attention to the role of political forces in transformation processes. Privatization is not necessarily a cure-all. In some cases collective action on local levels may be preferable. Particular interest found the Chinese path of transition which is a bottom-up evolution, as the Industrial Revolution in England (or in Germany), not a top-down transformation as in Eastern Europe. The German economic and political development since the early 19th century provides a (painful) example.

Contributions by: Douglass C. North, Kenneth J. Arrow, Erich Schanze, Christian Henning and Xiaobo Lu, Victor Nee, Alexander Blankenagel, Arsène Verny, Yingyi Qian, Rainer Schröder, Pranab Bardhan, Mathias Dewatripont and Gérard Roland, Liqun Liu, Andrew J. Rettenmaier and Thomas R. Saving.

**The Proper Scope of Government, 18th Symposium on the New Institutional Economics – Dresden – 2000, Organized by Christoph Engel and Urs Schweizer**

Bringing the state back in, reinventing government, such have recently been slogans in US politics. Opponents proclaim, in the light of globalization, the end of the nation state. None of these statements is without a kernel of truth. But reassessing the proper scope of government presupposes more than repeating old normative battles. State of the art micro-economic theory, opening up the black box of the individual’s preferences, putting government into a competitive framework, adding rational choice analysis from political sciences and constitutional law are all put together in order to paint a more timely and more appropriate picture.

Contributions by: Wernhard Möschel, Jack Knight, Roger Guesnerie, Ken Binmore, Giandomenico Majone, Joachim Jickeli, Bruno Frey, Christoph Engel.

**Organising and Designing Markets, 19th Seminar on the New Institutional Economics – Schloss Ringberg – 2001, Organised by Christoph Engel and Urs Schweizer**

Textbook economics starts from a dichotomy between market and organization. Organization is equated with the firm, or with government. Market is equated with exchange between actors planning individually. But reality does not always bend to these textbook dichotomies. Many markets are deliberately and consciously designed in some specific way. Some would even claim that organization is a precondition for a market.

For them, the ability of markets to decentrally co-ordinate economic planning hinges upon the previous or simultaneous central provision of an institutional framework. The Conference addressed this issue from the combined angles of economics, law and sociology.

Contributions by: Friedrich Kübler, Erik Theissen, Benny Moldovanu, Lluís Bru/Xavier Vives, Randal Picker, Avner Greif.

**Causes and Management of Conflicts, 20th Seminar on the New Institutional Economics – Wörlitz – 2002, Organised by Christoph Engel and Urs Schweizer**

In the tradition of the New Institutional Economics, institutions are seen as governance tools. They help individuals cooperate, or they overcome market failure. Many institutions serve a different purpose however: they manage conflict. Conflict has many causes: a difference of interests, a clash of ideology, identity, honour, or irrational elements in human behavioural dispositions. All of these conflicts can be modelled in rational choice terms. But sometimes, alternative theoretical approaches and experimental work are equally promising. The conference addresses these issues from the perspectives of economics and law.

Contributions by: Geoffrey Brennan/Werner Güth/Hartmut Kliemt, Claude Fluet, Vincy Fon/Francesco Parisi, Eric Posner, Daniel Arce/Todd Sandler, Armin Falk/Ernst Fehr/Urs Fischbacher, Robert Mnookin, Barry O'Neill.

**The Generation and Distribution of Knowledge, 20th Seminar on the New Institutional Economics – Wienhausen – 2003, Organised by Christoph Engel and Urs Schweizer**

Knowledge is a highly special commodity. Some knowledge is indeed been traded. More knowledge can be seen as being produced. But much knowledge remains implicit, is "knowing how", rather than "knowing that", can only be exploited by initiated users and so forth. This variety is reflected in a great plurality of institutions for the provision and transmission of knowledge: patent, copyright and self-made digital rights management systems as property rights; unfair dealing protection against the commercial exploitation of foreign effort; organisation in firms or corporate groups; public subsidies; public and private universities. At the conference, economists and lawyers explored these issues.

Contributions by: Paolo Saviotti, Thomas Gehrig, Paul David, Roger Noll, Ulrich Kamecke, Rebecca Eisenberg, Margaret Radin, Graeme Dinwoodie.

**To go to MPP's main web site (www.mpp-rdg.mpg.de)**