

# SOSIAL ØKONOMEN



• **Institusjonell  
økonomi**

NR. 9. Desember 2000 – 54. ÅRG.



## Sosialøkonomen om institusjoner – på engelsk?

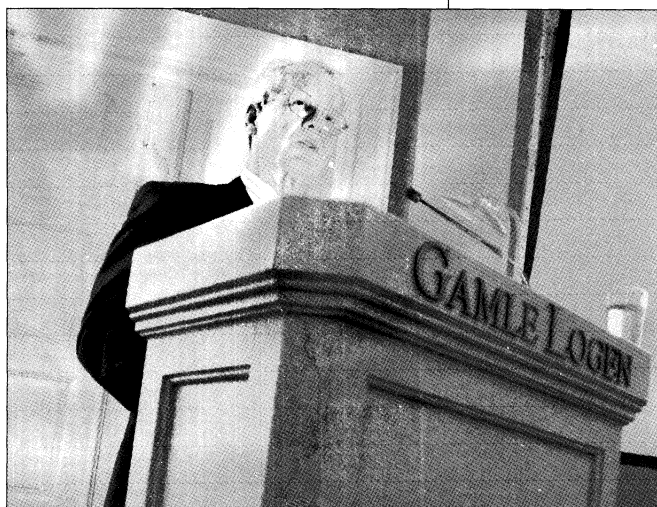


Foto: Per Thrana - Dagens Næringsliv

Temadelen av dette nummeret av Sosialøkonomen er basert på Sosialøkonomenes Forenings høstkonferanse om institusjonell økonomi. Vi er særlig glade for å kunne presentere bidraget fra professor Oliver Williamson, en av de virkelige pionerene innen analyse av transaksjonskostnader, eierskap og organisasjon. Artikkelen han presenterte kom på trykk i Journal of Economic Literature noen uker etter konferansen, og bidraget som trykkes her er utdrag med tillatelse fra JEL.

Artikler i Sosialøkonomen skal normalt skrives og publiseres på norsk. Redaksjonen har likevel valgt å trykke bidragene fra årets høstkonferanse på engelsk. Det er flere årsaker til dette; blant dem er at konferansen i sin helhet foregikk på engelsk, og at professor Williamsons bidrag, som nødvendigvis ville være skrevet på engelsk (han er amerikaner), sto svært sentralt på konferansen. Redaksjonen vil imidlertid presisere at dette er ment som en engangsforeteelse. Manuskripter som sendes Sosialøkonomen – heretter Økonomisk Forum – skal fortsatt være skrevet på norsk!

## I dette nummer...

### REDAKSJONENS GJEST

4

BERIT KJØLL:  
Flytoget – en del av reisen

### DEBATT

7

ASBJØRN AAHEIM:  
Norsk klimapolitikk i nedover-Bakke?

### TEMA: INSTITUSJONER

9

OLIVER E. WILLIAMSON:  
The New Institutional Economics:  
Taking Stock/Looking Ahead

19

AGNAR SANDMO:  
Neoclassical Economics and  
Institutions

23

TØRE ELLINGSEN:  
Institutional Science

27

KALLE MOENE AND  
MICHAEL WALLERSTEIN:  
Institutions, inequality and  
social policy

34

HERMOD SKÅNLAND:  
Economic Institutions from an  
Entrepreneurial Perspective

### MÅNEDENS BOK

41

Vern mot kriser?  
Norsk finanstilsyn gjennom 100 år  
av Sverre Knutsen og  
Gunhild J. Ecklund.  
Anmeldt av Asbjørn Fidjestøl

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# Leder



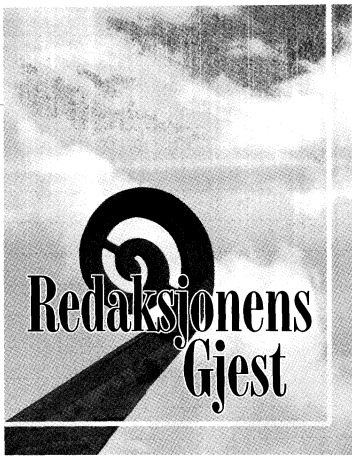
## Farvel til Sosialøkonomen

Det bladet du nå holder mellom hendene er det siste nummeret av Sosialøkonomen noensinne: Fra og med neste utgave er bladet omdøpt til *Økonomisk Forum*.

Navneendringen er i første rekke en konsekvens av at både universitetene og foreningen er i ferd med å forlate begrepet «sosialøkonomi» til fordel for «samfunnsøkonomi», eller rett og slett bare «økonomi». Vi i redaksjonen synes likevel at det nye navnet gir et mer dekkende bilde av hva slags tidsskrift vi ønsker at dette skal være.

Det nye navnet indikerer for det første at bladet er et forum for utveksling av økonom-faglige synspunkter, ikke et fagforeningsblad. For det andre ga det gamle navnet ingen invitasjon til potensielle lesere og skribenter fra andre faggrupper enn sosialøkonomi. Vi er overbevist om at for eksempel bedriftsøkonomer og statsvitere bør være med i en god og aktiv faglig debatt om samfunnsøkonomiske spørsmål, og at slik deltakelse gjør bladet mer spennende også for samfunnsøkonomer.

Noen lesere vil kanskje bekymre seg for at en vektlegging av debatt og bredde kan gå på bekostning av formidlingen av forskning og analyse. Vi tror neppe dette vil bli noe stort problem. Grunnpilaren for Sosialøkonomen har alltid vært solid faglig argumentasjon. Dette vil stå fast også for *Økonomisk Forum*. Når det gjelder de mer spesialiserte forskningsartiklene, vil disse fortsatt ha sitt naturlige forum i vårt søster-tidsskrift *Norsk Økonomisk Tidsskrift*.



BERIT KJØLL:

## Flytoget – en del av flyreisen

Når du går på Flytoget, er det ikke fordi du skal på en togreise. Det er fordi du skal ut å reise med fly. Derfor er det flyselskapenes standard og miljø som utgjør største delen av den totale reisen og reiseopplevelsen. Men flyreisen starter og avsluttes på Flytoget, og for å sikre en helhetlig reiseopplevelse, må tenkemåten og kulturen hos Flytoget leve opp til dette. Flytoget er en del av jernbaneindustrien rent operativt. Men både markeds og infrastrukturmessig tilhører Flytoget luftfarten og dens krav til kvalitet og service.

Luftfarten er ikke bare en avgjørende kulturell omgivelse for Flytoget. Det er også luftfartens utvikling som i stor grad bestemmer hvordan det går med Flytoget. Dersom luftfarten stagnerer, svekkes Flytogets trafikkgrunnlag. Så enkel og direkte er sammenhengen.

Derfor er det betydningsfullt at Stortinget har bestemt at Flytoget skal ha en mer selvstendig stilling. Allerede da det ble vedtatt å etablere Flytoget, var det en forutsetning at vi skulle styre ut fra bedriftsøkonomisk lønnsomhet. Det kan være vanskelig innenfor en kultur og en sfære som gjennom mer enn hundre år har vært politisk styrt.

### Verdensrekord

Flytoget har vært og er en suksess. Alle husker selvsagt vanskelighetene under byggeperioden, og Romeriksporten som punkterte viktige friluftsområder i Oslo-marka. Men dette hadde ingen ting med Flytoget som visjon og ide å gjøre. Det er interessant å se at andre store byer nå kommer etter. Stockholm har fått sitt flytog. Det samme har London og Hong Kong, og det norske Flytoget brukes som det gode eksempel. Det er hit de kommer for å lære.

Fordelen vi hadde, var at flyplass og flytog var klart samtidig, og det var ikke dannet noe trafikkmønster på forhånd. Det er hovedårsaken til at det norske Flytoget nå innehar verdensrekorden i markedsandel. 34 prosent av alle flypassasjerer som reiser ut og inn fra landets hovedflyplass bruker Flytoget. Det er helt unikt i internasjonal sammenheng, og gir oss god grunn til å være stolte. I perioder med normal forretningsreisetraffikk, som utgjør hovedtyngden av flytogets passasjerer, er markedsandelen på 40 prosent. Hele 58 prosent av flypassasjerene som bor i Flytogets nærområde benytter vårt tilbud.

I verden for øvrig, og spesielt i USA, er nå prosjektering og bygging av Air Rail Links som transportmiddel til og fra flyplassene, i meget sterk vekst. Dette er uten tvil trenden innen internasjonal luftfart når det gjelder tilbringer-tjenester til flyplasser.

### Konkurranse

Flytogets fødsel og barndom faller i tid sammen med andre store endringer innenfor norsk jernbane- og transportpolitikk; tog, skinner og tilsyn ble skilt fra hverandre i egne selskap.

Da det første toget rullet fra Oslo til Eidsvoll i 1854 var det betydelige kommersielle og private interesser som stod bak. Den første jernbanen, Norsk Hoved-jernbane, var delvis privat, og ble overtatt av NSB i 1920-årene. Men etter hvert ble jernbanebygging og drift et offentlig anliggende og NSB eide alt. Selskapet la skinner, bygde bruer og tunneler. Selskapet investerte i nødvendig utstyr, og hadde ansvaret for vedlikehold og sikkerhet. Selskapet kjørte togene, og til overmål kontrol-

lerte de sin egen virksomhet. Det var jernbanedrift for sin tid, og modellen holdt nesten frem til i dag. På slutten av 90-tallet ble det laget prinsipielt viktige skiller. Da ble Jernbaneverket skilt fra NSB. Jernbaneverket har ansvaret for skinnegangen og infrastrukturen. NSB har ansvaret for togdriften. Dette skillet åpner også for konkurranse på skinnegangen. Prinsipielt er det nå ingen ting i veien for at flere selskap kan konkurrere om togdriften på samme skinnegang. De må i så fall «kjøpe» tilgang til skinnegangen fra Jernbaneverket. Flytoget er ikke noe alternativ for dem som skal til Trondheim, Hamar eller Østfold, men på den strekningen Flytoget kjører, konkurrerer NSB og Flytoget om passasjerene. For dem er NSB et billigere alternativ – men også langsommere og med langt færre avganger. Men selv om konkurransen ennå ikke er overveldende, kan den bli det. Forholdene er lagt til rette for at også andre enn NSB skal kunne kjøre på Jernbaneverkets skinnegang. NSB har ikke lenger monopol. Sannsynligvis blir det på godssiden vi vil se de første virkelige private konkurrentene.

Konkurranse på persontrafikk bør snarest ønskes velkommen. Dog gitt at infrastrukturen tåler dette både kvalitetsmessig og kapasitetsmessig. Konkurransen vil være det beste som kan skje i jernbaneverdenen, både i forhold til skjerpede krav til kostnadseffektiv drift og til kvalitetsmessig høy leveranse. Først og fremst kunden, men også vi som operatører, ville være tjent med dette.

### Selvstendighet

Siden Flytoget og NSB er i konkurranse, er det ugreit at Flytoget er datter-



selskap av NSB. Målet i et lengre perspektiv må være full selvstendighet og uavhengighet gjerne fortsatt med staten som direkte eier. I internasjonal sammenheng innen Air Rail Links går generelt trenden mot selvstendighet og uavhengighet til jernbaneindustrien, med andre ord full fristilling.

Vi er tilfreds med den løsningen Stortinget nå har lagt opp til. Da selskapets åpningsbalanse og organisering ble behandlet i juni, vedtok stortingsflertallet at «Flytoget AS organiseres som et datterselskap 100 prosent eid av NSB BA med en stor grad av frihet og selvstendighet i tråd med det som er skissert i Innst. S. nr 237 (1999-2000). Organiseringen vurderes på nytt om to år.» Stortinget sier generelt at selskapet skal ha stor frihet til egen utvikling, og konkretiserer dette blant annet i forhold til markedsføring, valg av leverandører og ekstern styrerepresentasjon.

Jeg legger imidlertid ikke skjul på at det beste for Flytoget, og passasjerene, må være å bli helt eller delvis integrert med luftfarten. Dette vil være vesentlig for at vi skal kunne nå våre langsiktige forretningsmessige mål.

### Dilemmaet

Det viktigste for Flytoget i dagens situasjon, er å få anledning til å drive etter de forutsetninger Stortinget har trukket opp; nemlig å styre etter bedriftsøkonomiske kriterier. Men fordi jernbanskulturen alltid har levd i den politiske sfære, kan vi lett havne i et dilemma. NSB er et offentlig selskap fordi det har vært, og er, et politisk ønske at det skal være underlagt «en viss» politisk styring. Hva «en viss» politisk styring til enhver tid skal være, er ikke krysstallklart definert. Det kan skape uklare gråsoner der både politikere og administratorer risikerer å gå seg vill. Dette kan også gå utover Flytoget selv om vi som selskap opplever å ha et entydig og klart styringssignal, gitt gjennom våre rammebetingelser fra politikere og eiere. Vi vet at vi skal drive etter forretningsmessige prinsipper. Til tider føler vi at dette setter «grå hår» i hodet på både NSB og Jernbaneverket. Flytoget må være en meget krevende kunde som til enhver tid vil søke de forretningsmessige beste løsningene



Berit Kjell, adm. direktør Flytoget AS

for Flytoget som selskap. Våre strenge krav til effektivitet og kvalitet har nok en innvirkning på at det i mange miljøer blir satt sterkere fokus på nødvendigheten av en modernisering og profesjonalisering av jernbanen generelt.

I januar skal Jernbaneverket overta ansvaret for Gardermobanens infrastruktur, og vi er svært opptatt av at dette ikke skal gå ut over den kvaliteten som Flytoget representerer og som Flytogets passasjerer har krav på. Ikke minst, - Jernbaneverket må ikke glemme hvorfor og til hvilket formål Gardermobanen ble bygget. Nemlig for til enhver tid å sikre flypassasjerene effektiv og miljøvennlig transport til og fra Oslo Lufthavn.

### Sterkere kontroll

Et annet viktig skille som har skjedd i jernbanens moderne historie er at Statens Jernbanetilsyn er skilt ut og utgjør en egen og selvstendig kontrollenhet med ansvar for så vel jernbansom T-banedrift. Men det er fortsatt umusikalsk at kontrollinstansen er

underlagt samme departement som oss operatørene. Det er lett å se både habilitetsproblemer og konstitusjonelle problemer som kan oppstå ved uenighet eller konflikter om sikkerhetsregler og håndheving av dem. Det burde være en enkel sak å flytte ansvaret for Statens Jernbanetilsyn bort fra Samferdselsdepartementet og til et annet departement. Siden Tilsynet opptre på vegne av Staten, eller egentlig befolkningen og passasjerene, vil det være god logikk å legge kontroll- og tilsynsansvaret sammen med all annen form for sikkerhetskontroll og beredskap i et eget departement, slik det foreslås i NOU-rapporten «Et sårbart samfunn».

Aller viktigst er likevel det å gi Statens Jernbanetilsyn gode arbeidsvilkår. De har en viktig rolle å spille, både som kontrollorgan på passasjerenes vegne, men også som pådriver og inspirator for oss som kjører på skinner og i tunnel. Ikke minst på bakgrunn av de mange ulykker og nesten-ulykker vi opplever langs skinnegangene over hele landet, er det avgjørende både for kvalitet og tillit at Statens Jernbanetilsyn får et skikkelig løft og tildeles

tilstrekkelig med ressurser. Eksempelvis er det svært ressurskrevende å forta hyppige og jevnlig revisjoner. Men som operatør kan jeg ikke få understreket sterkt nok hvor viktig dette verktøyet er for, i tillegg til våre interne rutiner, å få bekreftet at selskapet har kontroll på sikkerhetsstyring og etterlever prosedyrer og rutiner.

### Det koster

Det var ikke billig å bygge Gardermobanen, men tiltaket ble sett på som en avgjørende forutsetning for å legge flyplassen lengst mulig unna der flest folk bor. Ikke minst telte miljømessige argumenter sterkt. Mye ville vært verre langs veiene dersom all tilbringer-tjeneste skulle gått der. Opprinnelig ble det forutsatt at hele investeringen skulle være selvfinansierende gjennom driften. Dette var en ambisjon som i virkeligheten sprakk lenge før Flytoget

kom i drift. Dagens gjeld 1,1 milliard kroner kan Flytoget leve med. I denne sammenheng vil jeg gi ros til politikerne for å ha ryddet opp i selskapets gjeldsstruktur.

Dog vil jeg minne om en viktig forutsetning som lå til grunn ved fastsettelse av selskapets gjeldsstruktur, nemlig en årlig vekst i flytrafikken på 4 prosent. Hittil i år ser vi en faktisk reduksjon på 2,5 prosent (eks. transfer og transit-passasjerer) og da er det lett å skjønne at driftsresultatene for Flytoget kan bli svakere. Selv om vi har redusert selskapets kostnadsstruktur med 70 millioner kroner, kan det med en fortsatt negativ utvikling i flypassasjer-trafikken bli vanskelig å få regnestykket i pluss. Her er det nødvendig å følge utviklingen nøye, og jeg setter min lit til at våre politiske foresatte i storting og regjering er trofaste mot de forutsetninger de selv har fast-

### Flytog for fremtiden

De internasjonale trender er klare. Flere og flere satser på skinnegående trafikk til flyplassene. Både miljø, tid og komfort trekker i samme retning. Og siden det er investert såpass mye som det er i dette transportsystemet, er det avgjørende for oss å ta vare på Flytoget og forvalte det på en god måte.

I den videre satsing på Flytoget, skal vi sørge for å fortsette som en vellykket transportør, miljøfaktor og kvalitetsleverandør. Vi vil bestrebe å være det gode eksemplet som de internasjonale aktørene kommer for å besiktige. Skal vi klare å leve opp til selskapets visjon om å være Norges ledende servicebedrift innen transportnæringen må vi kort og godt få være oss selv. ■

## Forskningsstipend - pengepolitisk og finansiell forskning

*Senter for pengepolitisk og finansiell forskning* er opprettet av 9 private og offentlige institusjoner for å styrke forskningen omkring pengepolitikk, finansmarkeder og finansinstitusjoner. Senterets midler blir først og fremst brukt til å fremme doktorgradsutdanning på området. I februar 2001 vil senteret tildele 1-2 stipend fortrinnsvis til doktorgradsstudier. Eventuelt kan stipend tildeles en søker som nylig har avlagt doktorgraden og som vil kvalifisere seg ytterligere gjennom forskning innenfor senterets fagområde. Stipend kan gis både til samfunnsøkonomisk og bedriftsøkonomisk forskning som gjelder pengepolitikk (herunder samspillet med finanspolitikken), finansmarkeder eller finansinstitusjoner. Tverrfaglige prosjekter med sterk tilknytning til økonomi kan også komme i betraktning.

Stipendiene kan ha en varighet på maksimalt fire år (to år for post.doc.), og vil bli gitt med tilsvarende vilkår og lønn som stipend fra Norges Forskningsråd. Det forutsettes en avtale med en vertsinstitusjon som tar arbeidsgiveransvaret. Doktorgradsstipend gis under forutsetning av at stipendiaten blir opptatt i vertsinstitusjonens doktorgradsprogram. Vertsinstitusjonen kan være utenlandsk. Senteret hjelper til med å få i stand de nødvendige avtalene.

Søknaden må inneholde en prosjektbeskrivelse på 3-6 sider og navnet på tre referansepersoner som kan kontaktes. Eventuelle skriftlige vitenskaplige arbeider vedlegges i tre eksemplarer.

### Søknaden sendes innen 26. januar 2001 til

Senter for pengepolitisk og finansiell forskning,  
Økonomisk institutt,  
Boks 1095 Blindern, 0317 Oslo.

### Nærmere opplysninger ved arbeidsutvalget:

professor Asbjørn Rødseth, (UiO), tlf. 22 85 51 33,  
professor Steinar Ekern, (NHH) tlf. 55 95 92 79,  
professor Arne Jon Isachsen, (BI) tlf. 67 57 07 93.



■ ■ ■ ASBJØRN AAHEIM:

# Norsk klimapolitikk i nedover – Bakke?

Egil Bakke setter i forrige nummer av Sosialøkonomen et kritisk lys på norsk klimapolitikk. Han viser at det ikke mangler offentlig dokumentasjon på at skiftende regjeringer på 90-tallet har villet redusere utslippene av klimagasser, men han savner en begrunnelse for det de har gjort. Hans kritikk retter seg i hovedsak mot to sider av norsk klimapolitikk. For det første har ikke kostandskrevende tiltak, som for eksempel CO<sub>2</sub>-avgiften, vært vurdert i lys av hva en kan forvente å spare i fremtiden i form av redusert skade ved klimaendringer. Det finnes heller ingen vurdering av mulighetene for å tilpasse seg endringene. For det andre mener han at det er god grunn til å sette spørsmålstegn ved de konklusjonene FNs klimapanel (IPCC) trekker om hvilke klimaendringer menneskeskapte utslipp vil kunne føre til. Han viser til flere folk som er kritiske til IPCC, og mener det viser at vi ikke vet nok om klimaproblemet til å kunne sette i gang med dyre tiltak.

Kort sagt: Savner norsk klimapolitikk et kunnskapsmessig fundament? Jeg tror svaret både er ja og nei, og jeg tror at de fleste som har vært med på å utforme klimapolitikk i Norge er enige om akkurat det. Bakke har rett i at CO<sub>2</sub>-avgiften ikke ble innført som resultat av en nytte-kostnadsanalyse. Tvert i mot, den ble innført på tross av nytte-kostnadsanalysen. Så lenge det ennå ikke er trådt i kraft noen internasjonal avtale vil jo kostnadene bli klart positive, mens gevinsten er tilnærmet lik null. Uansett hva Norge gjør, om de så skulle fjerne alle utslipp, vil ikke klimaet på jorden påvirkes nevneverdig, fordi Norge bidrar til mindre

enn 2 promille av globale utslipp. Hvis målsettingen for de tiltakene Norge har iverksatt har vært å redusere konsentrasjonen av klimagasser i atmosfæren, er jeg enig i at politikken har vært feilslått.

Samtidig har jeg vanskelig for å tro at vekslende regjeringer, med departementene i ryggen, ikke har vært i stand til å gjøre ovennevnte «analyse». Jeg tror heller at målsettingen for norsk klimapolitikk så langt har vært en helt annen. Argumenter for og mot ensidige tiltak ble drøftet i forkant av de norske tiltakene, til og med her i bladet, og meningene var delte. Det viktigste argumentet for har vært at man gir politiske signaler internasjonalt. Etter at Kyotoavtalen ble underskrevet, og mange fortsatt tror at det kan bli noe av den, kan man dessuten argumentere for at det kan være lurt å redusere utslippene gradvis mot 2008, når avtalen eventuelt begynner å gjelde.

Men man kan med rette spørre om iverksatte tiltak, som for eksempel CO<sub>2</sub>-avgiften, står i et rimelig forhold til målsettingene. Jeg slutter meg til Bakkes etterlysning etter gode grunnlagsanalyser på dette området. For eksempel viser Bye, Døhl og Sommervoll i forrige nummer at mange beregninger tyder på at den norske avgiften på opp til 400 kr/tonn CO<sub>2</sub> ligger langt over beregnet kvotepris i 2010, og da får det kanskje være måte på signal eller forberedelse.

En nytte-kostnadsanalyse av det slaget Bakke etterlyser er neppe godt egnet til å vurdere klimatiltak med de målsettingene en har hatt for klimapolitikken til nå. En slik analyse er nyttig når en skal forhandle fram en

klimaavtale med andre land, men ikke når en skal vurdere et lands klimapolitikk isolert. Dette fører oss over til Bakkes andre ankepunkt: Kan vi stole på IPCC, eller er drivhusproblematikken overdramatisert? Bakke synes å helle mot at klimatrusselen ikke er så stor som mange vil ha det til. Han prøver å gi inntrykk av at forskerne er svært uenige, at de er blitt mer og mer uenige, og at IPCC har måttet moderere tidligere påstander. Dette siste tror jeg bygger på en misforståelse, og bør være lett å klare opp i. Meg bekjent har IPCC endret noe på scenariene sine, og tillagt nedkjøling som følge av aerosoler noe varierende betydning. Det er imidlertid ikke kommet fram noe som tyder på at klimaproblemet er mindre enn en tidligere har antatt.

Det er det inntrykket Bakke gir av uenighet jeg finner grunn til å reagere på. Skepsis er sunt. Det gir grobunn for ny kunnskap, og forhåpentligvis grunnlag for en bedre verden. Det er imidlertid ikke alltid så lett å si hvor mye en bør endre på gamle forestillinger som følge av ny viten. Det avhenger av hvor sikre vi er, hvilken retning den nye kunnskapen trekker i, og hvor betydelig den er i forhold til det problemet vi forholder oss til. For å kunne uttale seg om hva utslipp av klimagasser medfører i form av temperaturendringer, endringer i værforhold, i havstrømmer, i vekstvilkårene for planter og dyr, og til slutt hvilke økonomiske konsekvenser dette får trenger en tilfang av kunnskap fra svært mange disipliner. Ingen enkeltperson, ikke engang en liten, oversiktlig gruppe forskere, kan greie å formidle et fullstendig innsyn i alt dette. Av den grunn dannet FN

klimapanelet (IPCC), for å lage et slags «vindu» for klimakunnskap. IPCC er altså ikke en liten gruppe forskere med sterke meninger om hvordan klimaproblemet ser ut og bør håndteres. Det er en institusjonell prosess, som forsøker fange opp utviklingen av kunnskapen om klimaspørsmål, der status med jevne mellomrom presenteres i en bok.

I denne prosessen er det rom for alle meninger, men man setter strenge krav til vitenskapelig kvalitet. Arbeid som refereres i rapportene fra IPCC skal stamme fra publikasjoner med en «refree-ordning». Derfor finner en normalt ikke referanser til interne publikasjoner eller avisartikler, men i hovedsak til bøker og artikler som er publisert i vel ansette, internasjonale tidskrifter. Dessuten må noen foreta en vurdering av hvilke arbeider som er viktige og hvilke som er mindre viktige. En kan ikke gå like dypt inn i alt som har vært publisert i «godtatte» former. Videre summeres rapportene opp i noe som kan minne om konklusjoner.

Bakke liker ikke IPCCs konklusjoner, men kan ikke vise til noen brudd mellom det som står i hovedkapitlene og oppsummeringen. Jeg vil derfor tro at det er utvalget av litteratur Bakke gjerne så annerledes. Han gir et inntrykk av at IPCCs rapporter overdimensjonerer arbeid som underbygger hypotesen om klimaendringer, og bagatelliserer arbeid som peker i motsatt retning. Nå gir han ikke noen eksempler på dette utover å nevne at det finnes dokumentasjon på fenomener som kan forklare klimaendringer på naturlig vis. Saken er imidlertid den, at de som er interesserte i å få en god og relativt forståelig forklaring på disse fenomenene vil få dette nettopp i IPCC-rapportene. Hvilket betyr at disse faktorene virker inn på klima, men man kan jo ikke trekke den konklusjonen at menneskeskapte klimagassutslipp derfor ikke har betydning!

På hvilket grunnlag kan så Bakke ramse opp en rekke vitenskapsmenn som er særlig skeptisk «... til de bakkenforliggende teoriene»? Bakke nevner en rekke navn, men ingen, kanskje med unntak av en, er vitenskapsmenn med kompetanse på klimaforhold som mener at menneskeskapte utslipp av klimagasser ikke gir grunn til be-

kymring. Noen av de han nevner er vitenskapsmenn, men de har ikke publisert arbeid om globale klimaforhold som tilfredsstiller kravene for å bli omtalt av IPCC. Noen arbeider med fenomener som kan forklare klimaendringer som en naturlig prosess, men mener ikke av den grunn at menneskeskapte utslipp av klimagasser ikke har noen betydning. Endelig er det noen som jeg tror følger seg svært uvel ved å bli stemplet som en som ikke synes trusselen om menneskeskapte klimaendringer er særlig alvorlig, og som jeg vet har gitt til dels sterkt uttrykk for det motsatte syn.

Saken er faktisk den at vitenskapsmenn er forbausende enige om at vi allerede nå kan observere klimaendringer på grunn av utslipp fra menneskelig aktivitet. Ingen benekter at det er stor usikkerhet om hvor store endringer vi kan forvente. Men det er et helt annet spørsmål. På samme måte er det rimelig å påstå at økonomer er enige om at miljøavgifter kan være et effektivt virkemiddel i miljøpolitikken, men at Coase bidro til å forstå hvorfor det er svært usikkert hvor stor for eksempel en karbonavgift ville bli som følge av Kyotoavtalen.

Parallellen kan trekkes videre: Det er også mulig å finne økonomer som mener at Coase viser at miljøavgifter er feilslått, og det er sikkert mulig å spore opp klimaforskere med samme vurdering av klimaproblemet som Bakke. Men det er altså overraskende få, når en sammenlikner med den oppmerksomhet skeptikerne har fått, særlig her i Norge. Kanskje henger det sammen med vår beundring for Henrik Ibsen, som lærte oss at «...den står sterkt, som står alene». Men vi må ikke vri dette til at «han står sterkt, fordi han står alene». ■

## Veiledning for bidragsytere

1. *Sosialøkonomen* trykker artikler om aktuelle økonomfaglige emner, både av teoretisk og empirisk art. Temaet bør være av interesse for en bred leserkrets. Bidrag må ha en fremstillingsform som gjør innholdet tilgjengelig for økonomer uten spesialkompetanse på feltet.
2. Manuskripter deles inn i kategoriene artikkel, aktuell kommentar, debatt og bokanmeldelse. Bidrag i førstnevnte kategori sendes normalt til en ekstern fagkonsulent, i tillegg til vanlig redaksjonell behandling.
3. Manuskriptet sendes i to eksemplarer til Sosialøkonomenes Forening, se adresser på tredje omslagsside. Det oppfordres til innsending av elektroniske manuskripter (fortrinnsvis i Word). Bidrag bør normalt ikke være lengre enn ca. 20 A4-sider, dobbel linjeavstand, 12 pkt. skrift. Debattinnlegg og bokanmeldelser bør normalt ikke være lengre enn 8 sider (samme format).
4. Artikler og aktuelle kommentarer skal ha en ingress på max. 100 ord. Inngressen bør oppsummere artikkelens problemstilling og hovedkonklusjon.
5. Matematiske formler bør brukes i minst mulig grad. Unngå store, detaljerte tabeller.
6. Referanser skal ha samme form som i Norsk Økonomisk Tidsskrift (kopi av NØTs veiledning kan fåes hos SFs sekretariat).



■ ■ ■ OLIVER E. WILLIAMSON<sup>1</sup>:

# The New Institutional Economics: Taking Stock/Looking Ahead

This paper examines the progressive development of the New Institutional Economics over the past quarter century. It begins by distinguishing four levels of social analysis, with special emphasis on the institutional environment and the institutions of governance. It then turns to some of the good ideas out of which the NIE works: the description of human actors, feasibility, firms as governance structures, and operationalization. Applications, including privatization, are briefly discussed. Its empirical successes, public policy applications, and other accomplishments notwithstanding, there is a vast amount of unfinished business.

I open my discussion of the New Institutional Economics with a confession, an assertion, and a recommendation. The confession is that we are still very ignorant about institutions. The assertion is that the past quarter century

has witnessed enormous progress in the study of institutions. The recommendation is that, awaiting a unified theory, we be accepting of pluralism.

Chief among the causes of ignorance is that institutions are very complex. That neoclassical economics was dismissive of institutions and that much of organization theory lacked scientific ambitions have also been contributing factors. As to progress, that is what most of this paper is about. There being many instructive lenses for studying complex institutions, pluralism is what holds promise for overcoming our ignorance.

Speaking for myself, I subscribe to Jon Elster's view that we work predominantly on partial mechanisms rather than general theories at this stage of development (1994, p. 75). In consideration, however, of the "splendid plausibility of error" to which Lord Acton refers,<sup>2</sup> we need to sort the sheep from the goats. That is accomplished by asking each would-be theory to advance refutable implications to which the data are applied.

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

Matthews' response was that the New Institutional Economics (NIE) turned on two propositions. First, "in-

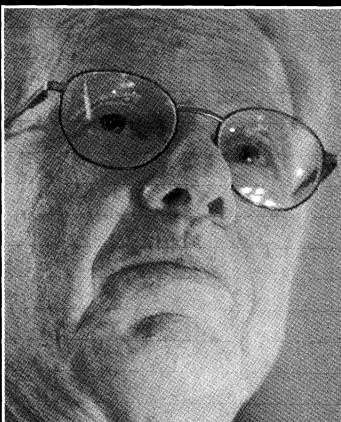
stitutions do matter"; and second, "the determinants of institutions are susceptible to analysis by the tools of economic theory" (Matthews, 1986, p. 903). The second of these is what distinguishes the NIE, it being the case that institutional economists of all kinds—old and new—are unanimous in the view that institutions matter.

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

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

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<sup>2</sup> As quoted in Daniel Boorstin (1998, p. 281).



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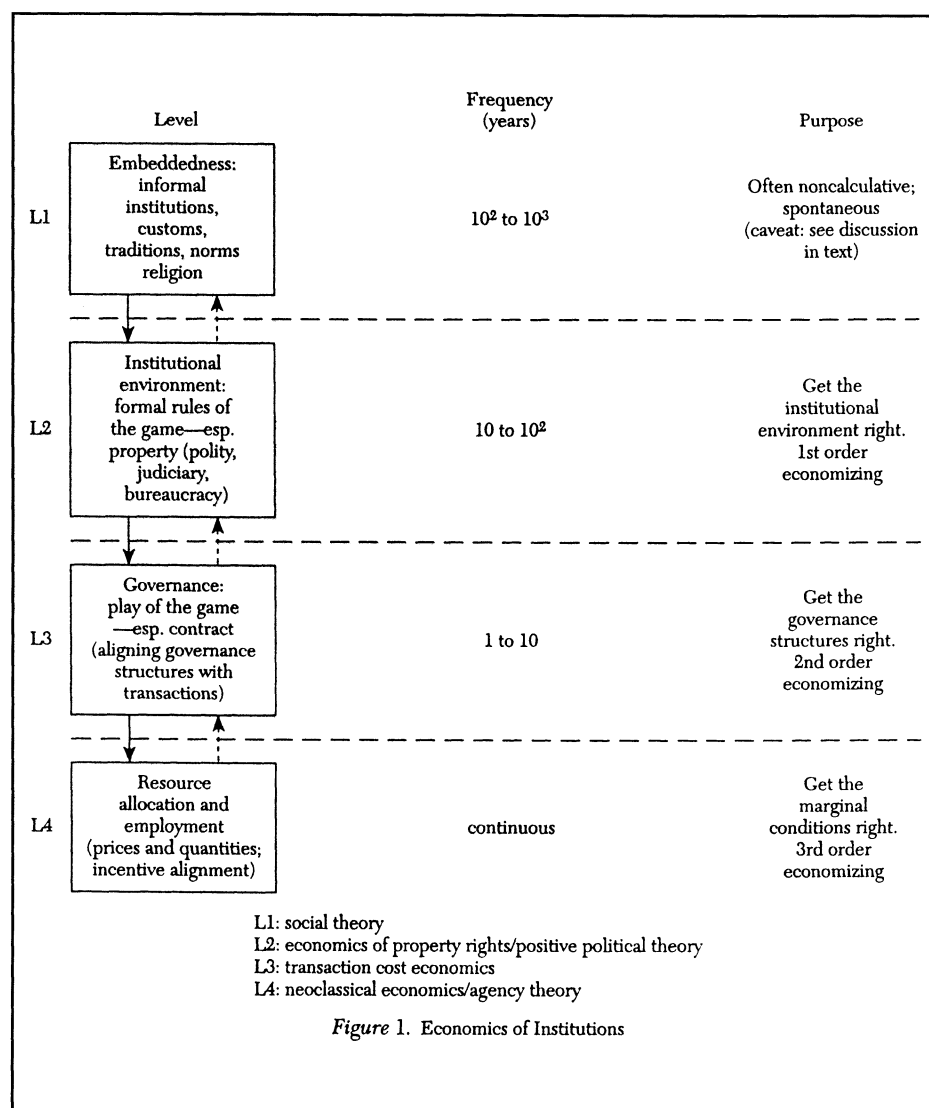


Figure 1. Economics of Institutions

There is no question that the NIE has grown in stature and influence over the fourteen years since Matthews' pronouncement. Initial skepticism has gradually given way to respect—it being the case that economists are very pragmatic people. Tell them something different and consequential about phenomena that are of interest to them and demonstrate that the data are corroborative: that will get their attention. The NIE has progressed not by advancing an overarching theory but by uncovering and explicating the microanalytic features to which Arrow refers and by piling block upon block until the cumulative value added cannot be denied.

The NIE, moreover, will not stand still. Even as institutional economics is being incorporated within orthodoxy, new opportunities and challenges

await. Both unfinished business and new projects yet to be undertaken await the new millennium.

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

## 1. Four Levels of Social Analysis

It will be useful for purposes of perspective to consider the four levels of social analysis that are distinguished in Figure 1.<sup>3</sup> The solid arrows that connect a higher with a lower level signify that the higher level imposes constraints on the level immediately below. The reverse arrows that connect lower with higher levels are dashed and

signal feedback. Although, in the fullness of time, the system is fully interconnected, I mainly neglect these feedbacks. The NIE has been concerned principally with levels 2 and 3.

The top level is the social embeddedness level. This is where the norms, customs, mores, traditions, etc. are located. Religion plays a large role at this level. Although Level 1 analysis is undertaken by some economic historians and other social scientists (Banfield (1958), Putnam (1993), Huntington (1996), and Nee (1978)), Level 1 is taken as given by most institutional economists. Institutions at this level change very slowly – on the order of centuries or millennia—whereupon Douglass North poses the query, “What is it about informal constraints that gives them such a pervasive influence upon the long-run character of economies?” (1991, p. 111).

North does not have an answer to that perplexing question nor do I. The concept of “embeddedness,” both at the level of society and in the context of ongoing network relations, has been advanced to help explicate these issues (Granovetter, 1985). The vast literature on culture (DiMaggio, 1994) is also pertinent. Neil Smelser and Richard Swedberg discuss these and related issues in their introduction to the *Handbook of Economic Sociology*, where they observe that different kinds of embeddedness cognitive, cultural, structural, and political—should be distinguished and conclude that “the concept of embeddedness remains in need of greater theoretical specification” (1994, p. 18).

An identification and explication of the *mechanisms* through which informal institutions arise and are maintained would especially help to understand the slow change in Level 1 institutions. I conjecture in this connection that many of these informal institutions have mainly spontaneous origins which is to say that deliberative choice of a calculative kind is minimally implicated. Given these evolutionary origins, they are “adopted” and thereafter display a great deal of inertia some because they are functional (as with conventions), others

<sup>3</sup> This framework was first set out in Williamson (1998).



take on symbolic value with a coterie of true believers, many are pervasively linked with complementary institutions (formal and informal), etc. Be that as it may, the resulting institutions have a lasting grip on the way a society conducts itself. Insular societies often take measures to protect themselves against "alien values."

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

Constrained by the shadow of the past, the design instruments at Level 2 include the executive, legislative, judicial, and bureaucratic functions of government as well as the distribution of powers across different levels of government (federalism). The definition and enforcement of property rights and of contract laws are important features. Although such first order choices are unarguably important to the economic productivity of an economy (Rosenberg and Birdzell (1986), Coase (1992), North (1994), Levy and Spiller (1994), Olson (1996), Henisz (1997)), cumulative change of a progressive kind is very difficult to orchestrate. Massive discontent civil wars (the Glorious Revolution (North and Weingast, 1989)), or occupations (following World War II), or perceived threats (the Meiji Revolution) or breakdowns (Eastern Europe and the former Soviet Union), or a military coup (Chile), or a financial crisis (New Zealand) will, however, occasionally produce a sharp break from established procedures. Rare windows of opportunity to effect broad reform are thereby opened. Such "defining moments" are nevertheless the exception rather than the rule. At least partly because of our primitive understanding, the response to such opportunities is often one of "failure." Absent such a window, major changes in the rules of the game occur on the order of decades or centuries.

The European Union, for example, has been "in progress" for 50 years and is still in early stages of development.

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

Much of the economics of property rights is of a Level 2 kind. Such research flourished in the 1960s. A strong version of the argument is that "a private-enterprise system cannot function properly unless property rights are created in resources, and, when this is done, someone wishing to use a resource has to pay the owner to obtain it. Chaos disappears; and so does the government except that a legal system to *define* property rights and to *arbitrate* disputes is, of course, necessary" (Coase, 1959, p. 12; emphasis added). Once property rights have been defined and their enforcement assured, the government steps aside. Resources are allocated to their highest value as the marvel of the market works its wonders.

This compact statement illustrates both the strength and the weakness of the property rights literature. The great strength of this literature is that it brings property rights to the forefront, where they belong, whereupon novel property rights reasoning could be brought to bear in informative ways (Alchian, 1961, 1965; Coase, 1959, 1960; Demsetz, 1967). The weakness is that it overplayed its hand. The claim, for example, that the legal system will eliminate chaos upon defining and enforcing property rights assumes that the definition and enforcement of such rights is easy (costless). Plainly, many transactions do not qualify (Coase, 1960). Going beyond the rules of the game (property) to include the play of the game (contract) was needed. That is the opening through which the governance of contractual relations walked in during the decade of the 1970 s.

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

John R. Commons prefigured this work with his observation that "The ultimate unit of activity...must contain in itself the three principles of conflict, mutuality, and order. This unit is a transaction" (1932, p. 4). Not only does transaction cost economics subscribe to the idea that the transaction is the basic unit of analysis, but governance is an effort to craft *order*, thereby to mitigate *conflict* and realize *mutual gains*. So conceived, a governance structure obviously reshapes incentives. To focus entirely, however, on ex ante incentive alignment is a truncated way by which to study organizatione specially if all complex contracts are unavoidably incomplete and if adaptation is the central problem of economic organization (Barnard, 1938; Hayek, 1945). Moving beyond the agency theory tradition of ex ante incentive alignment, transaction cost economics turns its attention additionally and predominantly to the ex post stage of contract.

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

predicted alignments are corroborated by the data.

The canonical problem for dealing with these issues is that of vertical integration, which is the issue posed by Ronald Coase in his classic 1937 article on "The Nature of the Firm." As it turns out, any issue that arises as or can be reformulated as a contracting issue can be examined to advantage in transaction cost economizing terms. A huge number of phenomena turn out to be contractual variations on a common theme. What I refer to as second order economizing get the governance structures right is realized at Level 3. The possible reorganization of transactions among governance structures is re-examined periodically, on the order of a year to a decade, often at contract renewal or equipment renewal intervals.

Such discrete structural analysis of governance is to be distinguished from the fourth level, which is the level at which neoclassical analysis works. Optimality apparatus, often marginal analysis, is employed and the firm, for these purposes, is typically described as a production function. Adjustments to prices and output occur more or less continuously. Agency theory, which emphasizes ex ante incentive alignment and efficient risk bearing, rather than ex post governance, nonetheless makes provision for nonneoclassical complications, of which multi-tasking is one (Holmstrom and Milgrom, 1991).

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

Finally, I should call attention to technology. As compared with technological innovation, the study of organizational innovation has been comparatively neglected. The NIE has attempted to rectify that—the idea being that "Truly among man's innovations, the use of organization to accomplish his ends is among both his greatest and his earliest" (Arrow, 1971, p. 224). We cannot, however, fail to be awed by the profound importance of technological inn-

ovation (Fogel, 1999). Inasmuch as these two work in tandem, we need to find ways to treat technical and organizational innovation in a combined manner.

## 2. Good Ideas

The New Institutional Economics had its origins in good critics of orthodoxy who believed that institutions were both important and susceptible to analysis. Feeling expansive, I would include six Nobel Laureates among the key figures: Kenneth Arrow, Friedrich Hayek, Gunnar Myrdal, Herbert Simon, Ronald Coase, and Douglass North—the last two being the first two presidents of ISNIE. But there are others. Armen Alchian has been an influential figure. So too has been research on organization theory, especially at Carnegie (some of it prefigured by earlier work by Chester Barnard) where the names of Richard Cyert and James March join that of Simon. Alfred Chandler's pioneering work in business history was also pathbreaking. Thoughtful contributors from the law, especially contract law, include Karl Llewellyn, Stewart Macaulay, Lon Fuller, and Ian Macneil. John R. Commons also brought original and important ideas to the study of institutional economics. The German Historical School was also concerned with related ideas (Furubotn and Richter, 1997, pp. 34-35). Among the key good ideas that I associate with the NIE are these:

### (1) human actors

If "Nothing is more fundamental in setting our research agenda and informing our research methods than our view of the nature of the human beings whose behavior we are studying" (Simon, 1985, p. 303), then social scientists should be prepared to name the key attributes of human actors. Both the condition of cognition and self-interestedness need to be addressed.

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

*unavoidably incomplete*. But while there is near-unanimity that complete contingent claims contracting is impossible, the appropriate way by which to model incomplete contracts remains controversial. Lack of agreement on the definition and operational import of bounded rationality are major obstacles (Rubinstein, 1998; Kreps, 1999).

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

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

Still a third attribute of human actors warrants remark, and that is the capacity for conscious foresight. Indeed, as Richard Dawkins observes, it is the "capacity to simulate the future in imagination...[that saves] us from the worst consequences of the blind replicators" (1976, p. 200). Parties to a contract who look ahead, recognize potential hazards, work out the contractual ramifications, and fold these into the ex ante contractual agreement obviously enjoy advantages over those who are myopic or take their chances and knock on wood. The governance of contractual relations—the Commons triple of conflict, mutuality, and order to which I referred earlier—is centrally implicated.

### (2) feasibility

Students of the NIE eschew hypothetical ideals which work off of omniscience, benevolence, zero transaction costs, full credibility, and the like and deal instead with feasible organizational alternatives, all of which are fla-



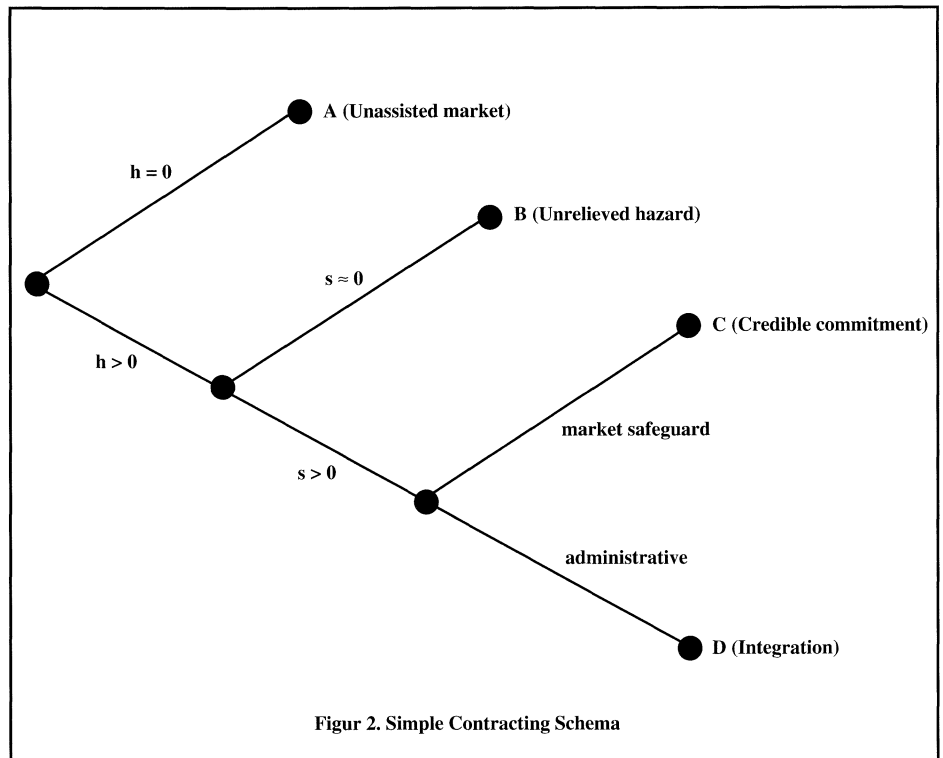
wed. Coase (1964) and Harold Demsetz (1969) were among the first to take exception with the asymmetric standards that were once used in the “market failure” literature according to which markets are beset with failures whereas “omniscient, omnipotent, benevolent” governments (Dixit, 1996, p. 8) would reliably administer efficacious remedies. As we all should have recognized (but needed to be told), all feasible forms of organization—government included are flawed.<sup>4</sup>

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

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

### (3) firms and bureaus

In addition to the nature of the human beings to which Simon referred, we need also to be self-conscious about the “Nature of the Firm,” which was the title of Coase's classic 1937 article from which the NIE draws much of its inspiration. Arrow speaks to the fundamental importance of the theory of the firm, and to long-standing misconceptions thereof, as follows: “Any standard economic theory not just neoclassical, starts from the existence of firms. Usually, the firm is a point or at any rate a black box.... But firms are palpa-



Figur 2. Simple Contracting Schema

bly not points. They have internal structure. This internal structure must arise for some reason” (1999, p. vii).

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

In a heuristic way, the choice of governance structure moves from market to hierarchy through the sequence of moves shown in Figure 2 (where  $h$  denotes contractual hazards and  $s$  denotes safeguards).<sup>5</sup> This can be interpreted as a move from simple to complex. We thus begin with autonomous contracting, which is the ideal transaction in both law and economics: “sharp in by

clear agreement; sharp out by clear performance” (Macneil, 1974, p. 738). This discrete transaction paradigm comes under strain as contractual hazards appear. The inability, for example, of courts to verify what is common knowledge between the parties to an exchange (Williamson, 1975, p. 30) could induce a move from interfirm to intrafirm organization. Other sources of contractual hazard include bilateral dependency (by reason of nonredeployable assets), weak property rights (especially intellectual property rights), undisclosed quality, health, and safety hazards, failures of probity, and the like. Such hazards compromise contractual integrity and give rise to contractual impasses, maladaptations, and investment distortions. Here, as elsewhere, inefficiency invites relief. Cost-effective hazard mitigation through added governance ensues.

Moving from less to more complex governance entails introducing added security features, reducing incentive intensity, and incurring added bureaucratic costs. Moving from simple (discre-

<sup>4</sup> Avinash Dixit (1996) counsels the older public finance tradition to come to terms with government failures.

<sup>5</sup> A variant of Figure 2 originally appeared in my paper on “Public and Private Bureaucracies” (1999).

te) contracts to complex (incomplete long term) contracts is thus attended by a whole series of features: the length of the contract increases, penalties to deter breach are introduced, provision is made for added information disclosure and processing, and specialized dispute settlement mechanisms appear.

Additional mechanisms, to include the use of hierarchy to effect coordination and decide disputes by fiat, are introduced when transactions are removed from the market and placed under unified ownership (the firm). Because added compliance and security features always come at a cost, more complex modes of governance are reserved for those transactions for which contractual hazards are especially difficult.

The public bureau, in this scheme of things, can be thought of as the organization form of last resort: try spot markets, try incomplete long term contracts, try firms, try regulation, and reserve recourse to public bureaus when all else fails (comparatively). Note that the common practice of condemning public bureaus because they have lower-powered incentives, more rules and regulations, and greater job security than a counterpart firm completely misses the point. These features have been *deliberately crafted* into the public bureau, thereby to make it better suited to govern some (especially difficult) transactions.<sup>6</sup> Vigilance is nonetheless needed—lest the public bureau be “overused.” If transaction cost economics works out of variations on a few key themes, then this schema, which was initially devised to help explicate the governance of contractual relations in intermediate product market transactions, should also apply, with variation, to other classes of transactions. It does.

The four nodes are interpreted with reference to intermediate product transactions above. Consider final goods markets and government procurement transactions.

Transactions in final goods markets, where individual consumers are the buyers, are similar but different. Node A transactions are generic and competitively organized. Node B transactions are rare. These correspond to “P. T. Barnum” there’s a sucker born every minute and other fly-by-night

transactions. Node C is the credible commitment node. Branding in combination with reputation effects and product warranties appear. Also, for some natural monopoly transactions, public utility regulation serves credibility purposes. Node D is a nearly-empty set. Economies of scale and of specialization are impediments to own-supply by consumers, although collective organization (consumer cooperatives) can be used to manage some transactions. (Many household services can be thought of as own-supply, but few fit comfortably within the schema.)

Government procurement transactions are also similar but different. Node A describes generic transactions to which, often, tedious technical specifications apply. Very few government transactions are of a Node B kind. Credibility mechanisms at Node C include the elaborate machinery of “administered contracting,” as with defense procurement (which transactions, however, are sometimes compromised by the shared interests of the government agency and the private supplier). And Node D is the public bureau, where for probity or political reasons the government chooses to manage the transaction itself.

Other applications of the schema include the employment relation (Baron and Kreps, 1999, Chap. 4) and corporate finance (the choice between debt and equity). Some transactions, such as alliances and joint ventures, pose complications of a disequilibrium contracting kind (Williamson, 1991) that are beyond the reach of the schema.

## (4) operationalization

Many good ideas are initially expressed as tautologies, which Coase has wryly defined as “a proposition that is clearly right” (1988, p. 19). Because good tautologies expand the mind and are hard to come by, such deserve respect. Lest, however, we slip into the speculations to which Wesley Mitchell once referred<sup>7</sup>—which is a fate that beset the older style institutional economics as well as the American Legal Realism movement—we need to ask what are the mechanisms through which a proposed theory operates and what are the refutable implications.

The effort to operationalize promising ideas has both theoretical and empirical parts. The theoretical often takes the form of a progression from informal into preformal, semi-formal, and fully formal modes of analysis—ideally acquiring value added in the process. Such an effort helps to sort the sheep from the goats. Nicholas Georgescu-Roegen had a felicitous way of putting it: although the “purpose of science is not prediction, but knowledge for its own sake,” prediction is nevertheless “the touchstone of scientific knowledge” (1971, p. 37).

Would-be theories for which predictive content is lacking must eventually step aside (be set aside) for those for which the hard work of formalization and empirical testing are undertaken.

(....)

## 3. Phenomena

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

The formal features of the institutional environment—the laws, polity, judiciary, bureaucracy—are crucial in examining the development of nation states (North and Weingast, 1989) and for making intertemporal comparisons within and cross-national comparisons between nation states. Indeed, this last has come to be a growth industry to which many economists who are only slightly associated with the NIE have made contributions. It is nonetheless noteworthy that the NIE has done much of the pioneering work in this area.

<sup>6</sup> This is a recurrent theme not only of the transaction cost economics literature but also of parts of the agency theory literature. See especially Bengt Holmstrom (1989) and Holmstrom and Paul Milgrom (1991, 1994), where the benefits of low-powered incentives in firms are featured.

<sup>7</sup> “Speculative systems can be quickly excogitated precisely because they do not require the economist to collect and analyze masses of data, to test hypotheses for conformity to fact, to discard those which do not fit, to invent new ones and test them until, at long last, he has established a factually valid theory” (Mitchell, 1945, p. 2).

To repeat, any issue that arises as or can be posed as a contractual issue can be examined to advantage in transaction cost economizing terms. Examples for which contractual issues are evident at the outset include contracts for intermediate products, for labor, for final goods and services, for the rental or lease or purchase of land, equipment, and buildings, for professional services, for marriage, and the list goes on. Even, moreover, if contractual features are not immediately evident from the outset, many issues can be reformulated so as to disclose their contractual qualities, the choice between debt and equity, the oligopoly problem,<sup>8</sup> and the multinational corporation (Buckley and Casson, 1976; Gatignon and Anderson, 1988) being examples.

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

Broad reach notwithstanding, the NIE is not and does not pretend to be an all-purpose construction, as the reform of economies of Eastern Europe and the former Soviet Union illustrate. Thus Coase in his Nobel Prize lecture observed that (1992, p. 714):

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

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

Real time events cannot, however, be put on hold. Hard choices have to be made. Economic reform in Russia is an example.

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

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

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

This political prescription for massive and rapid privatization was reinforced by the economic theory of the firm on which the Boycko, et al. team relied. Specifically, they appealed to the aforementioned work by Sanford

Grossman and Oliver Hart (1986), which views ownership as a system of control rights and treats the appropriate assignment of property rights as determinative (Boycko, et al., 1995, p. 13). Upon privatizing state-owned enterprises, therefore, effective restructuring by the new stakeholders would presumably follow (Boycko, et al., 1995, p. 150). In the confidence that the future would take care of itself, the mass privatization program that was begun in the Spring of 1992 had purportedly reached a "triumphant completion" in June 1994 (Boycko, et al., 1995, p. 8), by which date two-thirds of Russian industry had been privately owned.

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

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

That sanguine view does not withstand scrutiny if serious ex post implementation problems are in prospect. Under the governance approach, the award of a monopoly franchise needs to be assessed comparatively. This entails looking ahead and uncovering ex post contractual hazards, thereafter working out the ramifications for alternative modes of governance (Williamson, 1976, pp. 79-91). Because franchise bidding works much better for some natural monopoly industries than others (Williamson, 1976, pp. 102-103), the use of franchise bidding will be reserved for those industries where comparative net benefits can be projected-but

<sup>8</sup> Of the various ways in which it can be posed, its contractual nature becomes more evident when it is posed as a problem of reaching and enforcing a cartel agreement (Williamson, 1975, Chap. 12).

not otherwise. Privatization, it turns out, is not an all-purpose solution (Goldberg, 1976; Priest, 1993).

Although privatizing an entire economy is a much more ambitious undertaking than privatizing a natural monopoly industry, the key lessons nevertheless carry over. Specifically, privatizing needs to go beyond the *ex ante* award stage to include an examination of possible *ex post* implementation problems and, in consideration of the *differential hazards*, to proceed selectively.

Recall, moreover, that the NIE operates at two levels. Upon moving from the level of governance to that of the institutional environment, the rules of the game come under review. The Levy and Spiller (1994, 1996) study of privatizing telecommunications in five countries reveals that the decision to privatize and the nature of privatization turn critically on the condition and quality of judicial independence, the division of powers between the executive and legislative branches, the competence of the regulatory bureaucracy, and contractual safeguards. Whether and how to privatize telecommunications should therefore be made conditional on these features.

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

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

## 4. Concluding Remarks

The New Institutional Economics is a boiling cauldron of ideas. Not only are there many institutional research programs in progress, but there are competing ideas within most of them. With reference to history, for example, we see North (1990) and Avner Greif (1999) pursuing complementary but separate agendas. The institutions of embeddedness (Level 1) are an important but underdeveloped part of the story. Within transaction cost economics we distinguish between governance and measurement branches. The attributes of mixed ownership modes (alliances, joint ventures, franchising, and the like) as well as the mechanisms for supporting credible contracting between autonomous firms are incompletely worked out. Incomplete contracting of semi-formal and fully formal kinds differ in consequential ways, although the gap has been closing. Evolutionary economics of selectionist, population ecology, and ontogenetic kinds are in progress. Path dependency is a real and important condition, but its interpretation is actively disputed. The merits of privatization are real but are not uniform and need to be assessed with reference to both the rules of the game and the play of the game. The firm is variously described in technological, contractual, and competence/knowledge-based perspectives. How best to describe human actors is still unsettled, although evolutionary psychology holds promise. Politics is judged with reference to a hypothetical ideal by some (North, 1990) and in comparative institutional terms by others (Williamson, 1999). Efficiency arguments have mainly prevailed over power interpretations because the latter are tautological, but power issues refuse to go away. Bureaucracy remains a poorly understood condition no matter what lens is brought to bear. Private ordering approaches to contract have made progressive headway, but legal

rules remain important and their relation to private ordering is incompletely worked out. Positive political theory has made major conceptual advances, but an overarching understanding of politics does not appear imminent. And the list goes on.

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

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■ ■ ■ AGNAR SANDMO<sup>1</sup>:

# Neoclassical Economics and Institutions

**In these reflections on the New Institutional Economics it is pointed out that neoclassical economic theory is based on a number of institutional assumptions, and that the trend in the recent literature has been towards making these assumptions more explicit. In this perspective, the contribution of the NIE is consistent with a more general development in economics.**

## 1. Introduction.

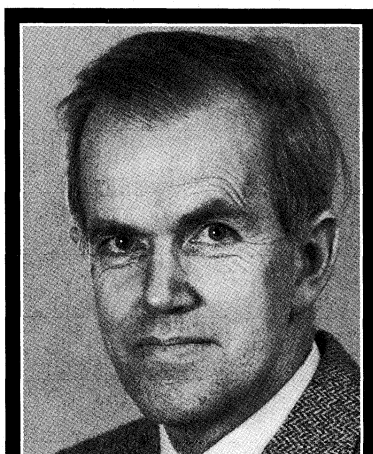
Because Professor Williamson has made so many important contributions to economic theory, it is a great privilege to be asked to make some remarks following his presentation.<sup>2</sup> I will do this not so much by providing critical comments on the specific points that he makes, but rather by offering some (hopefully) complementary reflections of my own. I do this because Professor Williamson's style is not that of some-

ne who invites his readers and listeners to engage in controversy; rather, he encourages us to take part in a conversation about the most fruitful directions for the development of economic theory. This is a style that greatly appeals to me, and I am happy to be among those who are able to accept his invitation.

In his famous book on the philosophy of science Thomas Kuhn (1962) suggested that we should think of scientific activity as being of two kinds. There is first what Kuhn calls "normal science". This is the kind of activity that most researchers are engaged in most of the time. It consists of such things as generalizing the assumptions on which a particular theory is based, developing new theoretical models within an existing framework of analysis, testing hypotheses on new data sets etc. Second, there is the activity that results in changes in the theoretical paradigm, in which a new framework is established within which normal science can be carried out. Famous examples of changes in the paradigm of economic theory are the marginalist revolution in the 1870s and the Keynesian revolution, which was launched in 1936.<sup>3</sup>

Note the word "revolution" which is attached to both of these episodes in the history of thought. Changes in the paradigm of science are indeed – notably by Kuhn himself – often referred to as revolutions. In these two cases the term is justified by the fact that both the first generation of the great marginalists (Jevons, Menger and Walras) and Keynes thought of their own contributions as something that would to a large extent tear away the existing theoretical framework and lead to a completely new way of thinking about economics.<sup>4</sup> But not all changes in para-

digm are of this kind. Some consist in opening up new fields for scientists to think about, typically perhaps something that was previously felt to be somehow outside the field. I would like to suggest that the new institutional economics is definitely a shift in paradigm, but that it would be slightly misleading to call it a revolution. This is because what may be a majority of its proponents, and certainly Professor Williamson himself, insist on its being a complement to the existing theoretical framework rather than a substitute for it.<sup>5</sup> The NIE attaches itself to the body of neoclassical economics, but its



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<sup>1</sup> I am grateful to Tore Jørgen Hanisch and Bertil Tungodden for their comments on a previous version.

<sup>2</sup> Williamson's presentation at the conference was based on a paper which has now been published as Williamson (2000). An earlier and only slightly different version was published in the *ISNIE Newsletter*, 1999.

<sup>3</sup> Kuhn's distinction between revolutions and normal science is controversial, and the application of his ideas to economics has also been the subject of some debate among historians of economic thought. Personally, I see it as one of several possible perspectives on the development of economic theory, and one that seems particularly interesting in considering the rise of the new institutional economics.

<sup>4</sup> These are examples of successful revolutions that realized their objectives. An obvious example of a revolution that did not succeed was the development of "radical economics" in the 1970s. As far as I can see, this has left little if any mark on mainstream economic theory.

<sup>5</sup> But this view is not held by all new institutionalists. Ronald Coase says that the mission of the new institutional economics "is to transform economics. When I speak of economics, I have in mind mainstream economics as expounded in countries in the West and particularly what is called microeconomics or price theory. Our mission is to replace the current analysis with something better..." (Coase, 1999, p. 1).

important contribution consists in looking inside the black boxes of neoclassical economics - households<sup>6</sup>, firms and political and legal institutions. In doing this, it utilizes the analytical tools of neoclassical economics for a new set of issues.

This development is very much to be welcomed. In the title of this conference the organizers have set up a contrast between Walras and Solow on the one hand and Coase and Williamson on the other, suggesting perhaps that the issue is one of two conflicting paradigms, one old and one new. I have already indicated that I see the issue as one of complementarity rather than conflict, but in any case I find it interesting to reflect on the institutional assumptions that are embedded in the formal theories that we typically associate with neoclassical economics.

## 2. Theory and formalization.

What precisely is neoclassical economics? This is not a simple question to answer, but one can at least describe in rough outline what the general understanding of the term seems to be. I think that most people would say that the core of neoclassical economics consists of the theories of utility-maximizing consumers and profit-maximizing firms and the interaction of these in a set of mostly competitive markets. Some people might be found who would say that "it is all in Debreu".<sup>7</sup> Others would say that the core of neoclassical economics can be identified by looking at a good modern text in microeconomic theory, such as Varian (1992). So people would differ to some extent in their preferred definition of the core and probably also in how much of the literature outside the core itself they would like to include under the term of neoclassical economics.

I suspect that these differences would reflect another and perhaps deeper difference with respect to the nature of neoclassical economics. This is that while some look on a fairly strict version of neoclassical economics as a kind of worldview - an economic "Weltanschauung" - others look upon it more as providing a set of tools for an analysis which might in principle be used to support a variety of views con-

cerning the working of markets and the economy in general. Thus one possible neoclassical worldview is that markets are on the whole close to being perfectly competitive and also efficient. Others may, to a varying degree, emphasize the importance of imperfect competition, externalities and asymmetric information, but still find that neoclassical economic theory offers the best set of tools for analyzing both markets and the economic system more generally. My sympathies are mostly with the latter view, and I believe that this is also the case with Professor Williamson, who uses neoclassical tools for institutional ends.

The Debreu-Varian types of definition of neoclassical economics have in common, at least implicitly, that they identify a theory with its formal representation by algebra and geometry. No doubt there have always been economists who think about theory in this way. But the large majority of us, when thinking about theory as a tool for the analysis of economic life, would supplement our formal theories by informal reasoning, which, I would argue, also has a strong claim to be considered as part of economic theory in a broader sense. For instance, economists frequently argue that the allocation of scarce goods through the price mechanism is more efficient than allocation by non-transferable quotas. I am sure that most of you would agree with this statement, although in fact we have a formal theory only for the case of allocation by price, and no formal theory of the allocation by quotas. If pressed on the issue, we would probably say that institutions set up to allocate quotas would not have the information required to implement an efficient allocation, and even if they had, they would be exposed to so much pressure from special interest groups that they would be led to choose inefficient solutions. In this type of situation, therefore, neoclassical economists frequently find themselves doing institutional analysis, although sometimes without recognizing it. Thus, I conclude that neoclassical economists are also institutionalists, at least in the kind of reasoning that they need as a supplement to their formal models before they can be used to analyze real issues of prediction or policy recommendation.

The 1950s and '60s were arguably the great period of generalization and formalization in the development of neoclassical economics. General equilibrium and welfare economics were being reformulated in such a way that it brought out the unity of a number of apparently quite diverse types of markets and transactions. It was e.g. pointed out that factors of production could be represented formally as negative quantities, consumption goods being measured positively. Futures markets could be brought into the modelling framework by the device of time-dated commodities, and insurance and related matters could be handled by means of the concept of state-dependent commodities. Thus, there was no longer any need for textbooks to have separate chapters on the markets for labour, capital and land; a general analysis of market equilibrium would give students the insights that they needed to analyze any kind of market.

However, I believe that this formalization itself stimulated an interest in studying institutions more carefully. Precisely because the level of abstraction became so high, the gap between the formal theory and the working of actual markets became more visible than it had been before. Neoclassical economics therefore started to move in an institutionalist direction. Let me take just a few examples of this development.

The Arrow-Debreu model of state-contingent markets, as set out in Arrow (1953) and Debreu (1959, ch. 7), suggested that the protection against any type of risk could be obtained through competitive private insurance markets. Now, to any observer of real-world insurance markets, this was patently not true, so the question became how one could bridge this gap between theory and reality. From a consideration of this question arose the theories of adverse selection and moral hazard.

<sup>6</sup> The NIE, as surveyed by Williamson (2000) has focused less attention on households than on firms and political and bureaucratic institutions. Becker's (1981) work on the economics of the family can in some respects be seen as complementary to the NIE.

<sup>7</sup> A couple of generations ago one might have said that "it is all in Marshall". The references are of course to Debreu (1959) and Marshall (1928).



Because of asymmetric information, some types of insurance policies will not be offered at all, while other policies will contain clauses for which no foundation could be found in the Arrow-Debreu formulation. It is interesting to note that Akerlof's classic study of the adverse selection problem (Akerlof, 1970) started from observation of an actual market, viz. the market for used cars, and that his theory contained predictions about the emergence of institutions like guarantees, brand-names, chains and licensing in markets characterized by quality uncertainty.

The abstract theory of general equilibrium also suggested that we should think of the labour market in the same way that we think of markets for consumer goods. But there are a number of aspects in which the choices of agents and the formation of prices are very different in the markets for labour and consumer goods. Individual choices with respect to education and occupational choice are partly irreversible and lead to an inherently asymmetric distribution of bargaining power between employees and employers. There are also important elements of asymmetric information in the workplace, and models of labour contracts which take these complications into account can be seen as examples of the modelling of economic institutions. Moreover, the detailed specification of rights and duties in a labour contract is often difficult, and labour markets therefore contain the most obvious examples of the prevalence of implicit contracts. Instead of formal contracts, behaviour is often regulated by a complex set of social norms regarding acceptable behaviour on both sides of the market – such as “fair wages in return for no shirking”. The theoretical challenge raised by this broader view of the labour market has been taken up by a number of researchers who probably think of themselves as basically neoclassical economists. Let me remind you that one of the two economists representing mainstream economics in the title of this conference, Robert Solow, some years ago published a book on *The Labor Market as a Social Institution* (Solow, 1990).

Obviously, I am not saying this in

order to diminish the contribution of the New Institutional Economics. My point has rather been that the NIE is a sign of the times, where the economics profession as a whole has been moving towards more attention to institutions and away from the more mechanistic view of the economy that at least some economists took away from their study of general equilibrium theory. The NIE speeds us along that way without insisting that we discard the skills that we have acquired as neoclassical economists. It follows that we do not face the binary choice between being neoclassicists or institutionalists. There are some attractive options in between, like being an institutional neoclassicist or a neoclassical institutionalist. In fact, my impression is that it is precisely these intermediate positions that Professor Williamson identifies with the NIE school.

### 3. Welfare economics, economic policy and institutions.

I would now like to turn to some comments on the NIE perspective for welfare economics and its applications to the analysis of economic policy, particularly within the field of public economics.

In criticisms of the neoclassical view of economic policy, there is one position which is often held up to ridicule. This is the view that although markets may be imperfect, the government can always be relied upon to implement all the conditions for a Pareto optimum or indeed for a welfare optimum, including the conditions for an optimal distribution of income. It is true that the formal theories of welfare economics could be interpreted along these lines, but I very much doubt if there were ever many economists who subscribed to this view. Instead I believe that the large majority of economists working on welfare theory and its applications have been fully aware that the theory is a normative one and not one that claimed to be a positive theory of government action. The lunchtime remarks on economic policy that I have heard from such economists over the years strongly support this view.

However, there can be little doubt that the new developments in the posi-

tive theory of political economy, public choice and the NIE have led many economists to take a more reflective view of the relationship between their theoretical work and their lunchtime analysis. This has gone together with changes in emphasis within neoclassical theory itself which are complementary with the more institutionalist developments. Let me briefly discuss a few examples of this.

In the field of competition policy, the insight from welfare economics could be interpreted as saying that a competitive equilibrium is efficient, whereas all forms of imperfect competition are not. In this view, all forms of government intervention to regulate markets could be justified by arguing that they would bring the economy closer to a competitive equilibrium and therefore to a Pareto optimum.<sup>8</sup> There are at least two reasons why most economists now would not subscribe to this view. One reason is the realization that intervention is costly, and that the expected gain in market efficiency must be weighed against the cost of the intervention. This reason would be a valid one even if the form of the intervention were perfectly adapted to the distortion that it was meant to cure. But in addition one has to realize that the government agency assigned the task of the intervention does not possess perfect information of market conditions, nor does its staff necessarily have strong incentives to implement the best policy. Some deviations from the “first best” competitive equilibrium had therefore best be left alone. This is very much in line with Professor Williamson's statement that “an extant mode of organization for which no superior *feasible* alternative can be described and *implemented* with expected net gains is *presumed* to be efficient” (Williamson, 2000, p. 601).

My second example relates to the problem of tax design versus tax reform; a distinction first emphasized by Feldstein (1976). The theory of optimal taxation is basically a theory of tax design which characterizes a desirable

<sup>8</sup> There is a contrast here to the “looser” view of competition associated with Adam Smith, where efficient competition is most naturally interpreted as the absence of monopoly; see the discussion in Sandmo (2000).

tax system without regard for the properties of the existing tax system. But there are several reasons why tax reform cannot be carried out by moving directly from the existing to the most desirable system. Reforms must be carried out by an administrative and political system with limited capacity, and this is one reason why reforms must be gradual and piecemeal. Another is that large changes in the tax system in the short run are likely to bring about major redistributions of income, which may pose a threat to social and political stability. Feldstein quotes President Woodrow Wilson as saying: "We shall deal with our economic system as it is and as it may be modified, not as it might be if we had a clean sheet of paper to write upon; and step by step we shall make it what it should be" (Feldstein, 1976, p. 77). There is now a substantial theoretical literature analyzing the conditions for a tax reform to be welfare improving, and it should be kept in mind that its intellectual foundations are institutional in nature.

Institutional stability should probably be a major concern also in all types of systems reform. I very much agree with Williamson in his remarks about the dangers of the neglect of institutions in the reforms of the Russian economy, and I believe that very similar arguments could be made about many of the reforms intended to modernize the economies of developing countries. Closer to home, proposals for reform of the Scandinavian welfare states should also take account of the desirability of smooth institutional transformation. Abrupt changes in the institutional framework of society involve major transactions costs that should definitely count in an overall consideration

of the desirability of reform. I may perhaps add that the institutional perspective was prominent in the report of the Economic Commission in Sweden (Lindbeck et. al., 1994), of which I – together with some other institutional neoclassical economists – was a member.

## 4. Concluding remarks.

The New Institutional Economics has made a very valuable contribution in shifting the focus of economics to the importance of the institutional foundations of both the private and public sectors of the economy. In the application of mainstream economic theory to problems of economic policy we tend to make a number of institutional assumptions, sometimes on a very *ad hoc* basis. The NIE brings these assumptions out into the open and helps us understand how we can analyze them using our neoclassical toolbox.

Neoclassical economics itself has become more institutional over the last few decades. This can be seen partly as a reaction to the period of formal refinement of the theory of general equilibrium. It is probably also a reaction to the failures involved in the great experiments in social engineering both in socialist economies and – to a lesser extent – in Western economies. Both markets and economic planning are embedded in a set of private and social institutions, and these institutions are important both for understanding where we are and where we want to go. This is also a way of saying that history is important; in thinking about the desirable direction of economic and social reform, we are never in a position where we can start with a clean sheet of paper.

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■ ■ ■ TORE ELLINGSEN:

# Institutional Science

The purpose of this paper is to provide a personal perspective on recent research in institutional economics. There are many reasons for optimism now that our field is finally expanding back towards its original boundaries from the heyday of political economy 150 years ago. At the same time, there are many open questions, which should make institutional economics an ideal research topic in the years to come.

## 1 Introduction

Why are people in South-Korea so much better off than those in North-Korea? Why are people in the western part of Germany richer than those in the eastern part? Why are people in northern Italy richer than those in southern Italy? Why are inhabitants of Angola vastly worse off than those in Singapore? And why did Scandinavia become so prosperous in the hundred

years from 1880 to 1980, when most of Latin America, starting from much the same level of poverty, made only modest progress?

Whatever one's professional prejudice or political color, I think we can all agree that resource availability is not the answer to these questions. As Olson (1996) has noted, access to natural resources, or to labor and physical capital, plainly fails to explain several spectacular differences in economic performance. Indeed, it seems that mankind has such a capacity for misallocation of resources, including destruction and waste, that *resource use* ends up being far more important for the wealth of nations than is resource availability. From there, it is a small step to conclude that economic performance is to a large extent determined by institutions.

The purpose of this paper is to provide a personal perspective on recent research in institutional economics. At the outset, let me confess that «institutional economics» is a term that I use with some hesitation. The problems that we seek to understand are problems that, over the last hundred years, engaged political scientists and sociologists more than economists. Indeed, some individuals have left economics to set up departments of sociology for the very rea-

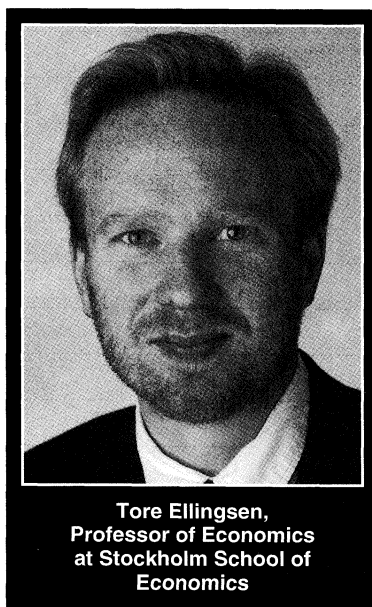
son that the economics discipline dramatically narrowed its focus following the neoclassical breakthroughs. Perhaps it would be better now to emphasize the unity of our efforts? At least, that concern is reflected in my choice of title. On the other hand, economics is more closely associated with resource allocation problems than are other social sciences. Since I too will be concerned primarily with resource allocation, let me hesitate no more.

My exposition is divided into three parts. First, I identify some notable academic success stories, areas where economists have made substantial progress. Next, I provide a simple classification scheme for institutional failures. Such a classification makes it easier to distinguish the various strands of institutional economics. Finally, I provide a brief discussion of the hold-up problem, which is at the heart of institutional economics.

## 2 State of the art

It is common to distinguish between formal (usually written) institutions and informal institutions. Table 1 provides some examples.

As the table makes clear, serious study of institutions almost inevitably requires crossing some academic bounda-



Formal	Informal
<i>Constitutions</i> <i>Laws</i> <i>Regulations</i> <i>Corporate charters</i> <i>Explicit contracts</i> <i>Trading mechanisms</i>	<i>Social norms</i> <i>Conventions</i> <i>Customs and trad.</i> <i>Taboos</i> <i>Implicit contracts</i> <i>Business practices</i>

Table 1: Examples of institutions.

ries. Anthropology, economics, law, political science, psychology and sociology are all deeply involved in the investigation of several of these institutions.

A major success in recent institutional economics is that the academic borders have been crossed much more boldly, not least by economists. (Some call this economic imperialism. I call it academic integration and see it as a victory for free thinking over intellectual isolationism.) As an example, consider a recent issue of *Quarterly Journal of Economics* (August 2000). Virtually the whole issue consists of papers with titles like «Economics and Identity», «Measuring Trust», «Participation in Heterogeneous Communities», «Ultra-Orthodox Jews», «Evolution of Ethnic and Religious Traits», «Reputation and the Limits of Contracting», «Network effects and Welfare Cultures», «Regional Shirking Differentials». Is this economics or sociology? Hopefully, you will find that question irrelevant.

I would also like to point out three narrower fields where progress has been substantial lately.

- The rebirth of macroeconomic growth literature. The cross-country growth literature now takes institutions seriously. Hall and Jones (1999) is a fine example of how one can try to identify the impact of institutions on economic performance using cross-country data. Rajan and Zingales (1998) consider a narrower problem, namely the role of financial markets for growth. Using industry data from a variety of countries, they find that legal institutions and accounting standards are very important for the growth of industries which (in the United States) are dependent on much external finance. The latter paper also represents one of the many recent contributions to the «law and finance» literature.
- Advances in mechanism design. Microeconomic theory has for a long time been concerned with resource allocation under conditions of asymmetric information. This is one area where economics has successfully approached the status of engineering. For example, renowned microeconomists played a major role in develop-

ping the design of auctions for selling spectrum rights. These auctions have been spectacularly successful in many countries.

- Behavioral economics. There used to be a time when many economists confused our simplifying assumptions about human behavior, which made our models tractable, with a scientific hypothesis about human behavior. Nowadays we all know that there is a vast number of behavioral regularities which contradict the assumption that humans consistently maximize nothing but their own expected material payoff. These insights are now rapidly being incorporated into our models in almost all areas. At the upcoming meeting of the European Economic Association, in Lausanne 2001, the three main plenary talks are all on psychology and/or social norms.

This is not to say that all is well in institutional economics. There is still far too little genuine cooperation across fields, and insights developed in one discipline are quite slow to enter neighboring disciplines. For example, some research in behavioral economics merely duplicates old findings in social psychology. Textbooks also lag research by several years, with the implication that entry barriers for new talent, remain high. Finally, many economists still appear to believe that incentive issues are the only issues to be addressed, failing to appreciate that problems of *coordination* loom large and need our careful attention. I shall try to justify this position below.

## 3 Sources of Inefficiency

To understand differences in economic efficiency, we need a theory of inefficient allocation of resources. How do groups of people, small and large societies, end up inside the «utility possibility frontier» that is given by the available resources? One answer is that there are other constraints as well, notably *incentive constraints*. But can we be sure that outcomes are even constrained efficient? Clearly not. Indeed, coordination on efficient outcomes is perhaps the most difficult task of all in a rapidly changing world.

To fill the above concepts with content, it is useful to make a more detailed classification.

Incentive constraints derive from commitment problems as well as problems associated with asymmetric information. Commitment problems in turn stem from incomplete contracts, from time inconsistency (including renegotiation of contract), as well as from lack of third-party enforcement. Asymmetric information potentially affects incentives both at the contracting stage, when agents do not have complete information about the possible outcomes, and at the contract execution stage, where imperfect measurement of performance is frequently a source of inefficiency.

Coordination failure stem either from heterogeneous expectations or from heterogeneous information. Examples of the former is that agents play a complete information game with multiple equilibria. Agents may have common interests, in which case equilibria are Pareto-ranked, or they may have conflicting interests, as in a bargaining game. In either case there is a lot of evidence that it may be difficult to attain coordination, even if agents are allowed to communicate. Examples of heterogeneous information arise when there are costs associated with information processing and/or communication. In these cases, coordination can become non-trivial even if we ignore incentive issues altogether.

Within the above classification scheme, I believe that one can fit virtually all research on institutional economics. This claim will be obvious to some and unintelligible to others. Rather than proving it, let me now change gears and become much more specific.

## 4 The Hold-up Problem

Williamson (1975, 1985) are two enormously influential books. One of the central ideas in both of these books is the notion that organizations exist in part to facilitate relationship specific investments. Contracts are inevitably incomplete. In some contingencies, resources will therfor be allocated administratively or through bargaining. The ex post outcome may well turn out to be inefficient. The anticipation of such



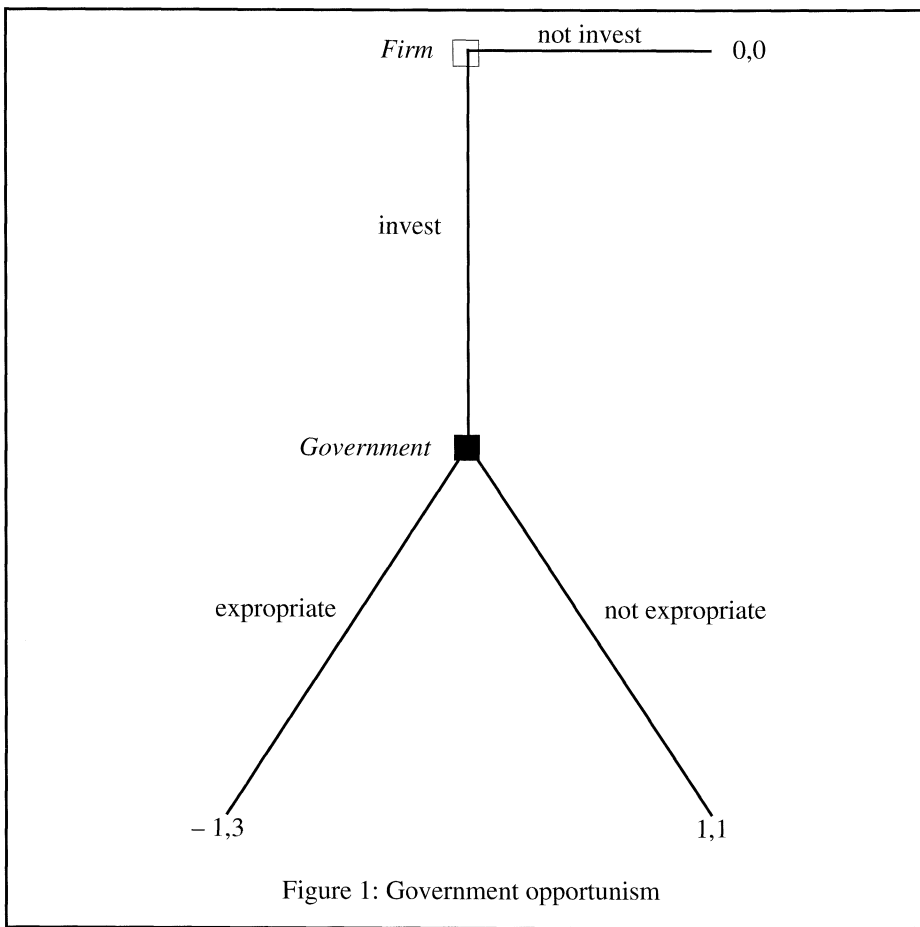


Figure 1: Government opportunism

future difficulties may even distort the relationship-specific investment themselves. In Williamson's honor, I shall here give an exposition of the hold-up problem, trying to add a few twists of my own. (The emphasis here will be entirely on ex ante distortions, but this is merely for convenience.)

A powerful example of the hold-up problem is provided by untrustworthy governments. Governments have extensive authority, and private agents may fear abuse. To fix ideas, consider a firm that makes an all-or-nothing investment decision. Investment costs 1 unit of money and returns 3 units. The government may expropriate all the returns, in which case its payoff is 3 and the firm's payoff is -1 (the investment cost). If it does not expropriate, the government already has in place a profit tax of 50 percent. Since the profit is  $3-1=2$ , in this case each party gets a net payoff of 1. The situation is described in Figure 1, with the firm's payoff first.

If this was a complete description of the game, the firm would not invest, because the government's dominant strategy is to expropriate the returns.

This is the *hold-up problem* in its simplest form. While firms sometimes have justified fears of expropriation, there are many instances where expropriation does not happen. So how has the hold-up problem been solved in these cases?

Any answer to this question comes down to the realization that we have described the situation incorrectly or at least incompletely. One possibility, which has been popular among economists and sociologists alike is that the game is «embedded» in a richer setting. To see why this matters, suppose the investment/expropriation game is followed by play of the (simultaneous move) game in Figure 2. An interpretation is that the firm and the government make other mutually beneficial transactions, for example that the firm sells goods to the government, and that there are various ways to divide the surplus from these transactions. Let the firm be the row player (Player 1) and let the government be the column player (Player 2).

Observe that the second stage has two pure strategy equilibria, namely

$(B,L)$  which gives 4 to the firm and 1 to the government, and  $(T,R)$ , which gives 1 to the firm and 4 to the government.

When we view the game in its entirety, it is now possible to sustain investment at stage 1 as part of an equilibrium. The idea is that it now becomes possible to punish the government if it expropriates. More precisely, the efficient equilibrium prescribes that the firm invests, the government does not expropriate, and they play the government's favorite equilibrium  $(T,R)$  at stage 2. This equilibrium is sustained by the credible threat that government expropriation is followed by play of the firm's favorite equilibrium,  $(B,L)$ . (Hence, expropriation only gives the government a payoff of  $3+1=4$ , whereas non-expropriation gives a payoff of  $1+4=5$ .)

A weakness of this solution to the hold-up problem is that there are inefficient equilibria too. In particular, if play at stage 2 is insensitive to what happened at stage 1, there cannot be investment at stage 1. Which equilibrium is played will typically depend on such things as custom or authority.

Authority is one concept that economists, myself included, need to understand better. A dictionary will define it as «the power to enforce laws, exact obedience, command, determine or judge.» If we want to be a bit more subtle, we should, like Hannah Arendt, reserve for authority meanings which are different from both coercion by force and persuasion by argument. An example that satisfies this requirement is a verbal message to coordinate on one equilibrium among many. If this message is authoritative, it attains coordination on the relevant equilibrium. (You may wish to think about this statement in the context of the simple game in Figure 2.) To be a bit more general and formal about it, let me propose the following definition of absolute authority.

	L	R
T	0,0	1,4
B	4,1	0,0

Figure 2: Bargaining over surplus

Definition: Consider a game with  $T$  stages. A player has *absolute authority* in the entire game if at any stage  $t \leq T$  the player can induce her preferred equilibrium—albeit only among the equilibria that are consistent with the exercise of absolute authority at remaining stages.

Absolute authority sounds like an attractive thing to have, and many have sought it. However, authority is a mixed blessing. Suppose for example that the government has absolute authority in our game above. Then there will be no investment! The reason is simple. No matter what the government has done earlier, it has an incentive to propose play of the equilibrium  $(T, R)$  at stage 2. Thus, there is no longer any mechanism for punishing the government for expropriation, and the firm rationally abstains from investing. Things are no better if the firm has absolute authority, because in this case the government will never be rewarded for non-expropriation. In a nutshell, this is the *paradox of authority*: An agent with absolute authority cannot make credible promises.

To conclude, we have seen that efficient outcomes require that no party has absolute authority. Ultimately, authority only works if there are appropriate checks and balances, which is what Hobbes failed to appreciate, but Locke and Montesquieu realized long ago. Indeed, there are a number of historical events which testify to the validity of this theory. The *Magna Carta* of 1215 is a famous example of a Sovereign ruler (King John) «voluntarily» giving up some of his authority (to feudatories). The *Glorious Revolution* of 1688 went even further. The protests against the Crown's extortionary taxes eventually led to a devolution of the power to

tax (to the Parliament) as well as to the establishment of a fully independent court system. As a by-product, the Bank of England was established to handle the Crown's borrowing. Surprisingly for many believers in absolute monarchy, even the Crown was better off in the end, being able to borrow legally much more than the money raised from the de facto confiscations of the past; see e.g., North and Weingast (1989).

I don't want to leave you with the impression that we now have a clear understanding of how hold-up problems may be solved through allocation of authority. Game theoretic models duck the most important question of all: *How do agents know what the relevant game is?* Here I have hardly a clue. A possible answer is that the definition of separate spheres (firms, clubs, friendships) is itself important for attaining coordination, by allowing people to agree on what parts of the history of the world can be considered irrelevant for what we are going to do today. In this way, the complexity of each game is limited, and any breakdown of cooperation can be prevented from spreading to all interactions. On the other hand, people sometimes have very long memories, and actually do take into consideration events that happened several hundred years ago when they decide what to do today. Recent wars in Europe have demonstrated this point all too clearly. Here is a huge question, matched in size only by the gaping hole in the literature.

The talk, on which this article is based, went on to discuss social psychology and its relevance for the hold-up problem. Here I shall strike a more appropriate balance between self-promotion and space constraints by referring interested readers to Ellingsen and Johannesson (2000).

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# Institutions, inequality and social policy

There are considerable variations in the implicit social contract that citizens are offered across advanced industrial societies. This is evident from the differences in pay inequality, social policies and levels of poverty in many OECD countries. Institutional economics, new or old, should be able to account for these differences. Below we show that the most important explanation for the observed disparities are due to differences in the design of labor market institutions.

## 1. What is the puzzle and why do we care?

Why don't countries with the same level of GDP per capita have the same

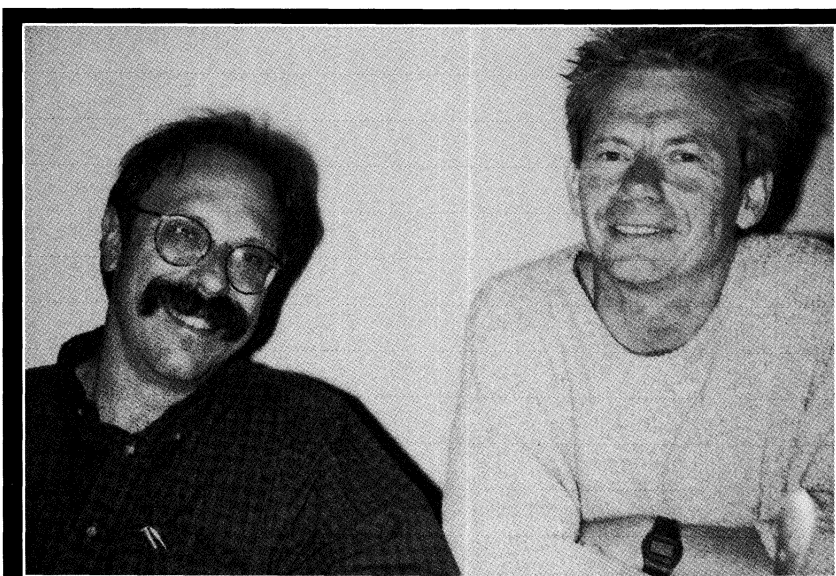
distribution of income? There are huge differences in the pre-tax and transfer distribution of wages across countries that are almost equally rich per capita. Moreover, there are even larger differences in the inequality of final incomes than in the inequality of wages before taxes and transfers. Thus redistribution through social insurance and social assistance policies has the effect of amplifying, rather than mitigating cross-national differences in wage inequality.

These observations pose several questions. First, what explains the differences? In particular, what are the effects of markets versus political institutions? Second, since the differences relate to advanced capitalist economies that compete on the same international markets, why doesn't international

competition equalize wages for equal work in all countries? Third, why doesn't the welfare state redistribute more in the less egalitarian countries and less in the more egalitarian ones?

Perhaps the most important reason why people care about inequality is because of the association of inequality with poverty, which we document below. But people also care about inequality directly. Unequal societies are considered to be unfair in a manner that a majority of citizens dislike according to opinion polls (you need to add citations). Thus a high degree of inequality may be viewed as an institutional failure to transform social preferences of citizens to realized outcomes.

Below we give a rather brief overview of an on-going joint research project that explore the questions listed above. Some of the findings we report are documented and analyzed in more detail in Moene and Wallerstein (2000) and Wallerstein (1999). The overall picture is that wage setting institutions determine the distribution of wages as shown in section 2 below. The distribution of wages have a direct impact on the final distribution of income, but also an indirect impact on the final distribution via the political support for welfare spending as shown in section 3 below. Accordingly, there is a recursive structure from wage setting institutions to the final distribution of incomes that goes via the distribution of wages and the support for welfare state arrangements. In section 4 we provide some evidence on the relationship of wage-setting institutions, wage inequality



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<sup>1</sup> We would like to thank Karine Nyborg, Tor Jakob Klette and Oddbjørn Raaum for useful comments.

and the extent of poverty. Section 5 concludes.

Needless to say, to derive the impact of institutions on the final distribution of incomes and poverty in a comparative manner is hard work that we have not yet completed. The results that we can offer are therefore preliminary and we neither claim to have all the answers nor the full explanation for those we answer. In particular, we don't have much to say about why institutions differ so much across countries.

## 2. Pay inequality in 16 OECD countries.

There are large differences in the distribution of wages and salaries across advanced industrial societies and, in some countries, significant change over time in the recent past, as Figure 1 shows. In the United States for instance, a worker who somehow managed to rise from the 10th to the 90th decile of the wage distribution would have received a pretax wage gain of 440 percent in 1990. To accomplish the same feat in 1980 would have taken a wage gain of 380 percent. Both figures are in sharp contrast to the 98 percent increase that a Norwegian worker would have obtained by going from the 10th to the 90th decile in the wage distribution in 1990. While countries may differ even more in the distribution of income from capital, the preponderance of labor earnings in total income is such that differences in the distribution of wages and salaries account for most of the cross-national variations in the measure of the distribution of income. Figure 1, here.

There are also huge differences in wage setting institutions across countries. The differences are along several dimensions of the wage setting system.

**Centralization:** Countries differ in the centralization of collective bargaining. In the US and UK, plant-level wage bargaining predominates. In many continental European countries, wage-bargaining occurs at the industry level. In Northern Europe, collective agreements covering all private-sector blue-collar workers have been common, often with industrial peace clauses that limit the tactics that union locals can use to obtain additional wage gains at the plant level. Wage-setting

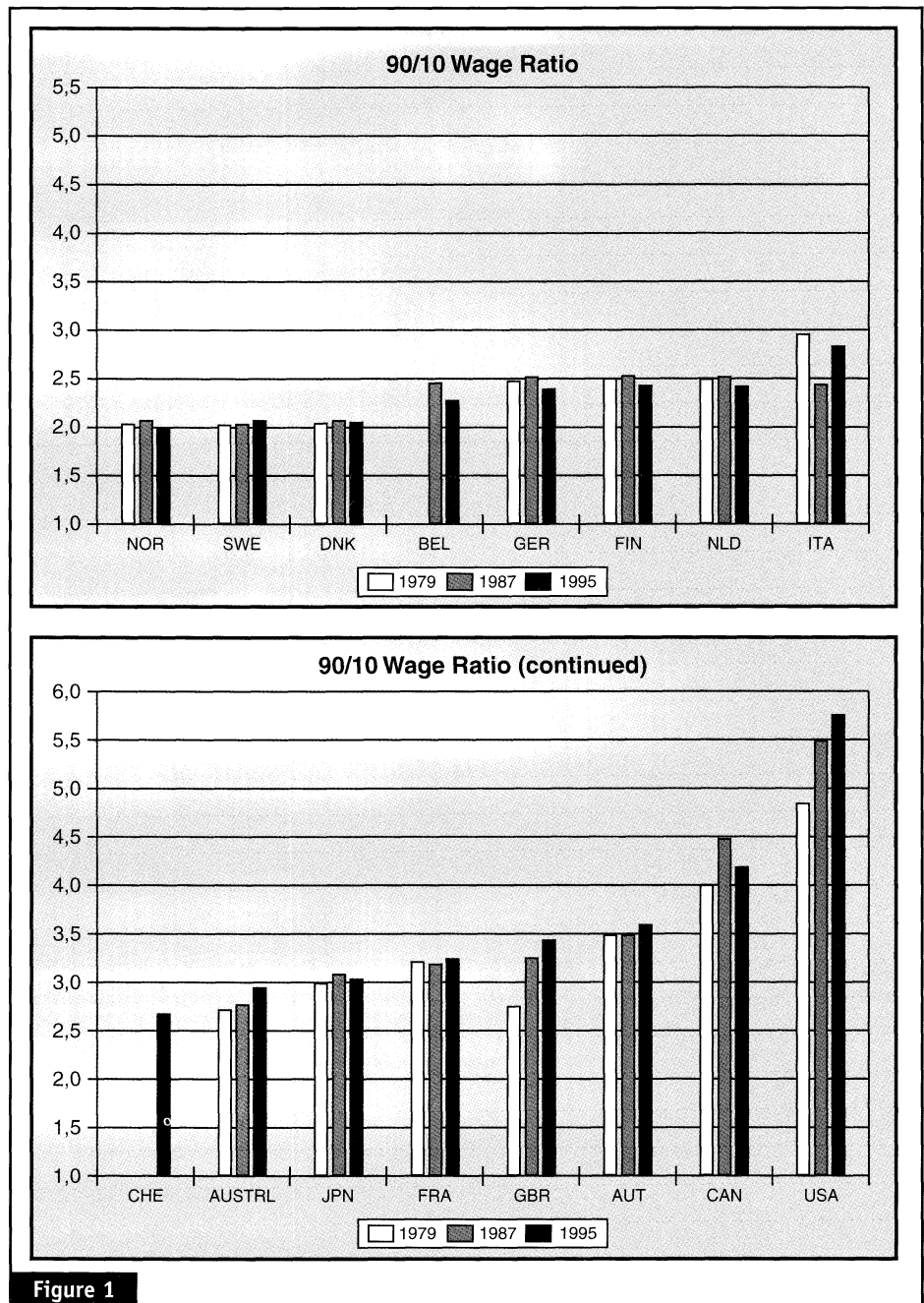


Figure 1

can also be centralized by parliamentary intervention. Governments have played a variety of roles in private-sector wage-setting, from setting minimal standards to setting wages by parliamentary act. Although centralization via collective bargaining and centralization via government intervention are very different phenomena, the data suggests that both types of centralized wage-setting have similar effects on the distribution of wages. The lowest levels of centralization are found in the US and Canada. The highest levels of centralization are found in the Nordic countries.

**Union concentration:** Like in output markets, concentration may be important for the impact of unions in the labor market. Concentration can be measured between confederations and within confederations. The US, for example, has a high level of concentration between confederations, since there is one confederation that encompasses almost all union members. However, the US has one of the lowest levels of concentration within confederations, since the AFL-CIO is comprised of more than 100 unions, the largest of which contains less than five per cent of the confederation's membership.



Concentration between confederations is uncorrelated with measures of wage inequality, but concentration within confederations may have a significant impact on the wage distribution. Concentration within confederations is lowest in Australia and the US and highest in Switzerland and Germany.

**Union density and coverage:** The third way in which countries differ is in union density, that is the share of workers who belong to a union, and union coverage, that is the share of workers whose terms of employment are covered by a collective agreement. Union Density varies dramatically, from below 15 per cent in the US and France to above 80 per cent in Denmark, Sweden and Finland. Outside of continental Europe, coverage corresponds closely to density. Within continental Europe, however, coverage is much greater than density. In Germany and Austria, for example, union contracts cover all employees of members of the employers' association, whether or not the employees are union members. In France and Belgium, government extension of union contracts is common. In Europe, less than half of the workforce belong to unions, but over three-quarters of the workforce are covered by union contracts.<sup>2</sup>

The distribution of wages does not change dramatically from year to year. Whatever the wage-setting institutions, the distribution of wages today is similar to what it was last year. Over time, however, the cumulative impact of wage-setting institutions can be substantial.

There are also other possible explanatory variables for pay inequality that differ across countries. Given the extensive government involvement in private-sector wage setting in many countries, the ideology or the constituency of the government might have an impact on wage inequality. In particular, social democratic governments may push for greater wage equality than conservative governments.

A popular argument, emphasized by Wood (1994), points to increasing international trade to explain much of the rise in inequality of pay in the US. Trade dependence, as measured by imports plus exports as a share of GDP, may therefore have a direct impact on wage inequality. If the argument is

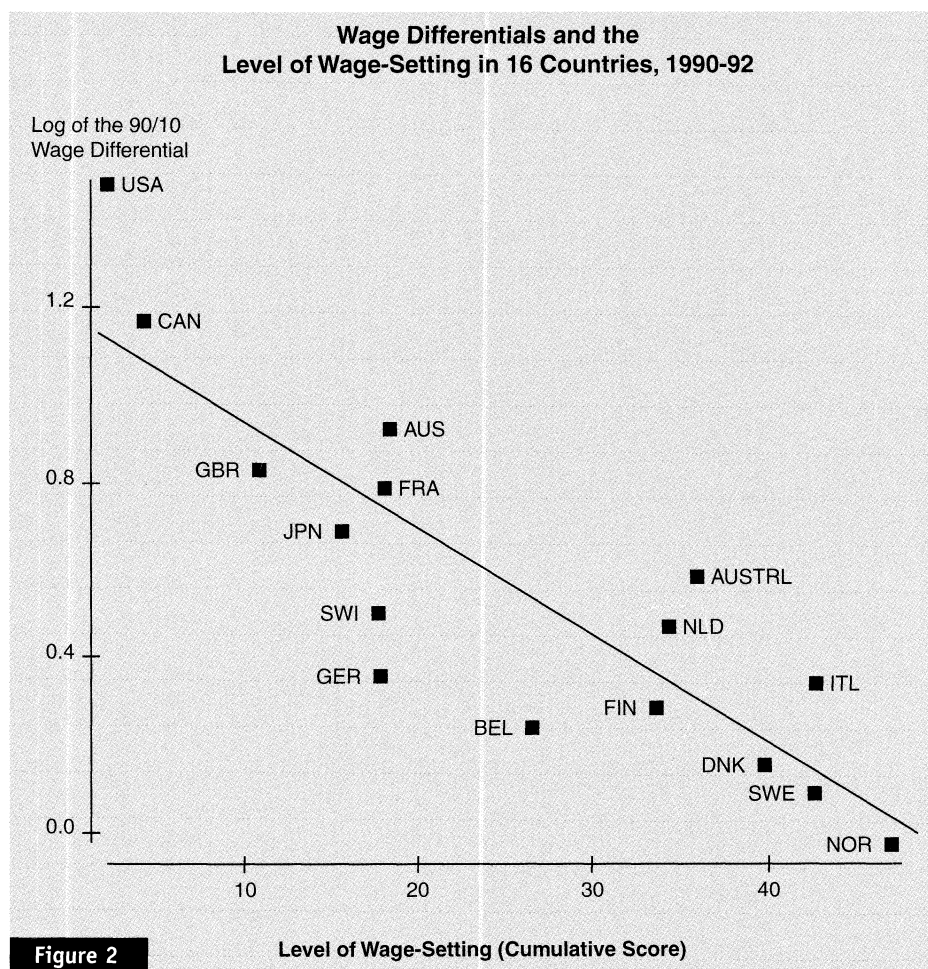
right, those advanced industrial countries that are heavily exposed to international competition should experience either increasing differences in earnings or high unemployment. Thus, Wood argues that trade exposure is strongly associated with high wage inequality among countries with relatively low levels of unemployment.

The size of the public sector may have the opposite effect as public sector wages in most countries are more compressed than private sector wages. Accordingly, a high share of public sector employment in total employment may be associated with low wage dispersion. Moreover, on the spending side, generous welfare policies may increase the bargaining power of low-wage workers by providing better opti-

a less compressed wage scale would be taxed away.

Finally, one might expect to find more compressed wage scales in countries with relatively large supply of highly educated labor (Hægeland, Klette and Salvanes 1999, Barth and Roed 1999). A larger supply of educated workers is expected to reduce skill premiums even with uncoordinated wage setting.

In order to derive the relative impact of all these factors, a panel data set was put together and applied in a regression analysis to explain the 90-10 wage inequalities illustrated in Figure 1 (see Wallerstein 1999). The results are clear cut: The most important institutional factors in explaining wage inequality are (a) whether wages are set locally, at



**Figure 2**

ons for workers outside the labor market. On the revenue side, Hibbs and Locking (1996) suggest that high marginal tax rates reduce the costs of wage compression for high wage workers, since much of the extra income that high wage workers would receive with

<sup>2</sup> The figures for centralization, concentration, density and are taken from the Golden, Lange and Wallerstein data set, which covers unions, employers' associations and wage-setting procedures in 16 OECD countries from 1950 to 1992.

The data set is available at [www.shelley-polisci.ucla.edu/data](http://www.shelley-polisci.ucla.edu/data)

the industry level or at the level of the economy as a whole, (b) the extent to which wage setting is dominated by a few large unions who are able to coordinate informally, and (c) the extent to which union contracts cover the labor force. The more wages and salaries are set in a centralized manner, the more egalitarian the distribution of wages and salaries.

The strength of centralization as an explanatory variable for wage inequality is surprisingly high. More than 70 per cent of the variation in wage inequality can be explained in a bivariate regression with an index of the level of wage-setting as the only independent variable. Thus once the level of wage setting is included, there is not much variations in wage inequality across countries to explain. The association between wage inequality and the level of wage-setting in 1990-92 is shown in Figure 2, here.

To illustrate the quantitative effects of institutional arrangements, observe that a permanent change in the wage setting institutions from plant-level bargaining (as in Britain, Canada or the US) to industry-level bargaining (as in Switzerland, Austria or Germany) reduces the wage differential,  $[(w(90)-w(10))/w(10)]$ , by 30 per cent in the long run. A permanent change from highly centralized bargaining (as in Sweden before 1983) to a system of industry-level bargaining raises the wage differential by 50 per cent in the long run.

The explanatory power of variables other than the level of wage setting are low even though most of them go have the expected sign. Yet, the hypothesis that growing trade dependence is associated with greater wage inequality is contradicted by the negative covariance between trade dependence and wage inequality. Moreover, the negative correlation between trade dependence and wage inequality is even stronger among countries with low levels of unemployment than in the sample as a whole. Countries with high levels of trade dependence tend to have relatively egalitarian wage distributions, even after controlling for the fact that trade dependent countries have rather centralized wage setting systems.

In explaining the findings it may be productive to start with this indirect re-

futation of the so-called factor price equalization theorem. International competition in output markets (and capital mobility) may very well imply that wage costs tend to be equalized across each branch of industry that produces for the world market within different countries. International competition does not imply, however, that each country has the same types of industries. Egalitarian countries may concentrate their employment in industries that can compete without low-wage workers. In addition egalitarian countries compress wages both from below and from above. Thus what tends to be equalized is the average wage costs of trade dependent industries where egalitarian countries can afford to pay higher wages to those at the bottom because workers at the top are being paid less. In other words, international economic integration requires that capital owners receive the international rate of return, but trade dependence and capital mobility does not dictate how wages are distributed among workers as long as profits are high enough to prevent capital flight.

There may be multiple reasons for the strong association of centralized wage-setting with egalitarian wage distribution. One possible economic explanation starts from the premiss that the wage differentials that emerge from decentralized interaction between employers and employees are inefficient in some way. Strong unions exist in some industries but not in others, or in some plants but not in others in the industry. Even equally strong unions may differ in the trade-offs they face between wage increases and employment that stem from differences in the productive process and in the elasticity of demand for output. Among employers of nonunion labor, some firms may have substantial monopsony power while other firms have none. In such an economy, wages for equivalent workers in unionized enterprises would differ according to workers' share of monopoly rents, which varies across industries and firms, while wages in non-union enterprises would differ according to the monopsony power of employers.

Both in markets where workers' wages are higher than the competitive wage due to monopoly power and lower than the competitive wage due to

monopsony power, employment is inefficiently low and the relative price of output too high. There is both a misallocation of labor and misalignment of prices. Thus, centralized bargaining, by imposing a rule like equal pay for equal work, generates a wage distribution that may be closer to the textbook model of a perfectly competitive labor market than does decentralized wage setting in actual markets. Although some workers and some firms would be worse off, aggregate income may be higher if local rents are reduced through a process of centralized wage-setting (Moene and Wallerstein 1997).

There are, however, many reasons why the reductions of wage differentials might lead to lower rather than higher efficiency. Moreover, even in circumstances where greater equality is more efficient, an explanation in terms of efficiency is insufficient in the sense that a change that increases total income but harms some may be blocked by those who lose.

A more political explanation of the association of centralized wage setting with egalitarian wage distributions is simply that centralization alters the influence of different groups in the wage setting process. Freeman and Medoff (1984) argue that the wage structure in non-union labor markets is shaped by the preferences and outside options of the most mobile workers who employers are trying to attract or retain. In contrast, the structure of wages under collective bargaining reflects the preferences of the median voter in elections for union leadership or contract ratification. Thus, a mean-preserving reduction in wage inequality which raises the pay received by the median wage-earner (and all other workers with wages below the mean) would obtain majority support inside the union given the positively skewed shape of the wage distribution.

In addition, employers may also benefit from a wage policy that raises the wage of the low-wage workers and lowers the wage of high-wage workers even when wage compression is inefficient, as shown in Moene and Wallerstein (1997). In that paper, we examined a model with heterogeneous employers and heterogeneous firms in which wage differentials arise from

competition among employers to obtain more skilled employees. Wage differentials associated with the decentralized equilibrium are efficient, but unjust in the sense that differences in pay exceed differences in workers' abilities. Reducing the wage differentials between high- and low-skilled workers increases both profits and the wages to the low-skilled workers as long as total wages are kept low enough to clear the labor market. The possibility that employers can benefit from wage compression is important in understanding the history of centralized bargaining in Northern Europe. As Swenson's (1989) research has documented, centralized wage setting in Scandinavia were created with the active support of the employers' associations.

Finally, workers' preferences for a wage distribution regarded as fair should be added to the picture (Thaler 1989, Rabin 1998 and Fehr and Schmidt 1999). Although concerns with fairness exist whatever the institutional environment, the centralization of wage setting may have a large impact by altering how the norm of fairness is applied. In decentralized bargaining the norm of equal sharing results in a wage structure that depends on the worker's usefulness to the firm and his alternative opportunities. In centralized pay setting, the same norm of equal sharing results in pay that depends on the importance of the work force as a group. The larger the fraction of workers who are considered as a group, the more egalitarian the potential impact of equal sharing rules.

### 3. Social insurance and redistribution.

The distribution of wages in different countries is strongly affected by the institutions in the labor market. One might think, however, that the impact of these institutions on the final distribution of income would be mitigated by redistributive welfare policies. The most common economic models of the welfare state by Romer (1975), Roberts (1977) and Meltzer and Richard (1981) predict that higher pre-tax income inequality induces greater redistribution via taxes and transfers. Thus, Meltzer

and Richards predict that countries with more unequal wages would have more redistribution via taxes and transfers than countries with a compressed wage scale.

The logic for this assertion is simple and compelling. Welfare policy, it is assumed, redistributes income from persons with above average incomes to persons with below average incomes. Given that the wage distribution is skewed such that a majority of the population receives an income below the mean, it is natural to think that a change in the wage distribution that increased above average incomes while reducing below average incomes would provoke increased demands for public policies to reduce the gap between the rich and the poor. In the Romer-Roberts-Meltzer and Richard formalization, political competition drives the level of welfare spending towards the ideal point of the voter with median income. The greater the distance between the median and the mean income, the greater the equilibrium le-

vel of redistribution. This simple model of voting over redistributive policies has a comforting implication: The political support for redistributive policies is predicted to increase when redistribution is most needed. Although each voter is assumed to care only about his own welfare, the result is a welfare policy that varies appropriately with the needs of the poor.

In Moene and Wallerstein (2000) we demonstrate that a more complete model of voting over welfare spending leads to different conclusions. While support for benefits received by the employed increases as inequality rises, the relationship between earnings inequality and support for welfare policies is reversed when benefits are primarily received by those without earnings. Our model implies that greater inequality in pre-tax income is associated with less, not more, spending on welfare policies targeted to persons without employment.

The framework we develop combines two different approaches to under-

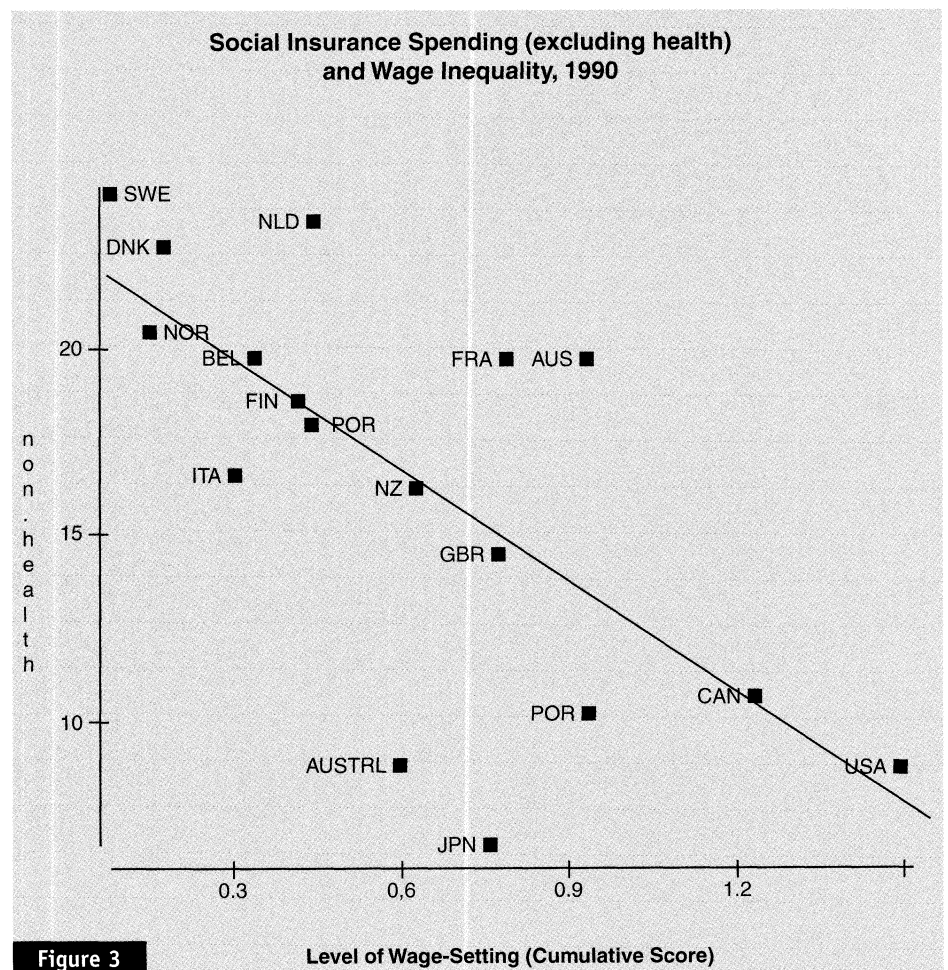
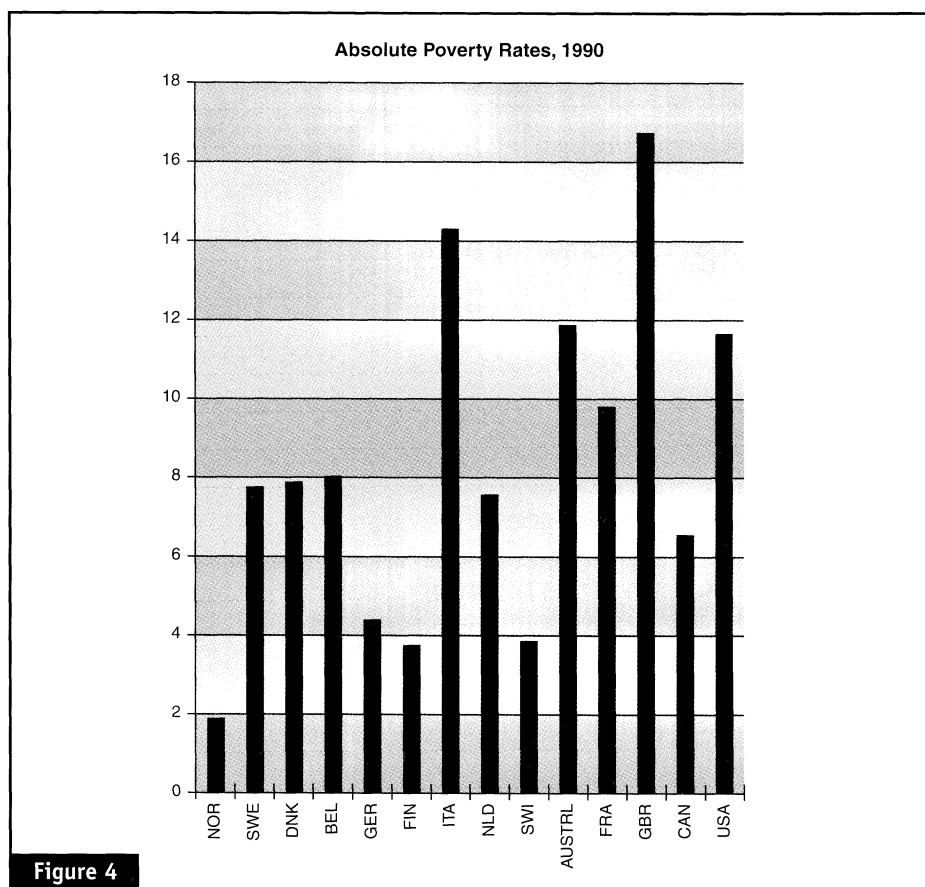


Figure 3



standing the political support for welfare policy. In the first view, welfare policy is fundamentally about redistribution from the rich to the poor. In the second view, the essence of welfare policy is the public provision of insurance against risks which private insurance markets fail to cover efficiently. While the demand for redistribution falls as the income of the median voter rises relative to the mean, the demand for insurance increases if the demand for insurance is a normal good. Thus, with self-interested voting, the demand for redistribution is greater in less egalitarian countries but the demand for social insurance may be greater in more egalitarian countries.

In our judgement, both approaches provide essential ingredients for a adequate understanding of the politics of welfare spending. Moreover, one cannot tell which aspect of welfare policy, redistribution or insurance, dominates in determining the impact of inequality without specifying how the policy is designed. When voters choose the mixture of redistribution and insurance, however, it is the intuition from the insurance framework that prevails with

regard to the benefits targeted to those who lose their earnings because of unemployment or sickness. Public support to those without earnings goes down as inequality increases, both as a share of GDP and as a share of government spending. Figure 3 about here.

The conclusion is supported by our empirical investigations. The plot in Figure 3 illustrates the relationship between social insurance spending and wage inequality in 1990. We have also done more elaborate testing by estimating the impact of wage inequality on social insurance spending both as a share of GDP and as a share of total spending, in 18 OECD countries over the period 1980-1995. In these regressions we also control for unemployment, the share of elderly and political variables such as election turnout and the ideology of governments. The same conclusion prevail: OECD countries with more unequal distribution of wages and salaries spend less, not more, on welfare programs that pay benefits to those without earnings.

The impact of wage inequality alone is large. For example, an increase of wage inequality from the Swedish level

to the German level, or from the Austrian level to the US level (in 1995), has an estimated impact of reducing the social insurance spending as a share of GDP by 0.7 percentage points in 5 years, and by 3 percentage points in the long run. Similarly, an increase of wage inequality from the level in the Netherlands to the level in the US, reduces social insurance spending as a share of GDP by 6.7 percentage points. Thus important sources of welfare spending magnify rather than mitigate initial pay inequalities.

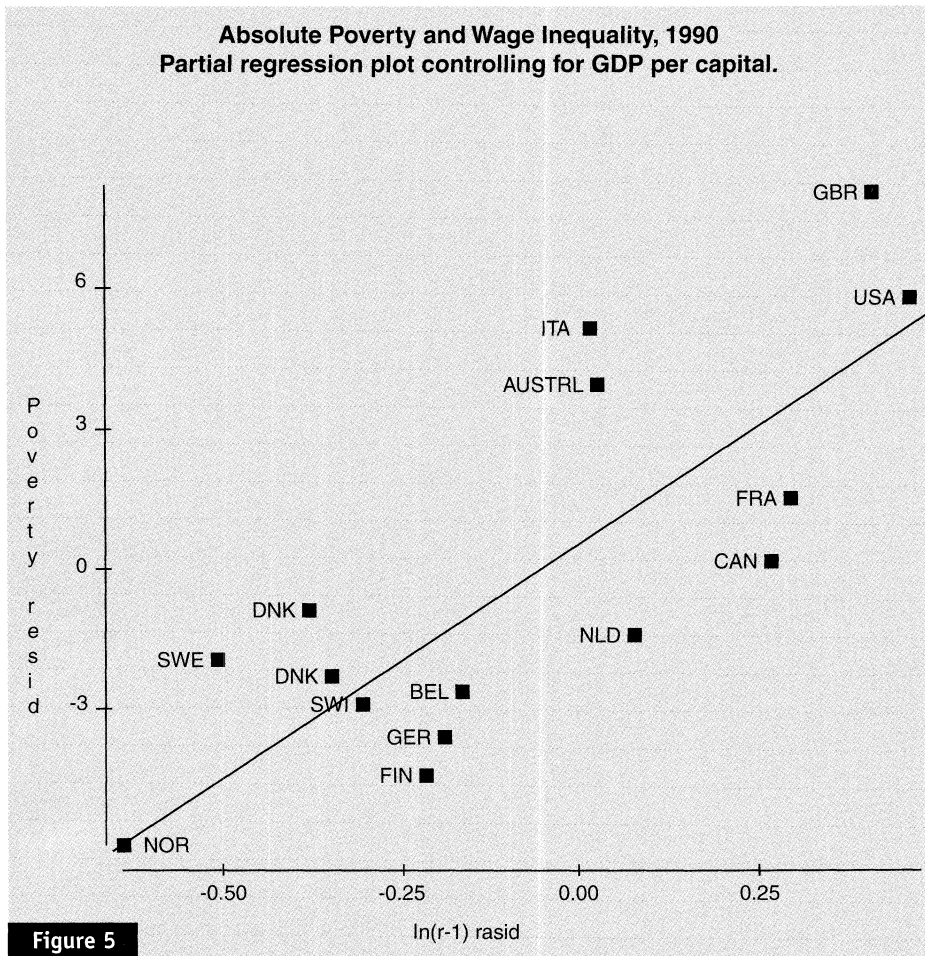
#### 4. Poverty.

We have tried to show how labor market institutions shape the income distribution and how the income distribution give rise to endogenous support for various types of welfare state policies. On the one hand, the more centralized the wage-setting process is, the more compressed the wage distribution becomes. On the other hand, the more egalitarian the wage distribution, the higher the support for social insurance to the worst off in society. Accordingly, centralized wage setting should be associated with low degrees of poverty both because of a smaller share of workers with low incomes and because of a more generous support of social insurance spending.

In order to test this we took the US poverty line (of 40 percent of the median income in the US) and implemented this absolute poverty threshold for other OECD countries by applying the purchasing power parity (PPP) indices of Summers and Heston (1991). That is, we calculated the share of households who would be classified as poor in the US if they received their current real income in dollars. The resulting head count measures of poverty in 1990 are shown in Figure 4. As we see there are considerable cross country differences in poverty. While the share of the households that fall below the US poverty line in Norway is below 2 percent, the share of households in Great Britain that fall below the US poverty line is almost 18 percent. Figure 4, here.

Since we are using a measure of absolute poverty rather than relative poverty, a higher per capita GDP implies





less poverty holding the distribution of income constant. In Figure 5 we show the partial regression plot of absolute poverty against wage inequality in 1990, controlling for per capita GDP. As we see, countries with little wage inequality have low degrees of poverty and vice versa, controlling for cross-national differences in average income. Figure 5, here

## 5. Conclusion.

Labor market institutions have a large impact on the final distribution of income. Labor market institutions have a direct effect on the distribution of wages and an indirect effect on the political support for social insurance policies. The more centralized the wage-setting process, the more concentrated the unions and the higher the level of coverage, the more compressed the wage scale. The more compressed the wage scale, the greater the support for social insurance policies. The more compressed the wage scale and the higher the level of spending on social

insurance, the fewer the share of households below the poverty line. Whether countries with less equality obtain something of value in exchange, such as superior macroeconomic performance, is an open question.

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■ ■ ■ HERMOD SKÅNLAND:

# Economic Institutions from an Entrepreneurial Perspective

**The position of economic institutions depend quite as much upon the role they are allowed to play in a market-oriented economy as upon political decisions about their establishment and activities. The ability to adjust to changing circumstances is vital for their development. This presentation reviews cases of emergence, disintegration and renewed growth among institutions for economic stability, in particular incomes policy, the Petroleum fund and the central bank.**

## 1 Background

The topic that I have been asked to cover may appear to be a very broad one, but I think it follows from the "entrepreneurial perspective" which I am supposed to apply, that I can limit myself to such fields where I have gained some entrepreneurial experience. Partly for the same reason I shall draw upon

experience since around 1970, the year I joined the central bank as Deputy Governor and became involved in institution building or rebuilding.

But there are also other good reasons for taking the early 1970s as our starting point. First, the breakdown of the Bretton-Woods fixed exchange rate system took place during these years. Our traditional anchor for monetary policy – or credit policy, which was our national variant – was lost. Secondly, rich oil resources on the Norwegian shelf in the North Sea were discovered around 1970, and OPEC cartel pricing a few years later promised a revenue stream to the government far beyond earlier expectations. The natural constraint of keeping budgetary expenditure in reasonable balance with the collection of taxes was thereby lost. Thirdly – and partly due to the Bretton-Woods breakdown and OPEC pricing – both international and Norwegian inflation soared and the OECD countries went into a period of stagflation, which was the new term for events which until then had been considered contradictory.

The general recommendation from the OECD to remedy the situation was to follow a Keynesian approach, and Norway was in a better position than most to do so because of our forthcoming oil revenues. This suited us well because of our uncompromising adherence to full employment. With rising investments in the North Sea, the danger of large-scale unemployment was probably exaggerated, but nevertheless great efforts were made to avoid even pockets of unemployment.

In policy documents full employment was considered an aim of the

very highest priority both in the short and the long run, and the conflict inherent in the time perspective was not really recognized until the late 1980s. While other countries would balance the employment objective with the aim of price stability, low inflation has for us mainly been seen as a necessary means for achieving our employment target. The duty of the Government to provide full employment has even found its way into the Constitution, although without creating any legal claim for the individual citizen.

I think full employment and its very rigid interpretation has not been given the attention it deserves by historians who have dealt with economic policy during the 1970s and –80s. Much of what is now considered mistakes can be traced back to this objective, which had the full support of all political parties, or was at least never opposed by any of them. It was in fact also almost unanimously supported by economists, with only some dissenting voices from Norges Bank. In the terminology of institutional economics the full employment target may well be seen as an institution by itself.

This is the background against which I shall discuss three subjects which all pertain to economic stability, namely incomes policy, the management of petroleum revenue and monetary policy with special regard to Norges Bank.

## 2 Incomes policy

Although the fight against inflation did not have the same priority as full em-



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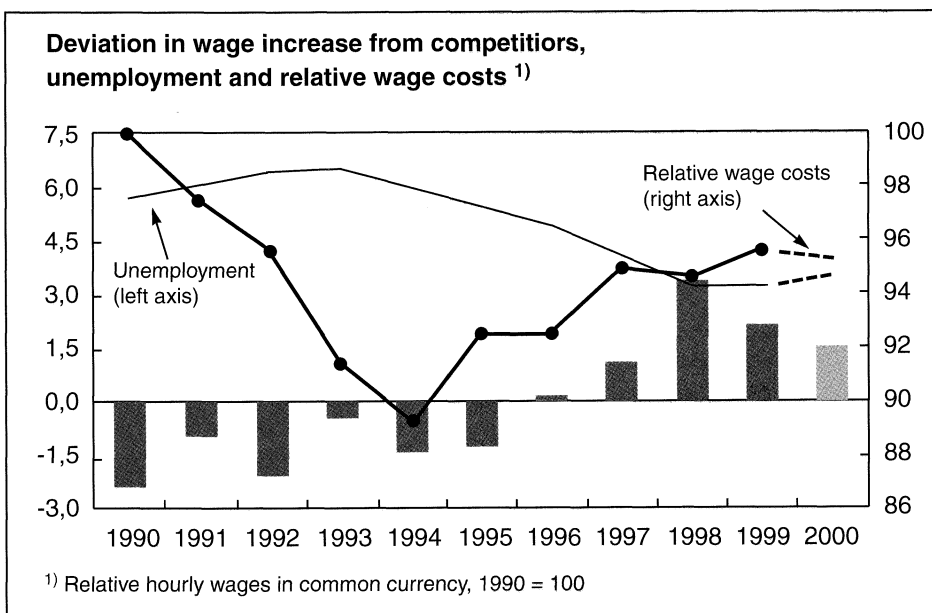
<sup>1</sup> NOU 1973: 36 «Om prisproblemene».

ployment, rising inflation ranked high on the political agenda in the early 1970s. To demonstrate its concern the Government appointed a committee, which I had the honour to chair, to clarify the basic problems behind the inflationary process and propose measures to deal with them. The political parties as well as the major organizations were represented on the committee.

It is noteworthy that our report<sup>1</sup> disregarded almost entirely a monetary explanation for inflation. The reason for this is that for our report to be of practical value for the formulation of policy, it ought to be unanimous. A discussion of monetary policy would immediately have brought in interest rates and the general level of economic activity including employment and unemployment. Given the representation on the committee, there would then have been no hope for a consensus and our report would have been considered useless by the general public.

The committee therefore concentrated on the wage-price and the wage-wage spirals as explanatory factors. It also pointed out that under a progressive tax system growing nominal incomes would expand the public sector's share of national income which would in turn allow the government to increase its share of total spending. It recommended on this basis the establishment of an "incomes policy board" with tripartite representation. This board would coordinate settlements on wages and incomes together with taxes and subsidies in a way whereby these spiral effects could be prevented. Although the recommendation was unanimous, the proposal was turned down by the trade unions.

Personally, I was only moderately disappointed, as I considered it useful that the attempt had been made, and as it had failed, we could now turn our full attention to demand management and to policies of a more structural nature. I didn't expect then that thanks to our oil revenues it should take us another 15 years to get there. The Government, however, would not take «no» for an answer, and a few years later intervened in the income settlements by using fiscal measures which reduced wage demands but added to inflationary pressures.<sup>2</sup> Finally, towards the end of the decade, there was a 15-month wage



and price freeze which mainly served to repress demands until the freeze was abolished.

In spite of the disappointing experiences of the 1970s, incomes policy remained on the agenda and was fully mobilized again about 10 years later, first by wage laws lasting for two years in 1988 and -89, and then through the "solidarity alternative" for wage-setting in the 1990s.<sup>3</sup> Here incomes policy was assigned the responsibility for maintaining and/or improving international competitiveness, Norges Bank would keep the exchange rate stable and fiscal policy would smooth fluctuations in economic activity. But the procedure in wage negotiations and the approval of their outcome by simple majority among the voting members would be the same as before. The decisive negotiations would be between the Norwegian Confederation of Trade Unions (LO) and the Confederation of Norwegian Business and Industry (NHO), where the sectors exposed to foreign competition would be in the front seat. The unions were expected to show moderation in their wage demands, and a stable exchange rate was assumed to be necessary in order to establish the direct relationship between wage demands and competitiveness. Other employee organizations were expected to follow suit, and if they did not, the Government would have the option of appointing a wage board as soon as a strike would endanger life and health with a fairly liberal interpretation.

The general acceptance of this rested on equal treatment with a little extra for the lower paid. And "equal" was interpreted as equal amounts in kroner, not in per cent. The policy was thus tailored to serve the interests of trade unions' members.

At the time this policy was introduced, in 1992-93, unemployment was high and rising. The message of moderation was therefore fairly easy to sell. Wage increases slowed down and there was a remarkable improvement in the country's competitive position.

The "solidarity alternative" has therefore gained widespread praise. Some economists<sup>4</sup> have, however, maintained that the wage path during the years 1992-94 could be explained by our experiences with wage behaviour based on historical data, given the unemployment level and corporate profits during this particular period, and that the "solidarity alternative" thus did not tread any new path.

As years passed and the economy recovered, there appeared a "moderation fatigue". In 1996 the pivotal agreement in the engineering industry was turned down in the ballot among members,

<sup>2</sup> Borvitz og Cappelen: Incomes Policies and the Norwegian Economy 1973-93, Discussion Papers no.192. Statistics Norway 1996.

<sup>3</sup> St.meld. nr 4 (1992-93) Langtidsprogrammet 1994-97.

<sup>4</sup> "Evjen og Nymoen: Har solidaritetsalternativet bidratt til lav lønnsvekst i industrien?" (Has the Solidarity alternative contributed to low wage growth in manufacturing?), Sosialøkonomen no 2/97.

and an improved settlement was achieved. In 1997 an agreement was reached only by lowering the effective retirement age. This was in strong contradiction to the Government's policy of maintaining participation in the active labour force during coming years with an ageing population, and it will cost the Government still unknown, but very considerable amounts.

In 1998 the recommended proposal by the State Mediator for the transport sector was turned down, and this year (2000) the pivotal agreement between the two main organizations was again rejected by the trade unions' members and replaced by agreements which were more favourable for them. The learning effect from these repeated experiences gives grounds for concern.

The egalitarian approach to wage settlements has reduced wage spreads, and major pay rises for special groups have been required for recruitment purposes, particularly in public services. This raises the average increase in wages.

Since 1996 wage increases measured in a common currency have surpassed those of competitor countries every single year, as seen in the graph. As the labour market has tightened, signs of moderation have become ever harder to see. It is only the depreciation of the krone, by 8 per cent measured in relation to a basket of currencies relevant to our foreign trade, which has prevented a deterioration in our competitive position during the years 1988-89 and up to now.

The official commitment to incomes policy nevertheless remains strong. Just a few months ago a new report, similar to that of 1992, was presented by a committee headed by Professor Steinar Holden.<sup>5</sup> It is a very informative report. It also contains a more realistic distribution of responsibilities between fiscal, monetary and incomes policy, where the latter is assigned the task of keeping structural unemployment low. But incomes policy is still a policy of good intentions with no new instruments and no new system for coordinating negotiations. Nor is there a new approach to ensure that the outcome of the negotiations is transferred to the final settlement.

Contrary to 1992, the incomes policy of the Holden committee will be im-

plemented at a time when the labour market is assumed to be rather tight. This is just the situation when an incomes policy is most required, but where it has proved difficult to implement. It may nevertheless be desirable to give it a new try. On the other hand, as long as the commitment to incomes policy remains intact, it places the organizations, and LO in particular, in a strong position to influence also other aspects of economic policy. Moreover, it may tempt the Government to leave the responsibility for inflation and competitiveness to the social partners, ignoring the effects of its own policy. There were clear signs of this under the former coalition Government.

At the moment, the organizations outside LO are restructuring their positions while the remuneration of employees to an increasing extent takes forms which are market oriented. Thus, the past of the institution called incomes policy is unclear and its future uncertain.

### 3 Managing a windfall profit

The discovery of oil on the Norwegian shelf and the OPEC price hike a few years later, implied prospects for Norway of a huge windfall profit to last for many years. It was clear from the outset that the management of this would be a political and economic challenge of a kind that few industrialized countries have ever met. In a report to the Storting as early as 1974, the Government took the position that although the oil revenues should be used for building a "qualitatively better society", the progress should be sufficiently slow to prevent a tapping of resources from the exposed sectors which would unduly narrow the basis for economic activity in "mainland Norway".

The stagnation in the OECD economies has already been mentioned as an effect of the oil price increase by which we were blessed. For us, the OECD recommendation to "bridge over" the demand gap through Keynesian policies was for the first time a chance to practice the Keynesian theory we had learned at school. A few other countries followed suit, many did not. They were in a way "free riders", but will themselves claim that they kept their heads cool.

But in our case the choice of policy was in principle well advised. We did have the prospect of windfall revenues from which our loans could be repaid. Once the public purse was opened, however, it became politically very difficult to control the outflow. As already mentioned, the attempts to keep nominal wage claims low took its fair share. By the end of the decade, it had become clear that we had outstretched our resources.

A committee, which I was asked to chair, was appointed by the Government to advise on how to maintain control in macro terms of both the direct and indirect effects of petroleum activity, the latter being the effects from public spending. The committee<sup>6</sup> recommended a policy for evening out fluctuations in petroleum investments and an arrangement whereby transfers from oil revenues to the fiscal budget would be predictable and reasonably stable and within the limits of the real economy's long-run absorption capacity. It is this latter recommendation that concerns us here.

The system would require a buffer fund between volatile revenues and stable spending. Whether this also should be developed into a fund for long-term government financial saving would depend on the size of future oil revenues. Given the level that spending of oil revenues had already reached at that time, it appeared unlikely that the accumulation of oil revenues would reach such levels.

The Government would, however, be free to pursue a counter-cyclical policy by borrowing in the market in addition to what it would receive from the buffer fund. It was assumed, however, that this would be interpreted as passing a threshold and that the refusal to engage in deficit financing, which had in earlier times been rather strong, would be reactivated. It is possible that this was a too optimistic view.

The proposition was submitted in 1983, and there was no enthusiasm for it in the Ministry of Finance. While our

<sup>5</sup> NOU 2000:21 «En strategi for sysselsetting og verdiskapning».

<sup>6</sup> NOU 1983:27 «Petroleumsvirksomhetens framtid».

<sup>7</sup> Ot.prp. nr 29 (1989-90) Om lov om Statens petroleumsfond.

report was dealt with by the Government, oil prices fell, and the budgets showed deficits even when oil revenues were included. The fund idea was therefore shelved. It was brought back again in 1990 as a book-keeping device<sup>7</sup>, where oil revenues would pass through the fund and right into the budget, leaving no fund accumulation behind. The purpose was to have the system established should there again be a substantial increase in petroleum revenues. That happened, and 1996 became the first year in which the fund accumulated capital. The system is, however, not quite the same as that which our committee had proposed. Although all oil revenues go into the fund, the fund will transfer to the fiscal budget what is required to bring the budget for that particular year in balance. It works more like your personal bank account to which your salary is transferred. Whether something will accumulate depends on your current spending.

The Parliament has, however, since 1998 implemented a new budget procedure, intended to strengthen the macro-economic considerations a budget should serve, not least the structural issue of the relative size of the public and private sectors of the economy. Hopefully, the budget reform will improve fiscal discipline, which is in fact a decisive condition for giving the Petroleum Fund a role in the management of our windfall profit from petroleum.

The comparatively huge oil revenues we earned in the first half of the 1980s were mainly spent for counter-cyclical purposes, partly in advance of revenues and repaying the foreign debt once the revenues appeared, and partly for counteracting the economic set-back of our own making during the years 1989-93. By the end of that period the government's net financial assets were no higher in relation to GDP than they had been in 1973. It should be added, though, that since 1985 considerable revenues have been "salted down" in the form of investments through the state's direct financial interest in oil activities, and the revenues from these investments are now being transferred to the fund.

By the end of this year, the assets of the Petroleum Fund may be estimated

at about 400 billion kroner, approaching 40 per cent of mainland GDP. The transfer of oil revenues to the fiscal budget amounts to about 1.3 per cent of mainland GDP, or 1.8 per cent at its trend level of activity. Adding the deficit of the municipalities to arrive at the total public sector deficit excluding oil, the structural deficit is still below the magic 3 per cent of EU's Stability Pact. This year 10 per cent of the cash flow to the government is being transferred to the budget. It may sound modest, but we must not forget that production will be at its peak this year and next, and that prices are historically high.

Windfall profits provide benefits and temptations. Many countries which have been blessed by such profits have been damned by their use. Compared with others, I think we have done fairly well. But there are temptations ahead, and the pressure for spending is mounting. The greatest danger would be if we again had to correct for home-made setbacks of the kind we have seen before. That brings me to the third institution for stability: Norges Bank.

#### 4 Monetary Policy and Norges Bank

The Act on Norges Bank that applied in 1970 dated back to 1892 and was written for an independent central bank working under the rules of the gold standard. After the last war, the bank was, however, by political practice rather than by change in the law or by decree, deprived of the most vital instrument of a central bank: the short-term interest rate, or the discount rate in the language of the law. This was decided by the Government, which would in practice also need support from the Storting for its decision. As a formality the bank would then write it into its minutes as if it had been a decision taken by the Bank itself.

During the entire post-war period the interest rate had become more of an aim than an instrument in economic policy. Or it is perhaps more correct to say that a low real price for loans had become a political aim. The low price for loans consisted of two elements: the interest rate and the full deductibility of interest payments for tax purposes. Both were destructive for demand management and the latter became par-

ticularly disastrous as inflation and interest rates increased.

At the time our story starts, a committee had recently been appointed with the mandate to revise the Act and bring it up to date. It worked for 14 years before it presented its report, and the decisive issue of the central bank's relationship with the political authorities was dealt with in a very summary manner. The committee saw it as its task rather to give legal backing to existing practices than to reconsider the Bank's position. The Ministry of Finance and the Storting were both very satisfied with the report.

It must be admitted that in the meantime the Bank itself had failed to maintain whatever powers that remained, particularly with respect to short-term financing of the Treasury. My predecessors during the years 1946-85 did not attach much importance to independence. This is not so strange as it may appear today. Central banks in many of the major countries, such as those of the UK, France, Italy and Japan, were under strong political influence, as were most of the minor ones. But generally the leadership believed in the value of greater independence and tried to achieve it, which can hardly be said about Norges Bank. My own attempts to promote the idea of a more independent role for the bank remained a personal opinion.

The new law was enacted in 1985. As preparation for our own written opinion in the process, I made a small study entitled "The Central Bank and Political Authorities in Some Industrial Countries". The Ministry of Finance, however, did not find practices and legislation in other countries to be of any particular relevance to our own legislation.

The vital article in the law says that "the Bank shall conduct its operations in accordance with the economic policy guidelines drawn up by the government authorities". The guidelines would be reported to the Storting, but not necessarily for formal approval. The guidelines in 1985-86 stipulated that the short-term interest rate should be kept at a level close to the rate at issue for Treasury bills.

The same article also contains a paragraph giving the King in Council the

power to instruct the Bank, should there be disagreement between the two. In that case the Storting should be informed as soon as possible. The intention of the drafting committee was to strengthen the Bank's position, because an instruction would cause a public and political debate which might be disagreeable to the Government. A few other countries used to have a similar article in their laws, and it has never been applied. It simply cannot be used except perhaps for administrative issues.

It has been suggested that the Bank should have required an instruction rather than obeying the guidelines for keeping administratively determined interest rates low in the winter of 1985-86 when there was a capital outflow mainly caused by the decline in oil prices. A formal instruction would in that case have been fuel on the fire in the markets. It would have led to a massive outflow of capital which probably only could have been halted by a devaluation. The central bank would have been held responsible and would have lost all confidence both among politicians and the public. Furthermore, there would simply not have been time for the procedure required by the law for the issue of an instruction.

When there was speculation against the krone in connection with the cabinet crises in the spring of 1986, the outgoing Government gave the Bank a free hand to use the interest rate to defend the currency. The Bank raised the ordinary rate from 13 to 14 per cent and granted additional short-term loans at very high rates. The incoming Government devalued and wanted the ordinary rate back to its previous level. The central bank preferred, however, to maintain its new level.

The devaluation by the incoming Government was a little more than 9 per cent. After having devalued 6 times over the last 10 years, this was declared to be the final one. However, no immediate measures were taken to secure that, but when there was again speculation against the krone in late autumn the same year, the Labour Government decided, hesitantly, that the interest rate, for the time being, would have to be used to defend the external value of the currency. Finally, Norges Bank had

been provided with the same instruments as other central banks within a fixed exchange rate system.

In 1990 the anchor of the krone was changed from a basket of currencies adapted to our own trade in commodities to the ECU. The central bank was not formally asked for advice, and personally I was sceptical. But this was a political decision, and politicians should know best themselves whether they would feel more committed to an international than to a national basket. Stability was more important than the choice of baskets, which over time used to move more or less parallel to each other. It later appeared that it did not do so this time, as European interest rates in the succeeding years rose relative to the USD-rate. The change therefore contributed to the high NOK-rate in 1991-92 and aggravated the banking crises. But this may be said to be wisdom of hindsight.

In the wake of the turmoil in European currency markets in 1992, Norway had to follow its Nordic neighbours by floating the currency. As it was clear that this was not caused by conditions in the domestic economy, confidence in the Norwegian krone does not appear to have suffered from the floating.

After the widening of the bands within EMS to plus/minus 15 per cent, the Government felt that a stricter regime with greater stability should apply to the krone. A decree of 1994 stipulated that Norges Bank should keep the krone fairly close to the level it had held after it was floated. This corresponds to the distribution of responsibilities we already discussed in connection with the "solidarity alternative". But there would be no fixed limits at which Norges Bank would be obliged to intervene.

Contrary to expectations, Norway moved during the following years into a business cycle which diverged from that of the EU. The so-called Walters effect upon a currency tied to an anchor currency with diverging business cycles, was demonstrated by the necessity to reduce interest rates while the economy was heating up in 1996-97. They later had to be raised excessively in 1998 in the wake of a decline in oil prices. This suited the hard pressed

economy well for some time, but from the beginning of 1999 the new leadership of the Bank decided that enough was enough and that continued high interest rates might have an effect on expectations that could destabilize the economy. In spite of the krone still being weak, interest rates were therefore reduced. There was no amendment to the decree from 1994, but rather a reinterpretation of the guidelines from "stable" to "stable over time". For the exchange rate to be stable over time, our inflation rate cannot be higher than what the ECB is aiming for, and the new interpretation has therefore much in common with an inflation target. Because it gave room for the lowering of interest rates during that spring, no objection was, however, raised against it. The Government has been unwilling to make any formal change in the decree from 1994, but the political bodies have acquiesced for so long that a change which gave the central bank less freedom in pursuing an anti-inflationary policy would be sure to have undesired effects in the markets.

Thus, more than by legal action, but rather by taking one step at a time as attitudes were maturing and circumstances demanded it, the Bank has been transformed from a government agency to a reasonably independent institution, both for stabilizing the economy after its collapse and for maintaining stability and preventing future collapses, at least of our own making.

### 5 Concluding remarks

The cases I have presented give examples of different ways by which institutions appear and develop.

Full employment in its very rigid interpretation appeared as an ideology against the background of massive unemployment in the 1930s. It was supported by the then new Keynesianism and upheld when things got tough by using our petroleum revenues. It was severely shattered by the sudden decline in these revenues, but reemerged with their resumed growth. We still don't know exactly in what shape.

Incomes policy has worked in our country and in others as long as tight labour markets did not by themselves exert pressures on wage rates. It has



probably been useful to support wage restraint which generally will result from growing unemployment. But it has been hit by its own success. As employment recovers labour organizations will revert to the activity they are shaped for: to improve the absolute and relative position of their own members. You can dam the river, but you cannot make it go upstream. Therefore income

policies tend to disintegrate and go into hiding until the short-term need for it is again obvious to see.

The Petroleum Fund and the budget reform are innovations, belatedly established to preserve happy circumstances. They are still too young for an evaluation of their success to be made.

Finally, Norges Bank's position with respect to monetary policy is a case of

organic disintegration and renewed growth. The process has taken place from within and through external circumstances more than by legislation and decrees. The institution in its present form appears reasonably well suited to withstand pressures in the political and the financial market. ■



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## «Vern mot kriser? Norsk finans- tilsyn gjennom hundre år»

Av Sverre Knutsen og  
Gunhild J. Ecklund  
Fagbokforlaget, 2000

I år 1900 ble den første offentlige sparebankinspektør ansatt. Selv om det også tidligere var lovgivning og i begrenset utstrekning tilsyn som dekket sparebankene og livsforsikringsselskapene, representerte ansettelsen av den første offentlige sparebankinspektør starten på et mer organisert offentlig tilsyn med finansinstitusjoner i Norge. For å markere at det er 100 år siden det første organiserte tilsyn med finansinstitusjoner ble opprettet, har Kredittilsynet, med støtte fra Norges Bank og Oslo Børs, fått utarbeidet en faghistorisk fremstilling og analyse av norsk finanstilsyn gjennom 100 år. Arbeidet er utført ved Avdeling for økonomisk historie ved Handelshøyskolen BI.

Fremstillingen, som er lagt bredt opp, følger historien til de institusjonene som ble samlet i Kredittilsynet våren 1986, dvs. Bankspeksjonen, Forsikringsrådet og Meglerkontrollen.

Jeg synes forfatterne har lyktes godt i å tegne de lange linjer i utviklingen av finanssektoren i Norge samtidig som de har fått med interessante, mer detaljerte fremstillinger av viktige begivenheter. På denne måten får leserne i høy grad mulighet til å se paralleller mellom begivenheter i den nære fortid og begivenheter lenger tilbake i historien. Det er naturlig nok bankkriser som i denne sammenheng har størst umiddelbar interesse. Også drøftingen av krisen i forsikringsnæringen etter første verdenskrig bringer fram interessant stoff, som dessuten har vært ukjent for de fleste, iallfall for undertegnede. Krisene er av spesiell interesse i denne sammenheng også fordi styrking av tilsynet med finansinstitusjonene har hatt en tendens til å komme i etterkant av kriser. I det hele makter forfatterne å bringe fram mye interessant stoff ikke minst fra de første 50 år av tilsynets historie.

Et interessant trekk ved fremveksten av et offentlig tilsyn med finansinstitusjonene var motivasjonen for tilsynet. Både for sparebankene og for livsforsikringsselskapene var det sosiale motiv det fremtredende. Tilsynet skulle i første rekke bidra til at den vanlige borger ikke skulle risikere å tape sine sparepenger. Hensynet

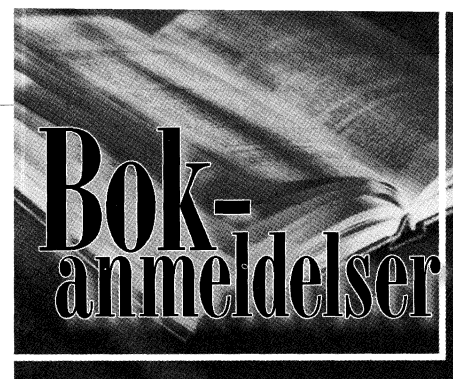
til virkningen på landets totale finansielle system og virkningen på økonomien for øvrig, det som i fagkretser betegnes som hensynet til finansiell stabilitet, var derimot ikke særlig fremme.

I boka gis en interessant fremstilling av debatten som ledet fram til opprettelsen av tilsyn med sparebankene. Regjeringen fremmet både i 1886 og året etter forslag om opprettelse av en sparebankinspektørstilling. Da Stortinget tok saken til behandling i 1887, gikk det imot opprettelsen av en slik stilling, selv om det nylig hadde vært en krise i Arendal der bl.a. to sparebanker gikk over ende. Begrunnelsen for Stortingets standpunkt er interessant. Det var bl.a. bekymring for at opprettelsen av en slik stilling kunne føre til at årvåkenheten hos de lokale kontrollinstanser kunne bli svekket når en sentral instans skulle føre kontroll. Som forfatterne påpeker står vi her overfor et "moral hazard" argument dvs at sparebankene ville ta høyere risiko når det finnes myndighetsorganer som fører kontroll, garanterer for innskudd mv. Men det lå nok også en motstand mot sentralisering her. Sparebankene ble ledet lokalt, ofte av bygdas ledende menn som også var lokalpolitikere.

Da saken kom i Stortinget igjen i 1900 var det imidlertid liten motstand mot opprettelsen av en sparebankinspektørstilling. Finansdepartementet kunne i denne sammenheng legge fram flere eksempler på dårlig bankhåndtverk i en del sparebanker. Behandlingen skjedde for øvrig kort tid etter Kristiania-krakket der Norges Bank for første gang måtte tre inn som "lender of last resort" overfor forretningsbanker og ifølge forfatterne antagelig hindret en større finansiell krise.

Det fantes ingen lovgivning om forretningsbanker før det kom en midlertidig lov om aksjebanker i 1918. Den bremsset den voldsomme veksten i antall banker, men den sterke utlånsveksten fortsatte. I Stortinget ble forslaget om konsesjon for etablering av forretningsbanker supplert med en bestemmelse om konsesjon for filialetablering med sikte på å beskytte lokale banker fra konkurranse med banker fra hovedstaden. Det distriktpolitiske aspekt var da, som både før og senere, sterkt inne i bildet som grunnlag for Stortingets vedtak.

Det var først etter den store bankkrisen i 1920-24 at det for første gang ble vedtatt en permanent lov som regulerte virksom-



heten til forretningsbankene. Samtidig kom det en ny lov for sparebankene. Regjeringen hadde i sitt forslag til Stortinget lagt opp til et eget tilsyn for forretningsbankene. Odelstinget ba imidlertid regjeringen utrede spørsmålet om en felles bankspeksjon for de to bankgruppene. På tross av motstand fra de to bankforeningene ble sluttresultatet av denne prosessen at det ble opprettet en felles inspeksjon for forretnings- og sparebankene. Denne utvidelsen og styrkingen av banktilsynet skjedde altså i etterkant av en bankkrise. Dette innebar at Norges Bank som hadde hovedansvaret for myndighetenes håndtering av denne krisen, ikke kunne støtte seg på informasjon fra Bankspeksjonen i sin krisehåndtering.

I kjølvannet av den internasjonale økonomiske krise som startet med børskrakket i 1929, fikk de to storbankene Den norske Creditbank og Bergens Privatbank alvorlige problemer i 1930-31. I dette tilfelle hadde Bankspeksjonen foretatt en grundig gjennomgang av begge bankenes stilling. Bankspeksjonens uttalelse om behovet for støtte til de to bankene bidro til at den nødvendige støtte ble ytt bl.a. fra Norges Bank. Denne støtteaksjonen ble for øvrig vellykket i motsetning til rekonstruksjonsforsøkene i begynnelsen av 1920-årene.

Når det gjelder årsakene til bankkrisen i 1920-årene, avviser forfatterne påstanden om at den simpelthen ble forårsaket av paripolitikken. De peker i denne sammenheng på at det i realiteten ikke ble ført noen paripolitikk før fra 1924, i etterkant av bankkrisen.

Krisen i norsk forsikring i mellomkrigstiden er et ukjent kapittel for de fleste. En interessant observasjon forfatterne gjør, er at Sverige, som hadde et innarbeidet tilsyn med forsikring både på liv- og skadesiden, ikke fikk noen forsikringskrise i motsetning til Norge og Danmark. Den nye forsikringslov fra 1911 fikk liten betydning for skadeforsikring da kravet om konsesjon bare gjaldt livsforsikring.

Også i skadeforsikring kom krisen etter sterk vekst i næringen fulgt av et omslag i konjunktorene. Sammenbruddet i to av de største selskapene skjedde i 1921. Selv om Forsikringsrådets direktør allerede i 1922 la fram forslag om konsesjonskrav for skadeforsikring, var det først i 1935 at et slikt krav ble innført. I dette tilfelle var altså selv ikke en alvorlig krise tilstrekkelig til at det ble foretatt noen vesentlig styrking av tilsynet.

Under krigen ble det gjort mange forsøk med begrenset suksess på å gjøre Bankinspeksjonen til et redskap for Nasjonal Samling for å få politisk kontroll med bankvesenet. Boka har et lesverdige kapittel om forholdet mellom NS-folk, tyske okkupasjonsmyndigheter og motstandsfolk i Bankinspeksjonen.

I etterkrigstiden ble både Bankinspeksjonens og Forsikringsrådets posisjon svakere enn tidligere. Dette var en konsekvens av måten kredittpolitikken ble lagt opp på. Styringssystemet innebar at renten skulle holdes på et stabilt og lavt nivå, og kreditten ble kanalisert til ulike formål. På mange måter innebar det nye styringssystemet at markedsmekanismen ble satt ut av funksjon. Finansdepartementet ble det sentrale organet i utformingen av den økonomiske politikken, og det ble Norges Bank som fikk til oppgave å implementere politikken. Styringen av de private finansinstitusjonene skjedde i betydelig utstrekning gjennom et samarbeid mellom myndighetene, ved Finansdepartementet og Norges Bank, og finanssektorens næringsorganisasjoner.

Den nye tilsynsloven som ble vedtatt i 1956, la hovedvekten på tradisjonelle motiver for det offentlige tilsynet knyttet til kriseforebygging og soliditetskontroll. Det er for øvrig den loven som fortsatt gjelder, selv om det er foretatt en del endringer bl.a. for at loven ikke bare skal omfatte banker, men hele Kredittilsynets ansvarsområde.

Kredittloven av 1965 og fraværet av større konjunkturbevegelser som kunne ramme finansinstitusjonene, bidro også til at det offentlige tilsynet fremsto som mindre viktig enn tidligere. Det kan også synes som om stillingen i forhold til Finansdepartementet ble noe mindre selvstendig. Innføringen av totrinns saksgang, der saker ble behandlet både i Bankinspeksjonen og Økonomiavdelingen i Finansdepartementet før de ble presentert for finansministeren, bidrar til

å styrke dette inntrykket. I denne perioden skjedde det også en reduksjon av de stedlige inspeksjoner både for bank og forsikring. Dette var dels en konsekvens av at tilsynsorganene ble tillagt politisk viktige oppgaver knyttet til strukturrasjonalisering og konkurranseregulering. Generelt førte tiårene med markedsregulering til at tilsynsorganene mistet kompetanse på hvordan effektivt tilsyn bør utføres i markeder der tilbuds- og etterspørselsmekanismer får virke.

Gjennom 1970-årene ble Bankinspeksjonen tillagt flere nye oppgaver. Viktigst her var oppfølgingen av lov om finansieringsvirksomhet som bl.a. medførte konsesjonsplikt for finansieringsselskaper. I tillegg medførte de norske bankenes utenlandsetableringer nye arbeidsoppgaver. Fra 1984 ble det dessuten åpnet adgang for utenlandske banker til å etablere seg i Norge. Den store veksten i Bankinspeksjonens forvaltningsoppgaver medførte en ytterligere nedtrapping av det stedlige tilsyn i bankene.

I løpet av tiden etter 1970 er organiseringen av tilsynet blitt drøftet flere ganger. I 1976 la Finansdepartementet fram forslag om overføring av Bankinspeksjonen til Norges Bank. Forslaget var basert på en enstemmig innstilling fra utvalget som utarbeidet forslag til ny lov om Norges Bank. Trass i at begge institusjonene på dette tidspunkt ønsket en slik sammenslåing, kom forslaget aldri til behandling i Stortinget, bl.a. som følge av motstand fra Den norske Bankforening og skepsis innen opposisjonen på Stortinget. Derimot skjedde det i 1980-årene en samling av de ulike tilsynsorganene for finanssektoren. I 1982 ble melderkontrollen overført fra Handelsdepartementet til Bankinspeksjonen, og i 1986 ble Kredittilsynet etablert ved en sammenslutning mellom Bankinspeksjonen og Forsikringsrådet. Dette er en modell som flere andre land etter hvert har adoptert.

Ved etableringen var Kredittilsynet kraftig underbemannet. Som følge av den sterke veksten innen finanssektoren var det dessuten vanskelig å rekruttere nye, velegnede medarbeidere. Samtidig ga Finansdepartementet klare signaler om at verdipapirtilsynet skulle prioriteres. Det foregikk dessuten et omfattende utredningsarbeid vedrørende forsikringslovgivningen og finanslovgivningen for øvrig fram mot vedtakelsen av nye lover i

1988. Det ble derfor lite tilgjengelige ressurser til banktilsyn, og det stedlige tilsyn var meget begrenset i disse årene.

Det fremgår av avsnittene foran at forfatterne peker på flere viktige forhold som bidro til at tilsynsapparatet på bank-siden var forholdsvis svakt i perioden da grunnlaget for vår hittil siste bankkrise ble lagt.

Jeg vil ikke her gå nærmere inn på forløpet av denne bankkrisen. Den har vært grundig vurdert av Smith-kommisjonen, og forfatterne slutter seg i hovedsak til kommisjonens konklusjoner.

Også bankkrisen i 1990-årene førte til en styrking av tilsynet. Først ble det imidlertid vurdert å slå Kredittilsynet sammen med Norges Bank. Da Stortinget vedtok å gå imot Regjeringens forslag om sammenslåing, ble det i stedet vedtatt en opprusting av et selvstendig tilsyn.

Også i dag står tilsynet med finansnæringen overfor store utfordringer. Den teknologiske utvikling, internasjonaliseringen og utviklingen av nye finansielle instrumenter og teknikker bidrar til dette. Det kan bli spennende for våre etterkommere å lese om dette når det på nytt skal skrives en jubileumsberetning om norsk finanstillstyn.

I tillegg til en interessant fremstilling som setter historien til Kredittilsynet og dets forgjengere inn i en bredere sammenheng, inneholder boka en omfattende literaturoversikt og nyttige stikkordregister og personregister. Korrekturlesningen kunne vært noe bedre her. Både Rygg og Nicolai Rygg forekommer i personregisteret, selv om det åpenbart dreier seg om samme person. Tilsvarende gjelder for Kristin Moe og Kristin H. Moe, og for Erling Selvig og Svein Selvig.

Dette blir imidlertid pirk i den store sammenheng. Boka "Vern mot kriser? Norsk finanstillstyn gjennom 100 år" gir en meget innsiktsfull og interessant fremstilling av utviklingen av tilsynet med finansnæringen mellom de hundre år. Etter mitt skjønn dekker den dessuten et klart behov blant økonomer for å se dagens problemstillinger i et historisk perspektiv.

*Asbjørn Fidjestøl*

*Sosialøkonomenes Forening  
ønsker alle lesere en riktig*

*God Jul  
og et  
Godt Nytt År*



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## VALUTASEMINARET 2001

**Gausdal Høifjellshotell 22. - 25. januar**

### Mandag 24. januar

19.30. Middag

### Tirsdag 25. januar

09.00 Norsk økonomi på stram line – Regjeringens økonomiske opplegg

– *Statssekretær Vidar Ovesen, Finansdepartementet*

10.00 Kaffepause

10.15 Kan solidaritetsalternativet opprettholdes når statlig sektor skviser K-sektor?

– *Adm. direktør Finn Bergesen jr, NHO*

11.15 Pause

11.25 Utfordringer og muligheter for Statoil

– *Adm. direktør Olav Fjell, Statoil*

12.15 Lunsj og friluftsliv (lunsjbord 13.00-14.30)

15.00 Økonomi og politikk i anvendelsen av oljeinntektene.

– *Professor Hermod Skånland, Handelshøyskolen BI*

16.15 Kaffepause

16.30 Kredittvekst eller soliditet – og andre aktuelle tilsynsutfordringer

– *Kredittilsynsdirektør Bjørn Skogstad Aamo*

Debutt

18.00 Pause

19.00 Middag

### Onsdag 24. januar

09.00 Strukturelle utfordringer for finansnæringen i Norge

– *Konsernsjef Svein Aaser, Den norske Bank ASA*

10.00 Kaffepause

10.15 Norsk fusjonskontroll i et globalt perspektiv

– *Konkurransedirektør Knut Eggum Johansen*

11.15 Pause

11.25 Eierskapets betydning i aksjemarkedet

– *Adm. direktør (konsernansvarlig Finansielle Investeringer) Tom Vidar Rygh, Orkla ASA*

12.15 Lunsj og friluftsliv (lunsjbord kl.13.00-14.30)

15.00 Etiske standarder i norsk næringsliv. Pressens rolle i dag

– *Sjefredaktør Amund Djuve, Dagens Næringsliv*  
«Kyndige, hæderlige og personlig uinteresserte medlemmænd».

Idealer og etikk i verdipapirmarkedene før og nå

– *Doktorgradstipendiat Gunhild J. Ecklund, Handelshøyskolen BI*

16.30 Kaffepause

16.45 Statens eierrolle

– *Direktør Ove Gusevik, First Securities*

18.00 Pause

19.00 Festmiddag

### Torsdag 25. januar

09.00 Har man tro på at euroen vil overleve som valuta på sikt, og hvilke krefter vil påvirke kursutviklingen?

Hva er konsekvensene for dansk næringsliv og dansk økonomisk politikk av å stå utenfor?

– *Cheføkonom Jørgen Birger Christensen, Den Danske Bank*

10.15 Kaffepause – Utsjekking

10.45 Sentralbanksjefens time

– *Sentralbanksjef Svein Gjedrem*

12.00 Avslutning og lunsj

13.00 Avreise med buss til Oslo

### Programkomité:

Per Steina, Nordic finans A/S

Øystein Dørum, DnB Markets

Aud Ebba Lie, Eksportfinans ASA

Stein Sjølie, Finansnæringens Hovedorganisasjon

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Birgit Laudal, Sosialøkonomenes Forening

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