

# Preface

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Do institutions and organization matter, or is the economic analysis of institutions a distraction from the most important action? Indeed, does Vernon Smith's notion of the institution-free core of formal economic theory encompass that most important action? If so, does that render an economics of organization almost devoid of economic content? Do tradeoffs of little consequence obtain between the ways parties to long-run exchange organize their collaborations? Worse, are committed institutionalists, much like the monks of medieval Scholasticism busy cataloguing (only) those details from scriptures and commentaries that support their favored dogmas?

This book takes up questions of economic organization with neither the religious fervor of the inquisitor Saul of Tarsus (a proponent of orthodoxy) nor that of his alter ego, the apostate Paul (a great impresario of heterodoxy). The approach is more agnostic, opportunistic and even a little irreverent: What can theory do and not do? Theory can stimulate questions about how parties to complex exchange manage (sometimes competing) demands for commitment and flexibility in their relationships. It can frame ways of seeing. However, what blind spots persist?

The book opens with an informal tour of the economics of system design out of which an economics of adaptation in long-term relationships fitfully emerged. Five applications follow. The applications include explorations in both the law and economics relating to how parties manage relationships within the firm, within research and development (R&D) joint ventures, within the context of long-term contracts, and, most vividly, within the context of antitrust conspiracy. The applications make contact, in an accessible way, with the design of contracts, venture financing, and project finance.

## HOW TO READ THIS BOOK

Each chapter is self-contained, although I recommend reading the opening chapter first. It sets up the themes of the book and situates each chapter with respect to those themes. I even recommend reading the chapters in order.

Some chapters feature some math and statistics. None of that math would be beyond the reach of the reader with training in calculus, but the exposition is generous in that you need not wend your way through the math to appreciate the propositions and empirical results. If you don't have time for the math, skip over it.

## ACKNOWLEDGMENTS

The most important acknowledgment goes to an institution: the Society for Institutional and Organizational Economics (SIOE). The SIOE started out in 1996 as the International Society for the New Institutional Economics, and from the beginning it sponsored an annual conference. The annual conference has comprised an eclectic gathering of students of organization. That would include people in economics, the law, political science and a host of other fields. The SIOE conference remains an eclectic gathering, and it is a good laboratory for presenting formative material, whether theory or empirical research, relating to the design of institutions and the economics of organization more generally. At some point I presented most of the materials that comprise the body of this book at the SIOE or at the Corsican brother of SIOE, what is now the Institutional and Organizational Economics Academy.

The fifth chapter of the book makes contact with trade and financial contracting in the Middle Ages. The Gladys Kriebel Delmas Foundation had an important hand in supporting two of my summer stints at the State Archives of Venice. The staff at the State Archives were also very generous. I showed up every day, six days a week at opening time and worked to the point of exhaustion. I think the staff respected that, and they helped me secure my documents.

I also acknowledge the support of my Caltech professors Phil Hoffman and Lance Davis. Lance was not even on my dissertation committee, but he was pleased to see someone venture forth into the (surprisingly physically demanding) work of archival research and come away with more than a few results. He looked eagerly for results that could illuminate the dynamics of institutional change. Admittedly, my work was more modest than that. I endeavored merely to understand how economic agents used the institutional tools available to them to adapt to changing circumstances. Work on Lance's larger project awaits.

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This book is dedicated to Lauren S. Ziegler who, being a generous spirit, would have been thrilled to know this book was coming out.