

Contents

<i>Foreword by Warren J. Samuels</i>	xiii
<i>Preface</i>	xvii
1. Introduction	1
1.1. Institutional Analysis	1
1.2. Outline of This Work	4
2. Institutional and Behavioral Economics Theory	6
2.1. Transactions as the Unit of Observation	6
2.1.1. Individuals and institutions	8
2.2. Levels of Analysis and Questions Asked	11
2.2.1. Impact analysis	11
2.2.2. Change analysis	12
2.2.3. Situation, structure, and performance (SSP)	12
2.2.4. Complementary theoretical frameworks: economizing and power	14
2.3. Theory: Variables and Processes	15
2.3.1. Variables	16
2.3.2. Processes (aspects of linked transactions)	20
2.4. Some Implications of the Variables and Processes: Systems Views	24
2.4.1. Continuity and change	25
2.4.2. Collective action	25
2.4.3. Theory of the state (legal-economic nexus)	25
2.4.4. Economizing, power, and knowledge	26
2.4.5. The place of institutional economics in policy analysis	26
2.4.6. Conceptual pluralism	27

3. Behavioral Economics	28
3.1. Bounded Rationality	28
3.1.1. Limited information processing capacity	29
3.1.2. The modular brain, multiple self, and bounded self-control	32
3.1.3. Evolutionary psychology	34
3.2. Emotions and Evaluation	34
3.3. Behavioral Regularities: Characteristics of the Agent	38
3.3.1. The power of particulars and defaults	38
3.3.2. Availability	38
3.3.3. Anchoring	39
3.3.4. Experience over time: evaluation by representative moments	40
3.3.5. Predicting pleasure–pain	41
3.3.6. Time-variant preferences	42
3.3.7. When a dollar is not a dollar	42
3.3.8. Perception of differences	45
3.3.9. Sunk costs	45
3.3.10. Confirmatory bias	46
3.3.11. Selfishness and regard	46
3.3.12. Fairness	47
3.3.13. Satiation	47
3.3.14. Surprise and boredom	47
3.3.15. Framing inputs	48
3.4. Behavioral Law and Economics	49
3.5. Learning	49
3.5.1. Stimulus, behavior, and reinforcement	50
3.5.2. Cues and patterns	52
3.5.3. Belief persistence	54
3.5.4. What’s your pleasure?	55
3.5.5. Preference formation and change	57
3.6. Conclusion	59
4. Individuals and Institutions	61
4.1. From Individual Experience to Institutions and Back Again	61
4.2. Evolutionary Theory	61
4.3. Uncertainty	62
4.4. Individual and Society	64
4.5. Emergence	67
4.6. Conclusion: Learning and Evolution	68
5. Institutions and Organizations	69
5.1. Human and Physical Relationships	69
5.2. Administrative, Bargained, and Customary Transactions	73

5.3.	Organizations (Firms), Institutions, and Boundaries	74
5.4.	Making Rules: The State	79
5.4.1.	State and market	80
5.4.2.	Informal institutions for making informal institutions	80
5.5.	Social Choice (Conflict Resolution)	81
5.5.1.	Specifying the state as an institutional variable	81
5.5.2.	Specifying performance variables	82
5.5.3.	Necessity for moral choice	86
5.5.4.	Reasonable value	87
5.6.	Conclusions	88
6.	Sources of Human Interdependence	90
6.1.	Introduction	90
6.2.	Incompatibility	91
6.2.1.	Externalities (interdependence)	92
6.2.2.	Sustainability	93
6.3.	Exclusion Cost	94
6.3.1.	Prisoner's Dilemma and other games	97
6.3.2.	Ways to unseat the free-rider	99
6.3.3.	Common pool resources	99
6.3.4.	Institutional change analysis	100
6.3.5.	Policy implications	101
6.4.	Non-Rival Goods (Marginal Cost of Another User/Use = Zero)	101
6.4.1.	Cost of another user	101
6.4.2.	Policy implications	103
6.4.3.	Avoidance and pre-emption costs	105
6.4.4.	Cost of another use	106
6.4.5.	Summary of non-rival (MC = 0) goods interdependencies	109
6.5.	Economies of Scale	109
6.6.	Circular and Cumulative Causation	112
6.7.	Transaction Costs and Benefits	113
6.7.1.	High and asymmetric information costs	113
6.7.2.	Contractual (negotiation) costs	117
6.7.3.	Asset specificity	119
6.7.4.	Risk and fundamental uncertainty	124
6.7.5.	Evolutionary and competence based theory of the firm	128
6.7.6.	Conclusion and summary of transaction costs	131
6.8.	Rent and Rent Seeking	131
6.9.	Fluctuating Demand and Supply	133
6.10.	Socio-Emotional Goods	133
6.11.	Overview	134

7. Methods	138
7.1. Introduction	138
7.1.1. Specifying alternative institutions	138
7.2. Experiments	139
7.2.1. General	139
7.2.2. Prisoner's Dilemma experiments	140
7.2.3. Transaction costs	142
7.2.4. Social capital: ultimatum and dictator games	145
7.2.5. Summary of factors affecting cooperation	147
7.2.6. Field experiments	148
7.2.7. Framing	148
7.2.8. Conclusion	149
7.3. Case Studies	150
7.3.1. Mediterranean trade	151
7.3.2. Infrastructure investments	152
7.3.3. Economic development: England and Spain	155
7.3.4. Social capital	156
7.3.5. Other	157
7.4. Econometrics	157
7.4.1. Social capital	158
7.4.2. Slavery	159
7.4.3. Air pollution	160
7.5. Simulation and Computation	161
8. Markets	163
8.1. Introduction	163
8.2. Who Owns?	164
8.2.1. Privatization	164
8.2.2. Shareholders and managers	165
8.3. Internal Organization of Firms	166
8.4. Bargained vs. Administrative Transactions	167
8.4.1. Conflicting claimants	167
8.4.2. Use or exchange rights	170
8.4.3. Integration	170
8.5. Trading Rules and Market Formats	173
8.6. How Firms Price Products	174
8.7. What Is Profit?	176
8.8. Communism to Markets	176
8.9. Conclusions	181
9. Macroeconomic Institutions	182
9.1. Money Matters	182
9.2. Credit and Coordination: or "The Fable of the Missing Hoe"	183

9.3.	Banking and Property Rights	184
9.4.	Business Cycles and Capitalist Development	185
9.5.	Expectations: Psychology and the Fed	187
9.6.	Deficit Finance	187
9.7.	The Fed and Cumulative Causation	190
9.8.	Financial Capital	191
9.9.	International Dimensions	195
9.9.1.	Money creation in developing countries	195
9.9.2.	Capital markets and international exchange rate policy	196
9.9.3.	Macro effects of low wages and globalization	196
9.10.	Observations in Conclusion	198
10.	Technology, Growth, and Institutions	199
10.1.	Technological Change with Alternative Institutions	199
10.1.1.	Markets and relative prices	199
10.1.2.	Expectations, uncertainty, search, and selection	200
10.1.3.	Appropriability and exclusion costs	201
10.1.4.	Increasing returns (economies of scale) and standards	203
10.1.5.	Network relationships	206
10.1.6.	Dynamic sequence	206
10.1.7.	Technological change and conflict	207
10.1.8.	Organizing the research enterprise	209
10.2.	Technology and Institutional Change	210
10.3.	Technology Policy and Growth	212
10.3.1.	Capital goods and growth	212
10.4.	Concluding Observations	214
11.	Labor Institutions	215
11.1.	Characteristics of Labor	215
11.1.1.	Information cost and moral hazard	215
11.1.2.	Information cost and adverse selection	217
11.1.3.	Fairness	217
11.2.	Capital–Labor Relationships	218
11.2.1.	Ownership of means of production	218
11.2.2.	Ownership of borrowing leverage of the firm	225
11.2.3.	Labor institutions under capitalism	226
11.3.	Collective Bargaining	227
11.4.	Worker Safety, Health, and Hours	228
11.5.	Wages, Unemployment, and the Business Cycle	229
11.6.	Discrimination	231
11.7.	Conclusion	232

12. Political Institutions	234
12.1. Constitutional Economics	234
12.2. Axiomatic Theory	234
12.2.1. Political externality and transaction costs	235
12.2.2. Agenda power	235
12.2.3. Why vote?	236
12.2.4. Voting rules and boundaries	237
12.2.5. Median voter theory	238
12.3. Institutional and Behavioral Theory	239
12.4. Empirical	240
12.4.1. Representative government	240
12.4.2. Interest group power	242
12.4.3. Growth of government	243
12.4.4. Bureaucracy	246
12.4.5. Elected or appointed	247
12.4.6. Voting rules	249
12.4.7. Majority and plurality systems vs. proportional representation	250
12.4.8. Redistribution	251
12.4.9. Research perspective	252
12.5. End of the "God Trick"	252
12.5.1. Impossibility theory	252
12.5.2. Process vs. substance: Buchanan and Rawls	253
12.5.3. Necessity for moral choice	254
12.5.4. War and peace	255
12.6. Concluding Observations	255
13. Institutional Change Analysis	257
13.1. Theories of Institutional Change	257
13.1.1. Functional	258
13.1.2. Power theories and the power elite	260
13.1.3. Isomorphic theories (path dependence)	262
13.1.4. Social learning, evolution, and emergence	262
13.2. Informal Institutional Change	266
13.2.1. Population, technology, resources, and imagination	272
13.2.2. Conventions	285
13.2.3. Why study informal and unconscious institutional change?	286
13.3. Formal Institutional Change	286
13.3.1. Formation of interest group organizations	286
13.3.2. Constitutions, courts, and legislatures	287
13.3.3. Corporate law and organization	289
13.3.4. Industrial stages, classes, and organizations	292
13.3.5. Labor unions	295
13.3.6. Water law	296

13.4. Evolution of Rules for Making Rules	298
13.4.1. Women's suffrage	298
13.5. A Welfare Economics of Change?	299
13.6. Conclusion	299
14. Recapitulation	301
 <i>References</i>	 303
<i>Index</i>	331