

# HISTORY OF ECONOMIC IDEAS

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XXIX / 2021 / 2

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Fabrizio Serra editore

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*History of Economic Ideas* is published three times a year by

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*Fabrizio Serra editore incorporates the Imprints Accademia editoriale,  
Edizioni dell'Ateneo, Fabrizio Serra editore, Giardini editori e stampatori in Pisa,  
Gruppo editoriale internazionale and Istituti editoriali e poligrafici internazionali.*

Printed in Italy

ISSN PRINT 1122-8792

E-ISSN 1724-2169

*Direttore responsabile: Lucia Corsi*

*Autorizzazione del Tribunale di Pisa n. 10 del 2/5/1994*

# CONTENTS

## PAPERS

- ARILD SÆTHER, *A Progressive Economic Editor. Erik Pontoppidan 1698-1764* 11
- ROSARIO PATALANO, *Speculation: Origin and Diffusion of a Controversial Concept* 73
- PIERRE BERTHAUD, CATHERINE FIGUIÈRE, MICHEL ROCCA, GUILLAUME VALLET, *The Political Economy of Regulation Theory: Toward a Creative Integration of Social Sciences* 113
- ALICE MARTINI, LUCA SPATARO, *A Re-Assessment of the Relation between Saving and Economic Growth from the Marginalist Thinkers to the Debate of the 1950s* 143

## REVIEW ESSAY

- JAMES C. W. AHIKPOR, *A Failure to Interpret Classical Macro-Monetary Analysis Correctly. A review essay on Steven Kates' Classical Economic Theory and the Modern Economy* 177

## BOOK REVIEWS

- MASSIMILIANO VATIERO, *The Theory of Transaction in Institutional Economics: A History* (Scott Masten) 189
- COSIMO PERROTTA, *Is Capitalism Still Progressive? A Historical Approach* (Mario Morroni) 192
- Mathematics, Administrative and Economic Activities in Ancient Worlds*, edited by Cécile Michel and Karine Chemla (Paul Gentle) 194
- Towards an Economics of Natural Equals. A Documentary History of the Early Virginia School*, edited by David M. Levy and Sandra J. Peart (Gianluca Damiani) 195
- STEPHEN J. MACEKURA, *The Mismeasure of Progress. Economic Growth and Its Critics* (Alberto Mingardi) 198
- Economic Knowledge in Socialism, 1945-89*, edited by Till Düppe and Ivan Boldyrev, *History of Political Economy*, Annual Supplement to Volume 51 (Gerardo Serra) 200



MASSIMILIANO VATIERO, *The Theory of Transaction in Institutional Economics: A History*, Abingdon (UK), Routledge, 2021, pp. xxxvi + 92.

IT might come as a surprise – some might even regard it an embarrassment – that a field named transaction cost economics has no agreed-on definition of transaction cost. As Professor Massimiliano Vatiéro accurately observes, despite transaction costs «being one of the most invoked explanatory variables for the study of institutions», the literature exhibits «different and sometimes conflicting interpretations of the notion of transaction costs» (77-78). The field's most prominent exponents, the late Nobelists Ronald Coase and Oliver Williamson, mostly skirted the question, offering only ostensive definitions: «the costs of using the price mechanism» and «of negotiating and concluding separate contracts» per Coase (1937, 390); «costs of planning, adapting, and monitoring task completion» according to Williamson (1985, 2). Attempts to devise more constructive definitions that delineate the boundary between transaction costs and other costs – and whether that is even possible – have so far eluded anything resembling consensus.

The central contention of *The Theory of Transaction in Institutional Economics* is that the failure to settle on the meaning of transaction costs reflects a misplaced attention on costs, specifically, that «the root of the vagueness surrounding the notion of transaction costs can be attributed not to the meaning of cost (economists have a consolidated literature on that), but to the lack of a clear-cut definition of 'transaction'» (78). With this book, Professor Vatiéro aims to address this neglect by, first, reviewing uses of the concept of transaction in institutionalist scholarship and, then, developing a system for characterizing transactions.

Despite its subtitle, *A History*, coverage of the literature (in the book's first chapter) is confined mainly to the writings of four authors that Professor Vatiéro considers the most important contributors. Coase, Williamson, and (at least derivatively via Williamson) John R. Commons will be familiar to economists who work in this area. The fourth, the relatively obscure legal theorist Robert Lee Hale – whose influence on the transaction cost literature is all but undetectable – is initially a puzzling inclusion but whose purpose becomes clear later on. Drawing on these authors, Professor Vatiéro arrives at a conception of transaction that has two main features. The first is to define «transaction» as an action that transfers control or ownership of a resource. In the second, he incorporates Commons's proposition that every transaction involves five parties: (a) the original transactors plus (b) each transactor's next best alternative trading partner, and (c) the public officials that establish and enforce the legal rules governing transactions.

On the preceding foundation, Professor Vatiéro proposes an analytical framework in which «each transaction consists of three main dimensions». The legal dimension captures the effect of the legal system on transactors' choices and decisions. The competitive dimension concerns the relationships of the principal transactors but also the relation between the focal transaction and the broader market. The third, the political dimension, recognizes the efforts of transactors to influence the public actors. Successive chapters then elaborate on aspects of each dimension. Chapter 3 analyzes legal rights as «positional» goods, that is, goods for which the value to individuals depends on their consumption relative to others'. Chapter 4's discussion of the competitive dimension focuses on the role of relationship-specific investments in the theories of Oliver Williamson and Oliver Hart. Finally, potential interactions of

transacting and politics is illustrated in Chapter 5 with a set of cross-country correlations between the concentration of corporate ownership, on the one hand, and measures of 'employee voice', product market regulation, and the sectoral composition of patenting, on the other.

In addition to its other qualities, the book is commendable for taking an unconventional tack to a perennial question in institutional economics. Given the noted resistance of the transaction cost concept to numerous prior efforts at explication, it probably should not come as a surprise – nor be considered a harsh criticism – that Professor Vatterio's approach is less than entirely successful. To begin with, it is not at all clear that the obstacle to defining transaction costs has been an inadequate understanding of what it means to transact; after all, the words 'transaction' (*trans-actio, transactionis, f.*) and 'transactor' (*transactor, transactoris, m.*) have existed with their modern meanings since at least the Roman Empire. The more substantive problem, however, is that, defining transaction as an action transferring control or ownership of a resource excludes, or at a minimum ignores, service transactions. Purchases of accounting, legal, consulting, maintenance, and personal services, to name a few, would all conventionally be considered transactions, yet none need involve a transfer of resources or changes in ownership. Indeed, the thorniest issues in defining transaction costs typically involve services: Is the time I spend proofreading my own essay – a form of inspection or quality assurance – a transaction cost? What if I hire someone else to do it, or if it is performed by a copyeditor? Although the book professes concern only with the concept of a transaction, not with transaction costs, progress on the latter is unlikely with a definition of transaction that ignores an important category of economic activity. Mentions of services in the context of transacting, in fact, occur only twice in the book, both times in quotations (once each of Commons and Williamson).

Professor Vatterio's three-dimensional system for characterizing transactions, which recognizes and encompasses the interrelationship of transactors and the legal and market context in which they operate, provides a useful framework for analyzing transactions. Although the role of market alternatives and enforcement institutions has long been a part of the transaction cost and broader institutional literatures, Professor Vatterio's framework draws welcome attention to transactors' efforts to modify legal rules through political influence of public officials and also, especially, to the effects that transactors' selection of trading partners and investment decisions may have on market values and the trading opportunities of other transactors. The framework goes perhaps too far in its assertion that every transaction involves five parties and the associated three dimensions, however. That not all transactions have legal, competitive, and political dimensions is, ironically, manifest in the relationship of Robinson Crusoe and Friday that Professor Vatterio uses to illustrate his framework throughout the book. Indeed, it is their very isolation, hence, the *absence* of both alternative trading partners and public authorities, that most conspicuously distinguishes Crusoe's and Friday's situation. The relevance of this overstatement is not limited to transactions between fictional characters. The ability of individuals to sustain cooperation in the absence of or outside the legal system is a regular theme in new institutional economics, prominent examples of which are the work of Robert Ellickson (1989; 1991), Lisa Bernstein (1992), and Williamson's co-Nobelists Eleanor Ostrom. The alleged universality of the legal and political dimensions also stands in tension with Professor Vatterio's observation that integration eliminates the role of the public official (54-55).

It is in the chapter on the legal dimensions of transactions that we discover the reason for ranking Robert Lee Hale among the most important authors of transactional

theory. From Hale's idiosyncratic theories the book derives the principle that every transaction is «coercive»: «Even market exchange in the economy, basing on property rights [sic], is a legal structure of mutual coercion» (45). The inevitably adversarial nature of legal claims, in turn, imbues «the definition of rights, duties, powers, etc.» (*ibidem*) with the properties of positional goods, the analysis of which comprises the bulk of the chapter. As interesting as the economics of positional goods is, the existence of winners and losers is not enough to give laws or legal decisions positional properties. The recipient of an award of damages in a contract or accident dispute would have to derive separate satisfaction from the other party's loss in addition to the value of monetary compensation. Undoubtedly, that is sometimes the case. But consistently applied contract and tort rules do not systematically favor either side. The existence of positional goods does, however, raise again, if only implicitly, the various supports, other than the legal system, that promote societal cooperation. To the extent that envy underlies many, if not all, positional goods, institutions (if they can be called that) such as cultural norms and religions that disparage envy reduce conflict and enhance welfare. A framework that recognizes only legal enforcement misses these important components of the institutional landscape.

These reservations notwithstanding, Professor Vatiere has produced a valuable and thought-provoking book. His observation, part of his analysis of the competitive dimension of transactions, that investments and organizational decisions of transactors stand to affect «competitors and competition» (24) is a particularly useful reminder and an area that deserves more systematic attention. The deployment of facts from the famous General Motors-Fisher Body controversy in service of this analysis also underscores the advantages of connecting to real applications as compared to the hypothetical transactions between fictional characters used elsewhere in the book. (Although space limitations prevent me from offering more than an appeal to (my own) authority, I am compelled to point out Professor Vatiere's misconception of Williamson's *Fundamental Transformation* as a 'remedy for', rather than as a description of, the problem created by relationship-specific investments).

As for the meaning of transaction costs, Victor Goldberg, another early and important contributor to the literature, observed over three decades ago that transaction costs «embodies two very different meanings» (1985, 399). The first sense, the one Professor Vatiere seems implicitly to adopt, associates transaction costs with a set of identifiable transacting activities. Transaction costs in their second sense, in contrast, consist of any «shortfall from what could have been achieved if institutions worked perfectly» (*ibidem*, 400). Under this second formulation – which, Goldberg argues, «better captures Coase's intent» (*ibidem*, 399) – attempts to separate transaction from production costs are ultimately pointless and futile. What matters is not the definition of transaction costs but whether a transaction cost orientation contributes to our understanding of institutions and organization. In relation to this point, Professor Vatiere's conclusion that «[f]uture works should study these transaction costs theoretically and empirically» (79) is a prescription with which all transaction cost economists will heartily agree.

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COSIMO PERROTTA, *Is Capitalism Still Progressive? A Historical Approach*, Cham, Palgrave-MacMillan, 2020, pp. xv + 160.

IN this valuable book Cosimo Perrotta investigates the nature, the history and the perspectives of capitalism on the basis of a rich set of historical data. The book provides insightful considerations on the possible ways to overcome the current social and economic crisis due to environmental degradation, increasing inequality, the crisis of the welfare system and the recent spread of the COVID-19 pandemic. As explained by the author, capitalism «consists in a steady process of investment of wealth with the aim of generating further wealth in the form of profit». Perrotta offers a lucid, in-depth historical analysis of the large variety of forms in which capitalistic accumulation takes place.

Perrotta's book starts with the analysis of the origin of capitalism and its effects on the wealth of nations. Pre-capitalist systems are dominated by unproductive rents that are consumed to buy luxury goods and keep a great number of servants. The radical change with the birth of capitalism was the constant reinvestment of the surplus that boosted trade, productive capacity, division of labour and technical change. Capitalism is an essentially dynamic economic system, while pre-capitalistic societies are static, mainly based on inherited ownership and privileges acquired de facto or recognized by the law. In the West, where capitalism was born, there has been a huge and rapid improvement in living standards. In the developed countries, the progress of the health system with the discovery of bacteria, compulsory vaccination and the spread of hygiene has brought about a sharp increase in life expectation, with a decrease both in infant mortality rates and in female mortality rates associated with pregnancy and birth.

In the following chapter, Perrotta points out that historical experience has belied several false celebratory myths on capitalism.

The first myth is based on the civilization mission. With capitalism, slavery has been justified with the alleged inferiority of people reduced to that condition, giving rise to racism. In reality, this ideology served to cover up the spirit of exploitation of people and sheer robbery of their lands and properties. The author cites several examples, among them the genocide of millions of *Indios* in Latin America and the Natives in North America, the slave trade from Africa and the Shoah in Germany and in the European countries invaded by the Nazis' army during the Second World War. Genocides have often been justified by the necessity to defend and protect citizens and landowners, who privatised land with enclosures, from the reaction of the evicted and dominated population.

The second myth concerns the harmony of interests based on the idea that the enrichment of some individual is beneficial for all the society. This idea is at the basis of the trickle-down theory that does not have any historical support. In the last three decades, increasing inequality has been associated with poor growth and high econ-

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PRINTED AND BOUND  
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*September 2021*

(CZ 2 · FG 21)



