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Institutional Thought in Germany*

Report by

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Summary: After some brief remarks on the German Historical School the paper continues with a condensed review of German institutional economics since 1950. Prominent, during the fifties, were the Freiburg School, with Walter Eucken as its top figure, and the Social Market Economy movement. The sixties were characterized by increasing an interest in the Unity of the Social Sciences; early German translations of the books by Downs and Olson appeared. During the seventies Public Choice issues were widely recognized; also the first German translations of papers by Coase, Calabresi, Posner appeared. The New Institutional Economics in the sense of Oliver Williamson as well as Douglass North became central issues in the eighties and were deepened during the nineties. The same happened with the Economic Analysis of Law. Finally, a report on organized institutional economic research in "Germanophone" countries during the nineties is given plus a survey of some of the German literature in the field. The aim of this report is to give foreign readers a rough idea of the historic background of German new institutional economics, and to provide addresses of scholars and research groups of the NIE to users, a sort of "Yellow Pages" of German modern economic institutionalists.

In Germany, the historical roots of the New Institutional Economics can be traced back to the second half of the nineteenth century. The tradition, once begun, was influential in the development of the American "Old" Institutional Economics (Veblen, Mitchell, Commons) and, although German institutional thinking experienced some metamorphoses over time, it remained an intellectual force in Germany up to the point at which the American New Institutional Economics, Public Choice, Economic Analysis of Law, Constitutional Economics, etc. arrived in Europe. In sketching the manner in which the fundamental ideas of

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institutionalism unfolded, it will be convenient to begin with the work of the German Historical School at the turn of the century and, then, make a leap to the fifties and report on the main German institutional Economics events by decade-long steps: the 50s, 60s, etc.

Suffice to recall that a brief report like this, however written, remains incomplete. The aim of it is to give foreign scholars who are interested in modern institutional economics a rough idea of German institutional economic research and to provide some addresses of scholars and research groups who work on NIE topics, sort of "Yellow Pages" of German modern economic institutionalists and their publication activities.

1. On the German Historical School

Probably the most influential part of the German Historical School is the "Younger German Historical School" with Gustav Schmoller (1900) as its leader. He is the individual whom Joseph Schumpeter (1926, 355) described as the "father" of American Institutionalism. Schmoller was also the leading figure among German *Kathedersozialisten* (socialists of the chair) and the co-founder of the *Verein für Socialpolitik* (1872) which later became our German Economic Association. In 1900 Schmoller published the first volume of his *Grundriß der Allgemeinen Volkswirtschaftslehre*, based on a collection of his lectures on general economics during the 36 years of his academic career.

Of interest to representatives of the New Institutional Economics are certain parallels in Schmoller's thinking with that of Ronald Coase and Douglass North.²

a) In criticizing classical orthodox theorizing, Schmoller and Coase use virtually the same metaphor to illustrate their points of view:

Schmoller (1900, 64): „The old (classical) economics, submerged in the analysis of prices and the phenomena of circulation, represents the attempt to provide an economic physiology of the juices of the body without anatomy.“

Coase (1984, 230): „The objection is that the theory floats in the air. It is as if one studied the circulation of the blood without having a body. Firms have no substance, markets exist without laws.“

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² See Richter (1996).

Schmoller insists on the need of a comparative institutional analysis – just as the exponents of the NIE today.

b) Both Schmoller and North attack the hypothesis of economic man:

Schmoller (1900, 33): „We must concede that economic behavior of today and probably of all times is closely related with self-interest . . . To find out the truth, though, it will be necessary to go a step further . . . (We have to analyze) the basic motives of economic actions in general“ [*die Triebfedern des wirtschaftlichen Handelns überhaupt*].

North (1990, 17): „I believe that these traditional behavior assumptions have prevented economists from coming to grips with some very fundamental issues and that a modification of these assumptions is essential to further progress in the social sciences. The motivation of the actors is more complicated (and their preferences less stable) than assumed in received theory.“

Moreover, they both criticize, with almost the same words, social-economic Darwinism. They define institutions and organizations in more or less the same way, and stress the importance of custom, tradition, habit etc. Both stress also the role of ideology or *Weltanschauung* and share the conviction that, due to their revolution, economics ”is now on the right path,
- or in the words of Coase: “Modern institutional economics is economics as it ought to be.” (1984, 231)

The important difference between Coase and North on the one hand, Schmoller on the other, is that Schmoller was against undertaking any kind of theorizing as long as the relevant set of behavioral assumptions is not completed. Before one starts to draw general conclusions, he argued, the assumptions (about human behavior) have to pass the test that they truly are the crucial causes of the economic phenomena in question (Schmoller, 1883, 245). General theorizing was for Schmoller ”premature”. But it was exactly such general theorizing that made the New Institutional Economics so interesting - not only the critique of neoclassical assumptions (for more details see Richter, 1996).

What is left of Schmoller today in the memory of members of our profession is the infamous German *Methodenstreit*. It was started by an attack of Menger (1883/1963) on the German Historical School followed by a reply by Schmoller (1883). According to general opinion,

Schmoller and his followers lost the *Methodenstreit*. Institutional Economics became a bad name - until the 1960s or 70s.³

2. Germany, Half a Century on

The Fifties: German economic thinking around 1948, the year of the West German Currency Reform, and during the early 50s was clearly dominated by ideas which would have been unthinkable without the German Historical School and its aftermath. The leading figure was Walter Eucken who died 50 years ago during his visit of London while presenting a series of guest lectures at the LSE on „Our Age of Failures“ (Eucken 1951). The last lecture, which he was unable to present, ends with the question: Of what kind should state actions be? He replied: The state should influence the „forms“ (*Formen*), within which the economic decisions are made, but should not lead the economic process itself.⁴ This is his philosophy of „*Ordnungspolitik*“, roughly translated as „institutional policy“ or „constitutional political economics“. What counts is the institutional framework, the „order“. For a survey see Watrin (1979) and Schmidtchen (1984). Walter Eucken with his philosophy of *Ordnungspolitik* might be regarded as a precursor to Buchanan's *Constitutional Economics*.⁵

Eucken listed six constitutional principles (1952, 254 ff.):

Primacy of monetary policy, i.e., to keep money stable such that it is able to function ”as 264).

Open markets as a guarantee for competition.

Private ownership of the means of production as a precondition for a flexible, decentralized planned economy.

Freedom of contract ,

Liability in the sense of ”whoever is responsible for the plans and actions of firms or households is liable” (281).

Stability of economic policy should facilitate expectations and ensure adequate investment.

³ Ekkehart Schlicht drew my attention to Lujjo von Brentano who came close to the NIE program as formulated by Coase (1984, 231): "Modern institutional economics should study man as he is, acting within the constraints imposed by real institutions." Brentano gave or tried to give a rational explanation of the institution of collective bargaining for wages and labor conditions.

⁴ The same view was already expressed by Knut Wicksell (1896), who recognized "that efforts at reform must be directed toward changes in the rules for making decisions rather than toward modifying expected results through influence on the behavior of the actors." (Buchanan 1988, 587).

⁵ Buchanan (1988, 567), however, mentions only Wicksell as the "single most important precursor to Constitutional Economics in its modern variant."

A major difference between modern institutional economics and Eucken's work appears because Eucken does not bother to give a microeconomic foundation of his principles - which, by the way, contain David Hume's three "fundamental laws of nature", namely "that of the stability of procession, of its transference by consent and of the performance of -40, 1969, 578).

In addition to his constitutive principles, Eucken formulated a set of regulative principles to make the competitive market order viable. Thus, Eucken demanded a monopoly office responsible only to the law (Eucken, 1952, 294), because of the danger that the principle of freedom of contract will lead to cartel agreements which lead to destruction of freedom of contract. He also demanded a policy against "unjust" income distribution (1952, 300 ff.) and an anticyclical stabilization policy (1952, 308 ff.) plus an effective policy of care for the old, indigent sick, and unemployed (1952, 321 ff.).⁶

Eucken's views were shared and further developed by a number of German economists of his time, among them E. Hoppmann, Christian Watrin, H. Willgerodt and Alfred Müller-Armack. The latter introduced the term *Soziale Marktwirtschaft*⁷ (1946), which helped the German government to sell free market economic policies in a country still obsessed by socialism. The German *Wirtschaftswunder* of the 1950ies proves the efficacy of this new movement. Terence W. Hutchison (1979) describes the British perception of the German debate and the economic policy of that period. Regarding Eucken he quotes *The Times Literary Supplement*, whose reviewer concluded that no one in England had anything to learn from Eucken and that his book, the *Foundations of Economics* (1950), „completely falls to the ground for use at British universities.“ Hutchison continues: „Obviously, the ideas that were helping to provide the theoretical foundations for the German Social Market Economy had nothing to contribute, as far as English economists were concerned, to any problems which their economy might have to face.“ (Hutchison 1979, 439).

In Germany, Eucken's economic philosophy and the idea of a social market economy soon found their institutional fallout. A special yearbook was founded in 1949 and a society in 1953. The yearbook is

⁶ Schlicht (1999) argues that the thinking in dreamt up ideal typical orders, with its vague hypotheses about actual human behavior, has its drawbacks. Politically the danger is to follow the rule "Shape the world according to your textbook,...". (Transformation economics provides sad examples).

⁷ The socially conscious free market economy; for a brief description of this movement as seen from the USA *vide* Wallich (1955, 114 – 119).

ORDO. *Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft,*

the society is the

Aktionsgemeinschaft für soziale Marktwirtschaft,

established in 1953 by, i.a., Franz Böhm, Ludwig Erhard, Alfred Müller-Armack, Wilhelm Röpke, Alexander Rüstow. Its present Chairman is Joachim Starbatty, University Tübingen. The society aims at supporting the work of economists in the area of the social market economy understood as an order of free competition.

The difference between the "ORDO" movement⁸ and the German Historical School was that the ORDO exponents went beyond historical research proper by generalizing historical insights morphologically⁹, i.e., they deduced from their historical studies systems of economic orders as, e.g., the market forms (monopoly, duopoly, etc.), or classes of economic systems as the centrally planned economy, the free market economy etc. Still, the ORDO people abstained from the (micro-) economic analysis or justification of institutions, though they did not completely discard economic analysis or rational choice theory (as Schmoller did). But economic theory had to start only at, what Eucken called, the exogenously given „data“ or „order“ of the economy. This order was a normative dogma, like the dogma of the social market economy.

The views of Eucken and his followers were traded under the name *Freiburger Schule*. Some 25 years later, Friedrich Hayek came to Freiburg, and the Freiburg School split into an Euckenian and a Hayekian wing. For Eucken competition was, in the first place, an instrument to check the power of the state. Hayek stressed, in addition, the role of competition as a discovery process. Eucken thought in more stationary and „social“ terms, while Hayek gave more emphasis to evolutionary processes and was skeptical of the long-term successes of the social market economy concept.¹⁰ Today, the Eucken chair is occupied by Victor Vanberg, an exponent of Buchanan's concept of constitutional economics.

Young German economists of the Fifties were less interested in the teachings of the Freiburg School. They were excited by Keynes's *General Theory*, Hicks or Samuelson style *Neoclassical Economics*, von Neumann-Morgenstern's *Game Theory*, Harrod's or Solow's

⁸ "Ordo" is the latin word for order.

⁹ Eucken developed his morphology in what he called the "*pointierend hervorhebende Abstraktion*" of experience from history. The hypothesis is, so to speak, that "everything is in order if the order is in order". So far it is a theory. But there exists no micro foundation.

¹⁰ For a synopsis of Eucken's and Hayek's views see Streit (1992).

Growth Theory and similar theoretical advances. Only a few young Germans became interested in an, at that time, off-the-road issue, later known as *Public Choice*, through Schumpeter's book on *Capitalism, Socialism and Democracy* (1942). Schumpeter influenced strongly Philipp Herder-Dorneich (1957), who developed in his PhD thesis a theory of democracy which turned out to be similar to that of Anthony Downs (1957). Both books appeared virtually at the same time. Peter Bernholz started in these years his work on foreign policy and international economic relations.

The Sixties: The influence of the Freiburg School vanished during the sixties – a period characterized by a growing influence of Keynesian theory on German economic policy (Richter, 1999b, 534). In addition there was a revival of a very German field of interest, methodology, and an old German dream, the unity of the social sciences. Both movements are reflected by the establishment of a series of monographs that are called *Die Einheit der Gesellschaftswissenschaft* [The Unity of Social Sciences] that now numbers about 110. These started in the early sixties under the leadership of Erik Boettcher at the University of Münster. The series opened with the German translation of Karl Popper's *Poverty of Historicism* (1965) and also contain other German editions of his works such as the German translation of the revised edition of the *Logic of Scientific Discovery* (1966).¹¹ Also included in the series are various volumes by Hans Albert, the leading German advocate of Popper's philosophy, starting with Albert's *Treatise on Critical Reason* (1968). Interestingly, the editors were aware of the beginnings of modern institutional economics in the USA. They published early German translations of modern institutional economics books as the ones by Anthony Downs (1968) or Mancur Olson (1968), and later the German translations of Douglass North, *Structure and Change in Economic History* (1988), *Institutions, Institutional Change and Economic Performance* (1992). The German translation of Oliver Williamson's, *The Economic Institutions of Capitalism* (1990) also found a place in this publication effort. The series still exists and is now edited by Karl Homann (University of Munich) in cooperation with Hans Albert, Christian Kirchner, Arnold Picot, Victor Vanberg, Christian Watrin and others.

Public Choice issues began to be taken serious by German or German-Swiss economists. Peter Bernholz finished his Habilitation thesis at Frankfurt (Main) University on *Aussenpolitik und internationale Wirtschaftsbeziehungen* [Foreign Policy and International Economic Relations].

¹¹ The first edition of Poppers *Logik der Forschung* appeared in German 1934. The English translation of 1958

It appeared in print 1966. He was strongly influenced by Downs. In the same year Bernholz (1966b) published an article on “Economic Policies in a Democracy”. He systematically combined political-economic analysis with the restructuring during economic growth. Bruno Frey at Konstanz and Basle published *Wahrscheinlichkeiten als gesellschaftliche Entscheidungsregeln* (Wirtschaft und Recht, 1969).

The Seventies were characterized by the general acceptance of the Public Choice perspective. The *European Public Choice Society*¹² was founded in 1972 with Elisabeth Liefmann-Keil, (Saarbrücken) as its first president. A serious traffic accident in 1974 ended her presidency. Peter Bernholz (Basle) took over until 1981. The Society’s annual meetings took place at Basle during its first years of existence; its early intellectual history is reviewed by Charles B. Blankart (1987a) in his presidential address of 1987. Basle with Bernholz (1973a, 1973b, 1974a, 1977) and Breyer (1976, 1980) became a center of Public Choice. The two-volume textbook by Bernholz and Breyer on *New Political Economics* appeared in 1972 and became a standard text since then (3rd ed. 1993, 1994). Soon a second center of the study of Public Choice developed at Zurich university under the leadership of Bruno S. Frey. What emerged there were works by Blankart (1975), Pommerehne and Frey (1979) or Frey and Schneider (1978). A textbook by Bruno S. Frey on *Moderne politische Ökonomie* appeared in 1977. The list is incomplete, it should only give an idea of the considerable strength of the Public Choice movement in Germany and, in particular, Switzerland. A Review on German contributions to the economic theory of politics up to the early Seventies is provided by Frey and Frey (1973).

We also observe during the seventies some recognition of the Economic Analysis of Law by German economists and a few German law scholars. In particular, H.-D. Assmann, Christian Kirchner and Erich Schanze (eds.) produced *Ökonomische Analyse des Rechts* (1978), a book which contains the first German translations of, i.a., R.H. Coase (1960), G. Calabresi (1965) as well as various chapters of Posner’s *Economic Analysis of Law* (1977). Harald Kunz (Saarbrücken) published a book on the New Economics of Crime (Kunz 1976).

The Eighties: During the eighties the New Institutional Economics in Oliver Williamson’s sense (property rights analysis, transaction cost economics, and relational contracts) became

contained new appendixes which appeared in the new German edition of 1966 for the first time in German.

¹² Statement of Purpose and Bylaws under <http://www.handels.gu.se/epcs/bylaw.html>

increasingly known among German economists and business economists. This is reflected, e.g., by the early publications of Arnold Picot (1981, 1982), a German organization economist, by the collection of articles on *Business Administration and Property Rights Analysis* edited by Budäus, Gerum, Zimmermann (1988) and, in particular, by the extensive publishing activities of Mohr Siebeck, Tübingen, a German publisher that specializes in (besides theology and law) the various types of modern institutional economics (e-mail: infor@mohr.de Internet: www.mohr.de). Some examples of the Mohr-Siebeck program are:

a.) The Year Book for New Political Economy [*Jahrbuch für neue politische Ökonomie*], quoted above, established under the leadership of Erik Boettcher (Münster) in cooperation with Philipp Herder-Dorneich and Karl-Ernst Schenk. It began with an experimental volume in 1980. The year book as such started two years later, in 1982, as a conference volume of an annual conference series on topics which reflected a mixture of the old German ORDO School and modern American Institutional Economics, e.g., public choice, new institutional economics, economic analysis of law, and constitutional economics. The first issue of 1982 published a collection of papers on comparative analyses of "orders." The second volume of 1983 dealt with a broad analysis of modern institutional economics, in particular the economic analysis of the firm. The year book series continues with the economic effects of institutions, with contract theory as a basis of parliamentary democracy, and other topics on political economy. Among its authors during the eighties were Peter Bernholz, Gérard Gäfgen, Christian Kirchner, Karl Homann, Charles B. Blankart, Philipp Herder-Dorneich, Dieter Schmidtchen, Erich Schanze, Gebhard Kirchgässner.

b) The *Journal of Institutional and Theoretical Economics (JITE)*¹³: Another sign of the awaking interest of German economists in topics of the New Institutional Economics was the reorganization of the old *Zeitschrift für die gesamte Staatswissenschaft*¹⁴ (founded in 1844) into an English language journal with the title *Journal of Institutional and Theoretical Economics (JITE)* under my editorship. To give the journal its new appearance, a series of annual conferences was started by Eirik G. Furubotn and me in 1983 in Mettlach under the name of *International Seminar on the New Institutional Economics*. The seminars were hosted, during the first two years, by Villeroy&Boch. They later became known as the "Wallerfangen Conference" after the seminar meetings were moved to Wallerfangen/Saar in

¹³ For contents and abstracts of the latest issues of JITE <http://www.mohr.de/jite.html>

¹⁴ *Journal of the Entire Science of the State*, a movement in favor of scientific training of officials. One of the leading figures was Robert von Mohl, see Lindenfeld (1997, 94 ff.) and his excellent description of the German

1986. The conference papers and contributions by the discussants are published annually in the March issue of JITE, the first came out in 1984. It became an "institution" of its own, though.

One purpose of the Wallerfangen Conference was to spread the messages of the New Institutional Economics among German economists. Coase (1937) was largely unknown in Germany in the seventies, as I discovered when I initiated a *Collection of Views and Comments on the "Nature of the Firm"* published in JITE 1981. Oliver Williamson's *Market and Hierarchies* (1975) was known by only a few German specialists like my Saarbrücken colleague Otto Poensgen. Thus, the first Wallerfangen Conference, which took place in 1983, was an "Aha" experience for our German participants. Papers were presented by Douglass C. North, Oliver Williamson, Armen A. Alchian, Harvey Leibenstein, Charles K. Rowley, Kenneth E. Scott, Eirik G. Furubotn and Steve Wiggins. The final discussion by Ronald Coase became one of the most frequently quoted contributions of JITE. A collection of outstanding conference papers are published in Furubotn and Richter (1991).

After my retirement in 1994 the local organization of the "Wallerfangen" conference series was continued by my successor Jürgen Eichberger, the scientific preparation by a number of economists and lawyers.¹⁵ When the study of economics was closed down at the University of Saarland in 1999 the conference series was taken over from 2000 on by Urs Schweizer and Christoph Engel, Bonn university, and is being held at other locations, this year in Dresden. Papers will continue to be published in the March issues of JITE. Since an intensive discussion is only possible among a relatively small group, the Wallerfangen Conference always was and will remain in the future a closed conference. Only invited speakers and discussants are "allowed."

The *Journal of Institutional and Theoretical Economics* was edited after my retirement in 1994 by Ekkehart Schlicht (University Munich). Since this year (2000) it is edited by Elmar Wolfstetter and Dominique Demougin (both now at Humboldt University, Berlin).

c) My original field of research was „money-macro“. I tried to incorporate hypotheses of the NIE in monetary theory in various publications, among them on the *Louvre Accord* in Richter (1989a) and a book *Money. Lectures on the Basis of General Equilibrium Theory and the Economics of Institutions* (published in English 1989b). Holger Bonus (1986) worked on Cooperative Banks under NIE aspects.

sciences of the state.

¹⁵ Erich Schanze (1995), Ekkehart Schlicht and Timur Kuran (1996), Jürgen Eichberger (1997), Herbert Hax (1998), Christian Kirchner and Rudolf Richter (1999).

d) The Center for the Study of the New Institutional Economics (<http://ww16srv.wiwi.uni-sb.de/institut/home-en.htm>): During the Eighties Eirik Furubotn and I established also *The Center for the Study of the New Institutional Economics* at the University of Saarland, which still exists and includes now the successor on my chair Jürgen Eichberger as co-director. One of the activities of our Center was the organization of *International Summer Schools on the New Institutional Economics*, which were started in 1988. The idea of this Summer School was to invite leading institutional economists to teach some 30 selected doctoral and post-doctoral students from Germany and neighboring countries during about half a month one condensed full semester course plus one half semester course on Institutional Economic issues. The full semester part dealt mostly with contract theory and was started by Jean Tirole, continued by Michael Riordan, Bengt Holmstrom, Benjamin Hermalin, Paul Milgrom. The half semester lecture was given by Law School professors like Victor Goldberg, Lucian Bebchuk, Robert Summers, Reinier Kraakman, Allan Schwartz, but also involved applied economists such as Edward Lazear or political scientist like James Alt. After my retirement in 1994 Urs Schweizer continued the Summer School series at Bonn University, mostly with contract theory and, different from before, game theory.

e) Slowly, the field of Law and Economics started to become a teachable field in Germany during the Eighties as illustrated by the publication of a German text book on *The Economic Analysis of Civil Law* by Claus Ott and Hans-Bernd Schäfer (1986) both at the University of Hamburg. The older generation of German law scholars is not exactly in favor of law and economics. They argue against the usage of efficiency as a legal principle for the judicature (see Fezer 1986). Nevertheless, the first books on fields like the evolution of norms and orders by Kunz (1985), Hutter (1989), Witt (1988) examine, among other topics, the impact that institutions have on competition and innovation. Research papers on Law and Economics issues, in particular liability problems, appeared in greater numbers, e.g., by Adams (1985, 1986, 1989), Emons (1989), Kirchner (1980, 1984), Kötz (1983, 1989), Schäfer&Wehrt (1989), Schanze (1982, 1983). The University of Münster remains an important place for the development of law and economics. For example, H. Grossekkettler edits the “*Schriften der wirtschaftswissenschaftlichen Analyse des Rechts*”. He published also Law and Economics articles like Grossekkettler (1981). For more publications see the extensive bibliography on Law and Economics in Germany by Kirstein (2000b).

The field of Law and Economics organized itself in Western Europe under the leadership of

Göran Skogh, Linköping, Sweden. In 1984 the *European Association of Law and Economics* (EALE) was founded and had its first annual conference.

f) Public Choice and Political Economics are increasingly applied to practical issues by German economists and seep through into German public finance as in Andel (1983) or Pommerehne (1987). Social security becomes an issue (Breyer and Graf Schulenburg 1987) or economic policy in general. Bruno S. Frey (1981) publishes a text on *Theorie demokratischer Wirtschaftspolitik* (Theory of Democratic Economic Policy). Bernholz (1985) extends his interest in international relations to *The International Game of Power*. Gärtner (1987) applies political economics to the theory of flexible exchange rates. Government behavior is endogenised in macro models (cf. Gärtner 1989), the underground economy becomes an issue (Weck-Hannemann, Pommerehne, Frey 1986). Blankart (1987b) writes on the limits of privatization. Finsinger (1988) publishes on government purchasing behavior, Bonus (1981, 1982) and Endres (1985) on environmental issues. These only as examples.

g) Note, however, that Old Institutional Economics never really vanished. It still exists and has its own organizations, journals and clientele. There are occasional meetings of its sympathizers, mostly members of the *European Association for Evolution of Political Economy* (EAEPE) founded in London 1988. They stress evolutionary economics and criticize the New Institutional Economics heavily for considering Commons, as Williamson did, to be one of their predecessors. They are massively anti neoclassic theory and oppose contract theory just as do some representatives of the NIE (see Reuter 1996).

The Nineties: During this decade, one can say that the NIE became a widely known field among economic theorists, political economists, and business economists. Nevertheless, knowledge of what the NIE really is about, is not as widely spread as one might think. Whenever I am invited to give a lecture on some basic ideas and applications of the NIE, I am amazed how new the NIE and related subjects still seem to be. People are interested and largely sympathetic with the NIE. The interest among young German economists (in particular business economists) is remarkable.

Georg Siebeck, the publisher, i. a., of JITE and the *Yearbook on New Political Economy* realized this earlier than I did. He asked me to start a series of textbooks, called Neue ökonomische Grundrisse [New Economic Outlines], on practically all main topics of German university lectures in economics and business administration written under aspects of the NIE.

The series consists of now 25 planned titles of which 6 are already published (see below). The first issue was a book on the New Institutional Economics by Eirik Furubotn and me (Richter&Furubotn 1996b) which is also published in English by the University of Michigan Press (Furubotn&Richter 1997). The paperback edition of the English edition appeared spring 2000. The series is doing well. The German version of our book has already a 2nd edition (which came out in early 1999). Some of the issues of the text book series are „revolutionary“, others are more standard texts but all with a strong NIE touch.

During the first half of the nineties modern institutional economics was concentrated at my university, the University of Saarland, Saarbrücken: Public Choice (Pommerehne), Law and Economics (Schmidtchen) and the NIE (Richter). Pommerehne and co-authors reported, i.a., on a successful real-life Coase-like bidding game. They demonstrated empirically that the people involved are able to handle the free rider problem successfully on their own (Pommerehne, Feld and Hart 1994).

Public Choice became an integral part of Public Finance. Historic German *Finanzwissenschaft*, having just digested the Keynesian Revolution, changed for a second time. Public Choice entered the field driving out Fiscal Policy. Students of Public Choice took over chairs in Public Finance as, e.g., Werner Pommerehne at Saarbrücken University or Charles Blankart at the Humboldt-University of Berlin. The latter published a landmark text on Public Finance in 1991 which ran into its 3rd edition in 1998 (Blankart 1998). The European Union raises a host of Constitutional Economic problems, cf. Kirchner (1997, 1998).

Law and Economics, still not part of the regular education of German law students, became a well established in field in economics departments, e.g., at the Humboldt-University of Berlin, the Universities of Hamburg, Kassel, Margburg, Münster, Saarbrücken (see next section). German research in Law and Economics thrives as illustrated by Kirchner (1993, 1997) at Humboldt-University, Berlin; Schanze (1993), Schmidtchen&Kirstein (1997), Schmidtchen&Weth (1999). For more contributions see Kirstein (2000b). The textbook on law and economics by Schaefer and Ott experiences its 2nd (1995) and 3rd (2000) edition.

The New Institutional Economics continued to play a prominent role among German business economists like Ralf Ewert, Jahn P. Krahen, Reinhard H. Schmidt¹⁶ at the University of Frankfurt/Main or Arnold Picot (Munich) or Birgitta Wolff (Magdeburg), Werner Neus (Tübingen).

¹⁶ See Krahen and Schmidt (1994).

Numerous monographs by young German economists appear on NIE issues. To name a few: Gisela Kubon-Gilke, *Credible Commitments and the Evolution of Economic Institutions* (in German), Marburg, Metropolis, 1997.

Mathias Erlei, *Institutions, Markets and Market Phases. Transaction Cost Economics with Special Reference to the Phases of Development of Markets*, (in German), Tübingen, Mohr-Siebeck, 1998.

Horst Feldmann, *ORDO-Theoretic Aspects of the New Institutional Economics* (in German), Berlin, Duncker&Humblot 1999.

Birgitta Wolff, *Organisation durch Verträge. Koordination und Motivation in Unternehmen*, Wiesbaden, Gabler Verlag 1995.

3. Organized Research in German Modern Institutional Economics:

German research in modern institutional economics, both in the field of the new institutional economics proper as well as the new political economics, law and economics, and evolutionary economics, became increasingly organized. Thus the famous German Max-Planck Society added to its list of institutions a first institute: the Max Planck Institute for Research into Economic Systems at Jena. It was founded 1993 with Professor Manfred E. Streit as its founding director. Its present director is Ulrich Witt, who works on evolutionary economics. The institute is currently in a process of restructuring. Its web site is <http://www.mpiew-jena.mpg.de>. The views of Manfred E. Streit on Institutional Economics are expressed in Kasper and Streit (1999).

The Max-Planck society established also a project group (that is the embryonic phase of a Max-Planck institute) on the Law of Public Goods under the directorship of Christoph Engel and Adrienne Hèritier (www.mpp-rdg.mpg.de). Christoph Engel is also continuing our Wallerfangen conference series (as was mentioned above).

The German Science Foundation (Deutsche Forschungsgemeinschaft, DFG) has also invested money in modern institutional economic research, among others, at the following German universities:

- Bonn University, where Urs Schweizer chairs a research group working on *Transaction Cost Economics* (www.econ2.uni-bonn.de/sfb/projects/a1.html). The Bonn project ended with the year of 1999. It is planned to apply for a new project on theoretical and empirical economic analysis of institutions.

- University of Mannheim, where Martin Weber chairs a huge research group on the *Theoretical Foundations, Empirical Analysis, and Economic Application of Behavior Which Cannot be Described by Standard Expected Utility Theory*. This program involves projects from three different disciplines: business administration, economics, and social psychology. (www.sfb504.uni-mannheim.de/index.php.high?target=1)

More institutional economics projects are financed by other means, to name:

University of Hamburg: Research and teaching in law and economics is increasingly taking root at various places in Germany. To be mentioned especially is the Universities of Hamburg where Bernd Schäfer directs a Law & Economics graduate programme on "New Forms of Private Sector Cooperation and Civil Liability". Current staff include:

Michael Adam (Economics), Peter Behrens (Law), Gunther H. Engelhardt (Economics), Manfred Holler (Economics), Klaus Hopt (Law), Hein Kötz (Law), Claus Ott (Law), Hans-Bernd Schäfer (Economics), Hartmut Schmidt (Economics), W. Rainer Walz (Law).

Meanwhile, Schäfer and Ott published the 4th edition of their textbook (1996). They run also a conference series at Travemünde (near Lübeck), conference issues are, e.g., Ott&Schäfer (1989, 1991, 1993 etc. see Kirstein 2000, 198f.). They also founded, together with Roger van den Bergh, an Institute of Law and Economics at the University of Hamburg. The same university too hosts a Center for Research in Law and Innovation. In addition Hamburg professors edit a German law and economics publication called "*Schriftenreihe zur ökonomischen Analyse des Rechts*" in which also the Saarbrücken PhD thesis by R.Kirstein (1999) appeared.

University of Saarland, Saarbrücken: Dieter Schmidtchen established in 1993 the *Center for the Study of Law and Economics*. The foci of research of the Center include the role played by law in an international context, constitutional and institutional economic questions of the European Union, as well as problems of the legal protection of industry, and of the protection of intellectual property. The center releases a series of discussion papers, see:

<http://www.uni-saarland.de/fak1/fr12/csle/publications/dplist.htm>

Its director, Dieter Schmidtchen, is co-editor of the *Jahrbuch für neue politische Ökonomie* and as such organizes annual meetings. (<http://www.uni-sb.de/rewi/fb2/csle/>) Roland Kirstein (2000) prepared an extensive review on Law and Economics in Germany. In 1995 Dieter Schmidtchen organized, i.a., for the European Association of Law and Economics (EALE) and the American Law and Economics Association (ALEA) the conference on "Constitutional

Law and Economics of the European Union". Papers are published in Schmidtchen and Cooter (1997).

University of Kassel: E. Nagel, P. Weise and T. Eger founded an *Institute for Law and Economics* in 1994. They work largely on labor issues and long term contracts. For a bibliography see Kirstein (2000b).

University of Münster: In addition to Heinz Grosseckttler or Holger Bonus, mentioned above, Horst Eidmüller, professor of law, who works esp. on mediation and negotiation issues

University of Trier: The *Institute for Labor Law and Labor Relations in the EU* with Rolf Birk (law) and Dieter Sadowski as directors does empirical research in the NIE (sado@iaaeg.uni-trier.de).

Frankfurt/Oder University: The *Frankfurt Institute for Transformation Economics* with Hans-Jürgen Wagener as director (wagener@euv/frankfurt/o.de). The main fields of research are constitutional economics and the functioning and change of economic order. Institutional economics - old, new and heterodox – is applied.

University of Tübingen: Research on modern or new institutional economics is conducted at the Department of Economics under the directorship of Joachim Starbatty (<http://www.uni-tuebingen.de/uni/w04>). The above quoted work of Horst Feldmann (1999) is notable. Further, there is the transformation economics work by Sonja Opper: *Economic Reform and Changing Employment in the Peoples Republic of China*, (in German language), Baden-Baden, Nomos 1999.

Among the German speaking institutes outside Germany are to be mentioned:

University of Zurich (Switzerland) with Bruno S. Frey and Ernst Fehr. Frey works in the fields of Public Choice, the New Institutional Economics, Economics and Psychology and the Economics of the Art. Fehr works on microeconomics and experimental economics. He combines insights from modern economic theory with results from social psychology and sociology in an effort to understand important economic phenomena, in particular the labor market, the organization of the modern corporation, the private and public provision of public goods and inter temporal choice problems (<http://www.iew.unizh.ch/>).

University of Basle (Switzerland) with Peter Bernholz, a very early and original Public Choice economist of the German speaking area. (bernholzp@ubaclu.unibas.ch) On Public Choice at

Basle see above.

University of Linz (Austria) with Friedrich Schneider with his team at the *Institut für Volkswirtschaftslehre*, A-4040 Linz-Auhof, Altenbergerstr. 69. A series of working papers appears at his institute.

The broad interest the NIE increasingly finds in Germany is reflected by numerous German conferences on NIE issues. Thus a workshop on political economics, chaired by Dirk Ipsen, Technical University Darmstadt, will deal this year with NIE topics (May 19 – 21, 2000). Among the speakers are, besides the organizer, Jürgen Backhaus (Maastricht/Erfurt), Hans Nutzinger (Kassel), Gisela Kubon-Gilke (Darmstadt). German economic historians plan a meeting on *Economic History as Challenged by the NIE* (organized by Clemens Wischerman, University of Konstanz in 2001). Ingo Pies held a conference on *Oliver Williamson's Economics of Organizations* (Sept. 4 - 6, 2000 in Gummersbach). Bertram Schefold has set up a conference on *Historical School of Political Economy in Modern Institutional Economics: A Re-assessment* at Frankfurt a. M., 24 – 25, November, 2000. The Ottobeuren-Seminar series organized under the chairmanship of Hans Jürgen Ramser had its last year's meeting on the Economic Analysis of Contracts (September 19 – 22, 1999). Among the speakers were Werner Neus (Tübingen), Urs Schweizer (Bonn), Winand Emons (Bern), Klaus Schmidt (Munich), Monika Schnitzer (Munich), Michael Adams (Cologne). I gave the introductory paper. The conference issue is edited by Franz, Hesse, Ramser and Stadler (2000). The annual Wallerfangen Conferences, this year held in Dresden, and the *Jahrbuch für neue politische Ökonomie* were already mentioned.

Modern institutional economic thought is also increasingly adopted by young German law professors. Thus, at a conference on *Public Law as an Object of Economic Research*, arranged by Christoph Engel in 1996, the deep knowledge of NIE issues by the young German law professors was impressive. Papers of the meeting are published in Engel and Morlok (1998).

Eucken's ORDO economics is not forgotten. Horst Feldmann (1999), discusses in a monograph the difference between the ORDO economics and the NIE. He concludes that the NIE avoids most of the weaknesses of ORDO economics. Though, he continues, the NIE in its wider sense (what I call „modern institutional economics“) represented an array of heterogeneous approaches. What was missing was a unified economic theory of institutions.

The World Bank, e.g., is increasingly interested in the NIE. Its *World Development Report*

2001/2 will deal with the institutional foundations of a market economy. A preparatory conference involving internationally known economists was held in Berlin on this topic.¹⁷ Modern institutional economics played only a minor role, and so did old institutional economics. Joseph Stiglitz, of course, made a polite remark on the German Historical School. But Eucken and his ORDO economics were not mentioned with a single word, in spite of the fact that they provided the intellectual background of the German *Wirtschaftswunder* after the West German currency reform of 1948. This amazing lack of interest or knowledge of the international profession of old and not so old German style institutionalism may be attributable partly to a language problem. This was not the case before 1914, but who reads German (or French or Italian) today? English by itself, though, is not much help. The characteristic of off-mainstream ideas is that nobody listens. Progress in economics follows fashions and fads. One has to start a „revolution“ of sorts if a movement is to be started. Only then, with luck, will colleagues listen to the music and climb the bandwagon. In Germany, Hans Albert (1967) spoke years ago of an „institutional economic revolution“. May be he is right and that is what has happened - at least in Germany or German speaking countries. It does not seem to be true, though, for the United States or England.

¹⁷ Held at the Villa Borsig, 23 to 25 February 2000. For a very brief report in German see *E+Z Entwicklung und Zusammenarbeit*, 41, 2000, April, 123-4, „DSE-Workshop zum Weltentwicklungsbericht 2001: Institutionen und wirtschaftliche Entwicklung.“ A conference issue is forthcoming.

Appendix

Jahrbuch für neue politische Ökonomie [Yearbook of New Political Economy]

This yearbook was started by Erik Boettcher in association with Philipp Herder-Dorneich and Karl-Ernst Schenk. The first trial volume appeared in 1980. Since 1982 it has been published annually. It reflects the influences of the NIE and the New Political Economy. It aims at going beyond “market and hierarchy” and includes issues such as voting, constitutions, and organizations. Its writers are in search of a new approach to institutional economics in continuation of the Freiburg School which emphasizes a theory and policy of ORDER. The first issue of 1980 had therefore the title “New Political Economics as Theory of Order”. The yearbook contains the papers (in German) of its annual conferences.

Until 1999 eighteen yearbooks of new political economy appeared. Each issue deals with a topical issue. Among the topics closest to modern institutional economics are:

1. Institutional Theory [*Institutionenlehre*] (1983) with contributions by Gérard Gäfgen, Christian Kirchner, Karl Homann u.a.
2. The development and economic effects of institutions [*Entstehung und ökonomische Wirkung von Institutionen*] (1984) with papers by Karl-Dieter Opp, Bernhard Külp, Charles B. Blankart, Helmut Leipold u.a.
3. Contract Theory as Basis of Parliamentary Democracy [*Die Vertragstheorie als Grundlage der parlamentarischen Demokratie*] (1985) featuring James M. Buchanan, Karl Homann, Peter Bernholz, Christian Kirchner u.a.
4. Structure and Behavior Within And Between Socio-economic Institutions (1986), including, among others, contributions by Philipp Herder-Dorneich, Guy Kirsch, Gebhard Kirchgässner, Bernhard Külp, Christian Kirchner.
5. Firms and the State [*Unternehmen und Staat*] (1987), with contributions by Gérard Gäfgen, Dieter Schmidtchen, Hannelore Weck-Hannemann, Friedrich Schneider, Bruno S. Frey, Erich Schanze
6. Economic Systems in Their Dynamics (1992), with contributions by Philipp Herder-Dorneich, Roland Vaubel, Charles B. Blankart, Günter Knieps, Hans- -Trenz
7. New Political Economy of Regulation, Deregulation, and Privatization (1994), with contributions by Dieter Schmidtchen, Hans-Jörg Schmidt-Trenz, Winand Emons, Ingo Pies,

Friedrich Schneider, Christian Watrin, Arnold Picot, Charles Blankart, Günter Knieps

8. *Globalization, Competition Between Systems And Policy of the Nation State* (1998), with contributions by Dennis C. Mueller, Karl-Ernst Schenk, Barbara Krug und Friedrich Schneider, Dieter Schmidtchen.

9. *New Institutional Economics of International Transactions* (1999) with contributions by Peter Behrens, Hans-Jörg Schmidt-Trenz, Roland Kirstein, Dominique Demougin et al.

Die Einheit der Gesellschaftswissenschaften [The Unity of the Social Sciences], A monograph series

It was started in the early sixties under the leadership of Erik Boettcher, Münster. Its aim was to serve as a platform for discussion of the methodological foundations of the social sciences in general. In its earlier issues it published such works as:

K.R. Popper, *The Poverty of Historicism* (German translation 1965)

and translations of other works of Popper plus a series of methodological books by Hans Albert, 4 books 1968 – 94, beginning with “Treaty Critical Reason”. The series consists now of some 110 volumes. It contains various translations of modern institutional economics books, as

- Gary S. Becker: “Economic Approach on the Explanation of Human Behavior” (1982)
- G. Brennan and James M. Buchanan: “The Foundation of Rules” (1993)
- J.M. Buchanan: “The Limits of Freedom Between Anarchy and Leviatan” (1984)
- Anthony Downs: “Economic Theory of Democracy” (1968)
- Jack Knight: “Institutions And Social Conflict” (1997)
- Timur Kuran: “Private Truths, Public lies” (1997)
- Douglass North: “Theory of Institutional Change” (1988)
- Douglass North: “Institutions, Institutional Change, and Efficiency” (1992)
- Mancur Olson: “The Logic of Collective Action” (1968)
- Mancur Olson: “The Rise and Fall of Nations” (1985)
- Oliver Williamson: “Economic Institutions of Capitalism” (1990).

The series includes also a number of German monographs on topics of modern institutional economics by Michael Hutter, Gebhard Kirchgässner, Christian Koboldt, Karl-Dieter Opp, Hans-Jörg Schmidt-Trenz, Georg von Wangenheim, Ulrich Witt and others.

Neue ökonomische Grundrisse (New Economic Outlines) A text book series in German with a modern institutional economics “touch”, published by Mohr Siebeck, Tübingen, edited by Rudolf Richter. (Double underlined titles appeared already).

a) **Basic Texts:**

Ökonomik. Eine Einführung – Karl Homann, München, and Andreas Suchanek, Ingolstadt
2000, XVI+479 S., DM 49,-

Grundzüge der Mikroökonomik – Jürgen Eichberger, Saarbrücken

Grundzüge der Makroökonomik – Karl-Heinz Paqué, Magdeburg

Einführung in die Betriebswirtschaftslehre aus institutionenökonomischer Sicht – Werner Neus, Tübingen – 1998, XX+500 S., DM 49,-

Bürgerliches Recht für Wirtschaftswissenschaftler – Christian Kirchner, Berlin/Humboldt

b) **Intermediate Texts:**

Geld, Kredit, Finanzmärkte – Horst Gischer, Magdeburg, Bernhard Herz, Bayreuth und Lukas Menkhoff, Aachen

Internationaler Handel und Integration – Uwe Walz, Tübingen und Konrad Stahl, Mannheim

Monetäre Außenwirtschaftstheorie – Gerhard Rübel, Passau

Arbeitsmarktökonomik – Ekkehart Schlicht, München

Industrieökonomik – Gerhard Clemenz und Dennis Mueller, Wien

Vertragstheorie – Urs Schweizer, Bonn – 1999, XI+294 S., DM 58,-

Organisation und Management – Matthias Kräkel, Bonn – 1999. XV+437 S., DM 49,-

Geschichte der ökonomischen Theorie – Gerhard Schwödiauer, Magdeburg

Neue Institutionenökonomik. Eine Einführung und kritische Würdigung – Rudolf Richter, Saarbrücken, und Eirik G. Furubotn, Texas A&M University; übersetzt von Monika Streissler – 1. Aufl. 1996; 2., durchges. u. erg. Aufl. 1999, XVIII+576 S., DM 78,-

Wirtschaftsgeschichte – Clemens Wischermann, Konstanz

Gesundheitsökonomik – Matthias Graf von der Schulenburg und Wolfgang Greiner, Hannover – 2000. XII+314 S., DM 49,-

Immobilienmarkt. Theorie und Politik – Konrad Stahl, Mannheim

Stadtökonomik – Konrad Stahl, Mannheim

Wachstums- und Entwicklungspolitik – Rainer Klump, Ulm

Finanzwissenschaftliche Steuerpolitik – Kai A. Konrad, Berlin

Finanzwissenschaftliche Ausgabenpolitik – Giacomo Corneo, Osnabrück

Marketing – Rolf Weiber and Jost Adler, Trier

Unternehmensfinanzierung – Bernd Rudolph, München

Controlling – Alfred Luhmer, Magdeburg

Neue Politikökonomik – Thomas König, Konstanz.

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