PUBLISHED BY
VOPROSY
EKONOMIKI
N.P.

Available online at www.sciencedirect.com

ScienceDirect

Russian Journal of Economics 3 (2017) 200–220

Russian
Journal of
Economics

www.rujec.org

Discrete institutional alternatives: Theoretical and policy issues (Celebrating the 80th anniversary of Ronald Coase's "Nature of the Firm")

Andrey Shastitko [a,b,*], Claude Ménard [c]

[a] *Russian Presidential Academy of National Economy and Public Administration*
[b] *Lomonosov Moscow State University (Moscow, Russia)*
[c] *Centre d'Economie de la Sorbonne, University of Paris (Panthéon-Sorbonne), Paris, France*

Abstract

This paper addresses the comparative analysis of discrete institutional alternatives in organizing transactions among distinct economic entities. The theoretical framework for understanding this issue was introduced by Ronald Coase 80 years ago. Following this seminal contribution, a standard theoretical distinction now exists between the institutionally embedded set of economic exchanges (the transactions) and the institutional settings within which these transactions are organized, firms and markets being the epitomized polar cases. On the normative side, this approach facilitated better understanding of failures and flaws in the organization of numerous transactions and of how to fix them. Three examples are provided to illustrate the issues at stake: contracting on large diameter pipes for PJSC "Gazprom" infrastructure projects, contracting in commercial real estate, and determining governance mechanisms for companies facing significant switching costs in highly concentrated markets.

JEL classification: B41, D02, D23, P23, P28.
Keywords: transactions, institutions, discrete institutional alternatives, contracts, market failures.

1. Introduction

Economic studies of institutions have long ago surpassed the stage of operationalizing key concepts, overcoming the initial Smith (1776 [2007]) approach of

* Corresponding author, *E-mail address*: aeshastitko@econ.msu.ru
Peer review under responsibility of Voprosy Ekonomiki.

http://dx.doi.org/10.1016/j.ruje.2017.06.005
2405-4739/

putting "the invisible hand" operating throughout markets at the core of economic analysis. Coase (1993, p. 4) clearly summarized this transformation of economic theory, emphasizing the need to include the broad variety of economic arrangements, with complex choices arising as a result. In doing so, the Coasian approach opened new opportunities to re-think previous topics and examine new avenues for promising areas of research.

This being said, the question of how to make economic theory more practical without losing the lion's share of its rigor and versatility remains entirely relevant. In our view, the issue of how to implement the conceptual apparatus of new institutional economics in a way that can help solve the numerous puzzles facing the economics of organization remains very high on the research agendas of theorists as well as practitioners.

Our paper does not pretend to solve these problems, of course. Rather, it focuses on a specific aspect, outlining a framework to examine two types of imperfections that plague discrete institutional alternative governance structures (hereafter, DIA). First, there is the now standard issue, following Williamson's rich contributions well-summarized in his 1996 book, concerning the obstacles that prevent choosing the DIA that can minimize transaction costs. This issue can be identified as the *organizational choice problem*, that is, which DIA to choose. Second, there is the problem of why once a DIA has been chosen, underexploited opportunities remain within this DIA, thus keeping transaction costs higher than they could be without switching to another DIA (which would involve significant transaction costs). This can be identified as the *governance issue*.

Endorsing this approach means that we focus on the choice of an institutional system for efficiently organizing economic exchanges (transactions), thus seeking positive economic analysis rather than regulatory precepts.

2. At the crossroads of institutional research fields

Consideration of institutions as relevant for understanding economic activities, and as departing from the "blackboard" institutions famously stamped by Coase, can no longer be regarded as a breakthrough in economic theory. This concept is now part of our theoretical background, including mainstream economics. Moreover, is it now generally acknowledged that institutions emit mixed signals (North, 1990 [1997]) concerning the definition of incentives to conduct economic exchanges which efficiently use resources and properly adapt to changing situations. It has long become a standard within new institutional economics to consider institutions and their associated rules as incomplete and imperfect (Eggertsson, 1990 [2001]; Furubotn and Richter, 2005). Accordingly, identification and examination of the coercive mechanisms needed to fill the gaps and enforce the rules are now substantial parts of the research agenda (Williamson, 1996; Greif, 2006), as illustrated by the literature on regulation (Laffont and Tirole, 1993; Laffont, 2005).

Similarly, there is hardly any serious dispute that institutions are diverse and that their impact on the organization of economic activities is hard to assess. Nevertheless, there are substantial contributions intended to present a theoretically structured classification of this diversity of institutional arrangements (see Greif, 2006; Acemoglu and Robinson, 2012). More exploratory (and controver-