

INTERNATIONAL SOCIETY FOR NEW INSTITUTIONAL ECONOMICS

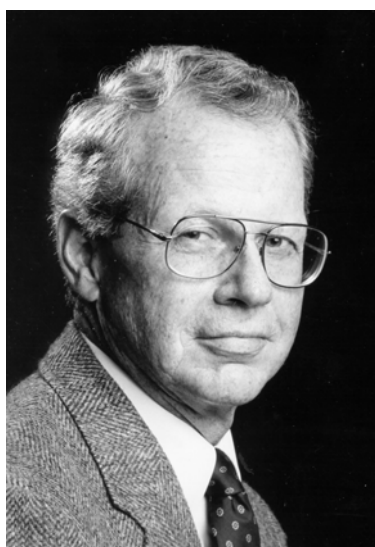
Message from the President-Elect

Oliver Williamson

One of my favorite quotations is from the 1986 presidential address by R.C.O. Matthews to the Royal Economic Society, where he pronounced that "the economics of institutions has become one of the liveliest areas in our discipline." There has been an enormous amount of research done since as well as a number of new developments—not the least of which has been the establishment of the International Society for New Institutional Economics. The NIE is unarguably alive and well as we head into the new millennium.

New movements wax and wane. Common pitfalls are to get carried away with methodology and/or become absorbed with critique. Unlike older style institutional economics, which had an obsession with orthodoxy and was remiss in advancing its own research agenda, the NIE goes beyond the proposition that institutions matter (with which almost everyone now agrees) to demonstrate that institutions are susceptible to analysis.

Not only has the NIE had the benefit of the many good ideas of its first two presidents, Ronald Coase and Douglass North, but it has also



Oliver Williamson
ISNIE President-Elect

had the benefit of the many social scientists who have shown how and why institutions matter by doing "modest, slow, molecular, definitive work." Always and everywhere, the NIE is concerned with understanding alternative feasible forms of organization, all of which are flawed in relation to a hypothetical ideal. Better theory, better concepts, and better public policy have all resulted from efforts to develop a predictive theory of economic institutions to which the data are thereafter

collected and to which empirical tests are then applied.

ISNIE is a loose collection of social scientists who respect pluralism, are prepared to cross disciplinary boundaries as needed, and are unified in their commitment to the study of real problems in a disciplined way. This is a formula for success.

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Second Annual Conference Held in Paris

Claude Ménard

The second conference of the International Society for New Institutional Economics was held in Paris on September 17-19, 1998. The theme was "Institutions, Contracts, Organizations." The meeting confirmed the enthusiasm that permeated the first conference held in St. Louis in 1997, and the growing interest among economists worldwide for the research program developed by the New Institutional Economics.

Over 160 proposals were submitted to the selection committee, of which only 25% could be presented, which made particularly difficult the task of the committee and of its president, Douglass C. North. Similarly, the attendance largely exceeded the expectations of the organizers. With facilities available for only two hundred and fifty participants, registration had to be closed by the beginning of July. Contributors and participants came from all over the world (30 countries were represented), with a significant number from economies in transition and from developing countries, thanks to grants that Ronald Coase obtained from the Earhart Foundation. Notwithstanding the large number of participants and the beautiful weather in Paris, attendance was very high and the friendly "spirit of St. Louis" was maintained through intense and extended discussions.

Some highlights of the conference were the distinguished lectures delivered by Thomas Schelling (opening the conference on Friday) and by Masahiko Aoki (closing the conference on Saturday), as well as the presidential address which Douglass North delivered during a memorable dinner on a boat on the Seine. Although the sound system on the boat did not meet all the standards

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An Interview with Ronald Coase

at the Inaugural Conference of the
International Society for
New Institutional Economics
St. Louis, September 17, 1997

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Editor's note: Ronald Coase, the founding president of the International Society for New Institutional Economics, is currently Clifton R. Musser Professor Emeritus of Economics at the University of Chicago Law School. He has been affiliated with the University of Chicago since 1964. Earlier he served on the faculty of the Dundee School of Economics and Commerce (1932-1934), the University of Liverpool (1934-1935), the London School of Economics (1935-1951), the University of Buffalo (1951-1958), and the University of Virginia (1958-1964). He was editor of the Journal of Law and Economics (1964-1982). In 1991 he was awarded the Alfred Nobel Memorial Prize in Economic Sciences.

To introduce the interview, John Nye (Washington University) writes:

"Ronald Coase, the first president of the Society, has been one of the leaders in creating ISNIE. Part of the interest in forming the Society arose from his view that the mainstream members of the economics profession have failed to live up to the promise of the field inherent in Adam Smith's work: they have overemphasized the formal and abstract aspects of theory at the expense of empirical and institutional research. Prior to the inaugural conference of ISNIE, several members of the Society met with Professor Coase in St. Louis for a question-and-answer session, asking him to expound on New Institutional Economics and the aims of the Society, and moving from there to a wide-ranging discussion of the economics profession and his hopes for the future of economic research."

The interviewers were Tawni Ferrarini, Northern Michigan University, who also videotaped the session; John Nye, Washington University; and Alfredo Bullard and Hugo Eyzaguirre, INDECOPI, Lima, Peru. The interview was transcribed from video by Alexandra Benham. Editing has been very minor.

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Ronald Coase
Founding President of ISNIE

Ferrarini: What is New Institutional Economics?

Economists have never considered until recently the role that institutions play in the working of the economic system. In fact, the institutions determine the way in which the economic system operates.

Nye: What about the old institutionalists? How does the new institutionalism differ?

The old institutionalists were concerned in the main with describing institutions rather than with analyzing them, that's basically the difference.

Nye: Could you tell us some more about how the new institutionalism will affect or change standard conventional economics?

Well, it won't so much change conventional economics as reshape it and replace it. In my mind, the New Institutional Economics is economics. It's what

economics ought to be. Existing economics is a theoretical system which floats in the air and which bears little relation to what actually happens in the real world.

Nye: Could you expand on that? Is the problem the methodology of conventional economics or is the problem the subject matter?

I would say it has no subject matter. That's the problem.

Nye: Is it because you think that conventional economics is more about an analytic framework than it is a subject matter?

It's concerned with the development of a theory, a theory which is not related to what actually goes on in the economic system. Harold Demsetz explained how this has come about. Adam Smith introduced the notion of the invisible hand or the pricing system coordinating the

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working of the economic system. What economists have done in the time since then is to formalize this system. It deals with a system of extreme decentralization. It is not the system that actually exists.

Nye: Could you give us an example of something that New Institutional Economics treats or studies better than conventional economics? Could you expound on that?

The New Institutional Economics is not a single body of thought. There are a whole series of separate strands which have not been brought together and indeed in my view should not at the moment be brought together because we don't know enough to do it. So I think these separate strands should develop, and from time to time people will be able to mesh them together. The part I've been most interested in is, of course, the relation of economics and law. Unfortunately—and this is one of the difficulties with the New Institutional Economics—that part of the relationship of economics and law which analyzes the legal system has gone ahead much more than that part of the subject which deals with the effects

of the legal system on the economic system. That is to say, what people have done is to use economics to study the legal system rather than discuss how changes of the law affect the actual way the economic system operates.

Nye: That's a good subject to pursue. Many economists would say that since the publication of your 1960 article which contained the germ of what people call the Coase Theorem, it has been assimilated into economics, and yet you are suggesting that the combination of economics and the law has not been well done yet. Could you comment on the way economists have taken your work and developed it, versus the way you would like to see it developed?

I think the success of the Coase Theorem—because it's discussed all over the place—is an interesting illustration of what's wrong with economics; because, if you read "The Problem of Social Cost," it occupies perhaps four pages. It's useful. I think it's useful because you can show, using it, the type of contracts that would have to be made in order to have an efficient economic system. But then you have to introduce, having done that, the obstacles to doing it. Then you see how the system actually works. But many people have only read the four pages or only thought about the four pages. One of the reasons they've done that, of course, is it's the most abstract part of the article.

Nye: So you think what they like about the Coase Theorem is the abstract nature of it, but they're not seriously interested really in the gist of your article?

Absolutely. The article has been very successful for the wrong reasons. To people who like success that's all right, but to people who are concerned with the development of the subject it's not a very good thing.

Nye: Let's talk about what you think research would look like if it had been successful for the right reason. What kinds of research would you observe if it were successful for the right reasons?

You'd be concerned with the types of contracts people make in different situations, how the ability to make these contracts depends on the existence of various institutions, of various laws, of the type of educational system that exists, and so on. You would have begun to see what it is that makes possible the types of contracts

you'd like to make. You'd get into the problem. At the moment, that is being completely ignored.

Ferrarini: You argue in "The Nature of the Firm" that the firm is the supercession of the price mechanism. Planning and the price mechanism co-exist in an economy. Depending on the cost of an organization and transactions, the agents will decide which one to use. Let's talk about the economic system as a whole. How should a society decide which economic system to choose? Is there a more efficient economic system and why?

Well, there is no "one way" better economic system, because everything depends on the society you're in. You may have views on the part that educational or religious organizations play in economic life; but if you have a society in which the only educated people are the clergy, you have a very different view of what the role should be of religious organizations. That is an extreme example. There was a time in England when the chief politicians were also cardinals and other clerics, but you wouldn't from that infer on the whole that it's a good system to have cardinals in charge of economic policy. It might have been at a certain time. I can't give an answer to that particular question simply because you get a different answer for every country and every historical situation.

Nye: But that argument has been used in the past to justify almost any economic system, some of which have been marked failures. What guidance can you give to a country, particularly a developing one, looking for a means of deciding where to draw the line?

Well, there are two. First of all, they should make a study of how their actual economic system operates, what the important factors are that encourage development. And the next thing is to be cautious in drawing conclusions. It's so easy to go wrong. There are so many wrong ways of doing things and so few right ones.

Nye: According to the typical International Monetary Fund prescription, neoclassical theory suggests steps to follow toward a market-oriented economy: privatization, deregulation, macroeconomic stability, and so on. Is that enough? How should we think about the problems of determining the conditions for a

properly functioning market economy?

I don't think it's enough just to think in those terms. One should also think in terms of the institutions of that country, particularly the social institutions, and build from where you are. It seems to me a mistake not to start from the point where you are. To try and change a country dramatically, pull it up by the roots and start again, that seems to me wrong. In this respect—and I don't know whether I'm right or not—my feeling is that at the moment things are moving better in, say, China than in Russia simply because they have built on the existing institutions. They have household-responsibility contracts which they have been able to develop because it was very easy to move from a commune to a family system because of the social organization of the family in China. You could turn it into an economic unit. You could develop contracts, with the result, I understand, that output in the agricultural field has doubled as a result of these contracts. Whereas what you had in Russia, if you could get rid of a collective farm, you would have a lot of unemployed bureaucrats and farm laborers. So obviously I would think you have to go about things in a different way in these two countries. I think we're going to learn a lot from the efforts which

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people are making for privatization in different countries. We're going to find out a lot about the ways not to do it. I don't know that I can say what the way is to do it, because we have so much to learn, but I certainly don't think there's one way.

Nye: But a Russian might come to you and say, "We have so many institutions we need to reform and change, but political realities make it difficult for us to reform all of them at the same time. Where should we start? How can you help us think about this problem?"

I wouldn't try. I would say, you know your institutions. I don't know your institutions. One of the things that went wrong after the war was that people went around from country to country telling them how they should operate, and they gave the same prescription for each

country. They knew nothing about these countries. Of course the answer they gave then was, “Move to socialism.”

Bullard: With recent reform experience in Eastern Europe and in developing countries, many have studied the question whether the appropriate legal framework and the improved enforcement of the rules are not enough. Do you think that beliefs also play an important role in the agent's decisions and therefore in the performance of the price system? Is there then a market culture that needs to be developed in these situations?

Yes, I think so. When you get a society in which people are completely unaccustomed to operating in a market system, you are not going to get a very good market system. That's perhaps another reason why I'm all in favor of caution so that people can learn how to operate a market system. I don't think you want to think simply about introducing prices, because if you give people the right institutions the prices will emerge. They do need to have institutions within which they can work. They do need to have institutions that they can understand, that they have experience of operating. Now again I think that will vary from place to place. I suspect that the difference in the performance of different countries in Eastern Europe is related to the length of time they have been under a communist system, because under a communist system you don't learn how to operate a market system. I think the difference between East Germany and West Germany is very interesting here. It's sort of surprising that different attitudes emerge so quickly. I'm surprised that there was this difference between the attitudes of the Germans in East Germany and West Germany after only forty years.

Bullard: Is there a role for the state in the development of this market culture? And is there a role for the state in the reduction of transaction costs in the economy?

Well, there is a double role for the state. One is, not to stop things happening. That's very important, not to get in the way. On the other hand, I've never felt that you could get a property rights system without the use of state powers. You can in narrow areas; trade associations and others can form organizations to set up what is in effect a private legal system. It's very hard to do that when you're dealing with

people with very diverse interests.

Bullard: In the developing countries, government intervention has resulted in the emergence of important underground economies—informal economies. For example, in Peru, in the last thirty years most urban development has been the result of agents—private agents—operating outside of the legal system. They have created their own property rights. They have created their own enforcement mechanisms. The informal sector of housing generates half of the gross national product. It influences more than half the labor force. How can your theory of New Institutional Economics explain these phenomena?

I would have thought it was rather easy to explain. If the government in fact doesn't allow certain activities or impedes them in various ways, people try to establish them. But, of course, lacking the enforcement powers of the state, they have to adopt their own. They often

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are very inefficient, arbitrary, intermittent, and so on. I'm sure you know more about what happened in Peru. But the enforcement mechanisms aren't necessarily particularly efficient ones, and the intervention of the government is also intermittent and uncertain. So sometimes they will prevent something and sometimes they won't. Sometimes they'll encourage something and sometimes they won't. So you have an economic system where people are very unsure of their rights and therefore not as willing to trade and invest as they might be.

Bullard: In many of your writings you argue that the government usually tends to do too much in an economy. How to define an adequate level of intervention of the state in the economy? What about regulation, for example, regulation for consumer protection, antitrust, or that kind of issue?

Well, you cannot say that regulations might not improve things; for example, standardization is an example. On the other hand, regulation can also make things bad. What has been puzzling to me in the studies that we've

made in the United States is how many of the regulations make things worse, although there's no particular reason why they have to make things worse. The answer that I have given is that in the United States the government operates on such a massive scale that people don't really know what's happening. The only people who really are interested or able to follow these things are the people who are being regulated, and their interests do not necessarily coincide with the interests of other people. At the present time here, the government operates on such a massive scale that in this room where we are there are probably hundreds of agencies which have regulations which impinge on what is happening here. No one knows about them except the people who are immediately affected by them. They are therefore interested in seeing that the regulations are of such a character as to help themselves. So you get a lot of bad regulation. The studies we published in the *Journal of Law and Economics* gave us very few good regulations. It doesn't seem inevitable that this should be, and I think if we got the government's intervention in the economic sphere much reduced, we'd get much more sensible regulation. Whether that is true or not, I don't know. At any rate, that is my view. It's very easy to see that you can get good regulation. One that I happen to know about is the screw thread agreement: so that you have standardization on screw threads such that it's possible for people in different countries to use the same screws. It might have happened, and it sometimes happens, without government action. In other cases it only seems to come about if you do have government regulation.

Bullard: One of the temptations that the government has in developing countries is try to solve the poverty problem or the unfair distribution problem through regulations or through intervention. For example, we have a case in Peru—a very small case but I think it will show what is going on—where a person goes to a store, not a normal store but a vendor on the streets. He buys a pair of shoes, and these shoes cost around two dollars. They're very cheap. That night he goes to a party: he bought the shoes to go to a party. In Lima it never rains, but it rains that night. And the shoes become softer and softer, and they disappear. They were made from paper. And the problem that the governmental agency in charge of consumer protection has at the moment is, "Well, I have two ways to deal with this. One, I cannot accept that poor people have to buy paper shoes. On the other hand, I can decide that

paper shoes are the only chance poor people have to have something on their feet. The regular shoes are too expensive." Should the government decide which kind of shoes people have to use, in that kind of situation, even when we are talking about very bad quality of the product? The problem is, is there space for the state in this kind of case or should we let the things go on as they are?

In a case like this I wouldn't see the need for the government regulation at all. On the whole, people are

Economists have not given very good explanations as to why economic arrangements are made in the way they are. But I think they could.

pretty good judges of what is appropriate for them. Naturally, if you are poor, you don't want to spend most of your money on a high-grade product because that would mean you would not be able to spend money on other things. The meaning of being poor is that you have to buy shoes made of paper and other things.

Nye: What's your attitude toward large-scale redistribution at the expense of property rights? Massive taxation, or land reform, or confiscation from the rich to redistribute to the poor?

It operates the same way as regulation. On the whole, whatever you do, the smart people will take advantage of it. Take the changes in the tax laws. It's very dubious whether they changed the net distribution at all. They've just made the system less efficient.

Ferrarini: Recently there was an article in The Economist that attacked economics or economists' ability to explain accurately, with their theories, current events. How will New Institutional Economics specifically help economists make individuals like the person who wrote this article better understand that economists can provide fairly accurate explanations, as well as improve their abilities to do so?

Well, I'm not sure that the writer of the article is wrong. I have not read it, but judging from what you say it

says, it seems right on the whole. Economists have not given very good explanations as to why economic arrangements are made in the way they are. But I think they could, and I think there are two ways in which this could be done. One is to make empirical studies, not to develop a theory but find out what happens. And the second way is for people to specialize in particular areas so they know what they're talking about.

Ferrarini: When you talk about the particular areas, are you talking about different social, political and economic frameworks where you have specialists come in and study each aspect?

I think particular industries, transactions, countries. It means you're going to get a whole lot of studies which

We won't just talk about the supply and demand in the determination of prices. We're going to talk about what is demanded and what is supplied and what is priced.

are at the present stage difficult to relate to one another. But that's the state in which we are.

Ferrarini: So you're interested basically in having individuals come together and collectively study how political, social and economic institutions act upon and interact with each other?

Not come together. Do it themselves.

Ferrarini: Do it separately, individually?

Yes.

Ferrarini: Then what about merging the final product? How are you going to bring everything together? Why would you not want to bring things together?

I want to bring them together when you can bring them together. We are not ready yet. We need to have all the individual studies done. Then some new Adam Smith or someone like that will be able to do it. One of our problems is that we've got to understand this interrelated system. But you can't understand the interrelated system

if you don't know how the individual parts operate. We don't know how the individual parts operate. That we've got to do first of all.

Ferrarini: Economists, in my mind, pretend that they know how the individual parts operate. And this is stated in principles texts all over the place. How do you think New Institutional Economics is going to change the way we teach the principles of economics?

Well, it's going to change it in this way. We won't just talk about the supply and demand in the determination of prices. We're going to talk about what is demanded and what is supplied and what is priced. It seems very odd to me. Adam Smith not only introduced the notion of prices coordinating the economic system but he also pointed out that our standard of living depends on the real flow of goods and services. But somehow we don't study the real flow of goods and services. I've always said that the economists invented the widget. They introduced it because it doesn't mean anything. And we price widgets. Well, we want to discover what it is that's priced. Minasian pointed this out when he was dealing with radio and television broadcasting where the marginal cost is zero and economists said that therefore the price should be zero. Minasian pointed out that if you just broadcast a squeak, the price would be equal to marginal cost but you wouldn't get anything from it. By just considering pricing and not what is being priced, you miss the whole point.

Nye: I take it that you're in favor of collections of empirical studies, almost like taxonomies of different industries, of different groups, of different contracts. Is that more the sort of issue you like?

Yes. I do not know what problems people should be investigating. Let them choose their problems. We'll gradually develop. You know, how would biology have developed if people hadn't studied what the heart did, what the kidneys do?

Nye: Part of what determines what economists study is the demand and supply of economists in academia. Recent studies have argued that many graduate students believe that knowledge of the economy is not a prerequisite for being a good economist. How does one change the way in which they are educated, to take your perspectives into account?

Well, I don't think it's going to change all at once, but in different sub-disciplines a change will take place. It depends on the composition of the people in them, the persuasiveness of people, the employment policies, the courses that are given, what articles editors of journals accept—and this will be different in different fields.

Nye: But until now this has not given the results you've wanted in terms of the profession as a whole. Is it your view that people are sufficiently disenchanted with the way things are or that people in the New Institutional Economics are sufficiently persuasive that they are going to be successful in making change from within, in reversing some of the trends of the last twenty years?

It's no different from any of us. If you have some sort of illness or disease or problem, you get along with it, you accept it, and then it gets so bad that you feel you ought to do something about it. Now I think that in economics people are now beginning to think that things have got so bad that one ought to do something about it, and therefore those people who have always wanted to do something about it have a more sympathetic audience than in the past. I think that is the present situation. You get lots of statements to the effect that what economists are doing is not particularly useful.

Eyzaguirre: Probably development economics is one of the areas that I think we have advanced the least. We don't know much about how economies start to develop. For example, you said that how people contract is very important. And we haven't done much about comparing how people contract in developing countries and how they do it in developed countries. Would you agree that New Institutional Economics has a lot to contribute in this area?

When you say area, it's the individuals working who are going to make the contribution, and I would have thought that we could learn vastly more than we do. I will give an example from Latin America that always has been of interest to me. You get countries with high rates of inflation, extraordinarily high. What forms of contracts do people make in order to handle this problem? What difficulties does it cause in contractual arrangements? You would think that it would make things very difficult. But the sort of answer I get is, "Oh well, we draw up contracts in a foreign currency." That obviously is not the whole answer, and I've never seen a good study of exactly how people handle the inflation

problem. But I have been looking and I have been asking and I haven't got the answer. That's an obvious problem and I would like to see people tackle it. But I'm not

The Coase Theorem is a teaching device. It's to say, "Let's ignore this for the time being and see what happens." And if you ignore transaction costs, you see their importance, you see the arrangements that have to be made. And then you can say, "Oh, this is what you do in a world in which there are no transaction costs. Well, now let's move to one in which we have transaction costs and see how it operates." It's a stage in one's thinking.

expecting to see the goal that I would like to see achieved within under a hundred years or something like that.

Bullard: According to the Coase Theorem, if transaction costs are zero then the efficient outcome will be achieved regardless of the legal rules. Is that always true? Complex legal rules make judges' decisions more unpredictable, and that increases transaction costs in uncertainty, so it is not entirely true that that you can have any legal rule in this situation. For example, in torts the fault rules are more complex than the strict liability rule because the tort attempts to apply a standard that is not easy to apply and predict. How important is it to have simple rules, understanding by simple rules here rules which are easy to apply for judges and are easy to predict by society?

I don't know where I ought to go on this question. We need to think of how the Coase Theorem is going to be used. That is to say, is one going to use a simplifying assumption and say "I'm going to ignore this factor." For example, one might say, "I'm going to study how a bullet flies through the air, and I'm going to ignore the effect of gravity." People do this sort of thing; it's very sensible. But if you say, "I'm going to ignore the effect of gravity in total," you don't have a bullet. So you've got to handle these things in a sensible way, and what I find is in discussions of the Coase Theorem, people don't handle it in a sensible way. It is a teaching device. It's

to say, “Let’s ignore this for the time being and see what happens.” And if you ignore transaction costs, you see their importance, you see the arrangements that have to be made. And then you can say, “Oh, this is what you do in a world in which there are no transaction costs. Well, now let’s move to one in which we have transaction costs and see how it operates.” It’s a stage in one’s thinking. That’s the way I regarded it. But people got stuck on this assumption because, as I say, by being abstract and unreal, economists feel quite at home since that’s the world they already inhabit.

Nye: You seem to be a great adherent of common sense judgement, as opposed to a formal mechanistic method of deciding what is right and what is wrong. But common sense is not so common. Is it your view therefore that part of the tradition of economics that you’d like done is the ability to transmit to subsequent generations of economists some sense of judgement of what constitutes right and wrong in abstractions?

You know, I saw a statement once of Niels Bohr, who is the originator of quantum mechanics, a very great man.

To me, what is interesting is to see what has happened since Darwin in biology and what has happened to economics since Adam Smith. The differences are startling.

He was always distrustful of formal and mathematical arguments. When people made such arguments, he’d always say, “Oh you’re just being logical; you’re not thinking.” What we want to do is to move people from being logical to thinking. If you judge economists on the basis of their logic, they’re very good, I mean they’re probably—some of them—even better than the physicists, but they’re not thinking.

Ferrarini: Would you say New Institutional Economics is changing the economics world as we know it?

Well, the world actually is very little affected by what economists do, so I don’t think we can say that a change in the views of economists is affecting the economic world, although if you ever get a decent economics which is useful to people in the real world, it will. There’s a

very interesting case—I think you probably know about it—a firm, I think in St. Louis, got rid of its economists because now that you have futures markets, you don’t need them. They were engaged in activities which the market can now do perfectly well. Well, there’s more to economics than that.

Nye: You are speaking of macroeconomic forecasting in particular. Do you see any role for macroeconomics in the New Institutional Economics? It seems to be the one field that is essentially left out of the New Institutional Economics.

That’s right. I don’t know how it will be affected, but my feeling is that at the moment we know that the forecasts are commonly wrong, so we know that they’re not doing a very good job in forecasting. That is to say that they don’t understand what the relationships are between these broad aggregates. My guess is that one of the reasons is that you are dealing with these broad aggregates. Until you strip them down much more, you can’t really forecast very well. I would expect that the New Institutional Economics, because it will give data about individual business activities, would be of help there, though I know nothing really about macroeconomics.

Nye: Let me ask one last question. It sounds like you’re an adherent of really traditional price theory in the tradition that goes back to Adam Smith and perhaps the old Chicago school as opposed to the new one. What you’re suggesting is that we return to our roots as joint interest in price theory and the institutions of market economies, jointly?

Yes. The point I’m going to make when I talk in the meeting is that economists boast that Darwin got his ideas from Malthus and Adam Smith. Well, to me, what is interesting is to see what has happened since Darwin in biology and what has happened to economics since Adam Smith. The differences are startling. They really understand how biological processes work in a way that we do not understand how economic processes work.

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Paris Conference Draws Large, Lively Group (continued from page 2)

that new institutional economists can expect from modern technology, the well-known sense of humor of Doug North combined with the exceptional quality of his message gave a wonderful impulse to the continuation of the conference as well as to future developments in our research program. Another event to be mentioned was the ceremony in honor of Ronald Coase, held the day before the conference, on the occasion of the presentation of his honorary degree from the University of Paris (Panthéon-Sorbonne). Several hundred people attended the session, opened by the president of the University of Paris and followed by short speeches by Claude Ménard, Douglass North, Lars Werin, and Oliver Williamson. Although Ronald Coase was not able to attend, his ideas and his spirit were very much

present during the ceremony as well as through all the conference.

The high quality of the papers delivered during the two days of the conference created a demand for their publication. In order to make the book of a reasonable length and price, the editor (Claude Ménard) had to select a very limited subset of the contributions: one out of three. Priority has been given to papers relating unambiguously to the central theme of the conference, and the selected papers have been submitted to referees. The book will be published in the coming months by Edward Elgar. The provisional title is *Institutions, Contracts, Organizations: Perspectives from New Institutional Economics*, and it will be available to ISNIE members at half the list price, making the hard cover edition the price of a paperback.

The conference could not have been such a success without the continuous support of the co-organizers, Eric Brousseau and Jean-Michel Glachant; the considerable work done by the selection committee, John Drobak, Jean Ensminger, and Jack Knight, coordinated by John Nye, and presided over by Douglass North, and the financial support of several organizations: Université de Paris 1 (Panthéon-Sorbonne); Department of Economics, Washington University (St. Louis); Ministère de l'Éducation Nationale, de la Recherche et de la Technologie (France); European Commission; Centre National de la Recherche Scientifique (France); Institut National de la Recherche Agronomique (Département SAD); The Lynde and Harry Bradley Foundation; Earhart Foundation; and John M. Olin Foundation, Inc.

ISNIE-EUROPE Issues E-Letter

A name change is taking place: the European sister organization to ISNIE, which was formerly known as AIENI, will now be known as ISNIE-EUROPE. This does not involve any change in legal status, but makes the links between the sister organizations a little more obvious. As from the beginning, members may register at either site and be full members of the Society, with access to all the services provided by both sites (for example, the newsletter published in St. Louis and the electronic letter issued in Paris).

The electronic letter of ISNIE-EUROPE is currently distributed to over 400 individuals. Its aim is to diffuse to members of the network relevant information concerning publications and activities related to

NIE. The editor, Carine Staropoli, requests that members send her news concerning recently published books and papers and working papers of interest; announcements of seminars, conferences, workshops, and summer schools; job market information; and reading lists for classes focusing on NIE, transaction costs, and industrial organization. Current and past electronic letters are available at the web site for ISNIE-EUROPE

<http://atom2.univ-paris1.fr/ISNIE>

There are many requests for papers listed in earlier e-letters, and demand is particularly strong for information concerning course reading lists. To contact the editor,

staropoli@univ-paris1.fr is the e-mail address to use.

Donations Crucial for Public Status

Voluntary donations to ISNIE are crucial to keeping our tax status as a public nonprofit organization. ISNIE must maintain this status to be eligible for support from private foundations (our primary source of income). To keep this status, ISNIE is required to obtain a significant part of its income from public support by individuals and organizations. Membership fees themselves do not qualify as public support, but **additional contributions** from members do qualify, so they are doubly important for the future of the Society.

Your book purchases can also help financially. ISNIE receives a commission for all books ordered from Amazon.com through our web page. See <http://www.isnie.org> for details.

NIE Programs Develop in Brazil, Latin America

Decio Zylbersztajn

The first Brazilian Symposium on the New Institutional Economics was held in São Paulo in August 1998. This congress was organized by ISNIE members in Brazil motivated by the St. Louis ISNIE conference. Our purpose was to introduce the NIE agenda for research and education to participants from universities across Brazil. The number of scholars who attended (approximately 250) far exceeded our expectations, and participants' enthusiasm was high. The program included sessions on the contribution of Ronald Coase, NIE and society, NIE and markets, methodology, political economy, collective action, contracts and incentives, public sector, institutional change, and a workshop on education. Thirty-eight papers were presented. International participants were Lee Alston (University of Illinois), Eric Brousseau (University of Nancy and ATOM, University of Paris), Gary Libecap (University of Arizona), and Mary Shirley (World Bank).

A CD with all the conference papers was distributed to the participants and to Brazilian libraries. The organizing committee included members

from the University of São Paulo and the University of Campinas, and a very active group of students. Funding was provided by the Foundation for Scientific Enhancement of the State of São Paulo, the National Development Bank, and the Institute for Research in Economics and the Foundation for Business Studies at the University of São Paulo.

We are now organizing the Brazilian Society for the New Institutional Economics, which we hope can be the seed for the Latin American Society, with other countries joining our effort. The steering committee includes members from the University of São Paulo in the School of Economics and Business, the Law School, and the Agricultural School; the University of Campinas; the Federal University of São Carlos; and the National Development Bank. Latin American universities are being contacted and are invited to join the network. A meeting is being organized for the 1999 ISNIE conference in Washington.

Six committees exist initially. They deal with research, to discuss methodology and a research agenda emphasizing more international

comparative studies; education, to improve the exchange of information about programs based on the NIE agenda; congress, to organize the second Brazilian Congress in 2000, which will also be the first Latin American Congress; web site and Latin American net, to improve the exchange of information among Latin American institutions; a students' chapter; and a Latin American newsletter.

The first graduate program in NIE is underway at the School of Economics and Business, University of São Paulo, coordinated by Professor Basilia Aguirre. Nine students began the program in March. The faculty meet every two weeks to shape the analytic content and to design the conceptual aspects of the program.

Monthly meetings are planned to discuss recent literature on NIE. The program is to review selected papers presented at the Paris conference.

We welcome contacts concerning the organization of the Brazilian and Latin American societies. Our e-mail addresses are **dzilbers@usp.br**

and **basil@usp.br** for further contact.

Sources of Research Funds: Searching the Web

The International Center for Economic Growth (ICEG) offers at its web site

<http://www.iceg.org>

information on potential sources of funding for economic and social policy research. It categorizes over seventy major funding organizations worldwide by size and type of funding, region of giving, and topic

of giving. The site also contains information on publications from ICEG member institutes in more than a hundred countries doing research on economic and social policy. One can search for policy papers on specific topics or regions, and locate institutes and investigators doing particular kinds of research.

Over two hundred European

and American foundations are listed at another web site

<http://www.fundersonline.org> sponsored by the European Foundation Centre Orpheus Programme. This directory is searchable by funders' areas of interest, classified by subject area, geographic focus, population focus, and type of support.

**Third Annual Conference of the
International Society for New Institutional Economics
Washington, D.C. September 16-18, 1999**

**Mary Shirley, Conference Organizer
The World Bank
isnie99@worldbank.org**

Please join us at the Third Annual Conference of the International Society for New Institutional Economics to be held in Washington, D.C. on September 17-18, 1999, under the presidency of Douglass North.

Prior to the start of the conference you're invited to a roundtable discussion on the afternoon of September 16 entitled "Fighting Poverty through Institutional Reform," which will be organized jointly with the Center for Institutional Reform and the Informal Sector (IRIS) at the University of Maryland. Nobel Laureates Douglass North (Washington University in St. Louis) and Amartya Sen (Oxford University) are invited speakers.

Speakers in the plenary sessions on September 17-18 include past ISNIE president and Nobel Laureate Ronald Coase (University of Chicago), ISNIE president-elect Oliver Williamson (University of California at Berkeley), Avner Greif (Stanford University) and Elinor Ostrom (Indiana University).

Several panels have already been formed for September 17-18. Douglass North will chair a panel on NIE related research. Parallel panels will include one chaired by Scott Masten (University of Michigan) on law and economics; Jean Ensminger (Washington University in St. Louis) on anthropology, sociology, and economics; and Claude Ménard (Université de Paris I, ATOM) on the effects of deregulation on European industrial structures. Robert Bates (Harvard University), Mat McCubbins (University of California at San Diego), and Ken Shepsle (Harvard University) will participate in a panel chaired by Barry Weingast (Stanford University) on the political economy of development. Oliver Williamson will chair a panel on interdisciplinary social science. Participants include Lisa Bernstein (University of Chicago, law), Paul DiMaggio (Princeton University, sociology), Russell Hardin (New York University, political science), and Barry Weingast (Stanford University, political science).

In addition, the selection committee is choosing from over 200 abstracts for thirteen additional panels.

To Register: Only members of the Society may register for the Washington Conference. The conference fee is \$125 until June 1, 1999. After June 1, if space is still available, the fee will be \$250. The fee includes two lunches and one dinner. A registration form is enclosed with this newsletter. You can also obtain registration forms and current information on the ISNIE web site:

<http://www.isnie.org>

Both the 1997 and 1998 conferences were oversubscribed, and we anticipate that this will happen in 1999, **as space will be limited.**

The conference will be held at
Wyndham City Center Hotel.
1143 New Hampshire Avenue, NW
Washington, DC 20037

We hope to see you in Washington!

Conference participants must arrange their own hotel accommodations and travel.

Special hotel rates for the conference are available at two hotels, September 16-18.

- 1) At the conference hotel, 200 rooms:
Wyndham City Center Hotel
1143 New Hampshire Avenue, NW
Washington, DC 20037
Tel: (202) 775-0800 or (800) 526-7495
Fax: (202) 887-9171

The room rates per night are single \$115, double \$135, triple \$150, and quad \$165, plus 14.5% taxes.

- 2) At a hotel one metro stop away (25 minutes to ride and walk), 36 rooms:

Quality Inn Iwo Jima
1501 Arlington Blvd.
Arlington, VA 22209
Tel: (703) 524-5000 or (800) 424-1501
Fax: (703) 522-5484

The double room rate per night is \$75, plus 9.75% taxes.

For information about Washington, see
<http://washington.sidewalk.com/VisitorsGuide>

1999 Membership Application and Renewal

International Society for New Institutional Economics

Membership in the Society is open to everyone interested in the New Institutional Economics, regardless of academic discipline or professional employment. Membership is for the calendar year January 1 to December 31. Only current members may submit proposals and attend the annual conference. Members receive a subscription to the ISNIE Newsletter and will be included in the NIE Network, a web-based directory and information service.

The annual membership fee is **\$40 US (FF 250)** for individuals in Andorra, Australia, Austria, Bahamas, Belgium, Bermuda, Brunei, Canada, Cayman Islands, Denmark, Finland, France, French Polynesia, Germany, Hong Kong, Iceland, Iran, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Monaco, Netherlands, New Caledonia, New Zealand, Norway, Qatar, San Marino, Singapore, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom, and the United States. For individuals in all other countries, the annual membership fee is **\$20 US (FF125)**. For students submitting a letter from their department verifying student status, the annual fee is **\$20 US (FF125)**. To join the Society, fill out a copy of the form below (please type or print clearly) and send the completed form, along with a check or money order, to one of these addresses:

USA

Send check or money order payable to
"International Society for New Institutional Economics" to:

ISNIE
Department of Economics, Campus Box 1208
Washington University
One Brookings Drive
St. Louis, MO 63130-4899
USA

Europe

Send check or money order payable to
"ISNIE-EUROPE" to:

Claude MÉNARD
ATOM - Université de Paris I
(Panthéon-Sorbonne)
106-112 bd. de L'Hôpital
75013 Paris
FRANCE

1999 ISNIE Membership Form

Surname: _____

First Name/Middle Initial: _____

Organization/Company: _____

Department: _____

Address: _____

City, State, Postal (ZIP) Code: _____

Country: _____

Telephone: _____

Fax: _____

E-mail Address: _____

Personal homepage / Vita URL _____

Research Interests (include JEL codes if possible): _____

Recent Publications and Working Papers: _____

1999 Conference Registration

Third Annual Conference of the International Society for New Institutional Economics Washington, D.C.

September 16-18, 1999



To register, please fill out the form below and send it with your check or money order payable to “International Society for New Institutional Economics” for **\$125 US** if submitted before June 1, 1999, or **\$250 US** if submitted later, to:

ISNIE
Department of Economics, Campus Box 1208
Washington University
One Brookings Drive
St Louis, MO 63130-4899
USA
Fax: (+1) 314-935-4156

You must be a member of ISNIE to register for the conference.

If you have not yet joined/renewed for 1999, please also include the membership form from this newsletter and your check or money order for 1999 dues.

1999 ISNIE Conference Registration Form

Surname: _____

First Name/Middle Initial: _____

Organization/Company: _____

Address: _____

City/State/Postal (ZIP) Code: _____

Country: _____

Telephone: _____

Fax: _____

E-mail Address: _____