

INTERNATIONAL SOCIETY FOR NEW INSTITUTIONAL ECONOMICS

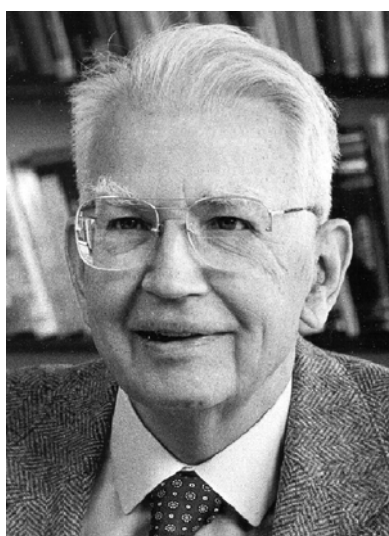
The Task of the Society

Opening Address to the Annual Conference, September 17, 1999

Ronald Coase

It is a great pleasure for me to take part in the Third Annual Meeting of the International Society for New Institutional Economics. It is a great occasion for all of us, and for economics. What I have decided to talk about is the task of our Society. What I will be giving you are my personal views. They may not commend themselves always to other officers of the Society. Indeed, I'm fairly sure they won't. But there are two distinctive features of our Society about which no one will dispute.

First of all, we are a society with a mission and that mission is to transform economics. When I speak of economics, I have in mind mainstream economics as expounded in countries in the West and particularly what is called microeconomics or price theory. Our mission is to replace the current analysis with something better, the New Institutional Economics as it has been termed by our President-elect, Oliver Williamson. I have no doubt that we will accomplish our mission. But there is still the question of how we are going to



Ronald Coase
Founding President of ISNIE, 1996-97

do it. This I will discuss later.

The second distinctive feature of our Society is that it is an international society. It is not an American society that foreigners can join. Our Society is truly international as is made clear by the countries of origin of presenters of papers at this meeting as well as their subjects, and of course, by the composition of our membership. I have no doubt that our international character will prove to be a great source of strength.

We will be able to draw on the experience and the talent in countries all over the world. This is particularly important for the New Institutional Economics since if we are to understand the effect of different institutional arrangements on the working of the economic system, the obvious way to do this is to enlarge our studies beyond a single country

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ISNIE Conference 1999 in Washington, D.C.

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The third annual conference of the International Society for New Institutional Economics was held in Washington, D.C. on September 16-18, 1999. Participants had to contend with Hurricane Floyd, which cancelled flights all over the United States just when most of them were scheduled to fly. Nevertheless, the majority of registrants managed to arrive, telling tales of sleeping in the airport, flying west to get a connection east, and three-hour trips turned into twelve- and twenty-four-hour adventures in airport land. One presenter gave his paper over a speaker phone, and keynote speaker Avner Greif arrived about five minutes before his talk after a hellish journey. There was some attrition, of course, and that led to smaller panels, missing discussants, and less continuity in some panels when papers had to be reshuffled to fill gaps. Participants took these inconveniences in good humor, especially when the sun reappeared and lively discussions got underway.

The conference opened with a panel discussion, "Fighting Poverty Through Institutions," chaired by Ravi Kanbur, who is on leave from Cornell University to lead the team writing the World Bank's next World Development Report on Poverty. Panelists Douglass North, Jean-Philippe Platteau and Emmanuel Jimenez talked about the critical role institutions play in poverty reduction before an overflow crowd of more than 500 people. Besides the ISNIE participants, the audience included staff of the World Bank, the International Monetary Fund, the Inter-American Development Bank and other multinational agencies, members of the IRIS Center of the University of Maryland, people from different policy think tanks and non-governmental organizations, staff of U.S. government agencies dealing with poverty, and the media. Highlights of the meetings over the next two days included speeches by our

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Coase: The Task of the Society (continued from page 1)

and to compare what happens in different countries with differing arrangements.

It is a great pleasure to me that, through the generosity of the Earhart Foundation, so many from countries in transition from a command to a market economy have been able to attend this meeting. Theirs is an unenviable task but one which merits our support. I am reminded of a tale told to me by Frank Paish, a colleague at the London School of Economics. He was once walking in the country in England and he asked a countryman how he could get to a certain place. The countryman replied, after considerable thought, "If I were going there, I wouldn't start from here." That's how I feel about the plight of our members in the countries in transition to a market economy. We are certainly going to learn a great deal from their experience about what the requisites are for an efficient market system. And I hope that in some way our discussions will be of help to those in countries in transition who have to tackle this formidable task.

Let us return to our mission. Economics, over the years, has become more and more abstract and divorced from events in the real world. Economists, by and large, do not study the workings of the actual economic system. They theorize about it. As Ely Devons, an English economist, once said at a meeting, "If economists wished to study the horse, they wouldn't go and look at horses. They'd sit in their studies and say to themselves, 'What would I do if I were a horse?'" And they would soon discover that they would maximize their utilities. What has happened, as Harold Demsetz explained, is that economists have been fascinated by Adam Smith's great insight — that the economic system could be coordinated by a system of prices without the need for the existence of a plan. And it is fascinating. As Hayek has said, it mobilizes that diffused knowledge that exists throughout the world. If people in Singapore learn something about a commodity that causes them to want to use more of it than they have in the past, they enter the market, the additional demand drives up the price, and consumers in Sweden, Spain, and other places reduce their consumption so that consumers in Singapore, of whom they are completely unaware, may consume more.

But this is not the end of the story. The higher price which emerges for this commodity makes it profitable for resources previously engaged in the production of quite different commodities to be used to increase its supply. This decrease in the supply of these quite different commodities increases their price, and consumers of these commodities in Germany, the United States and Burkina Faso reduce their consumption of them, which moderates the price rise experienced by consumers in Sweden and Spain and makes possible a smaller reduction in their consumption than would otherwise be the case. It's

If we are to understand the effect of different institutional arrangements on the working of the economic system, the obvious way to do this is to compare what happens in different countries with differing arrangements.

a wonderful system. Roy Harrod, who attended Edgeworth's lectures, used to tell how Edgeworth, when he reached the point in his lectures at which price equated supply and demand, would pause so that he and the class could savour this magic moment. But by stopping their analysis at this point, economists fail to answer one fundamental question: what determines what goods and services are traded on markets and therefore priced? What determines the flow of real goods and services and therefore the standard of living?

We can start to answer this question by going back to Adam Smith. He explained that the productivity of an economic system depends on specialization (he called it the division of labour) but as is obvious there can only be specialization if there is exchange, and whether exchange is possible depends on the costs of exchange (transaction costs as they have come to be called). Here we have to leave Adam Smith since, apart from his discussion of why the use of money is better than barter, he does

Coase: The Task of the Society (continued)

not, if my memory serves me, discuss the subject. However, we know that the costs of exchange depend on the institutions of a country — the legal system (property rights and their enforcement), the political system, the educational system, the culture. These institutions in effect govern the performance of the economic system. This is the basic reason why the New Institutional Economics is so important and why, if we are to achieve our objective, we have to enlist the help of lawyers, political scientists, sociologists, anthropologists and other social scientists. This, of course, is what we are going to do in our Society. The entry of economic analysis into the other social sciences has been termed economic imperialism. We are engaged in a completely different enterprise — enlisting the help of those in the other social sciences to enable us to understand better how the economic system works.

The need for a shakeup in economics is demonstrated, so far as I am concerned, by its static character. It is still the subject that Adam Smith

Economists fail to answer one fundamental question: What determines what goods and services are traded on markets and therefore priced? What determines the flow of real goods and services and therefore the standard of living?

created. We have formalized it, elaborated it, corrected errors, changed its emphasis, but essentially it is the same subject. Physics has been completely transformed since Newton and chemistry since Lavoisier, but not economics since Smith.

The static character of economics can be made crystal clear by comparing economics and biology. Economists take pride in the fact that Darwin was influenced by Malthus — and he was influenced also, as I learned from Stephen Jay Gould, by Adam Smith. But contrast what has happened in biology since Darwin with what has happened in economics since

Adam Smith or Malthus. Biology has been transformed. In *The Economist* earlier this month (the issue of September 4th) it was stated: “Biology is rapidly becoming as ‘hard’ a science — in all senses — as physics.” Biologists have not rejected Darwin — evolution is still the core of the subject — but they look at biological processes in a completely different way. Similarly, I am not rejecting Adam Smith. We should not abandon his great insights. But I do advocate changes that will ultimately transform economics from a “soft” science into a “hard” science and in bringing this about I expect our Society to play a major role. It may seem strange that I am hoping to transform a soft science into a hard science by linking it with subjects which by repute are even softer than economics. But there is no other way. We have to take account of the effects of the legal system, the political system, etc. And if my impression is correct, their theories often have a stronger empirical base than is usual in economics. Of course, one would also hope that those social scientists attracted to the New Institutional Economics would be those who believed in rigour. To those who may feel offended by what I have said about the other social sciences, I would like to quote to you what I said about law in the Simons lecture on “Law and Economics at Chicago” in 1992. “Ernest Rutherford said that science is either physics or stamp collecting, by which he meant, I take it, that it is either engaged in analysis or in operating a filing system. Much, perhaps most, legal scholarship has been stamp collecting. Law and economics is likely to change all that....”

The great triumph of modern biology was the discovery by Watson and Crick of the structure of DNA. But to think of its discovery simply in terms of their work is to ignore that it was the culmination of the work of many people over many years. Horace Judson at the end of his survey of the history of modern biology has this to say: “Biology has proceeded not by great set-piece battles, but by multiple small-scale encounters — guerrilla actions — across the landscape. In biology, no large-scale, closely interlocking, fully worked out, ruling set of ideas has ever been overthrown.... Revolution in biology, from the beginnings of biochemistry and the study of cells, and surely in the rise of molecular

Coase: The Task of the Society (continued)

biology and on to the present day, has taken place not by overturnings but by openings-up.”¹

I think this resembles exactly what I believe will happen in economics. The influence of the New Institutional Economics will be exerted in the various sub-disciplines of economics. Guerrilla actions will take place, which will result in the New Institutional Economics dominating first one and then another of these sub-disciplines, as indeed is beginning to happen. When this process has gone on for some time, the leaders of our profession will find themselves Kings without a Kingdom. There will be no overturning, but in Judson’s words, an opening-up. We will not replace price theory (supply and demand and all that) but will put it in a setting that will make it vastly more fruitful.

I think we can take heart from what Francis Crick has said about developments in modern biology in his book *What Mad Pursuit*. I will quote some of the things he has said. They seem to me very relevant to any discussion of our plans and projects because we are dealing with a subject which has been extraordinarily successful in modern times, in contrast to economics, where the performance has, in my view anyway, been somewhat dismal. I like what Crick says because he stresses the pitfalls in theoretical approaches and the need for empirical work.

As you probably know, progress in biology was greatly helped by the movement of physicists into molecular biology. This is what he says: “In nature, hybrid species are usually sterile, but in science the

In economics our choice of theories will only be fruitful if guided by empirical work.

reverse is often true. Hybrid subjects are often astonishingly fertile, whereas if a scientific discipline remains too pure it usually wilts.”² This bodes well for us since the New Institutional Economics is a hybrid subject if ever there was one. So this should give us a lot of encouragement. Certainly the entry of economists into the study of law has had a very

beneficial effect. And I would expect that the intermingling of these other social sciences with economics would exert a powerful, and beneficial, influence on the development of economics.

Crick also says, “In research the frontline is almost always in a fog.”³ This is inevitable since the frontline is always dealing with unsolved problems,

We do not know, for the most part, what is true or what is false, what is significant and what is not, nor the character of the interrelations of various parts of the institutional structure of the economy. It is our aim to find out.

with the data either unavailable or seemingly inconsistent. So we shouldn’t feel discouraged if we are in a fog. The job, after all, of the frontline is to dispel it. Of course, to be in a fog is not necessarily a sign that you are in the frontline.

Then again Crick says: “[I]t is virtually impossible for a theorist, by thought alone, to arrive at the correct solution to a set of biological problems.... The best a theorist can hope to do is to point an experimentalist in the right direction....”⁴ This is, for example, what the concept of transaction costs does. It does not of itself solve any problems but it does suggest what should be looked at to find the solutions.

Crick also says this: “It is all too easy to make some plausible simplifying assumptions, do some elaborate mathematics that appear to give a rough fit with at least some experimental data, and think one has achieved something. The chance of such an approach doing anything useful, apart from soothing the theorist’s ego, is rather small....”⁵ I think you know why I like this quotation.

Finally: “The basic trouble is that nature is so complex that many quite different theories can go some way to explaining the results....[W]hat constraints can be used as a guide through the jungle

Coase: The Task of the Society (concluded)

of possible theories? It seems to me that the only useful constraints are contained in the experimental evidence.”⁶ What this comes down to in economics is that our choice of theories will only be fruitful if guided by empirical work.

What does all this mean for our Society? How are we to find our way through the mass of information such as is revealed by the papers presented at this meeting? How are we to emulate the triumphs of modern biology? How are we to convert the New Institutional Economics into a hard science?

To discover even roughly how the institutional structure of production and exchange works will take a long time — but it will be a most interesting journey.

My answer to these questions is essentially Hayekian. I do not think that as a society we should attempt to plan what members should do. We do not know, for the most part, what is true or what is false, what is significant and what is not, nor the character of the interrelations of various parts of the institutional structure of the economy. It is our aim to find out. We can make suggestions. We can help. But to reach our goal, it is better that members should be free to choose the problems they work on. And because of this we should be tolerant of opposing views. Sidney Webb, a founder of the London School of Economics, a socialist and later someone who was taken in by Joseph Stalin (in which he had a large company), said, and he was a good scholar, that research consisted of shooting arrows into the air to find out where the targets were. This means that we should leave people free to shoot their arrows into the air, and those arrows that find no targets are nonetheless extremely useful.

Of course, to discover even roughly how the institutional structure of production and exchange works will take a long time — but it will be a most interesting journey. But we do need to create an

esprit de corps to sustain us on the journey. In my talk at the first meeting of our Society, I quoted Tolstoy’s description in *War and Peace* of Kutuzov, who led the Russian troops in battle against Napoleon’s invading army. I will do so again:

From long years of military experience he had learned, and with the wisdom of old age he had recognized that one man cannot guide hundreds of thousands of men struggling with death, that the fate of battles is not decided by the orders given by the commander-in-chief, nor the place in which the troops are stationed, nor the number of cannons, nor of killed, but by that intangible force called the spirit of the army, and he followed that force and led it as far as it lay in his power.

Our success does not depend on the number of papers written nor the number of citations nor the number of prizes gained by our members. It depends on the spirit of the Society. We have made a good start.

Editor’s note: This speech was the opening address to the annual conference of the International Society for New Institutional Economics, delivered in Washington, D.C. on September 17, 1999. Ronald Coase, the founding president of the Society, is currently Clifton R. Musser Professor Emeritus of Economics at the University of Chicago Law School. 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.

Footnotes

¹ Horace Freeland Judson, *The Eighth Day of Creation: Makers of the Revolution in Biology*, New York: Simon and Schuster (1979), p. 612.

² Francis Crick, *What Mad Pursuit: A Personal View of Scientific Discovery*, New York: Basic Books (1988), p. 150.

³ *Ibid.*, p. 35.

⁴ *Ibid.*, pp. 109-110.

⁵ *Ibid.*, pp. 113-114.

⁶ *Ibid.*, p. 141.

CALL FOR PAPERS

**Annual Conference of the
International Society for New Institutional Economics (ISNIE)
September 22-24, 2000
Tübingen, Germany**

The Economics of Institutions in the New Millennium

The Program Committee (chaired by President Oliver E. Williamson) invites you to submit your proposal to present a paper at the conference in Tübingen. Information regarding the program will be available on the ISNIE Web site <http://www.isnie.org>.

Proposals

Proposals are due by March 1, 2000. They must be no longer than two pages, double spaced. Authors must also send a short (one paragraph) biosketch or curriculum vitae including telephone, fax, e-mail, postal address, and current employment. You must be a current member of ISNIE to submit a proposal. Please send your proposal (as a Microsoft Word document) to isnie2000@wueconc.wustl.edu.

Please note: this e-mail address is only for submitting proposals. Send all other inquiries to the ISNIE office at isnie@wueconc.wustl.edu.

About ISNIE

The International Society for New Institutional Economics aims to bring together scholars from all over the world who are unified by two propositions: institutions matter, and institutions are susceptible to analysis. Both the rules of the game (of formal and informal kinds) and the play of the game (through the institutions of governance—of both private and public kinds) are the object of analysis. This is a combined theoretical, empirical, and public policy undertaking in which political scientists, sociologists, anthropologists, lawyers, and economists are joined.

Studies of the following subjects are within the scope.

- | | |
|--|---|
| (1) Economic Development and Reform | (10) Experimental Institutional Economics |
| (2) Property Rights | (11) Evolutionary Economics |
| (3) Contract and Organization | (12) Corporate Governance |
| (4) Regulation and Deregulation | (13) Competition Policy |
| (5) Economic Transition | (14) Economics of Corruption |
| (6) Network Forms | (15) Informal Organization |
| (7) Positive Political Theory and Policy | (16) Strategic Behavior and Organization |
| (8) Transaction Costs: Governance | (17) Law and Institutions |
| (9) Transaction Costs: Measurement | (18) Other |

Please indicate the categories to which your proposal most applies.

Registration Information

Registration for the conference will open January 1, 2000. The registration fee will be DM 225 before June 1, 2000 and DM 450 after June 1, 2000. Registrants must also be current members of ISNIE. For additional information on membership and registration, see the forms in this newsletter or go to <http://www.isnie.org>.

ISNIE Officers and Directors Elected

At its annual meeting in September 1999, the ISNIE Board of Directors elected the following officers: President, Oliver Williamson; Vice-President, Lee Benham; Vice-President, Claude Ménard; Treasurer, Mary Shirley; and Secretary, John Drobak. The Board also elected the following people to two-year terms as directors: Lee Benham, Ronald Coase, Claude Ménard, Douglass North, Mary Shirley, and Oliver Williamson. They will make up the Board of Directors along with those directors whose current term in office continues until September 2000: Benito Arruñada, Harold Demsetz, John Drobak, Scott Masten, Rudolf Richter, and Barry Weingast.

The Board also decided to establish a Nominating Committee to propose nominees for a president-elect and for new directors. Oliver Williamson and Douglass North agreed to organize and chair the committee.

Inaugural Conference in Germany for Global Development Network

The Global Development Network (GDN) hosted its inaugural global conference "Bridging Knowledge and Policy" on December 6-8, 1999 in Bonn, Germany. Supported by the World Bank and a group of international donors, the Global Development Network is an emerging association of research institutes and think tanks around the world whose goal is to generate and share knowledge related to development. Topics discussed at the meeting included research grant competitions, staff exchange programs, training opportunities and scholarships, networking, improving the availability and use of data, and an interactive Web site program. Many donor organizations were present.

Several members of ISNIE, including Lee Benham, Alexandra Benham, Philip Keefer, Claude Ménard, and Rudolph Richter, attended the meeting on their own initiative. A joint proposal related to the New Institutional Economics was submitted from the Center for New Institutional Social Sciences at Washington University and ATOM at the University of Paris. Lee Benham, Claude Ménard, Rudolph Richter, and Mary Shirley have been named as a committee to summarize the conference experiences and observations for the ISNIE Board. For further information about the Global Development Network, see their Web site at

<http://www.gdnet.org>.

Earhart Foundation Sponsors Scholars

In 1999, as in 1998, the Society received a generous grant from the Earhart Foundation to subsidize conference attendance for a number of scholars from developing nations. The awards went particularly to young scholars who had the potential to make significant contributions in the field of New Institutional Economics and who would benefit from the conference sessions and the contacts to be made. In 1999, 25 scholars attended the conference on Earhart funds, and an additional five scholars were financed by matching funds from the Higher School of Economics, Moscow. The Earhart scholars came from Brazil, Bulgaria, China, Ghana, Hong Kong, Hungary, Poland, Russia, Slovakia, and Ukraine.

Ronald Coase, to whom the Earhart Foundation grants were made, hosted a special lunch for the scholars during the conference. Scholars expressed enthusiasm about meeting leading researchers in the field, discovering colleagues in their region with similar interests, and exchanging data on related research questions.

ISNIE-Europe Activity: Conference Volume, Board Meeting, E-Letter

A selection of the papers presented at the Second Annual Conference of ISNIE in Paris 1998 will be published by Edward Elgar in April 2000. The book is edited by Claude Ménard and is titled *Institutions, Contracts and Organizations: Perspectives from New Institutional Economics*.

The Board of ISNIE-Europe will meet April 1, 2000 in Paris to structure its organization more formally. There are plans to restructure the executive branch and the Board to achieve wider representation from more European countries. There will also be a discussion of activities to be organized at the European level in the future, including specialized workshops and a summer school for young faculty members and doctoral students.

The e-letter (electronic letter) produced by ISNIE-Europe for all members of ISNIE will appear on a much more regular basis. It will continue to focus on information about members' publications, working papers, calls for papers and conferences of interest to members, and new programs across universities. To submit information for the e-letter, write to atom@univ-paris1.fr in care of Christophe Destais, who will be the coordinator. The e-letter will appear at

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

The New Institutional Economics: Taking Stock/Looking Ahead

Address to the Annual Conference, September 17, 1999

Oliver E. Williamson*

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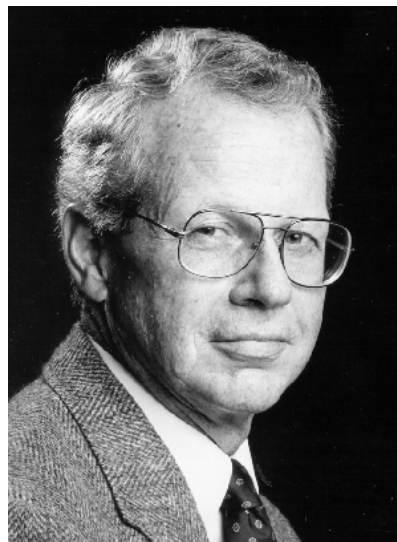
R.C.O. Matthews, in his presidential address to the Royal Economic Society in 1986, pronounced that “the economics of institutions has become one of the liveliest areas in our discipline” (Matthews, 1986, p. 903). Such a pronouncement was a surprise to most of the profession. Hadn’t institutional economics long since been relegated to the history of economic thought? Whence the vitality to which Matthews made reference?

Matthews’ response was that the New Institutional Economics (NIE) turned on two propositions. First, “institutions do matter”; and second, “the determinants of institutions are susceptible to analysis by the tools of economic theory” (Matthews, 1986, p. 903). The second of these is what distinguishes the NIE, it being the case that institutional economists of all kinds—old and new—are unanimous in the view that institutions matter.

Indeed, although both the older and newer styles of institutional economics subscribe to many of the same good ideas, a progressive research program requires more. Kenneth Arrow speaks to the transformation as follows (1987, p. 734):

Why did the older institutionalist school fail so miserably, though it contained such able analysts as Thorstein Veblen, J. R. Commons, and W. C. Mitchell. I now think that...[one of the answers is in the] important specific analyses...of the New Institutional Economics movement. But it does not consist of giving new answers to the traditional questions of economics—resource allocation and the degree of utilization. Rather, it consists of answering new questions, why economic institutions emerged the way they did and not otherwise; it merges into economic history, but brings sharper [microanalytic]...reasoning to bear than had been customary.

There is no question that the NIE has grown in stature and influence over the thirteen years since Matthews’ pronouncement. Initial skepticism has gradually given way to respect—it being the case that economists are very pragmatic people. Tell them something different and consequential about phenomena that are of interest to them and demonstrate that the data are corroborative: that will get their attention. The NIE has progressed



Oliver E. Williamson
President of ISNIE

not by advancing an overarching theory but by uncovering and explicating the microanalytic features to which Arrow refers and by piling block upon block until the cumulative value added cannot be denied.

The NIE, moreover, will not stand still. Even as institutional economics is being incorporated within orthodoxy, new opportunities and challenges await. There being a lot of unfinished business and new projects yet to be undertaken, the eve of the new millennium is no time to rest on our oars. Satisfying as it is to reflect on past successes, we are assembled here today to examine research in progress and to celebrate the lively research future that lies ahead.

I begin my remarks with a sketch of four levels of social analysis, next turn to some of the good ideas out of which the NIE works, and then examine some of the applications to which the NIE has been put. Concluding remarks follow.

1. Four Levels of Social Analysis

It will be useful for purposes of perspective to consider the four levels of social analysis that are distinguished in Figure 1.¹ The solid arrows that connect a higher with a lower level signify that the higher level imposes constraints on the level immediately below. The reverse arrows that connect lower with higher levels are dashed and signal feedback. Although, in the fullness of time, the system is fully interconnected, for my purposes

Williamson: Taking Stock/Looking Ahead (continued)

today these feedbacks are largely neglected. The NIE has mainly concentrated its attention on levels 2 and 3.

The top level is the social embeddedness level. This is where the norms, customs, mores, traditions, etc. are located. Religion plays a large role at this level. Although Level 1 analysis is undertaken by some economic historians and other social scientists (Banfield (1958), Putnam (1993), Huntington (1996), and Nee (1977)), Level 1 is taken as given by most institutional economists. Institutions at this level change very slowly—on the order of centuries or millennia—whereupon Douglass North poses the query, “What is it about informal constraints that gives them such a pervasive influence upon the long-run character of economies?” (1991, p. 111). An answer to this perplexing question is not attempted here, but I conjecture that the mainly spontaneous origin of these practices—deliberative choice of a calculative kind is minimally implicated—has been a contributing factor. Be that as it may, the resulting institutions have a lasting grip on the way a society conducts itself. Insular societies often take measures to protect themselves against “alien values.”

The second level is referred to as the institutional environment. The structures observed here are partly the product of evolutionary processes, but design opportunities are also posed. Going beyond the “informal constraints (sanctions, taboos, customs, traditions, and codes of conduct)” of a Level 1 kind, we now introduce “formal rules (constitutions, laws, property rights)” (North, 1991, p. 97). This opens up the opportunity for first-order economizing: get the formal rules of the game right.

Constrained by the shadow of the past, the design instruments at Level 2 include the executive, legislative, judicial, and bureaucratic functions of government as well as the distribution of powers across different levels of government (federalism). The definition and enforcement of property rights and of contract laws are important features.

Although such first order choices are unarguably important to the economic productivity of an economy (Rosenberg and Birdzell (1986), Coase (1992), North (1994), Levy and Spiller (1994), Olson (1996), Henisz (1997)), cumulative change of a progressive kind is very difficult to orchestrate. Massive discontent—civil wars (the Glorious Revolution (North and Weingast, 1989)), or occupations (following World War II), or perceived

threats (the Meiji Revolution) or breakdowns (Eastern Europe and the former Soviet Union), or a military coup (Chile), or a financial crisis (New Zealand)—will, however, occasionally produce a sharp break from established procedures. Rare windows of opportunity to effect broad reform are thereby opened. Such “defining moments” are nevertheless the exception rather than the rule. Given our primitive understanding, moreover, the response to such opportunities is often one of “failure.” Absent such a window, major changes in the rules of the game occur on the order of decades or centuries. The European Union, for example, has been “in progress” for 50 years and is still in early stages of development.

What is often referred to as Positive Political Theory is concerned with working out the economic and political ramifications of Level 2 features. To be sure, such research also has lessons for the normative design of better polities. Like the NIE of which it is a part, however, PPT is predominantly an exercise in positive analysis. The object is to better understand how things work—warts and all. The research product of PPT scholarship has been nothing less than auspicious, which has been good for both political science and the NIE.

Much of the economics of property rights is of a Level 2 kind, work on which flourished in the 1960s. According to Ronald Coase, “a private-enterprise system cannot function properly unless property rights are created in resources, and, when this is done, someone wishing to use a resource has to pay the owner to obtain it. Chaos disappears; and so does the government except that a legal system to define property rights and to arbitrate disputes is, of course, necessary” (Coase, 1959, p. 12; emphasis added).

This compact statement illustrates both the strength and the weakness of the property rights literature. The great strength of this literature is that it brings property rights to the forefront, where they belong, whereupon novel property rights reasoning could be brought to bear in informative ways. The weakness is that it overplayed its hand. The claim, for example, that the legal system will eliminate chaos upon defining and enforcing property rights assumes that the definition and enforcement of such rights is easy (costless). Plainly, many transactions do not qualify. Going beyond the rules of the game (property) to include the play of the game (contract) was needed. That is the opening through which the governance of contractual relations walked in during the decade of the 1970s.

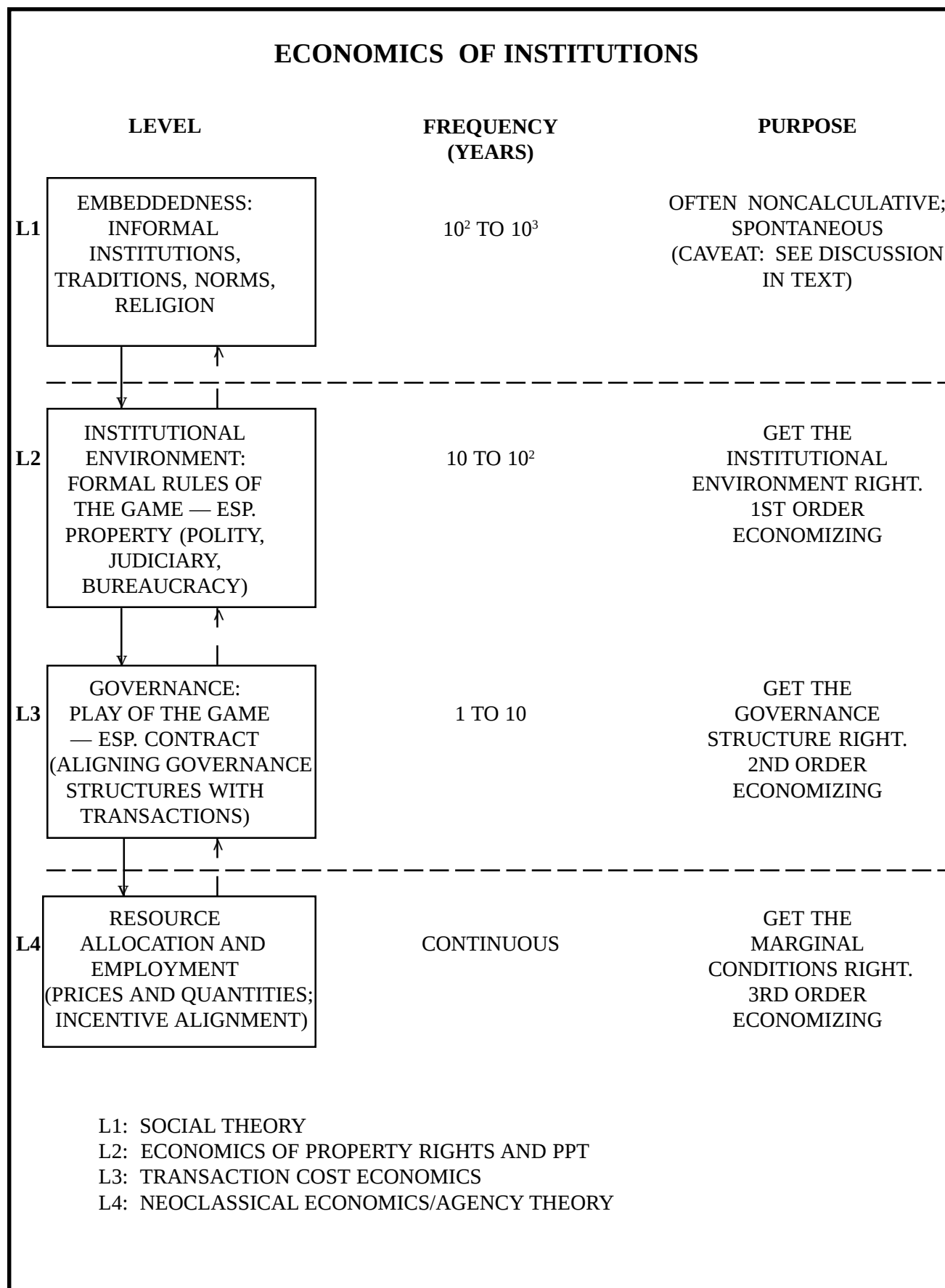


FIGURE 1

Williamson: Taking Stock/Looking Ahead (continued)

This brings me to the third level, which is where the institutions of governance are located. Although property remains important, a perfectly functioning legal system for defining contract laws and enforcing contracts is not contemplated. Costless court ordering being a fiction, much of the contract management and dispute settlement action is dealt with directly by the parties—through private ordering. The need to come to terms with contract laws (plural), rather than an all-purpose law of contract (singular) is posed (Summers, 1969; Macneil, 1974). The governance of contractual relations becomes the focus of analysis.

John R. Commons prefigured this work with his observation that “The ultimate unit of activity...must contain in itself the three principles of conflict, mutual-ity, and order. This unit is a transaction” (1934, p. 4). Not only does transaction cost economics subscribe to the idea that the transaction is the basic unit of analysis, but governance is an effort to craft order, thereby to mitigate conflict and realize mutual gains.

So conceived, a governance structure obviously reshapes incentives. To focus entirely, however, on ex ante incentive alignment is a truncated way by which to study organization—especially if all complex contracts are unavoidably incomplete and if adaptation is the central problem of economic organization (Barnard, 1938; Hayek, 1945). Moving beyond the agency theory tradition of ex ante incentive alignment, transaction cost economics turns its attention—additionally and predominantly—to the ex post stage of contract.

This entails four moves: (1) to name and explicate the principal dimensions with respect to which transactions differ (thereby to uncover differential adaptive needs), (2) to name and explicate the principal attributes for describing governance structures (where each is defined by a distinctive syndrome of related attributes, whence markets, hybrids, firms, regulation, bureaus, nonprofits, etc. differ in discrete structural ways), (3) to effect a discriminating match, according to which transactions are aligned with governance structures so as to promote adaptation of autonomous and cooperative kinds, and (4) to ascertain whether the predicted alignments are corroborated by the data.

The canonical problem for dealing with these issues is that of vertical integration, which is the issue posed by Coase in his classic 1937 article on “The Nature of the Firm.” As it turns out, a huge number of phenomena turn out to be contractual variations on this

theme. What I refer to as second order economizing—get the governance structures right—is realized at Level 3. The possible reorganization of transactions among governance structures is re-examined periodically, on the order of a year to a decade, often at contract renewal or equipment renewal intervals.

Such discrete structural analysis of governance is to be distinguished from the fourth level, which is the level at which neoclassical analysis works. Optimality apparatus, often marginal analysis, is employed and the firm, for these purposes, is typically described as a production function. Adjustments to prices and output occur more or less continuously. Agency theory, which emphasizes ex ante incentive alignment, rather than ex post governance, deals predominantly with the employment relation (Holmstrom and Milgrom, 1994).

Indeed, a still earlier (zero level) of analysis warrants remark: an evolutionary level in which the mechanisms of the mind take shape (Pinker, 1997). The application of these ideas to economics even now is beginning to reshape our understanding of human actors. Our evolutionary psychologist and cognitive science colleagues are vital to the exercise.

Finally, I should call attention to technology. As compared with technological innovation, the study of organizational innovation has been comparatively neglected. The NIE has attempted to rectify that—the idea being that “Truly among man’s innovations, the use of organization to accomplish his ends is among both his greatest and his earliest” (Arrow, 1971, p. 224). We cannot, however, fail to be awed by the profound importance of technological innovation (Fogel, 1999). Inasmuch as these two work in tandem, we need to find ways to treat technical and organizational innovation in a combined manner.

2. Good Ideas

The New Institutional Economics had its origins in good critics of orthodoxy who believed that institutions were both important and susceptible to analysis. Feeling expansive, I would include six Nobel Laureates among the key figures: Kenneth Arrow, Friedrich Hayek, Gunnar Myrdal, Herbert Simon, Ronald Coase, and Douglass North—the last two being the first two presidents of ISNIE. But there are others. Armen Alchian has been an influential figure. So too has been research on organization theory, especially at Carnegie (some of it prefigured by earlier work by Chester Barnard)—

Williamson: Taking Stock/Looking Ahead (continued)

where the names of Richard Cyert and James March join that of Simon. Alfred Chandler's pioneering work in business history was also pathbreaking. Thoughtful contributors from the law, especially contract law, include Karl Llewellyn, Stewart Macaulay, Lon Fuller, and Ian Macneil. John R. Commons also brought original and important ideas to the study of institutional economics. The German Historical School was also concerned with related ideas (Furubotn and Richter, 1997, pp. 34-35).

Among the key good ideas that I associate with the NIE are these.

(a) Human actors

If "Nothing is more fundamental in setting our research agenda and informing our research methods than our view of the nature of the human beings whose behavior we are studying" (Simon, 185, p. 303), then social scientists should be prepared to name the key attributes of human actors. Both the condition of cognition and self-interestedness need to be addressed.

There is virtually unanimity within the NIE with the idea of limited cognitive competence—often referred to as bounded rationality. Mind being a scarce resource, cognitive specialization has economizing consequences. Also, given cognitive limits, the complex contracts to which I referred earlier are unavoidably incomplete.

Contractual incompleteness poses added problems when paired with the condition of opportunism—which manifests itself as adverse selection, moral hazard, shirking, subgoal pursuit, and other forms of strategic behavior. Because human actors will not reliably disclose true conditions upon request or self-fulfill all promises, contract as mere promise, unsupported by credible commitments, will not be self-enforcing.

But for opportunism, the courts would simply ask witnesses to "tell us what you know that is germane to our decision." That is not, however, the way that testimony is taken. Witnesses are required to take an oath to "tell the truth, the whole truth, and nothing but the truth": don't lie; don't conceal; don't mislead. Inasmuch, moreover, as oaths are not self-enforcing, penalties for perjury remind witnesses that prevarication has consequences.

Still a third attribute of human actors warrants remark, and that is the capacity for conscious foresight. Indeed, as Richard Dawkins observes, it is the "capacity to simulate the future in imagination...[that saves] us from the worst consequences of the blind replicators" (1976, p. 200). Parties to a contract who look ahead,

recognize potential hazards, work out the contractual ramifications, and fold these into the ex ante contractual agreement obviously enjoy advantages over those who take their chances or knock on wood. The governance of contractual relations—the Commons triple of conflict, mutuality, and order to which I referred earlier—is centrally implicated.

(b) Feasibility

Students of the NIE eschew hypothetical ideals—which work off of omniscience, benevolence, zero transaction costs, full credibility, and the like—and deal instead with feasible organizational alternatives, all of which are flawed. Coase (1964) and Harold Demsetz (1969) were among the first to take exception with the asymmetric standards that were once used in the "market failure" literature—according to which markets are beset with failures whereas "omniscient, omnipotent, benevolent" governments (Dixit, 1996, p. 8) would reliably administer efficacious remedies. As we all should have recognized (but needed to be told), all feasible forms of organization—government included—are flawed.

What I have referred to as the remediableness criterion is intended to rectify this asymmetric state of affairs. This criterion holds that an extant mode of organization for which no superior feasible alternative can be described and implemented with expected net gains is presumed to be efficient.

To be sure, public policy analysis becomes more complicated when analysts can no longer condemn extant modes because they deviate from a hypothetical ideal, full stop. The remediableness criterion presses the public policy analyst to display a superior feasible alternative. If, moreover, a proposed feasible alternative cannot be costlessly implemented, then the costs of implementation are appropriately included in the net benefit calculus—which has major ramifications for the path dependency literature. Finally, grounds for rebutting the efficiency presumption need to be addressed—which brings in politics (Williamson, 1996, 1999). Absent rebuttal, the remediableness criterion stands as a reminder of the obvious: it is impossible to do better than one's best.

(c) Firms

In addition to the nature of the human beings to which Simon referred, we need also to be self-conscious about the "Nature of the Firm," which was the title of Coase's classic 1937 article from which the NIE draws

Williamson: Taking Stock/Looking Ahead (continued)

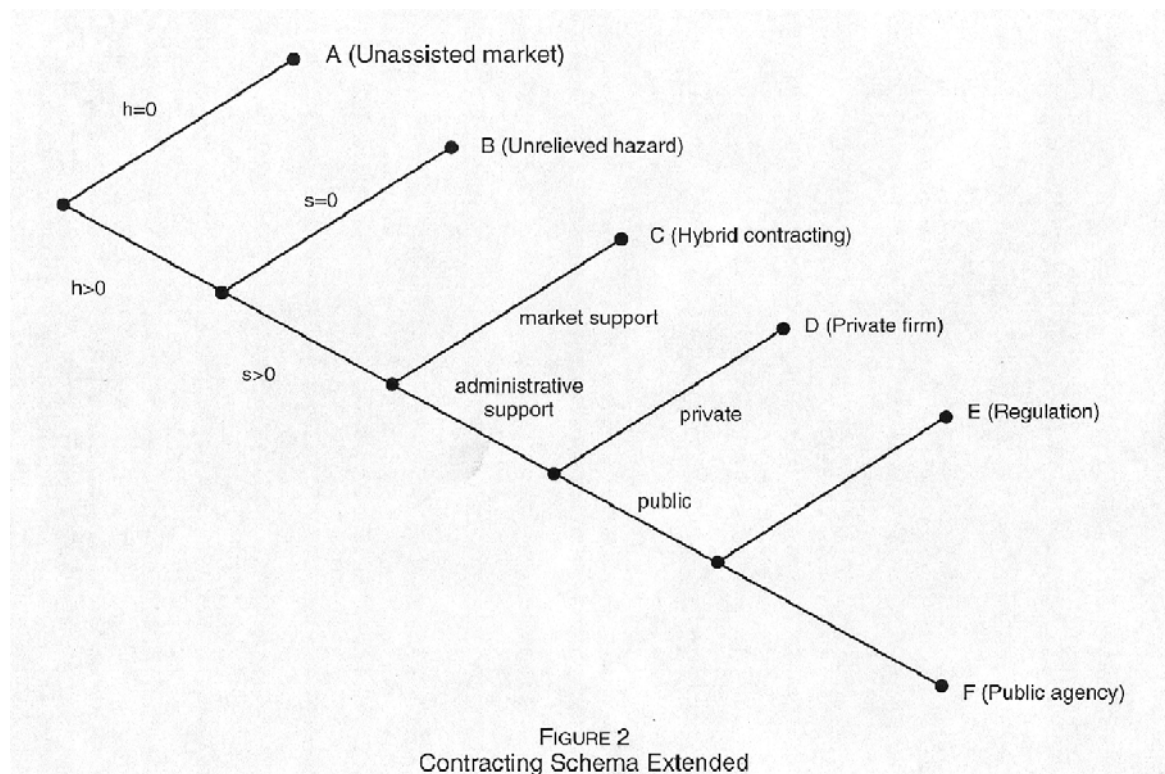
much of its inspiration. Arrow speaks to the fundamental importance of the theory of the firm, and to long-standing misconceptions thereof, as follows: “Any standard economic theory not just neoclassical, starts from the existence of firms. Usually, the firm is a point or at any rate a black box.... But firms are palpably not points. They have internal structure. This internal structure must arise for some reason” (1999, p. vii).

The need was to get beyond the analytically convenient (and sometimes adequate) conception of the firm-as-production function (which is a technological construction) to consider the firm as a governance structure (which is an organizational construction) in which internal structure has economic purpose and effect. More generally, the need was to identify and explicate the properties of alternative modes of governance—markets, hybrids, firms, bureaus, etc.—which differ in discrete structural ways. Because each generic mode of governance possesses distinctive strengths and weaknesses, there is a place for each yet each needs to be kept in its place. The logic of discriminating alignment to which I referred earlier applies.

In a heuristic way, the choice of governance structure moves from market to public bureau through the sequence of moves shown in Figure 2 (where h denotes contractual hazards and s denotes safeguards).² This can be interpreted as a move from simple to complex, where the sequence is try markets, try hybrids, try firms, try regulation, and resort to public bureaus only when all else fails (comparatively). Note, moreover, that the common practice of condemning public bureaus because they have lower-powered incentives, more rules and regulations, and greater job security than a counterpart firm completely misses the point. These features have been deliberately crafted into the public bureau, thereby to make it better suited to govern some (especially difficult) transactions. Vigilance is nonetheless needed—lest the public bureau be “overused.”

(d) Operationalization

Many good ideas are initially expressed as tautologies, which Coase has wryly defined as “a proposition that is clearly right” (1988, p. 19). Because good tautologies expand the mind and are hard to come by,



Williamson: Taking Stock/Looking Ahead (continued)

such deserve respect. Lest, however, we slip into the speculations to which Wesley Mitchell once referred³—which is a fate that beset the older style institutional economics as well as the American Legal Realism movement—we need to ask what are the mechanisms through which a proposed theory operates and what are the refutable implications.

The effort to operationalize promising ideas has both theoretical and empirical parts. The theoretical often takes the form of a progression from informal into preformal, semi-formal, and fully formal modes of analysis—ideally acquiring value added in the process. Such an effort helps to sort the sheep from the goats. Nicholas Georgescu-Roegen had a felicitous way of putting it: although the “purpose of science is not prediction, but knowledge for its own sake,” prediction is nevertheless “the touchstone of scientific knowledge” (1971, p. 37). Would-be theories for which predictive content is lacking must eventually step aside (be set aside) for those for which the hard work of formalization and empirical testing are undertaken.

(i) Theory development

Albeit vital to a progressive research agenda, formalization can also be problematic. Here, as elsewhere, there are tradeoffs. Thus although Simon once argued that “mathematical translation is itself a substantive contribution to theory...because it permits clear and rigorous reasoning about phenomena too complex to be handled in words” (1957, p. 89) and subsequently asserted that the “poverty of mathematics is an honest poverty that does not parade imaginary riches before the world” (1957, p. 90), provision also needs to be made for the possibility that core features of the theory are left out or obscured by the translation. There is, after all, such a thing as prematurely formal theory. David Kreps speaks to the issues as follows (1999, p. 122):

If *Markets and Hierarchies* has been translated into game theory using notions of information economics, it is a very poor translation.... In particular, mathematics-based theory still lacks the language needed to capture essential ideas of bounded rationality, which are central to...transaction costs and contractual form. Anyone who relies on the translations alone misses large and valuable chunks of the original.

What is referred to as the “property rights theory of the firm,” which is associated especially with the work of Oliver Hart (1995), to whom we all owe a great intel-

lectual debt for his pioneering work on the formal theory of incomplete contracts, fails to connect, I think, with key features. Like agency theory, Hart concentrates all of the analytical action on the ex ante stage of contract. As a consequence, the ownership of assets aside, organization does not matter. Indeed, the idea that markets and hierarchies differ consequentially in organizational respects is actively suppressed. All of the problems of ex post maladaptation disappear under this setup. The idea that vertical integration implies unified governance (stages A and B are managed in a coordinated way through hierarchy) gives way to directional integration (it matters whether A acquires the physical assets of B or B acquires the assets of B, there being no unified management of the combined entity). Directional integration is a testable (but implausible) construction.

This state of affairs is even now undergoing change as formal theory is finding new ways to relate. The unpublished paper by Hart and John Moore, “On the Design of Hierarchies” (1999), treats organization as consequential; and the unpublished paper by Patrick Bajari and Steven Tadelis, on “Incentives Versus Transaction Costs” (1999), is expressly concerned with assessing discrete structural modes of contracting with reference to ex post maladaptation. This latter is the closest effort to date to develop a fully formal (albeit reduced form) theory of transaction cost economics.

(ii) Empirical work

Some scoff at prediction, evidently in the belief that prediction is easy. Also, since everyone knows that “it is easy to lie with statistics,” what useful purpose is served by empirical testing? My experience is different: prediction is a demanding standard, which is why so many would-be theories remain excogitated speculations; and corroboration is difficult, which explains why few predictions are tested.

Because, however, good theories are rarely fully developed at the outset, the theory and the evidence are often interactive. As Alan Newell observes (1990, p. 14):

Theories cumulate. They are refined and reformulated, corrected and expanded. Thus, we are not living in the world of Popper....[Theories are not] shot down with a falsification bullet.... Theories are more like graduate students—once admitted you try hard to avoid flunking them out.... Theories are things to be nurtured and changed and built up.

Good but underdeveloped ideas are evidently like

Williamson: Taking Stock/Looking Ahead (continued)

good but underdeveloped minds: both are precious things. Because development is costly, promising theories, like promising graduate students, are admitted only if they cross a threshold. Once admitted, theories (and graduate students) are progressively built up—moving from less formal to more formal stages of development. Finally, as with promising graduate students, we do not hold on to cherished theories indefinitely: some do flunk out. Specifically, theories that remain tautological or yield predictions that are contradicted by the data must make way for theories that yield predictions for which the data are corroborative.

Empirical applications of transaction cost economics got under way in the U.S. in the 1980s and have grown exponentially since: the number of published studies exceeds 400 and involves scientists in Europe, Japan, India, Mexico, South America, New Zealand, and the list goes on. It could have been otherwise, but the theory and evidence display a remarkable congruity (Masten, 1995, p. xi). Recent empirical surveys include Howard Shelanski and Peter Klein (1995), Bruce Lyons (1996), Keith Crocker and Scott Masten (1996), and Aric Rindfleisch and Jan Heide (1997).

Not only has this research been broadly corroborative of the predictions of transaction cost economics, but the importance of risk aversion to commercial contracting has been placed in doubt (Allen and Lueck, 1999). To be sure, transaction cost economics, like everything else, will benefit from more and better empirical work. I have no hesitation, however, in declaring that the NIE is an empirical success story. Paul Joskow concurs: “this empirical work is in much better shape than much of the empirical work in industrial organization generally” (1991, p. 81). Those who have done this modest, slow, molecular, definitive work deserve enormous credit.

3. Phenomena

The NIE is predominantly concerned with Levels 2 and 3 of the four levels of social analysis shown in Figure 1. These are the levels of the institutional environment and the institutions of governance, respectively. Between them, they cover a lot of ground.

The formal features of the institutional environment—the laws, polity, judiciary, bureaucracy—are crucial in examining the development of nation states (North and Weingast, 1989) and for making

intertemporal comparisons within and cross-national comparisons between nation states. Indeed, this last has come to be a growth industry to which many economists who are only slightly associated with the NIE have made contributions. It is nonetheless noteworthy that the NIE has done much of the pioneering work in this area.

As it turns out, any issue that arises as or can be posed as a contractual issue can be examined to advantage in transaction cost economizing terms. Examples for which contractual issues are evident at the outset include contracts for intermediate products, for labor, for finance, for final goods and services, for the rental or lease or purchase of land, equipment, and buildings, for professional services, for marriage, and the list goes on. Even, moreover, if contractual features are not immediately evident from the outset, many issues can be reformulated so as to disclose their contractual qualities, the oligopoly problem being an example.

Many public policy issues, moreover, turn jointly on the combined use of Level 2 and Level 3 reasoning. In the area of privatizing telecommunications, for example, Brian Levy and Pablo Spiller examine the institutional environments in five countries through a comparative contractual lens in which issues of credible contracting are featured (1994, 1996). The recent study of reforming urban water systems by Claude Menard and Mary Shirley (1999) likewise makes clear that ownership is not determinative but needs to be examined in conjunction with the support, or the lack thereof, of the mechanisms of governance. Again, issues of credible contracting are salient.

The New Institutional Economics does not pretend to inform everything, however. Compared with some other fields, the NIE is much more aware of its limitations. In that sense, it represents an economics of candor (as compared with an economics of hubris).

The reform of economies of Eastern Europe and the former Soviet Union is illustrative. Thus Coase in his Nobel Prize lecture observed that (1992, p. 714):

The value of including...institutional factors in the corpus of mainstream economics is made clear by recent events in Eastern Europe. These ex-communist countries are advised to move to a market economy, and their leaders wish to do so, but without the appropriate institutions no market economy of any significance is possible. If we knew more about our own economy, we would be in a better position to advise them.

Williamson: Taking Stock/Looking Ahead (continued)

Two years later, North, in his Nobel Prize lecture, expressed similar precautions. Thus even if we are confident that “polities significantly shape economic performance because they define and enforce the economic rules,” whereupon “an essential part of development policy is the creation of polities that will create and enforce efficient property rights,” there is the further problem that “we know very little about how to create such polities” (North, 1994, p. 366).

These precautions notwithstanding, real time events cannot be put on hold. Hard choices have to be made. Economic reform in Russia is an example.

The team of Maxim Boycko, Andrei Shleifer, and Robert Vishny responded to the perceived need to give shape to the reform with the recommendation that the Russian economy should be privatized quickly and massively. Considerations of both Realpolitik and economic theory were invoked in support of this recommendation.

There is little disagreement that “political influence over economic life was the fundamental cause of economic inefficiency [in Russia]” (Boycko, Shleifer, and Vishny, 1995, p. 11). Boycko, et al. thereupon declared that “the principal objective of reform was...to depoliticize economic life.... Privatization fosters depoliticization because it deprives politicians of the opportunity to allocate goods.... The goal of privatization was to sever the links between enterprise managers and politicians.... There was no other way to achieve restructuring and efficient operation of firms” (1995, p. 11).

The two strategic actors in this reform program were the official bureaucracy, which was viewed as “the enemy to be fought at all costs” (Boycko, et al., 1995, p. 14), and the stakeholders—managers, employees, and local governments. The Boycko, et al. team “consistently and generously recognized stakeholders’ claims, and thus ensured their eventual support of privatization” (Boycko, et al., 1995, p. 13).

This political prescription for massive and rapid privatization was reinforced by the economic theory of the firm on which the Boycko, et al. team relied. Specifically, they appealed to the pathbreaking work by Sanford Grossman and Oliver Hart, which viewed ownership as a system of control rights (Boycko, et al., 1995, p. 13). As with the property rights literature in general, this property rights theory of the firm concentrates all of the relevant economic action at the ex ante investment stage, it being assumed that the parties to a transaction will costlessly bargain to an efficient result dur-

ing contract execution. Reassigning property rights to the stakeholders is therefore the decisive move. Once unleashed, effective restructuring by the stakeholders was expected to follow (Boycko, et al., 1995, p. 150). The Boycko, et al. team thus confidently declared that the mass privatization program that was begun in the Spring of 1992 had been brought to a “triumphant completion” in June 1994 (Boycko, et al., 1995, p. 8), by which time two-thirds of Russian industry had been privately owned.

Had the Boycko, et al. team consulted the New Institutional Economics, a more cautious and selective program of privatization would have resulted. Consider the literature on franchise bidding for natural monopoly, where the property rights approach and the governance approach reach very different conclusions.

The property rights approach to the problem of natural monopoly is to conduct an ex ante bidding competition and award the right to serve the market to the group that tenders the best bid (Demsetz, 1968; Stigler, 1968; Posner, 1972). Very much in the spirit of Boycko, et al., the future will take care of itself once the assets have been privatized in this way.

That sanguine view does not withstand scrutiny if serious ex post implementation problems are in prospect. In that event, the award of a monopoly franchise is merely the first move. The second move is to look ahead and uncover ex post contractual hazards, thereafter to work out the ramifications for alternative modes of governance (Williamson, 1976, pp. 79-91). Because franchise bidding works much better for some natural monopoly industries than others (Williamson, 1976, pp. 102-103), the use of franchise bidding will be reserved for those industries where comparative net benefits can be projected—but not otherwise. Privatization, it turns out, is not an all-purpose solution (Goldberg, 1976; Priest, 1993).

To be sure, privatizing an entire economy is a much more ambitious undertaking than privatizing a natural monopoly industry. I submit, however, that the key lessons carry over. Specifically, privatizing needs (1) to go beyond the ex ante award stage to include an examination of possible ex post implementation problems and (2) in consideration of the differential hazards, to proceed selectively.

Recall, moreover, that the NIE operates at two levels. Upon moving from the level of governance to that of the institutional environment, the rules of the game

Williamson: Taking Stock/Looking Ahead (continued)

come under review. Unless the requisite laws on property, contract, corporate governance, and antitrust are in place and will be reliably enforced, it is unrealistic to expect that the benefits of privatization that accrue within a well-working economy will be realized in a rogue economy as well.

As Bernard Black, Reinier Kraakman, and Anna Tarassova detail in their paper on “Russian Privatization and Corporate Governance: What Went Wrong” (1999), the “triumphant completion” of privatization in Russia was a premature verdict. Thus whereas privatization was evidently a success for small firms, it was deeply problematic and attended by massive corruption in others. But for truncated property rights reasoning, some of these problems could have been anticipated by looking ahead and examining the hazards of *ex post* implementation. Greater appreciation for the shortfalls of the institutional environment in Russia would also have led to more cautious pronouncements (Aslund, 1995). Whether added respect for the rules of the game (to include an appreciation for the limited efficacy of Russian law enforcement) would have resulted in rule improvements in Russia could be disputed. Arguably, however, the effort to reform Russia would have proceeded in a more modest, slow, molecular, deliberative way.

None of this is to suggest that the NIE could have done it all. The Boycko, et al. team made heroic efforts. My claim is much more modest: the NIE is informative and should be included as part of the reform calculus.

4. Concluding Remarks

The New Institutional Economics is a boiling cauldron of ideas. Not only are there many institutional research programs in progress, but there are competing ideas within most of them. With reference to history, for example, we see North (1990) and Avner Greif (1999) pursuing complementary but separate agendas. Within transaction cost economics we distinguish between governance and measurement branches. Incomplete contracting of semi-formal and fully formal kinds differ in consequential ways, although the gap has been closing. Evolutionary economics of selectionist, population ecology, and ontogenetic kinds are in progress. Path dependency is a real and important condition, but its interpretation is actively disputed. The merits of privatization are real but are not uniform and need to be assessed with reference to governance. The firm is

variously described in technological, contractual, and competence/knowledge-based perspectives. How best to describe human actors is still unsettled, although evolutionary psychology holds promise. Politics is judged with reference to a hypothetical ideal by some (North, 1991) and in comparative institutional terms by others (Williamson, 1999). Efficiency arguments have mainly prevailed over power interpretations because the latter are tautological, but power issues refuse to go away. Bureaucracy remains a poorly understood condition no matter what lens is brought to bear. Private ordering approaches to contract have made progressive headway, but legal rules remain important and their relation to private ordering is incompletely worked out. Positive political theory has made major conceptual advances, but an overarching understanding of politics does not appear imminent. And the list goes on.

The upshot is that, its many accomplishments notwithstanding, there is a vast amount of unfinished business—refinements, extensions, new applications, more good ideas, more fully formal theory. I conclude that the New Institutional Economics is the little engine that could. Its best days lie ahead. Who could ask for more?

Footnotes

*The author is Edgar F. Kaiser Professor of Business Administration, Professor of Economics, and Professor of Law at the University of California, Berkeley. This paper was presented at the first plenary session of the third annual conference of the International Society for New Institutional Economics in Washington, D.C. in September 1999. Copyright © 1999 by Oliver E. Williamson. Address e-mail to owilliam@haas.berkeley.edu.

¹ This framework was first set out in Williamson (1998).

² Figure 2 originally appeared in Williamson (1999).

³ “Speculative systems can be quickly excogitated precisely because they do not require the economist to collect and analyze masses of data, to test hypotheses for conformity to fact, to discard those which do not fit, to invent new ones and test them until, at long last, he has established a factually valid theory” (Mitchell, 1945, p. 2).

⁴ Of the various ways in which it can be posed, its contractual nature becomes more evident when it is posed as a problem of reaching and enforcing a cartel agreement (Williamson, 1975, Chap. 12).

Williamson: Taking Stock/Looking Ahead (continued)

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ISNIE Conference 1999 (continued from page 2)

first President, Ronald Coase, and an address by our President-Elect, Oliver Williamson, keynote addresses by Avner Greif and Elinor Ostrom, and a report by the committee on research chaired by Douglass North. Cocktails and dinner in the soaring hall of the World Bank's atrium were another high point.

Most of the conference was devoted to lively panel discussions covering a broad range of topics such as trust, corruption and violence; common resource management; issues of transition, development, and innovation; political economy and public management; and a host of topics dealing with contract enforcement and management of the firm. These papers had to be chosen from over 230 proposals submitted to the selection committee. In response to the large number of excellent proposals, the organizers added a fourth parallel session and included four papers in each panel. Nevertheless, only about one-third could be selected, making the task of the selection committee a daunting one. Organizers therefore also added an author's bazaar, where more than 46 researchers displayed their papers. Space constraints did not permit a poster session, but one is planned for next year's conference.

As in St. Louis and Paris, the Washington, D.C. conference illustrated once again the international character of our Society. Participants came from 34 different countries. Thanks to a grant organized by Ronald Coase from the Earhart Foundation, more than 20 fellows from transitional and developing countries were able to attend.

ISNIE99 would not have been such a success without the hard work of the two co-organizers, Philip Keefer and Zeny Kranzer, and the help in particular of Paulina Sintim-Aboagye, Patrick Walsh, and Agnes Yaptenco. Also key was the support of the IRIS Center at the University of Maryland, the World Bank, and The Lynde and Harry Bradley Foundation. IRIS helped in countless ways; perhaps the most evident were the discreet but persistent time-keepers who kept the panels moving along on schedule. The selection committee, Lee Alston, Benito Arruñada, Philip Keefer, Margaret Levi, Scott Masten, Claude Ménard, John Nye, and Mary Shirley (Chair), was also critical in making the conference a success.

Mary Shirley, the 1999 conference organizer, is Research Manager, Development Research Group, The World Bank.

The Economics of Institutions in the New Millennium

Annual Conference of the
International Society for New Institutional Economics
Tübingen, Germany September 22-24, 2000

Joachim Starbatty and Rudolf Richter, Conference Organizers
isnie2000@wueconc.wustl.edu (paper proposals)
isnie@wueconc.wustl.edu (all other inquiries)

You are cordially invited to participate in the next annual ISNIE conference, which will be held at the University of Tübingen, Germany under the presidency of Oliver E. Williamson. It will begin Friday, September 22 with a general session starting at 5:30 p.m. During the following two days there will be parallel sessions at which proposed papers, accepted by the Program Committee, will be given. Each day will conclude with a keynote address by a distinguished speaker. The traditional conference dinner will be held Saturday night. The conference will end Sunday, September 24 at 5:30 p.m.

You are invited to submit your proposal to present a paper **by March 1, 2000**. For further details see the Call for Papers in this newsletter or at <http://www.isnie.org>.

Among the areas of interest are the New Institutional Economics of:

Transition	Transaction (Empirical TCE)
Development	Informal Organizations
Organization	Regulation and Reform
Contracts	Experimental Economics
Property Rights	Evolutionary Economics
Positive Political Theory	

Conference registration will start January 1, 2000. The registration fee will be **DM 225 before June 1, 2000** and **DM 450 after June 1, 2000**. (1 DM is approximately \$0.55 US.) The fee includes lunches, coffee breaks, and the conference dinner. Use the registration form in this newsletter, or go to <http://www.isnie.org> for conference information, membership information, and some direct links. You can download and print the forms from that site. To register, you must be a current member of the Society. If you are not certain of your current membership status, contact the ISNIE office at isnie@wueconc.wustl.edu about this. All past conferences have been oversubscribed. We expect the same to occur this year, so the earlier you can register, the better.

We hope to see you in Tübingen!

Tübingen is romantically situated on the banks of the river Neckar, only 30 km south of the Stuttgart airport, in an area renowned for its beautiful landscapes. Tübingen itself is famous for its University founded in 1477. Its Faculty of Economics, begun in 1817 by Friedrich List and others, is the oldest in Germany. The University is located in and around the old town, which has been almost completely preserved and carefully restored. The omnipresent history creates a very special atmosphere, a mixture of ease and Swabian charm. The surrounding region, known for its clean, highly efficient industry, is home to firms such as Daimler-Benz and Porsche. You can explore Tübingen at the Web site <http://www.cityinfonetz.de/tue.html>.

Conference participants must make their own travel and hotel arrangements. A block of rooms is being reserved in various hotels in downtown Tübingen. Hotel prices are in the moderate range. For tourist information and room reservations, contact the Tübingen Tourist Office at mail@tuebingen-info.de or send in the hotel reservation form from this newsletter or from <http://www.isnie.org> and indicate that you are attending ISNIE 2000.

To reach Tübingen, the closest airport is in Stuttgart. There are direct flights into Stuttgart from the United States (on Delta) and from most major European cities. Airport shuttles (one hour ride, about DM 9) or taxis (45-minute ride, about DM 90) provide ground transportation to Tübingen. For further information on Stuttgart Airport see <http://www.flughafen-stuttgart.de> or for information in English telephone +49-711-9483753.

You can also reach Tübingen by train. From the Frankfurt (Main) Airport, the train journey to Tübingen takes 2-3 hours, requires changing trains once or twice, and costs about DM 104 second class. For details on train connections and timetables in English see <http://bahn.hafas.de/bin/detect.exe/bin/query.exe/e>.

2000 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

2000 ISNIE Membership Form

Surname: _____

First Name and 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 (please list no more than 5): _____

ISNIE 2000 Conference Registration

Annual Conference of the International Society for New Institutional Economics Tübingen, Germany

September 22-24, 2000



To register, please fill out the form below and send it with your credit card information (MasterCard or Visa) or photocopied confirmation of your bank/wire transfer. The registration fee is **DM 225** before June 1, 2000, or **DM 450** after June 1, 2000. Mail to:

University of Tübingen
Economic Faculty - V4
Attn: Dr. Sonja Opper
Nauklerstr. 47
72074 Tübingen
GERMANY

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

If you have not yet joined/renewed for 2000, please send the membership form from this newsletter with your membership fee to the appropriate ISNIE or ISNIE-Europe address. (Membership renewals cannot be handled through the Tübingen site.)

ISNIE 2000 Conference Registration Form

Surname: _____

First Name and Middle Initial: _____

Organization/Company: _____

Department: _____

Address: _____

City, State, Postal (ZIP) Code: _____

Country: _____

Telephone: _____

Fax: _____

E-mail Address: _____

I agree to pay DM 225 (or DM 450 after June 1, 2000) to the University of Tübingen for ISNIE 2000 registration.

Credit Card Name and Number: _____ Expiration Date: _____
(MasterCard or Visa only)

Signature: _____ Date: _____

or I enclose a photocopy of my bank/wire transfer of DM 225 (or DM 450) already paid to the University of Tübingen, Account No. 13004, Bank ID: 641 500 20 / Kreissparkasse Tübingen, designation **BA 2938/ISNIE2000**.

ISNIE 2000 Conference Hotel Reservation Form

Surname, First Name:	
Organization/Company:	
Street Address:	
Postal (ZIP) Code, City:	
Country:	
E-mail Address:	
Telephone:	Fax:

I hereby request the Tourist Office Tübingen (Verkehrsverein) to make the following hotel arrangements.
I would prefer if available (prices are for one night, including breakfast):

Single room	Double room	Category
☐ DM 60,- to DM 80,- ☐ DM 80,- to DM 100,- ☐ DM 100,- to DM 130,- ☐ DM 130,- to DM 170,-	☐ DM < 130,- ☐ DM 130,- to DM 160,- ☐ DM 160,- to DM 190,- ☐ DM 190,- to DM 250,-	Economy Hotel/ Pension Standard Hotel High Standard Hotel First Class Hotel

My date of arrival: _____

My date of departure: _____

Signature: _____

Today's date: _____

Send this completed form to:
Verkehrsverein Tübingen
Postfach 2623
D-72016 Tübingen
Germany

Fax: +49-7071-35070
E-mail: mail@tuebingen-info.de

A confirmation of your hotel reservation will be sent in return.