Newsletter

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INTERNATIONAL SOCIETY FOR NEW INSTITUTIONAL ECONOMICS

# ISNIE 2001 Conference Proceeds, Greatly Revised

***Claude Ménard***

As you all know, the Berkeley conference was held under extremely difficult circumstances. Two days before it opened, the terrible terrorist attacks of September 11 altered our plans and our lives and called into serious question whether we could actually conduct the conference.

That morning, I woke up early in order to finalize preparations for the conference. I learned about the terrible news right after breakfast. The trauma of these attacks and their thousands of victims was amplified by another fear that I shared with many of you. Many colleagues, including members of my own research center, were booked on flights coming from Boston, New York, and Washington that day. Were they among the victims? In many cases it would take two days before we would know for sure that they were safe.

After the initial shock, decisions had to be made. The conference was due to open in less then 48 hours. We knew that colleagues were immobilized at various airports on their way to Berkeley. But we did not know when and under what condition flights would resume. A continuous flow of e-mails suggested that many were still hoping to make it. Several were rescheduled on flights that were cancelled later on. It became clear that many would not come. But it was impossible to know how many would show up.

**Claude Ménard, President of ISNIE**

The question became whether or not the conference could and should be maintained. With the agreement of Oliver Williamson, and for reasons I sent in an e-mail to all who had registered to attend, I decided to proceed with the conference. However, the program would obviously have to be substantially different from the one we had planned. As the hours passed, more and more presenters informed us that they could not make it. Our two keynote speakers, Bengt Holmstrom and Vernon Smith, were immobilized in Boston and Washington, respectively. Moreover, with the exception of the group attending the Ronald Coase Institute workshop already underway in Berkeley, we had no idea as to who would actually show up until the conference opened on Thursday night. Indeed, some participants arrived on Friday who had informed us on Thursday that they could not come. As a result, the revised program had to be created throughout the night on Thursday. It was printed Friday morning at 8 a.m.

Under the circumstances, something important and comforting happened at the conference. First, those who were present were conscious of the gravity of the situation and of the meaning of sticking to our commitments as a way to say "no" to terror. A very special and

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## From the Editor

The spirit of this Society showed itself powerfully during the unfolding of ISNIE 2001. In the shock, sorrow, disruption of those September days, the determination to carry on with the Society's goals was inspiring. The small group who assembled at the opening session, many arriving there through great effort, joined together, led by Claude Ménard, to create a focused intense exchange of ideas. And they did.

This resilience under challenge has been part of the Society from the start. At the inaugural ISNIE conference in 1997, which Lee Benham organized, a remarkable set of individuals agreed to come as speakers. Our fledgling organization had no blueprint, no bank account, no membership roster. We expected 60 or 70 participants. But word spread, and on opening day more than 200 individuals appeared. Logistics were swamped and personal savings had to be pledged for new arrangements, but the conference proceeded on course. The speeches were magnificent, the spirit of St. Louis was high, and "a defining moment" launched the Society.

Two years later, Hurricane Floyd disrupted the 1999 ISNIE conference in Washington D.C. As the hurricane threatened the area, airports were closed, flights were cancelled, and the opening speaker was stranded on a train hundreds of miles away. Mary Shirley improvised, delivered speeches, led the conference on. Many participants went to extraordinary efforts, over time and space and modes of transport, to attend.

We are a diverse Society, with members from over 46 countries and from many backgrounds and disciplines. Coming together in person to discuss, debate, collaborate is not always easy. But we persist. We are on this path for the long run.


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# Traditional Retailers and the Adoption of E-Commerce

## Presentation at the Annual ISNIE Conference, September 14, 2001

*Veneta Andonova*

*Editor's note: Veneta Andonova is currently studying in the doctoral program at Universitat Pompeu Fabra, Barcelona, Spain. Bulgaria is her native country. At ISNIE 2001, when the conference schedule had to be drastically redrawn at the last minute, she was asked on very short notice to present her work the next morning. Like so many others, including the new keynote speakers of the conference—George Akerlof and Oliver Williamson—and the many impromptu commentators for the sessions, Andonova met the demands of the occasion. Her presentation follows in abridged form, transcribed from videotape by Alexandra Benham. The full paper is titled "Disintermediation in the Online Transactions: Why Do Traditional Retailers Behave Differently When Adopting E-commerce?" Address e-mail to veneta.andonova@econ.upf.es.*

**I would like to talk about the Internet** and traditional retailers. The basic research question I had at the beginning was, "What is the role of the intermediary in a transaction?" When I went through the literature searching for papers on this topic, I found that authors believe there are four reasons for the existence of middlemen, or intermediational organizations, in transactions.

The first reason is the search-cost-reducing mechanism. If there is somebody in between producers and consumers, he will probably reduce the search costs for consumers, because this retailer can accumulate information on prices and goods.

Another reason is distributional efficiency. If we have to connect every producer with every consumer, for sure there will have to be many more transactions compared with the case where there is a central figure to serve as the intermediary.

Third, intermediaries perform a very important function in reducing the adverse selection problem. Because they offer a very large variety of goods, they will suffer a reputational spillover over all their goods if one of these goods happens to be of bad quality. Therefore they have the right incentives to look for good-quality producers.

Fourth, they also have the right incentives to develop a policing activity to keep those producers supplying them with good quality. So they will continuously track the quality of the goods, solving the moral hazard problem.

It is helpful here to divide these four lines of thought into two groups. The first group, search cost reduction and distributional efficiency, we can call the logistical functions that a retailer performs. It is related to the coordination costs in transactions. The second group, comprised of the adverse selection function and the moral hazard alleviation function, we can call the motivation part of the transaction costs. So retailers or intermediaries perform two functions: 1) they save on the logistics of the transaction and 2) they alleviate the moral hazard and adverse selection problems.

After reading all this, I was strongly convinced that in a virtual world where we can connect everybody with everybody, there still will be a place for intermediation. I will try to convince you of that now.

**Imagine a world where we can connect** everybody with everybody. Probably the Internet technology is a very good competitor to retailers in reducing search costs, that is, locating things at low cost. Distributional efficiency is not as clear. If we talk about digitized goods—goods that we can represent in 0's and 1's like music or software, probably the Internet is a good way of distribution. But my focus here is on goods that are not digitized. In this case, the advantage of the Internet technology over traditional technology is not as clear.

For the adverse selection and moral hazard problems, the Internet cannot help. We have not yet seen the development of an alternative institution that can reduce these problems in an efficient way. If we are not able to construct something new, probably the old mechanism, the traditional retailer in the transaction, will work.

So my first claim here is that even in a virtual world where we can connect everybody to everybody, we will need an intermediating figure.

And my second focus is, assuming I convince you that in the virtual world retailers make sense, then how will the traditional retailers behave in this situation?

Intuition tells me that they have an advantage. Some of the traditional retailers have been performing intermediary functions for centuries and they're good at it. How are they behaving now? If you look at the popular press, you'll see that some of them are accused of being lazy in adopting e-commerce, of being too old-fashioned. I tried to arrive at an explanation of why we have this perception. If we believe that there is a place for such figures, the traditional ones that are supposedly the best because they have the experience and the contacts, then why were they a little slow to adopt (or at least why do we have this impression)?

**My next step in this research** was to develop a scheme, a model that can explain this. I'm not going to go into the technicalities of the model. I hope you'll read the paper if you are interested. The basic idea is to represent what happened in the Internet world and in the world of retailing by a game, by sequences of steps. I set up a four-stage duopoly game that I solved making some assumptions about the costs of adoption that a traditional retailer or a pure online retailer would incur. After solving these models, I had several hypotheses.

One of these hypotheses says that we should not expect everybody to adopt the Internet technology. The new technology saves a lot of money: some say 28% in the cost of direct sales, up to 53% in traditional selling. This means there is a big advantage in selling online. But on the other hand you have the problem of consumer adoption: you have to convince consumers to buy online. So I tried to model the Internet as both a cost-reducing mechanism and also a substitute for traditional technology, but not a perfect one. A parameter that varies between zero and one represents substitutability between the selling techniques that Internet retailing, or e-commerce, can offer and the traditional selling techniques that every retailer can use. According to my model, not everybody should adopt e-commerce, and the first ones to adopt will be the ones whose selling techniques will be best approximated by e-commerce. The model also predicts that some retailers whose selling techniques are very badly approximated by e-commerce will nonetheless adopt it.

**To perform an empirical test** of these hypotheses, I used a database of 71 US traditional retailers. I used the classification offered by the Morgan Stanley Investment Research Report, where they classify these retailers into several groups, such as department stores, direct sellers, specialty retailers, shoe companies, mall-based retailers. I ran a logit regression, using the data from 1997 and checking whether each retailer had transactional capability in that year. By transactional capability I mean the possibility to perform a sale online, not just to convey employment information or to advertise. It means you can pay online and you'll receive something. Because the model was able to tell only about the behavior of retailers as a function of their proximity to e-commerce selling techniques, I also added some control variables, to see if these other factors may affect behavior.

You remember my basic prediction: the retailers whose selling technique can be best approximated by e-commerce should be the first ones to adopt it. What I found was exactly this case. If the eight groups of retailers are divided into just two groups—direct sellers and all the rest—I find statistically significant coefficients for direct sellers. And there is an interesting finding for one of the control variables—profitability. Retailers with lower profitability were more inclined to adopt e-commerce. I tried to check for endogeneity to see if it were the other way around, if in adopting e-commerce, you have to spend a lot of money, so you finally end up with lower profitability. But when I studied the profitability histories, I found that the companies that adopted e-commerce were the ones that traditionally had had lower profitability.

I lacked data to test my other hypotheses—data on the investment aspect, how much the traditional retailers actually spend on online operation. I'm collecting data on that now. My results are pretty strong. I also find that there was an attempt to preempt the entry of the pure online players like Amazon. All six direct sellers in my database went online as early as 1995, the year when Amazon.com started its operations. For me this was surprising and I think it is good evidence for my hypotheses. Thank you very much.

# Armen Alchian's Contributions to NIE

## International Society for New Institutional Economics
## Special Session at the Annual Conference, September 15, 2001

*Editor's note: A special session honoring the work of Armen Alchian was held at ISNIE 2001. Alchian, now professor emeritus of economics at the University of California at Los Angeles (UCLA), has been a powerful presence in economics for many decades. He has been affiliated with UCLA since 1946. Earlier he was at the NBER and Harvard University (1940–41), and at the University of Oregon (1942). He served in the U.S. Army Air Forces 1942–46. He is a Fellow of the American Academy of Arts and Sciences and a Distinguished Fellow of the American Economic Association.*

*Lee Benham (Washington University in St. Louis) organized and chaired the session. Panelists were Kenneth Arrow (Stanford University), Rudolf Richter (University of Saarland), Earl Thompson (University of California at Los Angeles), Susan Woodward (Sand Hill Econometrics), and Harold Mulherin (Claremont McKenna College). Oliver Williamson (University of California at Berkeley) also commented. The session was videotaped, transcribed, and edited by Alexandra Benham.*

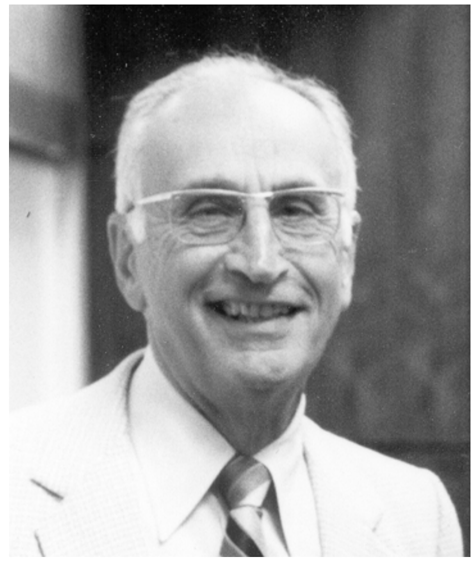

Photo by Susan Woodward, 1987

**Armen Albert Alchian**

### *Lee Benham*

It's a pleasure to welcome everyone to this session honoring the work of Armen Alchian. Unfortunately Armen was not able to be here today. We're privileged and honored that Professor Kenneth Arrow has come to give some comments on Armen and his work.

### *Kenneth Arrow*

Well, I'm sorry I'm not able to present this to Armen in person. He's one of the most likeable, wonderful people. To say that he is likeable, however, is to say something of very little surprise value. Everybody knows that. His charm and waggish humor, his low-key and yet firm personality, his general ease of manner, his genuine interest in other people, combine to make him one of the hardest people in the world to dislike. Now making his company a pleasure does not mean a complaisance in views, as we all know. Everyone also knows the firmness with which Armen holds to his opinions and conclusions, even when they are—or at least were—in the minority. Yet they are held in a way which leaves him open to friendships and even intellectual affairs of all kinds.

When I came to Stanford 6 years after he received his Ph.D. there, he was already a legend—the best graduate student that the economics department had ever had. They had gotten a new postwar crop and were hoping to find some successors—they did have some very good ones—but Alchian was the standard to which they were holding everybody. My senior colleagues like Bernard Haley and Edward Shaw were sighing for the day when they would have another such.

Before I got to Stanford, I had already met Armen at what I consider a great incubator of new ideas, the RAND Corporation, with which both of us were affiliated as consultants. My wife and I became personally friendly with Armen and his wife Pauline. Among our other activities we played bridge very frequently. Well, the two of them, and perhaps more especially Pauline, were certainly better players than we were. The difference wasn't so great that we couldn't enjoy the game. I'll refer later to some other activities of Armen's that I can't compete with at all.

At that point, when we had discussions on economics, we weren't discussing broad questions, broad attitudes, philosophical differences, or conceptual approaches. We were working for RAND, and we were concerned with things like improving the quality of the logistics work at RAND, the prediction of costs and such matters. In fact, we had this typical situation. When you're among economists, there are tremendous differences of opinion, and everybody is discussing them.

When I came to Stanford 6 years after he received his Ph.D. there, he was already a legend—the best graduate student that the economics department had ever had.

When you're sitting in a room where you and another are the only two economists in a room with non-economists, suddenly you seem totally identical. All these differences which must have loomed very large seem very small. There were very few economists at RAND at that time. We were the two, or three—there were a couple of others. We had pretty much the same attitude of trying to explain the economic way of thinking, both to the military-minded strategists and to the mathematical game theorists, both species who were in great abundance in the early days of RAND.

For example, I was very early impressed by Armen's careful and yet imaginative analysis of progress curves in explaining the costs of airplanes. You all know what progress curves are, don't you? That is, as you keep on producing something, the costs go down. This was an observation, interestingly enough, a very important observation, which was originally made by an aeronautical engineer, Theodore Wright, and it's one of those striking empirical regularities that has been repeated over and over again.

**Now probably what made Armen really famous** was his paper in 1950 on evolution. His explanation of why rational behavior was a reasonable hypothesis was that irrational behavior gets eliminated. Now there is plenty to be said about that. But it must be pointed out that he always expressed surprise later that this paper attracted any great attention. He thought he was just saying what everybody was saying, just clarifying. There were a lot of discussions, I should say, in the literature at that time about irrational behavior. This typically came up in connection with discussions of minimum wage laws. The reaction of many prominent labor economists would be that people were not optimizing. If you raised wages and employees would get more efficient, the question was, why weren't they efficient before. Now many people here will perhaps dispute that with Richard Lester, a prominent proponent of irrational behavior. There was a rejoinder by Fritz Machlup, in his usual lucid but somewhat schoolmasterish way.

It was in this controversy that Alchian's paper appeared, in which he thought he should try to clarify the position of the premise of rationality. It turned out everyone got extremely excited. It was the first clear statement of what no doubt was in some sense implicit, but no one had ever put it down before. Of course it gave rise to an enormous literature, probably moving in directions that Armen would not be overly happy with in some ways—evolutionary game theory. Every theoretical journal is full of articles on evolutionary game theory with the question of what happens with the dynamics that are set up by survival hypotheses. There are many interpretations. But the point is they all go back and refer directly or indirectly to Armen's 1950 paper.

**Let me say a few words** about what I see as some of the general themes. Although Armen's work isn't confined to it, there's a general thematic unity about his work. I think there are perhaps two themes at slightly different levels of discourse. One, probably the more interesting to this Society, is the defense of the idea that free contract leads to efficiency. Now he uses the term "free contract," not "market." I think that one of the points that Armen's previous work involved was stressing that allocation doesn't necessarily take place simply through competitive markets as described in the neoclassical literature. The idea of free contracting (I'll refer later to one particular discussion that we got into, a debate, perhaps I should say, on this) showed up repeatedly both in popular and semi-popular articles and in academic articles. For example, he had a paper arguing that college athletes ought to be paid their marginal product. In the present system they had, there was a sort of a monopsony element by which universities were exploiting the athletes. I just mention that as an aside.

But there was a kind of analytic underpinning connected with this, less policy-oriented and less ideological. It's a view that capital is very important—capital in a very broad sense of the word. Things, relations are long-lasting. That's a very common theme which occurs over and over in his work. That is, there is capital as a set of fixed relations which persist in time through contracts, not necessarily physical capital.

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What made Armen really famous was his paper in 1950 on evolution, explaining why rational behavior was a reasonable hypothesis.

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For example, the progress curve story is one in which learning is the constant. Once knowledge is acquired by experience, it remains there, it continues.

In the evolutionary model of the firm, there's an implication of permanence. If the firm just randomly fluctuates, there is no real selection. Selection requires that the firm has a strategy which it adheres to, and this leads it to success or failure. Then the firm may abandon the strategy, or it may get abandoned. The latter is the view of many organizational sociologists: firms never change, but they get eliminated—and not only firms, but other organizations. I don't know exactly the statistics on it, but there's a lot of literature of that kind. But either way, whether selection takes place through adaptation by the firm or through survival of firms, it's a continuing thing. You have to have a strategy in the sense of a way of dealing with things that either is reinforced, or whatever the opposite of reinforced is.

**The work that probably made the biggest impact** of all was his work on the assignment of property rights in firms. There were several papers, one particularly with Harold Demsetz in the American Economic Review in 1972 which attracted a great deal of attention. The argument was that, in the assignment of property rights, the residual claimant essentially is the monitor. There is a world of incomplete information. As the monitor and the institutions evolve, there's more than just strategies—not just ways of behaving in the market, but actually how the market, or rather the economic institutions, are constructed, because of efficiency. They have superior efficiency. But you see the whole thing depends on long-term contractual relations. The implication here strongly is the idea of a continuing presence. Otherwise, if it's just a flow and every day these things are renewed and new relations are created, the firm can't count on getting the rewards of its monitoring. So all of this is based on the idea of an emphasis which was absent from any of the state-of-the-art economics of that period. People like Hicks or Lindahl, starting from the neoclassical point of view, were bringing the future into the present in a way closer to classical market analysis. We can argue whether that was a successful program or not. But all I'm saying is that the idea of long-term capital seems to be the essential thing.

One more place where this becomes very conspicuous is his paper with Benjamin Klein on measuring inflation. What does it say? It says: assets. The biggest thing you're holding is the stock of assets, financial assets, real assets, whatever. And therefore the prices of assets ought to be the major part of your price indices, based on commodity flows, not on stocks, not on the price of existing assets. New assets enter into this. And indeed during the period of irrational exuberance when Alan Greenspan raised this, Greenspan was concerned. I've heard him talk on the subject myself. The question was whether—he didn't put it, should the CPI be rewritten but—should interest rate policy be influenced by an attempt to control asset prices, rather than or in addition to commodity prices. So it's a very real issue and also fits in to the general philosophy, the general theme, of Armen's work.

I should say another one of my favorite themes, although it's a little apart from the main themes of Armen's work, was his work with Reuben Kessel on

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Things, relations are long-lasting: that's a very common theme that occurs over and over in his work.

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inflation. They took a particular Chile inflation of the early or late 1950's which was one of the wild Latin American inflations, and the question was, what was its effect on the distribution of wealth or income. There's always been a view that workers are the main sufferers from inflation, and this argument just wasn't true. By and large real wages with some lags were maintained, that is, money wages did keep up with inflation. In fact, the idea which has been repeated many times before and after this paper was published, that inflation is the cruelest tax, meaning that it hits the lower income groups, seems not to be true, at least not if by the lower you mean workers, employed ones. So this was a real empirical change in the dogma. I think it has held up very well, from what I understand, in subsequent inflations. And I don't know if it has ever quite received the attention I thought it deserved. I and every other former student had this cliché, and in fact it just wasn't true.

**Finally let me mention another work** that is interesting to me. If you look at Armen's bibliography you'll find a joint paper, Alchian, Arrow, and Capron (William Capron). It's a RAND memorandum, never published, and it's very interesting. The paper was on the demand for scientists, which was considered to be an acute problem of the late 1950's. (This piece appeared in 1959.) It was considered a great crisis: the scarcity—that was the general term used in the press—of scientists and engineers in the defense industries. Charles Hitch, who was the director of the economics division, thought this was the kind of statement of a public policy problem that RAND was very good at addressing, and he put the three of us to work writing this paper. Well, it was an interesting thing. In the end we had a lot of discussion, and Capron and I disagreed with Alchian, but on the essential matter there was no real arguing.

The work that made the biggest impact of all was his work on the assignment of property rights in firms.

In about two or three weeks of looking at data and reading the source of the alleged shortage, we concluded that the problem basically didn't exist. There was not a shortage of aeronautical engineers. The company, the airline manufacturer, would go to the annual Ph.D. programs or M.A./M.S. programs in engineering and try to hire some people. They wanted 6; they got 5. Well, that company fellow was always invited to speak at some dinner. The aviation society things were all written off under cost-plus contracts, and there were a lot of long lavish dinners at which the fellow was the after-dinner speaker, so of course he complained about it. It turned out when we tried to track down the evidence for this, it was A at one dinner quoting a dinner speech of B at an earlier dinner. It was a joke. It wasn't that there was nothing there. But it was a joke.

So Bill Capron and I gave an analysis along Samuelsonian lines. There was an excess demand, a small excess demand. It raised the wages, and at the same time the demand was going up, because government expenditures were rising at this point. We were rebuilding our arms after the Korean War. So you could explain it by an upward-shifting demand curve that meant you were never quite in equilibrium. The demand curve kept shifting upward, the price kept on rising, but it would never quite catch up. So there was a continuous perception of excess demand, but it didn't really mean the markets were very far from balanced.

On this analysis there was no disagreement. However, Armen did not like the idea that anything was involuntary. He didn't like the idea of involuntary unemployment. In fact, in our discussions he mentioned some of his notions concerning unemployment. When he was in the middle of the Depression, there were always signs up that anyone could go and pick figs for 25 cents a basket. He held that anybody who didn't do that was clearly not unemployed. Of course the case we were studying was the reverse; this was excess demand. But all that meant was that the firms voluntarily were not paying a sufficiently high price. So the facts and the analysis were not in dispute. But we could not come to agreement on how to word this, and the study was never published, but it was really a pretty good piece of work. As I say, the essentials of the analysis were not in dispute. We had many agreements.

**Finally I must come to a mystery** about Armen. That's how he has managed to accomplish all these things and many others that I haven't mentioned, textbooks, being active in administration, and the like, but he also plays golf, a very ardent golf. Now I don't happen to be a golfer, and I don't really understand this compulsion, but he's not the only friend I have who plays it. So taking a revealed preference attitude, I have to say a) there must be a great desire for this, but b) he must be pretty good. I would imagine you don't keep on enjoying golf unless you're good. Now, to be good at golf usually means you're spending a lot of time at it. And the mystery I've never been able to figure out is how he managed to do all his work and still play at St. Andrews or places like that with great enthusiasm.

I really was hoping Armen would be here personally because I wanted to thank him for all he and Pauline have done as friends and as scholars.

Thank you.

## *Lee Benham*

Next I'll call on Rolf Richter. His work on institutions, the conferences and seminars he has organized, and his editorship of *The Journal of Institutional and Theoretical Economics* are all fundamental to the success of new institutional economics. Armen was a participant in many of those activities. So Rolf, it's very good to have you here.

## *Rudolf Richter*

I wanted also to start with a few personal comments, and then say a few things about Armen's work.

When we met for the first time at the inaugural meeting of our Series of International Seminars on the New Institutional Economics, it was June 1983. The guests of honor, among them Armen, were put up in an industrialist's *Schloss*, the mansion of the owners of *Villeroy & Boch*, a 200-year-old stoneware factory in the Saarland, Germany. Maybe Professor Alchian was attracted by the prospect of living in this extravagant shelter or because of the nearby golf course that I had mentioned, of course with intention, or maybe it was also to enjoy the company of Ronald Coase, Eirik Furubotn, Douglass North, Oliver Williamson and other new institutional economists who were coming.

At this first seminar Alchian presented a paper on "Specificity, Specialization and Coalitions." It was a historic paper with his admittance that "in the light of Williamson's (1975) analysis" his and Harold Demsetz's 1972 assertion was incorrect that in a firm "neither the employee nor the employer is bound by any contractual obligations to continue their relationship." This gallant behavior of an economist was an extraordinary experience for me. I was used to the economist's or scientist's attitude to fight for one's own theories, be they right or wrong, to the last man.

Well, at the same meeting, Armen Alchian proved to be quite a warrior as well. He attacked, seconded violently by Bill Meckling, his golf friend, a proposition of one of our invited speakers. I forget which one. It just happened, this attack. The German chairman (not me) lost his tongue. After a moment of tense silence Ronald Coase raised his hand to calm down emotions with a long quote from Alfred Marshall, which, as he told me later, always works in such cases. Then he added some balancing comments.

**Armen Alchian became a frequent participant** of our Saarland Seminar series on the NIE, thus helping the organizers, Eirik Furubotn and me, with his scholarly contributions, his advice, and his undeserved letters of praise to our sponsors who helped finance the next conference. He enjoyed also a certain freedom, because I expected of invited people, if I paid for the trip and everything, that they would attend every session. Of course he didn't; he went once in a while golfing and returned with a basket of strawberries.

Alchian was also for many years a board member of the *Journal of Institutional and Theoretical Economics* (JITE), an old German *Zeitschrift* founded in 1844, which I edited at the time, renamed and turned into an English language journal in the wake of globalization (very much to the disgust of some of my compatriots—nobody told me directly, but I heard). The 1986 session of our Seminar was dedicated to Professor Alchian. The papers appeared in the March 1987 issue of JITE entitled *Some Perspectives on the Modern Theory of the Firm,* together with a picture of Armen Alchian. So if you want to see him, that's about fifteen years ago. It's a nice picture. He looks the same today, of course. The issue opens with an appreciation of Alchian's contribution to the theory of the firm by Harold Demsetz. Armen Alchian presented his well-known paper with Susan Woodward on "Reflections on the Theory of the Firm." Karl Brunner spoke toward the end of the meeting on Professor Alchian, his mentor and friend.

> Alchian exhibits a remarkable mastery of subtle economic analysis with comparatively simple means.

**Armen Alchian played a leading role** in the development of the property rights analysis. Among the evidence are his 1958 paper on "Private Property and the Relative Cost of Tenure," his 1964 textbook on *University Economics* coauthored with W. R. Allen, which we used for years in the Saarland as an introductory text for economics, his 1965 article on "Some Economics of Property Rights" and more articles published in his collected papers, which played also a very important role for new institutional economics as well as the literatures already mentioned by Kenneth Arrow.

**Regarding his work**, I wanted to say a few words concerning the paper which appeared in the *Journal of Political Economy* in 1950 on "Uncertainty, Evolution and Economic Theory" which Kenneth Arrow just talked about. The paper belongs to the category as far as I know "much quoted, little read." Demsetz in his introductory text writes in his homage to Armen Alchian: "To this date, I do not believe that the profound implications of this paper have been adequately explored by economists." In the same line are Karl Brunner's remarks: "Alchian's old article was obviously 'too early' but it should find its time." I think both statements are right up to date, fifteen years later. That is amazing, because the proposition of Alchian's paper was perfectly in the line of new institutional economics research, namely, that analysis on perfect information misses too many aspects of reality, or, as he says, "'profit maximization' is *meaningless* as a guide to specifiable action." Alchian suggests, instead, to apply an evolutionary analysis to the operation of a competitive market, "an introduction of the element of environmental adoption by the economic system of a posteriori most appropriate action according to the criterion of 'realized positive profits.'" He demonstrates that "adaptive, imitative, trial-and-error behavior in the pursuit of 'positive profits'… is the *sine qua non* of survival and success." Alchian concludes, "the consequence of this is that modes of behavior replace optimum equilibrium conditions as guiding rules of action." As examples for "modes of behavior" Alchian mentions imitation and trial-and-error. He could as well have mentioned "institutions" or "governance structures."

> The proposition of Alchian's 1950 paper is perfectly in the line of NIE research: that analysis on perfect information misses too many aspects of reality.

Here the circle closes with the later developments of the new institutional economics. Alchian's 1950 paper is an early contribution to what Herbert Simon later dubbed "bounded rationality." Yet not to overstate my comparison: Alchian's 1950 thesis is not the same as Simon's concept of bounded rationality. It is based only on lack of foresight, not also on cognitive limitations as is Simon's "principle of bounded rationality." But the conclusions drawn by Alchian and Simon and others are the same, only with different names like adaptive learning (Alchian), servomechanisms (Simon), invisible hand mechanisms (Hume, Menger), self-enforcing mechanisms (Schotter, Bates et al.), efficient governance (Williamson). The consequence of this style of reasoning is not "*laissez faire, laissez passer, le monde va de lui-même.*" As we know, the invisible hand, if unaided by supporting institutions, tends to work slowly and at high costs.

Fortunately, a boundedly rational model, to continue with Alchian, "does not mean that an economist cannot predict or explain or diagnose. With knowledge of the economy's realized requisites for survival and by comparison of alternative conditions, he can state what types of firms or behavior [or, I would add, governance structures] relative to others' possible types will be more viable." That is what later became the program of comparative institutional analysis. The idea is the economist (as a social engineer) should think less like a "physical engineer"—a physicist—by optimizing target functions under constraints, and possibly more like a "biological engineer"—a physician—who thinks in terms of concrete cases and their effective cures.

Alchian did not follow up his 1950 paper since then. Still, this style of reasoning characterizes all of his later work, as does the information problem and the concept of self-enforcement. As Karl Brunner rightly pointed out in his 1986 homage, Alchian exhibited a remarkable mastery of subtle economic analysis with comparatively simple means. "He surely avoided the fashionable game of analytic overkill and avoided the pursuit of contrived problems because they fit a given analytic scheme." He has influenced many students and readers, particularly in Germany where his way to ask and to answer questions—as institutional economics in general—is endemic, possibly more so than in the United States.

## *Lee Benham*

Thank you very much. Our next speaker is Earl Thompson, a colleague of Armen's at UCLA and a very innovative thinker. While we were preparing for this session, Earl wrote me that he'd had an exchange with Armen. Armen told him, "I don't understand the comments, but go on and charge ahead!" So here we go. Earl, it's all yours.

## *Earl Thompson*

I had Armen as a teacher when I was an undergraduate at UCLA in the late 1950's and was struggling to find a major. He had this informality about him, this plain honesty, this directness. He had a totally unacademic approach to problems and to asking questions. He'd come late to class and wear red coats. I looked at all that and said to myself, "Now there's something I can do." So I became an economist. He also had this incredible warmth. That, I could never match.

I think that what's most unique about Armen's thought is that he maintains a constant intuitive feel for the model that he's developing or the abstract discussion he's involved in. He won't allow himself to be carried into another world where it's a totally abstract world unconnected to something that is intuitively real. He also attempts to constantly maintain a logical structure within that picture of the world. The combination is rather unique. Most theorists allow math to break the connection. And most institutionalists don't use enough theory to retain the discipline of a logical model. So he has this remarkable characteristic as an economist. Probably because of this uniqueness, Armen also has had the humility to refrain from asserting broad policy prescriptions or unambiguous welfare implications. It's one of his most salient features. It recurs time and time again in his work. You don't see that in most other economists, even in most of his students. I don't think it's something you can learn.

Given the time constraints, I'm going to talk about just one of Armen's central theories, his theory of the firm. As Ken and Rolf have indicated, his primary contribution—or his most famous contribution—is in the area of the evolution of the firm. He also has special theories of the nature of the firm that he developed later with Harold Demsetz and then, still later, with Susan Woodward. This collection of works probably suffices to reveal Armen's uniqueness.

**Concerning Armen's theory of the evolution of the firm**, let me say that his analysis applies to zero-profit organizations. Such organizations have all of their dominant institutional patterns under pressure: organizations failing to get these patterns right do not survive. And under this condition (in other words that all of the organization's institutions are "vital") there will be a rapid evolution toward an equilibrium. There's a harsh Darwinian pressure on the organizations, so you don't have to wait a long time for evolution to reach an approximate equilibrium.

Modern evolutionary game theory has attempted to broaden this evolutionary argument to an assertion that there is an efficient equilibrium in our economic and social institutions. This assertion has indeed become a basic tenet of entire schools of thought. The Austrian school certainly has that tenet. Edmund Burke and his followers certainly have had it, and the "new institutional" economists are pretty close to adopting the same tenet. These schools of thought take the idea of evolution and assume that, just as in the case of the firm, it will produce a collectively rational, efficient society; so we should just watch those institutions, praise them, and try not to disturb them because of the salutary equilibrium they are approaching. Well, Armen has never taken that jump, to Austrianism, Burkeism, or even "new institutionalism." Even though he's been tempted, he has had too much humility to jump into that policy domain.

What's unique about Armen's thought is his constant intuitive feel for the model that he's developing or the abstract discussion he's involved in. He won't allow himself to be carried into a totally abstract world. Yet he also attempts to constantly maintain a logical structure within his picture of the world.

**The question remains: Was he right?** The answer is yes, but it's going to take some explaining. Although I must be brief here, a much fuller development of this argument can be found in Thompson and Hickson's *Ideology and the Evolution of Vital Institutions* (2001). First, we should recognize that there are shocks hitting the economy every couple of generations or so, shocks that radically change the institutional target. So if the society is moving slowly towards the target, without the pressure of a zero-profit condition to dramatically speed up the evolutionary process, the probability that you'll be very close to the target is essentially zero. Almost all evolutionary game theorists understand this. It is one of the fundamental problems of evolutionary game theory. Nevertheless, suppose there are a few central institutions that are vital to the society. If the society does not adopt those institutions, it will perish. This may hold even though the society normally lives substantially above the subsistence ("zero-profit") level. Basically these vital institutions are defense-related. If a country gets things wrong concerning these vital institutions, it's going to die. This forces rapid evolution on states in the same way that a zero-profit condition forces rapid evolution on competing firms. This in turn puts pressure on policy-makers to correctly form the vital defense-related institutions of their states. To do that, they'll need to be objective and fairly rational, because the defense-related institutions are also moving targets. The policy-makers will have to be sensitive to new defense technologies and accordingly change their society rapidly. This is a difficult problem. The countries that survive are going to be good at solving this problem. And because they're necessarily good at solving this problem, they're probably going to be good at solving problems generally. In any case, the states will rapidly approach an efficient equilibrium.

**So, you say, perhaps Armen** <u>should</u> have joined up with those other schools of thought. But no, he's careful, you see. Consider this: When there's a highly positive surplus, there will generally arise groups of thinkers who form free-entry intellectual cartels and influence the ruling class in ways that are biased in a direction that increases the demand for the services of the cartel members. This will alter the characteristics of the evolutionary movement entirely, because an evolutionary equilibrium has learning as well as Darwinian selection. The ideologies that the ruling class picks up from these intellectual cartels, by biasing their learning, will lead them to adopt strictly inefficient long-run institutions

Moreover, for those ideologies that strip the society of its vital institutions, as did the laissez faire ideology of the Austrian school, you end up with a failed society, and a failed thought system as well. That's what we saw in the late 19th century. The previously dominant European nations adopting laissez faire ideology that was so very fashionable in the mid 19th century suddenly started to fail in the 1860's at the hands of tradition-oriented, pragmatic, non-ideologized Prussia. This is because unadorned free trade, by failing to internalize a critical, but quite common, defense externality, strips independent states of a vital institution. So classical laissez faire ideology died a sudden death in the late 1860's.

The formation of neoclassical economics was like picking up from the ruins and starting over again, almost from scratch. The original neoclassical economists generally thought of themselves as anti-classical economists. Nevertheless, since cartel-maximizing conclusions are but little affected by incidentals such as past policy failures, neoclassical economists soon developed a thought system whose conclusions greatly resembled those of classical economics. Neoclassical economic ideology—like classical laissez faire ideology—is dangerous for any independent state. The Austrian school didn't see that, and Hayek didn't see it either, because they did not allow ideology to enter their evolutionary models. Their models of social evolution do not allow for the corruption of the ruling class by an economic ideology. And, correspondingly, their models of trade and taxation, following classical and neoclassical economics, did not allow for defense externalities.

Similarly, what Burke had witnessed in France during the 1770's and 1780's was the takeover of a French ruling class by a physiocracy-inspired cartel of "Enlightened," laissez faire, intellectuals. This created revolutionary pressures by practical people, not intellectuals, who saw that the new ideas were eliminating the ability of France to defend herself. So the French Revolution, which actually took about 80 years to finally succeed, is an example of a revolution against an ideology. But Burke didn't recognize that because he didn't have ideology in his thought system. He was, indeed, himself quite taken by the free-trade ideas that had been exported to Britain by Adam Smith.

The same critical mistake was repeated in the 1870's by the founder of Austrian economics, Karl Menger, a neoclassical economist whose evolutionary framework similarly failed to realize that ideology was at work in the societies that he was observing and evaluating. Austria's days as an imperial state were numbered because of his mistake, his failure to accurately interpret the contemporary European failures. Our traditionally popular modelers of social evolution, which now include a large number of "new institutional economists," have thus been depressing victims of a broader evolutionary process, one that they have failed to admit into their models. A simple interpretation of this failure is that these modelers have been so much a part of the system that they were modeling that they have been unable to escape their cartel-determined self-interests and model social reality as logically disciplined, objective, external observers.

**Now if an economic ideology strips a state** of its vital institutions, or changes the institutions so that the state can't defend itself any more, the states with those ideas are eliminated. So one is tempted to infer a tendency toward efficiency. However, some ideologies are "deeply rooted." Such ideologies improve the survival capacity of their states even though they decrease the utility of their inhabitants. This creates a long-term problem. Legal and political ideologies are taught to children who grow up to run their state's institutions. Cartels of thinkers infuse their thoughts into a society through the early education of politicians. This generates an institutional equilibrium whose gross inefficiencies are hidden from everyone in the state, thereby creating an opportunity for great social improvement through objective external analysis. We should, in our own long-run interests as economists, be looking for these deeply rooted political and economic ideologies, evaluating them by seeing how they've worked to improve survival capability even though they've decreased utility, and trying to root them out.

So although Armen doesn't get to that level of analysis, neither does he join the Austrian school or a large number of new institutional economists. That's good: it allows him to be open-minded. I've talked to him about these ideas quite a bit. They're relatively new and, of course, radical ideas; yet he's refreshingly receptive to them.

**Concerning Armen's special theories of the firm**, given the mounting time pressures, I'll speak mainly of his work with Demsetz. The theory is this. There is a firm, which buys inputs and sells outputs. But there's also a vital monitoring function: the inputs have to be observed and shirkers threatened with discipline. The observed monitor is the residual claimant because the monitor stands to lose the residual if he or she doesn't perform the vital monitoring function. Although the result appears to be optimal, Armen doesn't state that it is. And even though his co-author has a very different view, Armen is very careful not to presume optimality of his firm's behavior.

In fact, given the deeply rooted ideology of our legal principles, there's actually no free contracting in our evolved world. Ken correctly observed that Armen loves free contracting, but, realistically, ours is a world without such contracting. If you, as an employer, monitor and catch a shirking worker, then although you've been damaged as an employer, you cannot sue and have most of that money paid as a fine to a third party. Theoretically there should be a third party who gets the fine from the shirking worker and who pays for the rights to receive this revenue from fines. But our laws don't allow these contracts. As a result, when an employer finds a shirking worker, he docks his pay and it ends up as a private redistributional benefit to the firm away from the worker. The corresponding rent-seeking incentive implies a socially excessive amount of monitoring.

The solution to this efficiency problem is government production or large firms. Large firms will attenuate ownership, and that will eliminate the over-monitoring problem. That explains the survival of many large, complex, expensively bureaucratic firms relative to small owner-operated firms. Although the reason is not considered in his analysis, he says something like, "There are large firms. Maybe it's not optimal, and maybe it is." By not committing himself on the issue, by eschewing bald statements of the form, "these institutions are optimal," and remaining uncommitted to efficiency positions, Armen has wisely avoided error, and his work is thus able to retain a timeless quality.

Susan's subsequent theory-of-the-firm paper with Armen puts the theory of the firm in a broader perspective. In that work, they admit all sorts of policy interventions in the process of evolving firms. There we find explicit insights about the possible role of the government that are quite appropriately non-Austrian.

## *Lee Benham*

Thank you very much. I'd like to make an observation about Armen. While looking through his bibliographic materials, I realized that he has published in a very idiosyncratic way. This is one of the ways in which he has deviated from the usual practices of the profession. For example, he published his fundamental 1965 paper "Some Economics of Property Rights" in the Italian political science journal *Il Politico*, a journal not widely known to American economists.

And I've read about Armen's great admiration for Bernard Haley, who was the department chairman and the professor Armen worked with at Stanford. One of Armen's papers had been accepted by the American Economic Review, when an occasion honoring Bernard Haley arose. Armen just withdrew his paper from the AER and published it instead in the volume honoring Haley. That book is probably among the most widely cited of economics volumes for honorific occasions.

Susan Woodward has co-authored with Armen some very important work dealing with the nature of the firm. She was kind enough to help in organizing this session. So Susan, welcome.

## *Susan Woodward*

In the vein of thinking about how Armen's thinking is different from that of other economists, there was a point where I was teaching price theory—undergraduate price theory in a two-course sequence where I had to cover all of price theory in two quarters. Jack Hirshleifer's new textbook had just come out and I thought it was really excellent, but I couldn't not also use something from Alchian and Allen. And Alchian and Allen had by that time been torn apart into various different books. *Exchange and Production: Competition, Coordination, and Control* was available in a paperback edition. So I told my students to buy both books.

Since I was using a new book for the first time, when I got to the topic of rent—such a difficult topic for non-economists, because it's an English word that everybody has a precise meaning attached to and economists use it sort of the same but not quite the same—as an act of kindness to my students I looked up "rent" in the index of both books. In Hirshleifer it appeared for the first time on some page like 417. And in Alchian and Allen, it appeared, say, on page 7, and page 47, and page 107, and page 147, 177, and 189 and 197. It was just peppered all the way through the book. For the beginning price theory students, it's a difficult concept. But the two different approaches show very much the strength of two different ways of thinking about problems.

Hirshleifer approached price theory as pure geometry. You lay out the axioms, you state the postulates, then you prove the theorems and the lemmas and the converses and give the students some real world problems to apply them to. And you never introduce a new idea, especially a hard idea like rent, without having thoroughly laid the groundwork for it before you do that. Whereas the Alchian approach is "Oh, here's an idea. Let's walk around the idea and see what it looks like from all of its sides. Let's tip it over and see what's under it and what kind of noise it makes when you turn it over. Let's light a fire under it and just see what happens. Drop it ten stories." And of course both approaches have merits. So I really understood why I couldn't give up either textbook. The formal approach has a lot of merit, especially for the student who is coming to the ideas for the first time, but the less formal approach of approaching the ideas from all sides and being open-minded, also has merit.

**Now in his thinking,** as others have alluded, Armen has absolutely no patience for paradigms that aren't robust—for example, economic arguments of the form, "If you had ham, you'd have a ham and cheese sandwich, if you had cheese." There are lots of them out there. If the results of a paper turned up with something like that, he'd just pitch it. He is just great at heaving things into the wastebasket. He has no respect. And he also has no patience for any ideas, the proof of which relies on really fancy econometrics. Just how true this was came to me at a time when I was visiting Chicago. I was talking with Merton Miller about limited liability and telling him what I thought the role of limited liability was, and why it was such a ubiquitous institution in the modern corporation. He said, "Well, what evidence would you look to, to see if this story is right?" And I said, "We've looked at publicly traded firms. They all have limited liability. When you look at private firms, some of them do and some of them don't." "Well, how do you know they don't?" "You have to look at contracts and you can talk to bankers. You ask bankers: when they lend money to these private firms, do they write a deal where only the firm owes the money, or where the owner of the firm is personally liable? And they tell you, for about half to two-thirds of the loans they make to private firms, the owners personally sign those notes." And Miller said, "Ah, this sounds like UCLA econometrics!" I said, "What is UCLA econometrics?" He said, "You go to Armen Alchian and you say, 'Armen, is this number about right?' And Armen says, 'Yeah, that sounds right.'" And indeed, it's not the worst econometrics.

> Alchian's approach is "Oh, here's an idea. Let's walk around the idea and see what it looks like from all sides. Let's tip it over and see what's under it."

But I learned the most about how Armen thought about the world and in particular thought about ideas and how to promote them, when we wrote together. I didn't have Armen as a teacher. But when I came back to UCLA to teach, this was at the time when small computers were just starting to be around, but they were still very expensive, so very few people had one of their own. There was this little room on the eighth floor at UCLA where there were three little Compaq computers—the ones with really tiny little green screens. And those of us who were eager to process words and make life easier were in there, willing to put in the investment to learn how to use them. Armen was among these people. Often I would find myself in this little room, with Armen working away on something. Armen would get bored with what he was working on, and he would turn to me and ask me some deep question. And I'd flounder around and tell him I didn't know and go back to work. But one of the questions he asked me was why we have limited liability. So I explained to him about transaction costs of transferable shares without limited liability. This didn't have anything to do with the risk; it just had to do with minimizing transaction costs. If you limit the liability, then everybody knows what the deal is and you don't have to track down the shareholders and find out what their wealth is in order to decide on what terms to extend credit, and in the bargain you also can make the shares transferable. And that's really worth a lot, this transferable share business. And he said, "How did you figure this out?" I said, "I don't know." "Have you written it down?" "No, it doesn't seem worth that." "Oh, yes, of course it is!" I wrote the ideas up and it has been published and then adopted in two books of readings on the modern corporation.

**As a result of the conversations** that we had about limited liability, Armen never called me "Joanne" again, and we began working on another paper on the firm. I was especially giving Armen a hard time about teamwork, about how teamwork was really kind of mystical, and didn't it all boil down to moral hazard and hold-up, which could be expressed in changed probabilities and altered terms of trade. After numerous encounters Armen came to agree that teamwork really did boil down to hold-up and moral hazard, and that those were the problems the team had to solve in order to be effective. He said, "This is really worth writing up." So we started writing the paper. I wrote out in bald English that teamwork is a kind of mystical notion, and that what is really important about firms and other teams, is their solutions to the problems of moral hazard and hold-up. Armen read it and said, "Well, this is right, but you know it will make Harold Demsetz mad. We can't say it that way." I said, "But it's true." He said, "It'll make Harold mad. We can get it across another way. We'll say it another way." So he was willing to alter the words a little bit some of the time in order to be effective and to be persuasive and to try to bring Harold around instead of making him mad.

Now when that paper was finished—and of course no paper with Armen is ever really finished, especially in the world of processed words and electronic publishing—eventually the first version got into Rolf Richter's journal. Oh, and that was another interesting episode. When we started working on this paper I asked Armen, "What journal should we be shooting for?" He said, "Oh, don't worry about that. Something will come up. That's the wrong concern. Think about the ideas, don't think about the journal." It's a very unusual approach.

Ideas are important. Don't fuss over the small stuff or the small-minded stuff, just work on the ideas and get them right. And it's both tremendously admirable and tremendously productive to approach thinking and ideas that way.

**Then Orley Ashenfelter asked Armen** to write a book review of Oliver Williamson's *The Economic Institutions of Capitalism* (such a brilliant name!). So we started working on that, and Armen began writing. But I went back to reread *Institutions of Capitalism*, because I had really struggled with *Markets and Hierarchies*. But with *Institutions* I got it: the clouds parted, I saw what the ideas were, and how to proceed from here. Then Armen handed over to me this stuff that he had written, I having just come back from my very careful reading of *Institutions*, and I said, "Armen, this stuff isn't in Williamson. And he said, "Well, did he get it wrong?" I said, "No, it's not that he got it wrong. A couple of these issues just aren't there at all. You attribute these ideas to him, but they really come from our other paper." And he said "Oh, well, don't worry about that. Some historian will sort it out later. It's a good place to promote these ideas, and they'll get the right story eventually."

And of course this from a man who has spent his life expositing the efficiencies of private property and property rights—to basically give ideas away. It was a good lesson for me, because at that point I was just starting my ten years in the federal government, after years in academia coming up with ideas and trying to build fences around them and establish property rights. "This is mine. I thought of this." In government you never get anything done that way. You have to do the opposite. You have to go to people and give them an idea and then convince them that it's their idea so they will help you. It's a completely different strategy. And to see that it was actually in some ways an effective strategy in the purely intellectual world too, was good.

**When I think about why we love Armen** so much, it's not just his contributions to our understanding, because other thinkers have made huge contributions and not been nearly so loved as Armen is. His contributions are great, but they are not enough to explain the level of affection. What's more important is his sense of what is important. Ideas are important. Ideas are more important than being important. Don't fuss over the small stuff or the small-minded stuff, just work on the ideas and get them right. And it's both tremendously admirable and tremendously productive to approach thinking and ideas that way. The iconoclasm and eccentricity that Armen brings reflect a state of liberation from the petty concerns and status competitions that fill a lot of academic consciousness. It's completely refreshing. Armen would be the first to agree that not all competition is efficient, and in particular that status competitions on some important level are very socially inefficient.

In terms of socially inefficient behavior, what Armen thinks about that came out in an interesting way when we were working on the book review. It concerns what the word "fair" means. I'm virtually certain that at some seminar at UCLA in the 1960's or early 1970's a bunch of economists with whom Armen would have been comfortable would say "Fair? Oh, the word 'fair' has no meaning in economics. No, you can't talk about 'fair.'" But then we got to the situation where we were thinking about the mechanic in the desert (the car repair person in the desert), who is in a position to hold people up. You're there in the desert, and some part is broken, and the mechanic can fix it, and it's worth really a lot to you to get it fixed. Yet the mechanic doesn't attempt to charge you the full value, but charges you the normal mechanic-in-the-desert sort of wages. The mechanic could hold people up, but it would be inefficient, because people might avoid travel, they might take ridiculous precautions. The mechanic in the desert on the average doesn't hold people up. Why not? "Well," Armen said, "probably he doesn't do it because he was raised right." I said, "You mean because there's a social ethic that's inculcated into everyone at a young age that operates as a constraint on people's behavior, that we don't talk about very much?" Armen said, "Yes, he was raised right."

And so when we think about Armen's own behavior and outlook on life we approve of it, and also we love it because it's a reflection of how much he loves life. And he loves ideas. For him, I think, in some ways they are the most important part of life. And why should this be so appealing—to love life, to love ideas, and not to care about the small stuff? First, it is not common, and second, it confers tremendous externalities. Most people if they muddle through and struggle through life enduring the slings and arrows of fortune outrageous or mediocre, are unable to maintain the level of interest in anything that Armen manages to maintain in almost everything. He's just intensely curious about the world and interested in things outside of himself. He's one of the least self-indulgent people that I have ever met. It cheers everybody up. Everyone is in a better mood for the often silly questions that Armen asks about everything, such as, "Why do they use these decorations in the sushi bar and not anywhere else? Is there some optimality story here?"

In some ways Armen sees his own limitations. I'll have to work in this story. Ron Batchelder was a student at UCLA who was a great tennis player, a professional tennis player who had to basically be lured out of it and into economics. He still plays tennis with Armen regularly. On one occasion we were all getting together and Armen said to Ron, "I played really well today." Ron said, "Yes, you did; you played quite well today." And Armen said, "But you know what? When I play better, <u>you</u> play better." And Ron smiled and shrugged his shoulders. I said, "Ron, is it true that when Armen plays better, you play better?" He said, "Well, a long time ago I learned to play the customer's game." And of course Armen just loved that line. He told that story so many times. Ron had indeed learned to play the customer's game: to play a game that was at the level to just keep the customer running for the ball.

Armen's enthusiasm for that story is a reflection of his enthusiasm for life. It's a rare enthusiasm, an extraordinary enthusiasm. At some level we all give him credit for it because it's an act of choice; it's an act of will. Armen would never say so, though, because he was raised right.

## *Lee Benham*

Our next speaker is Harold Mulherin, who has written extensively on information and financial markets. Harold was a student of Armen's at UCLA in the 1980's, where he experienced Armen's enthusiastic and distinctive approach to teaching and to economics.

## *Harold Mulherin*

I can claim having had Alchian three times as a student. The first time was in a virtual sense with this book, *Exchange and Production*, which as you can see has been used more than a little. It was in 1978 at the University of Georgia. I read this book and became an economist. Things just made so much sense in here. But I think a lot of it is because of Alchian himself, as Earl and Susan have described him. When you try to use this book yourself, it's very hard to pull off. I had some students at Clemson who asked, "What do those guys do in California—just ask questions all the time?" And I said, "Well, yes." Because you know, if you ever look at the answers, they say they haven't thought of them yet, or "Good question," or "Don't ever answer a question that asks you about what's optimal." So you learn a lot.

I got to UCLA in 1980 and took Alchian's price theory course in my first term. Susan's story about Ron Batchelder is very fitting. Alchian's self-proclaimed job was to tell you that you didn't know anything: the idea of keeping the customer running for the ball is exactly how it went. Now my class that year happened to have a lot of quiet people, so I was the one who was always running for the ball. Several other students thought I knew a lot, because I was talking a lot. But as we know, there's quantity—and there's quality.

First of all, I didn't know anything. The only economics I knew was in here. And I have a great story. One day Alchian had given us an assignment involving a boat owner and a winch owner collaborating. The winch owner installs his winch on the boat, and then all of a sudden the boat owner says, "Get that winch off my boat. I don't want that winch. But don't mess up my boat!" So I was thinking about *The Merchant of Venice* and the pound of flesh. I said something like, "Well, maybe to solve this problem you can write a contract." And Alchian said, "What do you mean by the word 'contract'? And where did you come up with such nonsense?" I said, "I think I read it in your book." Alchian replied, "Don't believe everything you read!"

Later as a student I had the privilege of playing Armen Alchian in a skit. We had skit parties, as a lot of departments do, and I got to play Alchian. People came up and said, "Professor Alchian, what do you mean by 'need'? What do you mean by 'externality'? What do you mean by 'public good'? What's 'optimal'?" And I got to say, "Well, let's start off with, what do you mean by the word 'mean'?"

**Now I had the privilege** of having Alchian for an industrial organization course in the fall of 1982, because Professor Demsetz was away at Washington University. Every week we just started with a paper. The first one we did was the one Professor Richter has mentioned, "Specificity, Specialization and Coalitions." Alchian asked, "What do you guys think about this paper?" "Oh, great paper! A-1." The first sentence said, "The premise of this paper will be based on value." And Alchian said, "What does this value stuff mean?" So we spent the whole week on what value meant. Alchian had us turn in an assignment every week for that class, which was very productive, because in the 1980's you just didn't write much until you got to your dissertation. I remember one week, when writing up what I had learned that week, I wrote something like "Firms are optimal forms of organization sometimes." And Alchian said, "Well, the 'sometimes' may have saved you. Because what does 'optimal' mean?" I said, "You said that in class." He said, "No, I didn't. I never use the word 'optimal.'" Professor Arrow has told us a great story about Alchian: "I don't know what 'involuntary' means."

Here's an exam question from that class, December 8, 1982: "Resources that are not owned are said to be 'over' or 'underutilized.' What is the criterion of 'over' or 'under' use? What is the incentive and reward structure that leads to that result? (Don't just say that, absent private property rights, no one has the incentive to conserve resource use. That will, I warn you, get you a poor grade.)" This is Question 9, out of ten questions.

**I then did my dissertation** and came upon some things concerning natural gas contracts. I of course read the Klein Crawford Alchian paper 3,000 times and thought that that explained everything. But one suggestion Professor Alchian had given roughly in September 1982 was "During the course of this class, you might want to read a fairly new book." The book, dated 1975, was *Markets and Hierarchies*. What I did each week in the fall of 1982 was, at nine in the morning when the library opened, I would go take *Markets and*

*Hierarchies* and do a chapter a week. And for a while it was working; then things slowed down. But my interpretation always of Professor Williamson's terminology is—this is not what he said in the book, but this is what I got out of it—"If you're going to understand contracts, you've got to understand jargon. So I'm going to give you some jargon. Figure it out, because it will help." And I think it did.

The UCLA wording was slightly different, but quite similar. You've got to have uncertainty. You've got to have some sort of investments. I appreciate what Professor Arrow said, that you've got to have some capital, some fixity, because contracting issues can't be an issue if there's a lot of continuity. So I wrestled with that work, and it really did help, partly because you get a slightly different perspective. Then for my dissertation proposal at UCLA, in effect I had ten regressions. I would say, "As predicted by Klein, Crawford, Alchian, we were going to see this." And Alchian, after about the third prediction, said, "You know, you don't have to keep saying 'Klein Crawford Alchian' with every prediction." And to show a slight difference between Professor Alchian and others, Professor Klein added, "Yes. Just say 'Klein et al.' from now on."

I wrote that firms are optimal forms of organization sometimes. He asked, "What does 'optimal' mean?" I said, "You said in it your class." He said, "No, I didn't. I never use the word 'optimal.'"

An innate lesson that I got at the University of Georgia in 1978, but it took me probably 10 or 15 years to fully realize, was that Alchian's basic model assumes scarcity. There's not enough to go around at a zero price. So we have to have allocation schemes. But one thing that he really hits home, as you see in his class and also if you read his book well, is that he never says the price mechanism is the way to do it. It is *one* way to do it. His book says, "Economics does not say what competition is silly, fair, or best." That is really an important lesson.

**When Lee mentioned this session** to me, I told him I'd like to make one or two comments on Alchian and his theory of finance. I've been teaching in finance departments, and I'm now back in an economics department teaching finance. One thing I've found is that a lot of people who are trained in finance have learned some economics, and they seem to have been taught that the price mechanism is the optimal way to do things. Now it may have low costs, but it certainly can't be the optimal way, because indeed the Nobel Prize has been awarded for the observation that the price mechanism isn't always used. Often someone will see that there's something like an initial public offering where you fix a price to sell the assets, and then ration the quantity immediately. So you say, "Well, that must be inefficient, because of the rationing." A lot of times in the stock market, Charles Schwab will pay people to send them orders, and the natural reaction is, "Why don't we just see a lower price?" Well, I don't know the answers to these questions. But I find that to just say, "It must be some inefficiency," or similarly "The government's doing it; it must be inefficient" is inadequate. You learn at UCLA that the question is not "This is inefficient because the price mechanism is not being used," but rather "Why isn't it?"

**I have this cartoon** which I found in the Wall Street Journal possibly 15 years ago, and I've always wanted to show it to an audience. It shows a very big book of questions, and a very narrow book of answers. I've never known exactly what this means. One meaning could be that there are only a couple of answers, such as, that demand curves slope downward. But I really think, concerning Professor Alchian, that he's just got an enormous list of questions and again and again he'll dip into them to ask people.

Once when I met Alchian a few years ago, he had just been to Clemson University and had talked with Bobby McCormick. The unfortunate Hurricane Hugo had been there, and they started debating about the different allocation methods for items. I think that merchants in South Carolina let the price mechanism work for chainsaws but not for ice. Alchian said, "That's puzzling, because ice could melt. If somebody's got to use a chainsaw to get the trees off their lawn, they could maybe wait a while. But if you're going to have your food rot and starve or something, or be hungry…." Once again Alchian did not say it was right to do it one way or another, but he was just curious about it. Then he started talking about roofing tile to replace the roofs. I asked about bringing bulldozers down from New Jersey. Alchian answered, "Nobody's going to bring down a bulldozer. What if they bring it down, though, and then the sheriff says, 'Give us the bulldozer!'?" Those are the kinds of discussions you have with him.

So when I remember the fall of 1980 fondly, it's with a survivor's perspective. If you poll the 35 or so people who were in that class, some might have chosen another profession because they didn't understand a word he was saying. That was not necessarily optimal, but it was an allocation scheme.

So thanks for letting me be part of this. This was really enjoyable.

## *Lee Benham*

We have time for a few more comments. Oliver Williamson, the outgoing president of ISNIE, has known Armen for many years.

## *Oliver Williamson*

I first met Armen at the RAND Corporation in 1964 where we were both spending the summer. I was the guy from Carnegie who was doing offbeat stuff and I thought of Armen as an icon. I somehow expected him to be skeptical of what I had been up to and responded to his invitation to "Come down the hall and talk with Jack and me" with some trepidation. I would walk in and "get rectified", or so I imagined. What transpired was anything but. Armen wanted to know what I was up to. He talked about some of his stuff on the economics of property rights and gave me a copy of his draft monograph. Instead of being instructed it was a genuine discussion. I found out then what was apparent in the years that followed: Armen was very generous with young scholars. It was just a great experience.

The following year he and Rol McKean organized a summer program on the economics of property rights and invited Gary Becker and Harold Demsetz and Sam Peltzman and Gordon Tullock, Jack Hirshleifer, Bill Meckling, and myself to join them. We thought of ourselves as being a scruffy bunch, which we were. Still, with the benefit of hindsight, it was also a remarkable group.

I recall one time when we were assembled in Armen's office late one afternoon. Harold and I were going at it and things were getting a little tense. Armen leaned back in his chair and chuckled, "Let the young guys fight it out." That settled things down. An act of diplomacy that came naturally to him.

I continued to see Armen periodically over the years, often at the conferences that Rolf Richter organized at Wallerfangen. He always had a point of view with value added to bring to the discussions. And he always had an affable way about him. It was hard not to like Armen. His interest and curiosity and puzzlement with the way the world worked were an invitation for all to join in an intellectual adventure. He was and is a model for all of us.

## *Lee Benham*

I'd like to give a very special thanks to the panel for all their efforts to come here for us and for their wonderful presentations. Thank you very much.

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*Editor's note: Edward Elgar Publishing (http://www.e-elgar.co.uk) has reprinted many of Alchian's writings in its recent volumes on economics. See the Elgar Reference Collection. Alchian's 1977 volume of collected papers, Economic Forces at Work, reprints seventeen of the articles listed above. On the Internet, several of Alchian's articles are available through JSTOR (see http://www.jstor.org).*

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# Spring School for NIE Opens in Corsica, March 2002

To stimulate the development of New Institutional Economics in Europe, the informal ISNIE-Europe network is organizing an annual “spring school” to be called the European School of New Institutional Economics (ESNIE). ESNIE is not restricted to Europeans: lecturers will come from everywhere in the world, and non-Europeans will be welcome as participants. The program for the inaugural session in spring 2002 will include lectures by Lee Alston, Benito Arruñada, Jacques Crémer, Bruno Deffains, Nicolai Foss, Marteen Jansen, Francine Lafontaine, Claude Ménard, Jean-Philippe Platteau, and Alan Schwartz.

Each year the school will bring together approximately 80 scholars, post-doctoral fellows, and Ph.D. students for a week of lectures, workshops, and informal interactions. The goals are to update participants’ knowledge of developments and methodologies specific to NIE, and to develop cooperative relationships across participants and their institutions.

The first session will take place in Cargèse, Corsica on March 31–April 6, 2002. If you wish to apply, please send your curriculum vitae plus a 2-page summary of your personal research program to ericbrousseau@compuserve.com.

If you would like more information concerning this program, please visit the ISNIE-Europe Web site at http://atom2.univ-paris1.fr/ISNIE.

# ISNIE To Sponsor Events at ASSA Meetings, January 2002

ISNIE will sponsor its first session at the Allied Social Science Association (ASSA) meetings in Atlanta, Georgia, on Friday, January 4, 2002, at 10:15 a.m., in the Hilton Club Room at the Hilton Atlanta. Oliver Williamson will serve as chair. Speakers include Benjamin Klein on hold-ups; Gary Libecap and Zeynep Hansen on property rights assignments; Claude Ménard on converging regulations and diverging implementation; and Douglass North on contract, learning, and institutions. Discussants will be Oliver Williamson, Dennis Yao, Mary Shirley, and Kevin McCabe.

Then on Saturday, January 5, ISNIE will host a reception 5:30–7:30 p.m. in the Monroe Room at the Hilton Atlanta. You are cordially invited to attend these events.

# Ronald Coase Institute Holds Institutional Workshops

Scholars from eleven countries met in Berkeley, California, September 9–13, 2001 to attend a workshop on institutional analysis organized by the Ronald Coase Institute. Lectures on conceptual frameworks, research strategies, and studies in institutional analysis alternated with small group sessions focusing on participants’ individual research projects. The workshop included 26 participants and 14 faculty lecturers. As the finale, participants presented their revised papers in plenary session. Faculty lecturers at the workshop were Irma Adelman, Benito Arruñada, Mara Batlin, Alexandra Benham, Lee Benham, Philip Keefer, Claude Ménard, Douglass North, John Nye, Rudolf Richter, Mary Shirley, Scott Wallsten, Oliver Williamson, and Paul Zak.

Earhart Foundation generously provided support for many of the participants to attend this workshop and also subsequently to attend the annual conference of the International Society for New Institutional Economics. As they were already in Berkeley before the events of September 11, these workshop scholars were all able to reach the ISNIE 2001 conference and participate fully in its activities.

The Ronald Coase Institute will hold its next workshop on institutional analysis in Rio de Janeiro, Brazil on December 13–14, 2001 following the Global Development Network conference there. Additional workshops are planned for the future. For further information and future updates, please see http://www.coase.org.

# Conference on NIE Held in Campinas, Brazil

The Second Brazilian Seminar on New Institutional Economics was held at the University of Campinas in Campinas, Brazil, March 20-22, 2001. Walter Belik was the principal organizer, and approximately 150 individuals attended. Among the speakers were Benito Arruñada, Avner Greif, Richard Langlois, and Claude Ménard; also Ronald Coase via videotape. This conference was the second in a series planned to be held every two years, each meeting at a different Brazilian university. The purpose is to promote NIE research, connecting researchers in associated fields. Plans are underway for the next conference in 2003.

## Presenters, Discussants Revise Their Tasks at ISNIE 2001 (concluded from page 1)

warm ambiance developed. Attendance at the individual sessions was exceptionally high, and discussions intense and focused.

Second, all participants were extraordinarily cooperative. Oliver Williamson substituted for Vernon Smith on Thursday evening and delivered a splendid paper on “The Science of Contract: Private Ordering.” George Akerlof gave an outstanding keynote lecture Friday on “The Economics of Education: Some Lessons from Sociology.” The number of participants and presenters (over 100) allowed us to maintain two parallel sessions. Most discussants were assigned to sessions at best a few hours ahead of time. Discussants for the opening sessions on Friday learned of their tasks at 8:30 a.m., when the program was posted. All of them, and all the presenters, were extremely cooperative and did an outstanding job. As the organizer, I am still wondering how they managed it.

Third, the papers delivered were all of excellent quality, thus fueling very interesting discussions. And the unexpected presence of participants at some of our sessions such as Kenneth Arrow at the session on Alchian on Saturday morning contributed to the dynamics of the conference.

Of course this would not have been possible without the help of many people who went far beyond what was expected. Let me mention Susan Sweeney, our local coordinator, who did an incredible job, with the support of Alana Bame, who was caught in St. Louis but helped a lot in the coordinating, and the support of Jeanette Sayre and Rachel Fan-Ryan at UC-Berkeley. I owe a very special debt to Oliver Williamson, who spent a lot of time helping the organization of the conference and whose personal support over the months before the conference and particularly during the difficult days following September 11 has been most precious. The program committee was James Alt, Paul Joskow, Philip Keefer, Rudolf Richter, Pablo Spiller, and myself. I would like to thank the committee members for the long hours in selecting proposals and helping to build the program. I also want to mention the financial support that the conference received from LECG-LLG.

**Let me conclude with a few words on organizational issues.** The Society is now operating under its new bylaws. Paul Joskow became President-Elect in September and is preparing the 2002 conference to be held at MIT in Cambridge, Massachusetts, September 27–29, 2002. The following members of the Board have just completed their terms: Lee Benham, Scott Masten, Rudolf Richter, and Mary Shirley. All have been very active in the creation and the building of the Society, and they have devoted an incredible amount of time and energy to its success. They will be replaced through an election likely to be over by the time you receive this Newsletter. Avner Greif, Gary Libecap, and Rudolf Richter are members of the nominating committee of which I am chair, in accordance with our bylaws. Another important element in the stabilization of the Society this last year has been the hiring of a coordinator, Alana Bame and her installation in a nice office provided by the Weidenbaum Center at Washington University in St. Louis. We are grateful to the Center and to Washington University for their support. The Society also received a generous grant from the Bradley Foundation.

Looking apart from the tragic events of September 11 and their consequences, this year has been one of dynamism and consolidation. Initiatives have been taken by many of our members. The Second Brazilian Seminar on New Institutional Economics this past spring in Campinas, the Ronald Coase Institute’s workshops on institutional analysis this autumn in Berkeley and in Rio, and the organization of the European Summer School on New Institutional Economics to open next spring in Corsica—all suggest very promising developments for our future. These activities express the liveliness and strength of our research program.

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**Message from Claude Ménard to ISNIE Members**
Subject: ISNIE 2001 Conference Will Be Held
Date: Wed, 12 Sep 2001 12:03:04 -0700

Dear Colleagues:

The ISNIE 2001 Conference, planned to start on Thursday, September 13th, will be held as planned.

We gave serious consideration to canceling the conference, both out of respect for the horrific tragedy that occurred and with an awareness of the difficulty in traveling at this time. Nonetheless, we feel strongly that we should not give into terrorism. Terrorists want to terrorize: they want to derail people from their plans, and they want to paralyze action. We believe that our Society must not give in.

Many of you are in the Bay Area already, and others of you have confirmed that you are coming. I understand that many of you cannot make it for logistical and/or emotional reasons. But for those of you who are able to come, your participation is welcome. We will adjust, and we will proceed.

Our deepest sympathy goes out to any of our members and friends who have personally suffered from this tragedy. We thank all of you for your support and, for those of you who are able to attend the conference, your participation.

Sincerely,
Claude Ménard
President-Elect, ISNIE

# CALL FOR PAPERS

## Annual Conference of the International Society for New Institutional Economics (ISNIE) September 27–29, 2002 Cambridge, Massachusetts, USA

# Institutions and Economic Performance

### Keynote Speakers

**Andrei Shleifer, Harvard**

**Jean Tirole, Toulouse**

The International Society for New Institutional Economics (ISNIE) will hold its Sixth Annual Conference at MIT in Cambridge, Massachusetts (USA) on September 27–29, 2002. In addition to economics, the conference program will include sessions on the application of NIE to political science, law, and organizational behavior. The program committee, chaired by President-Elect Paul L. Joskow, invites you to submit your proposal to present a paper at the conference. We are particularly interested in papers that examine the relationship between institutions and the performance of individual organizations, markets, and macro-economies.

## Proposals

**Proposals are due by March 1, 2002.** 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

isnie2002@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
(2) Law and Institutions
(3) Contracts and Organization
(4) Regulation and Deregulation
(5) Economics of Transition
(6) Positive Political Theory and Policy
(7) Transaction Costs: Governance and Measurement
(8) Property Rights
(9) Corporate Governance
(10) Competition Policy
(11) Experimental Institutional Economics
(12) Evolutionary Economics

Please indicate the categories to which your proposal most applies.

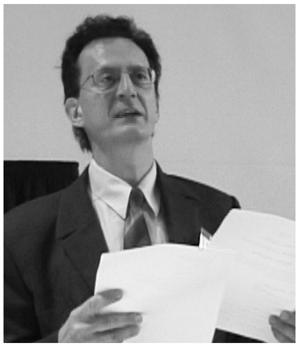
## Registration Information

**Registration** for the conference is now open. Space will be limited. A registration form is enclosed with this Newsletter. To register, you must be a current member of ISNIE**,** with your membership dues paid for 2002. For additional information on membership and registration, see the forms in this Newsletter or go to http://www.isnie.org.

# Moments from ISNIE 2001

## Berkeley, California, September 13–15, 2001

**Photos by Alexandra Benham**



Claude Ménard, incoming President of ISNIE and organizer of the conference, restructured the program repeatedly as new information came in.

On Friday morning participants hurried to read the newly posted conference schedule.

George Akerlof gave the keynote lecture, "The Economics of Education: Some Lessons from Sociology," a few weeks before he was named co-recipient of the 2001 Nobel Prize in Economics.

Lee Benham, Kenneth Arrow, and Susan Woodward conversed after the session honoring the contributions of Armen Alchian to NIE.

Oliver Williamson, outgoing President of ISNIE, gave the keynote lecture, "The Science of Contract: Private Ordering," and spoke later with Avner Greif.

At the banquet, Yordanka Gancheva (Bulgaria), Agnieshka Slomka (Poland), and Mario Villarreal Diaz (Mexico) experienced the ambience of the Faculty Club, University of California at Berkeley.

Among those who reached the conference—and the banquet—were Eric Helland (USA), Bruce Rayton (UK), and Andrei Rezaev (Russia). Helland: "After my flight was cancelled, I was ready not to come. Then I got Claude's e-mail. After that, I decided I had to get in the car and drive up—it took 8 hours. This is a great conference!"

# Institutions and Economic Performance

## Annual Conference of the International Society for New Institutional Economics (ISNIE)

**Cambridge, Massachusetts, USA September 27–29, 2002**

**Paul Joskow, President-Elect, Conference Organizer**

**isnie2002@wueconc.wustl.edu (paper proposals)**

**isnie@wueconc.wustl.edu (all other inquiries)**

**You are cordially invited to attend** the next annual ISNIE conference, which will be held at the Massachusetts Institute of Technology (MIT), Cambridge, Massachusetts, USA, under the presidency of Claude Ménard. It will begin Friday, September 27 with a plenary session starting at 5:30 p.m. During the following two days there will be parallel sessions at which papers selected by the Program Committee will be presented and discussed. Keynote addresses will be given by **Andrei Shleifer** and **Jean Tirole**. There will be a reception after the first keynote address on Friday evening and a gala dinner on Saturday night following the second keynote address. The conference will end Sunday, September 29 at 3:30 p.m.

**You are invited to submit your proposal** to present a paper **by March 1, 2002**. 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 Costs |
| Development | Informal Organizations |
| Organization | Regulation and Reform |
| Contracts | Experimental Economics |
| Property Rights | Evolutionary Economics |
| Positive Political Theory | Law and Institutions |

**Conference registration is now open**. The registration fee will be **$225 US before August 1, 2002** and **$275 US after** August 1. Space is limited, so the earlier you register, the better. There will be no on-site registration. The fee includes lunches, coffee breaks, wine and hors d'oeuvres reception, and a gala dinner. Before August 15 the cancellation fee is $100 US; after August 15 **no** refunds will be given. Use the registration form in this Newsletter, or go to http://www.isnie.org for conference and membership information. You can download and print the forms from that site. To register, you **must** be a member of the Society, with your dues paid for the year 2002.

**MIT is situated** in Cambridge, Massachusetts, just across the Charles River from the city of Boston and in the center of the beautiful New England region. The American Revolution began in the Boston metropolitan area, and many historical sites are available to visit. Boston is also the home of several distinguished universities and colleges, has fine museums, and is an international center for financial services, biotechnology, and other high-tech industries. Boston and the New England region are major tourist destinations. The area is especially beautiful to visit in late September and early October. Boston has excellent public transportation. For more information about Boston and Cambridge, see http://boston.citysearch.com.

**Conference participants must make their own travel and hotel arrangements.** If you are coming from abroad, please **check whether you will need a visa** to enter the USA, and if so, apply in timely manner. Demand for hotel space in the Boston area is intense in the fall, and hotel rooms are expensive, so **book your rooms early**. We expect to be able to arrange for a limited number of hotel rooms at **special rates** at hotels in the Boston area. Detailed information on hotels will be sent later to ISNIE members and posted on the ISNIE Web site.

**To reach Cambridge**, the closest airport is Logan International Airport, only a 15-minute taxi ride from MIT and also accessible by public transportation. The conference location at MIT is a short walk from the Kendall Square station on the Red Line subway. Logan Airport has non-stop flights to/from most major U.S. cities and European hub airports. Logan can be reached from Latin American countries via Miami, Dallas, and New York, and from Asian countries via Los Angeles, San Francisco, and Chicago. The conference will end in time to meet late afternoon flights leaving for most U.S. and international destinations. For more details see http://www.massport.com/logan.

**We hope to see you in Cambridge!**

# 2002 Membership Application/ Renewal for the Current Year

# 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** 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**. For students submitting a letter from their department verifying student status, the annual fee is **$20 US**.

To join the Society, fill out a copy of the form below (please type or print clearly) and fax the completed form, along with your VISA/MasterCard credit card information, to (314) 935-5688. Or mail the form, along with your VISA/MasterCard credit card information or your check drawn on a U.S. bank in U.S. dollars, to:

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

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## 2002 ISNIE Membership Form (PLEASE PRINT VERY CLEARLY)

*(If you paid your 2001 membership and conference registration fees but were unable to attend ISNIE2001 because of the events of September 11, please check here ☐ and do not send any payment with this form. Your membership fee for 2002 will be counted as paid already.)*

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 (and JEL codes):_______________________________________

☐ I agree to pay $40 US (or ☐ $20 US if eligible) to ISNIE for ISNIE membership dues for 2002.

VISA/MasterCard Credit Card Number:_____________________________________

Expiration Date:____________________

Name (as it appears on credit card):_______________________________________

My Signature:____________________________________ Date:_______________

☐ I enclose my check drawn on a U.S. bank in U.S. dollars, payable to ISNIE.

# ISNIE 2002 Conference Registration

## Annual Conference of the
## International Society for New Institutional Economics
## Cambridge, Massachusetts, USA

September 27–29, 2002

**To register**, please fill out the form below and submit it with your VISA/MasterCard credit card information or your check drawn on a U.S. bank in U.S. dollars.
The registration fee is **$225 US** before August 1, 2002, or **$275 US** after August 1, 2002.
Before August 15 the cancellation fee is $100 US; after August 15 **no** refunds will be given.
Space is limited, and registration is subject to availability.
Please fax this form to (314) 935-5688 or mail this form to:

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

**You must be a current member of ISNIE to register for the conference**.
If you have not yet joined/renewed for 2002, please fax or mail the membership form in this Newsletter or on the Web site with your membership dues to the fax number or address above.

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**ISNIE 2002 Conference Registration Form** (PLEASE PRINT VERY CLEARLY)

Surname:________________________

First Name and Middle Initial:________________________

Organization/Company:________________________

Department:________________________

Address:________________________

________________________

City, State, Postal (ZIP) Code:________________________

Country:________________________

Telephone:________________ Fax:________________

E-mail Address:________________________

Special Needs (food, etc.):________________________

☐ I agree to pay $225 US (or $275 US after August 1, 2002) to ISNIE for ISNIE 2002 conference registration.

VISA/MasterCard Credit Card Number:________________________

Expiration Date:________________

Name (as it appears on credit card):________________________

My Signature:________________ Date:________________

☐ I enclose my check drawn on a U.S. bank in U.S. dollars, payable to ISNIE.