

Stanford University  
Department of Economics  
228/294. Fall 2001.

Office: Econ. Rm. 261.  
Office hours: Mon. 11:00 - 12:00  
and by appointment 5-8936.

## **Institutions and Organizations in Historical Perspective**

Avner Greif

This course examines various approaches to the study of institutions in Economics, the applications of these approaches to economic history, and their evaluation and extension through historical analysis. The class is conducted mainly through discussion and you are expected to read all papers marked with a star. The notation (JA) indicates a paper that can be accessed through Jackson Library ejournals and (JS) indicates a paper in JSTOR. Some papers can be directly downloaded (DD).

Class participation accounts for 25 percent of the final grade (and, unfortunately, about 100 percent of what you will learn in class). The other requirement for the class is a written "research project" that can take several forms: a critical summary and evaluation of a relevant paper or book; a proposed research agenda; or a term paper. I strongly advise you to write a paper since the lack of practice in defining and conducting a research agenda is a main factor in delaying graduation. Practice helps.

You have to decide on your research project prior to Nov. 22 and get my approval. The last date to complete the project is the end of next September. Feel free to consult with me regarding possible projects. I will be happy to assist you. I will also circulate a list of possible projects in a week or so.

### **General Readings on Institutions:**

Furubotn, Eirik G. and Rudolf Richter. 1997. *Institutions and Economic Theory*. Ann Arbor: The University of Michigan Press.

Alston, J. Lee, Thrainn Eggertsson, and Douglass C. North. 1996. *Empirical Studies in Institutional Change*. Cambridge: Cambridge University Press.

Eggertsson, Thrainn. 1990. *Economic Behavior and Institutions*. Cambridge: Cambridge University Press.

North, Douglass C. and Robert P. Thomas. 1973. *The Rise of the Western World*. Cambridge: Cambridge University Press.

North, Douglass C. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

Williamson, Oliver E. 1985. *The Economic Institutions of Capitalism*. New York: The Free Press.

Brinton, Mary and Victor Nee (eds.). 1998. *The New Institutionalism in Sociology*. New York: Russell Sage Foundation.

## Topics

### I. **Old Institutionalism and the Neo-Classical Approach**

- **Old Institutionalism**

- \* Dugger, William M..1990. "The New Institutionalism: New But Not Institutionalist." *Journal of Economic Issues*. v24(2), pp. 423-31.44

- **The Neo-Classical Approach: Institutions as Responses to Market Failures**

- \* McCloskey, D. N. 1976. "English Open Fields as Behavior Towards Risk." *Research in Economics*, 1: 124-170.

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

### II. **The New Institutional Economics (NIE) to the 1990s**

- **Transaction Costs Economics**

- \* Williamson, Oliver E. 1989. "Transaction Cost Economics." In the *Handbook of Industrial Organization*, edited by Richard Schmalensee and Robert Willig.(chapter 3). New York: North Holland.

- \* Fenoaltea, S.. 1976. "Risk, Transaction Costs, and the Organization of Medieval Agriculture." *Explorations in Economic History*, 13: 129-51.

- \* Fishback, P. 1992. "The Economics of Company Housing: Historical Perspectives from the Coal Fields." *JLEO* vol. 8 (no. 2) (JA)

- **Institutions as Rules and the Property Rights Approach:**

- \* North, Douglass C., 1991. "Institutions," *Journal of Economic Perspectives*, 5 (2), 97-112. (JA)

- \* Weingast, Barry. 1996. "Political Institutions: Rational Choice Perspectives," in *A New Handbook of Political Science*. Edited by Robert Goodin and Hans-Dieter Klingemann. Oxford University Press.

- \* Kantor, S. 1991. "Razorback, Ticky Cows, and the Closing of the Georgia Open Range: The Dynamic of Institutional Change Uncovered." *JEH*(4). (JA)

Ostrom, Elinor. 1990. *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press.

### IIa. (Optional): **Rent-seeking and Collective Actions.**

Olson, Mancur. 1971. *The Logic of Collective Action*. Cambridge, MA: Harvard University Press.

Jan De Vries. 1983. Review of "The Rise and Decline of Nations in Historical Perspective." *International Studies Quarterly*. 27: 11-16.

Allen, Robert. 1982. "The Efficiency and Distributional Consequences of Eighteenth Century Enclosures." *Economic Journal* 92 (367): 937-53. (JA)

Ekelund, Robert B., and Robert D. Tollison. 1980. "Mercantilism as a Rent-Seeking Society." In *Toward a Theory of the Rent Seeking Society*. Edited by James M. Buchanan, Robert D. Tollison and Gordon Tullock, pp. 235-68. College Station: Texas A&M University Press.

### III. Preliminary to Institutional Analysis Beyond the NIE

This issue is dealt with in the context of institutions that governed per-modern trade: This trade was at first a shapeless, chaotic mass with the spirits of many economists brooding over the water trying to examine exchange in the absence of law.

#### Background:

De Roover, R. 1965. "The Organization of Trade." In *Cambridge Economic History of Europe*. Vol. III, pp. 42-118.

#### Analysis:

Kandori, Michihiro. 1992 (January). "Social Norms and Community Enforcement," *The Review of Economic Studies*, 59 (1), 63-80. (JS)

\* Lacher, Jeffrey M. and John A. Weinberg. 1989. "Optimal Contracts Under Costly State Falsification." *Journal of Political Economy* 97(6), 1345-63. (JA)

\* Greif, A. 1993 (June). "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition." *American Economic Review*, Vol. 83, No. 3. (JA)

The substantive issue of these papers is **Business or Social** Networks. On this issue, see also:

Greif, A. 1997. "Contracting, Enforcement, and Efficiency: Economics Beyond the Law." *Annual World Bank Conference on Development Economics*. Edited by Michael Bruno and Boris Pleskovic. Washington, D.C: The World Bank

Granovetter, Mark. 1985 (November). "Economic Action and Social Structure: The Problem of Embeddedness." *American Journal of Sociology* 91, 481-510. (JS)

Ellickson, Robert C. 1987 (January). "A Critique of Economic and Sociological Theories of Social Control." *Journal of Legal Studies* XVI, 67-99.

Kranton R. E. 1996 (Sept.) "Reciprocal Exchange: A Self-sustaining System." *American Economic Review* 86 (4), 830-851. (JA)

Clay, K. 1997 (April). "Trade without Law: Private-order Institutions in Mexican California." *Journal of Law Economics & Organization*.13 (1), 202-231. (JA)

McMillan, John and Christopher Woodruff. 1999 (Dec.). "Interfirm Relationships and Informal Credit in Vietnam." *QJE* 114, 1285-1320. (JA current issues)

#### **IV. Game Theory in the Service of Institutional Analysis**

##### **• Classical and Evolutionary Game Theory**

\* Sugden, Robert. 1989 (Autumn). "Spontaneous Order." *Journal of Economic Perspectives*, 3(4), pp. 85-97. (JA)

\* Greif, A. "Microtheory and Recent Developments in the Study of Economic Institutions Through Economic History." 1997. *Advances in Economic Theory*. Edited by David M. Kreps and Kenneth F. Wallis. Cambridge University Press. Vol. II, 79-113. (DD)

Greif, A. 2001. "Economic History and Game Theory." Forthcoming in the *Handbook of Game Theory*, vol. III. Edited by Robert J. Aumann and Sergiu Hart. Amsterdam: North Holland. (DD)

Schotter, Andrew. 1981. *The Economic Theory of Social Institutions*. Cambridge: Cambridge University Press.

Lewis, D. 1969. *Convention: A Philosophical Study*. Cambridge: Harvard University Press.

Young, H. Peyton. 1998. *Individual Strategy and Social Structure*. Princeton: Princeton University Press.

##### **• Integrating Game Theory and Insights of Various Disciplines**

\* Dawes, R. M., and Thaler, R. H. 1988 (Summer). "Anomalies: Cooperation." *Journal of Economic Perspectives* 2 (3),187-97. (JS)

\* Hollander, Heinz. 1990. "A Social Exchange Approach to Voluntary Cooperation." *American Economic Review*, 80(5), 1157-67. (JA)

\* Rabin, Matthew. 1993 (December). "Incorporating Fairness into Game Theory and Economics." *American Economic Review*, 83 (5), 1281-1302. (JA)

Fehr, Ernst and Simon Gächter. 1998. "How Effective are Trust- and Reciprocity-Based Incentives?" In *Economics, Values and Organization*. Edited by Avner Ben-Ner and Louis Putterman. New York: Cambridge University Press.

#### **V Institutions as an Equilibria, the Limits of Game Theory, and Context-specific Analysis**

\* Calvert, Randall L. 1995. "Rational Actors, Equilibrium, and Social Institutions." In *Explaining Social Institutions*. Edited by Jack Knight and Itai Sened. Chapter 3, pp. 57-93. Ann Arbor: University of Michigan Press.

\* Greif A. 1998 (May). "Historical and Comparative Institutional Analysis." *American Economic Review* (2), 80-4. (DD)

- **Context Specific Analysis: Institutions Facilitating Anonymous Exchange:**

\* Benson, Bruce L. 1989. "The Spontaneous Evolution of Commercial Law." *Southern Economic Journal* 55(3): 644-61.

\* Milgrom, P.R., D.C. North and B.R. Weingast. 1991. "The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges, and the Champagne Fairs." *Economics & Politics*, 2(19), 1-23. (JA)

\* Greif, A. 2002. "Institutions and Impersonal Exchange: From Communal to Individual Responsibility." Forthcoming in the *Journal of Institutional and Theoretical Economics*. 158(1). (DD)

Greif, A. 2000 (December). "The Fundamental Problem of Exchange: A Research Agenda in Historical Institutional Analysis." *European Review of Economic History*, 4 (3), 251-284. (DD)

## VI **Is Institutional Dynamics a Historical Process?**

- **The Functionalist Approach**

\* Knight, Jack. 1992. *Institutions and Social Conflict*. Cambridge: Cambridge University Press. Pp.84-122.

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

- **Path Dependence**

\* David, Paul A. 1994. "Why Are Institutions the 'Carriers of History'? Path-Dependence and the Evolution of Conventions, Organizations and Institutions," *Structural Change and Economic Dynamics*, 5(2), 205-20.

\_\_\_\_\_ 1997. "Path Dependence and the Quest for Historical Economics: One More Chorus of the Ballard of QWERTY." Working paper. Oxford University.

\* North, Douglass C. 1990. *Institutions, Institutional Change and Economic Performance*. Pp. 83-104. Cambridge: Cambridge University Press.

- **The Game Theoretic Approach**

- \* Kandori, Michihiro, George Mailath and R. Rob. 1993 (January). "Learning, Mutation, and Long Run Equilibria in Games." *Econometrica* 61(1), 29-56. (JS)

## **VII How Do Institutions Influence Behavior?**

- \* Greif, A., Paul Milgrom, and Barry Weingast. 1994 (August). "Coordination, Commitment and Enforcement: The Case of the Merchant Guild." *The Journal of Political Economy*, 102, (4). (JA)

This substantive issue of this paper is **Institutions Governing Political Relationships**. On this issue, see also:

Green, Edward J. 1993 (Winter). "On the Emergence of Parliamentary Government. The Role of Private Information." *Quarterly Review: Federal Reserve Bank of Minneapolis*. 2-16.

- \* North D.C., and B. R. Weingast. 1989 (December). "Constitutions and Commitment: Evolution of Institutions Governing Public Choice." *Journal of Economic History* XLIX, 803-32. (JS)

- \* Clark, Gregory. 1996 (Spring). "The Political Foundations of Modern Economic Growth: England, 1540-1800." *Journal of Interdisciplinary History*, XXVI: (4) 563-588.

Olson, Mancur. 1982. *The Rise and Decline of Nations*. New Haven: Yale University Press.

\_\_\_\_\_. 1993 (September). "Dictatorship, Democracy, and Development." *American Political Science Review* 87(3), 567-76. (JS)

Robinson, James. 2000 (November).. "Why Did the West Extend the Franchise? Growth, Inequality and Democracy in Historical Perspective," *Quarterly Journal of Economics*, 115, 1150-1171. (JA current issues)

The following two papers that are discussed below also relate to the issue of politics:

Greif, A. 1998. "Self-Enforcing Political Systems and Economic Growth: Late Medieval Genoa." (DD)

Greif, A. 2001. "How Do Self-enforcing Institutions Endogenously Change? Institutional Reinforcement and Quasi-Parameters." (DD)

## **VIII Institutional Elements and Self-enforcing Institutions**

- \* Chapters XI and XII from Greif, *Historical Institutional Analysis*. (If these chapters are in a sufficiently advanced form.)

## **IX How Institutions Influence Their Rates of Change?**

- \* Greif, A. 2001. "How Do Self-enforcing Institutions Endogenously Change? Institutional

Reinforcement and Quasi-Parameters.” (Also listed above.) (DD)

## **X The Influence of Past Institutions on the Direction of Institutional Change**

\* Chapter XIV in Greif. *Historical Institutional Analysis*.

- **Context-specific Analysis of Institutional Dynamics**

\* Greif, A. 1994 (October). “Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies.” *The Journal of Political Economy* 102 (5). (JA)

**Some fun topics that we will not have time to cover in class:**

- **The Evolution of Institutions that Governed Pre-Modern Trade (or Exchange in the Shadow of the Law)**

Background:

Coornaert, E.L.J. 1967. “European Economic Institutions and the New World: the Chartered Companies.” In *Cambridge Economic History of Europe* Vol. IV, 221-74

Analysis:

Irwin, Douglas, A. 1991 (Dec.). “Mercantilism as Strategic Trade Policy: The Anglo-Dutch Rivalry for the East India Trade.” *Journal of Political Economy*, 99(6): 1296-1314. (JS)

Anderson, Gary M., Robert E. McCormick, and Robert D. Tollison. 1983. “The Economic Organization of the English East India Company.” *Journal of Economic Behavior and Organization* 4: 221-38.

Carlos, Ann M. and Stephen Nicholas. 1990 (Dec.). “Agency Problems in Early Chartered Companies: The Case of the Hudson's Bay Company.” *The Journal of Economic History*. Vol. L. (4), 853-75. (JA)

Watts, R.L. and Jerold L. Zimmerman. 1983 (October). “Agency problems, Auditing, and the Theory of the Firm: Some Evidence.” *Journal of Law and Economics*.

Smith, Adam . 1937 ed. *The Wealth of Nations* pp. 690-716. (On the Public Works and Institutions which are necessary for facilitating particular Branches of Commerce).

- **The Organization of Production.**

Background:

Mendels, F.F. 1972. “Proto-industrialization: The First Phase of the Industrialization Process.”

*Journal of Economic History* 32(4), 241-61. (JS)

Analysis:

Marglin. S. 1976. "What Do Bosses Do?" in André Gorz. ed. *The Division of Labour: The Labour Process and the Class Struggle ...* pp. 13-54.

Williamson. O.S. 1980. "The Organization of Work." *Journal of Economic Behavior and Organization* 1(1), 5-38.

Jones, S.R.H. 1982. "The Organization of Work. A Historical Dimension." *Journal of Economic Behavior and Organization* 3, 117-37.

Szostak,Rick 1989. "The Organization of Work, The Emergence of the Factory Revisited." *Journal of Economic Behavior and Organization* 11, 343-58.

Landes. D.S. 1986 (September). "What Do Bosses Really Do?" *Journal of Economic History* 46 (3) . (JA)

- **The Nature and Historical Origin of the Institutional Foundations of Modern Economies**

Greif. A. 1997. "Contracting, Enforcement, and Efficiency: Economics Beyond the Law." *Annual World Bank Conference on Development Economics*. Edited by Michael Bruno and Boris Pleskovic. Washington, D.C: The World Bank.

Zucker, Lynne G. 1986. "Production of Trust: Institutional Sources of Economic Structure, 1840-1920." *Research in Organizational Behavior* 8, 53-111.

Kroszner, Randall S. 1998. "Derivatives Clearing Houses: Historical Development, Over-the-Counter Innovations, and Implications for Public versus Private Regulations of the Payment System." Working Paper. University of Chicago Business School.

Marin, Dalia and Monika Schnitzer. 1995 (Dec.). "Tying Trade Flows: A Theory of Countertrade with Evidence." *American Economic Review* 85 (5):1047-64. (JS)

Ingram, Paul. 1996. "Organizational Forms as a Solution to the Problem of Credible Commitment: The Evolution of Naming Strategies among U.S. Hotel Chains, 1896-1980." *Strategic Management Journal*, 17: 85-98. (JA)

Bernstein, Lisa. 1996. "Merchant Law in a Merchant Court: Rethinking the Code's Search for Immanent Business Norms." *University of Pennsylvania Law Review* 144(5).

Banner, Stuart. 1998. (January) "The Origin of the New York Stock Exchange, 1791-1860: A Study in Self-Regulation." *Journal of Legal Studies* XXVII, 113-40.