Using Costs of Exchange as a Tool To Investigate Economic Performance

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Good economic performance depends on low transaction costs.
To reduce transaction costs you need to measure transaction costs.

Why?
To reduce transaction costs you need to know:

- How big are they?
- Which are the highest?
- Who pays more – or less?
- What happens after reforms?
To answer these questions, we need a new instrument.
Our instrument: COE

• Measures what?
  Actual costs people incur when they are carrying out a specific transaction

• Measures how?
  Asks those who carried out the transaction about detailed costs
Our instrument: COE

• Measures what?
  Costs of exchange

• Measures how?
  Surveys and case studies
Cost of exchange $C_{ijkm} =$

opportunity cost in total resources (money, time, goods)

for

an individual with characteristics $i$

to obtain a good (or accomplish a goal) $j$

using a given form of exchange $k$

in institutional setting $m$
How do we measure COE?

Value of entrepreneurs’ (and staff) time spent registering

plus

Payments to facilitators,

Official fees.
We also asked

• What would you charge someone else to do this process for them?
• Why did you become formal?
• What made the process harder/easier?
• What is the biggest disadvantage to becoming formal?
We looked for variation in costs

• By size of firm
• By sex
• By nationality
• By prior experience
Our process

1. Road map the formal requirements
2. Case study of a single firm
3. Redesign template to actual steps and circumstances
4. Small pilot
5. Full survey
Length of time to register

Days

Brazil
Peru
Time costs and total costs of exchange
## Costs varied widely in Brazil

<table>
<thead>
<tr>
<th>Firms paying &lt;= $150</th>
<th>Firms paying &gt; $400</th>
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<tbody>
<tr>
<td>33%</td>
<td>17%</td>
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Costs varied widely in Peru

<table>
<thead>
<tr>
<th>Firms paying &lt;$50</th>
<th>Firms paying &gt;$200</th>
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<tbody>
<tr>
<td>34%</td>
<td>13%</td>
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</table>
Why is COE useful?

- Informs concerned citizens & officials.
- Measures effects of reforms over time
- Reveals bottlenecks
Why is COE useful?

- Helps new entrepreneurs know the real costs
- Reduces officials’ discretion
- Encourages competition among jurisdictions
What’s next?

• Do more surveys to
  – Compare across countries
  – Compare over time
  – Compare individuals, groups

• Measure other kinds of transactions

• Encourage the use of local expertise