

An Introduction

STEFAN VOIGT



## **Detailed Contents**

List of Figures xii
List of Tables xiii
Preface xv
3. Represent and Long-Term Transactions; On the Choic
Introduction 1
The Basics 5
1.1 The Standard Behavioral Model of Economics – and a
Few Modifications Made by New Institutional Economics 5
1.1.1 From Perfect to Bounded Rationality 8
1.1.2 Transaction Costs 9
1.2 Institutions: Functions, Types, and Interrelationships 12 1.2.1 Definitions of Institutions 13
1.2.2 Interactions between Internal and External Institutions 19
1.3 Research Questions 20
1.4 The Toolkit of Institutional Economists 22
1.4.1 Game Theory: A Tool for Analyzing Strategic Interaction
Situations 23
1.4.2 Comparative Institutional Analysis 27
1.4.3 Experiments in the Laboratory or the Field 28
1.4.4 Case Studies Including Economic History 29
1.4.5 Econometric Tests 30
1.5 NIE's Common Ground with and Differences from Other Research
Programs 31
1.6 Open Questions 33
Further Reading 35
Simple Transactions 37
2.1 The Relevance of External Institutions for Simple Transactions 38
2.1.1 The Coase Theorem 40
2.2 The Relevance of Internal Institutions for Simple Transactions 45
2.2.1 Example 1: Norms of Cooperation and the
Ultimatum Game 45
2.2.2 Example 2: Fairness Notions and Price
Formation 47
2.3 The Relevance of Interplay between External and Internal Institution for Simple Transactions 48

2.3.1 Conflicting External and Internal Institutions 48

2.

	2.3.2 Complementary External and Internal Institutions 48     2.3.3 Substitutive Relationship between External and Internal Institutions 49     2.3.4 Empirical Results on the Relationship between External and
	Internal Institutions 50
	2.4 On the Estimation of Transaction Costs 54
	2.4.1 Estimations of the Size of the Informal Sector 56
	2.5 Open Questions 57
	Further Reading 58
3.	Repeated and Long-Term Transactions: On the Choice of Governance Structures with Given Institutions 60 3.1 Introductory Remarks 60 3.2 From a Black Box to the Firm as a Team 63
	3.3 Problems Associated with Asymmetric Information:
	The Principal-Agent Theory 65
	3.4 Transaction Cost Economics 68
	3.5 The Firm as a Collection of Assets 72
	3.6 The Relevance of Internal Institutions 75
	3.6.1 Example 1: Corporate Culture: On the
	Coordination of Interaction Situations within Firms 75  3.6.2 Example 2: On the Relevance of Reciprocity in Labor Relations 76
	3.7 Open Questions 77
	Further Reading 78
	rutilet heading 76
4.	Institutions and Collective Action 81 4.1 Introductory Remarks 81
	4.2 Explaining Politicians' Behavior Under Given Institutions 83 4.2.1 Preliminary Remarks 83
	4.2.2 Example 1: Rent Seeking 84
	4.2.3 Example 2: Political Business Cycles 85
	4.2.4 The Dilemma of the Strong State 86
	4.3 Explaining Collective Action Using Internal Institutions 91
	4.3.1 From Non-Repeated to Repeated Games 91
	4.3.2 Evidence from the Laboratory 93
	4.4 The Interplay between External and Internal Institutions and its
	Relevance for Collective Action 98
	4.5 Open Questions 102
	Further Reading 104
5.	The Relevance of Institutions for Growth and Development 107

5.1 Introductory Remarks 107

Culture? 109

5.2 Determinants of Economic Growth: Institutions, Geography,

Detailed Contents is

	5.2.1 Institutions 109
	5.2.2 Geography 112
	5.2.3 Culture 119
5.3	The Relevance of External Institutions for Economic
	Growth and Development 122
	5.3.1 How to Measure External Institutions 123
	5.3.2 Early Attempts to Measure External Institutions 124
	5.3.3 One Measurement Attempt in Detail 127
	5.3.4 Results of Empirical Studies 139
	5.3.5 Institutions or Policies? 141
5.4	The Relevance of Internal Institutions for Economic Growth and
	Development 142
55	On the Interplay between External and Internal Institutions and its
ر.ر	Relevance for Economic Growth and Development 149
	The first control of the control of
	Open Questions 150
	ther Reading 151
App	pendix: A Ten-Minute Primer in Econometrics 152
Ex	plaining Differences in External Institutions across
	cieties 158
	Introductory Remarks 158
	Origins and Change of Property Rights: A Traditional View 160
	Origins of and Change in Property Rights and the State: Accounting
0.5	for Political Economy Factors 165
6.4	Explaining Differences in Institutions 169
0.4	6.4.1 Preliminary Remarks 169
	6.4.2 Explaining External Institutions Based on Geography 170
	6.4.3 Explaining External Institutions Based on Culture or History 171
	6.4.4 Explaining External Institutions Based on Social
	Conflict View 174
6 5	Institutional Change via Institutional Competition? 181
	Elements of a General Theory 184
0.0	
	6.6.2 Satisficing Behavior 186
	6.6.3 Collective Action Problems 187
	6.6.4 Path Dependency of Institutional Change 188
	6.6.5 Political Transaction Costs 189
	6.6.6 The Relative Power of the Relevant Actors 190
	6.6.7 The Relevance of Internal Institutions 191
	6.6.8 A Short Summary 192
	Open Questions 192
Furt	ther Reading 193
Ev.	plaining Change in Internal Institutions 195
	Introductory Remarks 195
. 1	IIIII OUUCIOI Y IVEIII AIN 199

6.

7.

10.

	7.2 The Problem in Economic Terms 196
	7.3 Hypotheses on the Origins of Norms 199
	7.3.1 Evolutionary Approaches 199
	7.3.2 Repetition or Reputation as Explanatory Factor? 202
	7.3.3 An Attempted Synthesis 203
	7.4 Potential Triggers for Change in Internal Institutions 212
	7.4.1 Introductory Remarks 212
	7.4.2 Geography Again 213
	7.4.3 External Institutions 215
	7.5 Open Questions 217
	Further Reading 219
8.	On the Need for Normative Theory 221
	8.1 Introductory Remarks 221
	8.2 What is Normative Theory and Why Should We Study It? 222
	8.3 Two Competing Normative Concepts 224
	8.3.1 The Welfare Theoretical Approach 224
	8.3.2 Hypothetical Consent: A Heuristic to Derive Normative Statements 226
	8.3.3 Some Critical Comments on the Unanimity Test 231
	8.4 Requirements for a Normative Theory from the Perspective of
	Institutional Economics 232
	8.4.1 The Approach of Williamson 232
	8.4.2 The Approach of Hayek 233
	8.4.3 Consequences of the Two Approaches 234
	8.5 Open Questions 235
	Further Reading 236
9.	Consequences for Economic Policy 237
	9.1 Introductory Remarks 237
	9.2 Policy Recommendations: The Traditional - Naïve - Approach 238
	9.3 Activation of Internal Institutions through Government Action? 242
	9.3.1 A Specific Example: Voluntary Commitment Declarations 243
	9.4 Policy Reforms in Practice: Case Study of New Zealand 247
	9.4.1 The Initial Situation in New Zealand 247
	9.4.2 Overview of the Most Important Reforms 247
	9.4.3 Explaining the Reforms 249
	9.5 Open Questions 253
	Further Reading 254
10.	Outlook 255
	10.1 Introductory Remarks 255
	10.2 Institutions and Mental Models 258
	10.3 Institutions and Ideas 260

10.4 Institutions and Individuals 261
10.5 Institutions beyond the Nation-State 263
10.6 Institutions and Identification 265
10.7 Where to Turn to Start Your Own Research? 266
Further Reading 266

References 268 Index 289