How to bring Douglass North, Oliver Williamson, and Daron Acemoglu et al. together, and lay the foundations of a Unified Institutional Economics

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Abstract: Institutional Economics (IE) is a rising star of today’s economics: it is increasingly clear that the performance of economies depends more on what may be called their “institutions” than on any other factor, including natural resources. But this rise is slowed down by two weaknesses: conceptual ambiguities and fragmentation into disconnected strands. This article aims to help remedy both.

To demonstrate the fragmentation, the article chooses the three arguably most important strands of today’s IE, the ones following the seminal contributions by Douglass North, Oliver Williamson, and Daron Acemoglu et al., respectively. It is into them that most of today’s IE can be divided. The rest of the article is organized as follows.

Section 1 defines a set of concepts that make it possible to express, in a common language and with conceptual precision, the main ideas of all the three strands. Notably, this set lacks the term ‘institutions’; for its most important uses, this irremediably ambiguous term is replaced by the longer, but less ambiguous and more evocative term ‘institutional rules.’

Section 2 employs the concepts defined to summarize the basic ideas of each of the three strands.

Section 3 interconnects the three summaries into one simple conceptual model, forming a feedback loop from two quasi-causal chains: (A) from economic institutional rules → economic behaviors → operating and developing the economy → economic outcomes, where the central issue is economic centralization vs. decentralization; (B) from political institutional rules → cultural-political behaviors in response to the economic outcomes → next institutional rules (economic and political), where the central issue is political democracy vs. dictatorship.

Section 4 localizes the three IE strands in the model: the Northian and the Williamsonian strands on the economic chain, and the Acemogluian strand on the political chain. It then observes two deep gaps between these strands, that are the major causes of the IE fragmentation: (1) between the Northian and the Williamsonian strands; (2) between these two strands together and the Acemogluian strand.

Section 5 indicates how the two gaps may be overbridged.

Section 6 concludes by briefly reflecting on the further development of IE and its futures status within the discipline of economics in general, and policy analysis in particular.