

## The Origins and Early Years of the International Society for New Institutional Economics

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The International Society for New Institutional Economics or ISNIE (the original name of the Society for Institutional and Organizational Economics) was born out of dissatisfaction. A number of prominent economists, concerned that economic research was becoming too abstract and less useful for addressing the world's real economic problems, decided to oppose this trend. They were a disparate group. Some concentrated on transactions costs, some on institutions like the law, and others on property rights. Some were economic historians, some were developmental economists, and others focused on organizational structures. What united them was their desire to make economics more useful to society by analyzing the role of institutions and organizations. Nearly 20 years ago, Ronald Coase, the first President of the Society, explained the goal of restructuring of economic research as follows:

As we all know, mainstream economics has become more and more abstract over the years. It is elegant but sterile. It is sterile because it fails to include the major factors determining the performance of an economy. . . . Adam Smith said, and he was right, that the productivity of an economic system depends on specialization. But specialization is only possible if there is exchange. And the lower the costs of exchange (transaction costs as they are called) the more specialization there will be, the greater the productivity of the economy and the higher the standard of living of people in that economy. However, the level of transaction costs depends on the institutions of a country, its legal system, its political system, its culture and so on. This is why we must

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include the influence of these institutions in our study of the working of an economic system and why we should include in our membership [in the Society] those of our colleagues in law, anthropology, sociology, political scientists, and similar disciplines, who wish to collaborate in our great enterprise.<sup>1</sup>

Over the 1970s and 1980s, these ideas were refined by a number of prominent scholars, including the future Nobel laureates Ronald Coase, Douglass North, Elinor Ostrom, and Oliver Williamson, and reached an increasing number of researchers and policy-makers. The ideas spread thanks to the increasing influence of the *Journal of Law and Economics*, under the guidance of Ronald Coase from 1964 to 1982, the crusading work of Rolf Richter as editor at the *Journal of Institutional and Theoretical Economics*, and the rapid success of the *Journal of Law, Economics and Organization*, initiated by Richard Nelson, Oliver Williamson and Sidney Winter in 1985. Eventually many well-established journals also became more open to these new ideas. And the scholars and non-academics endorsing this emerging research agenda, although scattered in various universities, colleges and professional associations throughout the United States, Europe, and South America, interacted regularly at conferences and other meetings. These interactions gradually led to a formal network and the creation of ISNIE in 1997. Below we briefly summarize ISNIE's birth and early years.<sup>2</sup>

## PRELIMINARIES

The exact moment when a movement takes shape is always difficult to trace. ISNIE's origins are even harder to document since its birth coincided with the development of new technologies (fax, internet) and many exchanges and communications could not or would not be stored. Nevertheless, significant episodes can be identified. In 1983, Rolf Richter initiated what was then known as the Wallerfangen seminar. This annual event attracted a substantial number of economists and legal scholars who saw their research as part of the new institutional approach.<sup>3</sup> The stage was set for a more formal group by the Nobels awarded to

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<sup>1</sup> Ronald Coase, *Message from Ronald Coase*, in Newsletter, International Society for the New Institutional Economics, vol.1, no.1, Spring 1998, p. 3.

<sup>2</sup> A more detailed account of the history of ISNIE is on its way and archives assembled by the co-authors of this paper.

<sup>3</sup> Their contributions were published in symposium issues of the JITE. A nice collection of articles from that period can be found in Erik G. Furubotn and Rudolf Richter (eds.) *The New Institutional Economics*, Tubingen: J.C.B. Mohr (the publisher of JITE), 1991.

Coase (1991) and North (1993). Then in May 1994 Claude Menard organized a conference on ‘Transaction Cost Economics’ at the Sorbonne (with the support of young scholars who later became very active in the society<sup>4</sup>). Although Coase, who then received a ‘Doctorat Honoris Causa’ from the Sorbonne, could not attend, Paul Joskow, North, Williamson, and others active in the NIE participated. The morning after the conference, an informal meeting was convened at the Sorbonne with two items on the agenda: What’s next on the research program? How can we coordinate better? Participants in this meeting continued to communicate, visit, and meet informally thereafter; and at the following Wallerfangen Symposium (June 1995), they also solicited the insights of supportive younger researchers.

A major milestone in ISNIE’s gestation was the organization of a mini-conference at Washington University in St. Louis in April 1996. The conference was organized by Douglass North, with the active support of Lee Benham. The discussions focused on the economics of contracting, with the active participation of Ronald Coase and a group of visitors.<sup>5</sup> Participants convened the day after the conference and decided to create a formal organization that would be open to everyone working in the field of the new institutional economics.<sup>6</sup>

## THE CREATION OF THE SOCIETY

The still ‘informal’<sup>7</sup> Society’s first effort was a two and one-half day conference organized under the leadership of Ronald Coase and Douglass North at Washington University in September 1997 on “The Present and Future of the New Institutional Economics.” Although publicity and communications over the Internet were more primitive then, through word-of-mouth, e-mail exchanges, a web page, and the tireless efforts of Lee and Alexandra Benham as well as the initial promoters, the number of people who showed up in St. Louis vastly exceeded what had been expected. The conference attracted 250 scholars from 28 countries.<sup>8</sup> The local organizers had to continuously adjust the logistic upwards since numbers far

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<sup>4</sup> Eric Brousseau, Jean-Michel Glachant, Stéphane Saussier, and numerous research assistants and Ph. D. students.

<sup>5</sup> Among them, Keith Crocker, Scott Masten, Claude Ménard, and Mary Shirley.

<sup>6</sup> This meeting resulted in a joint letter from Ronald Coase and Douglass North (Oct. 4, 1996), announcing the creation of the Society and inviting interested scholars to join.

<sup>7</sup> Legal status followed over a year later, formally registered on February 1998.

<sup>8</sup> The countries included Argentina, Belgium, Brazil, Britain, Canada, Columbia, Denmark, Finland, France, Germany, Hungary, India, Israel, Italy, Japan, Mexico, Netherlands, New Zealand, Norway, Peru, Poland, Russia, Spain, Sweden, Taiwan, Tanzania, Venezuela, and the U.S. See Lee Benham, *St. Louis Conference 1997*, in Newsletter, International Society for the New Institutional Economics, vol.1, no.1, Spring 1998, p.4.

exceeded projections. The scholars who gave papers or acted as discussants included the three Nobel laureates who were active in the formation of the Society and many of the most prominent people working on institutional issues.<sup>9</sup>

Ronald Coase gave the first Presidential address for the Society, explaining his vision that new institutional economics would eventually transform economics, like the tide transforms the shore, and that the Society's role should be to encourage, help, and support its members in this great endeavor.<sup>10</sup> After his address, Coase answered question, including one dealing with the name of the Society. The questioner noted that many scholars working in the field of NIE were not economists, and then asked whether a better name for the Society would be International Society for the New Institutional Social Science. Coase was adamant in rejecting that suggestion, pointing out that the new institutional economics arose out of the field of economics and that economists remained at the core of people working in that field. Even with the expansion of the Society into new academic fields and new types of scholarship, its current name still reflects the importance of economics as the central discipline, which is testament to Coase's vision.

The success of the conference solidified the organizers' determination to press forward with the Society. At a memorable dinner before the conference, a core group of scholars (who later became the first officers and directors of the Society) pushed to give permanence to the Society and expand its efforts. They also met the next afternoon with a selected group of mostly young scholars from different countries to collect their feedback about the proposed Society. Finally, at a pivotal lunch meeting the day after the conference, Ronald Coase, Lee and Alexandra Benham, John Drobak, Claude Menard, and Mary Shirley<sup>11</sup> made concrete plans to create a nonprofit corporation with formal officers and directors and defined governance and succession rules.

By February 1998, John Drobak had arranged for ISNIE to be incorporated as a Missouri non-profit corporation, with corporate articles of incorporation and bylaws. The purpose of the corporation, as expressed in the Articles of Incorporation, is "to support the study, understanding and advancement of the new

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<sup>9</sup> The program for the first ISNIE conference is part of the Archival Material collected by the authors.

<sup>10</sup> A video of Coase's address is available from the Archival Material.

<sup>11</sup> Douglass North was not able to attend but had discussed the issue ahead of time and was fully supportive.

institutional economics throughout the world.” The first set of officers was Doug North as President, Lee Benham as Vice President, John Drobak as Secretary, and Mary Shirley as Treasurer. Beside these four, the Board of Directors included Benito Arrunada, Ronald Coase, Harold Demsetz, Scott Masten, Claude Menard, Rolf Richter, Barry Weingast, and Oliver Williamson. Claude Menard agreed to organize the next ISNIE conference in Paris in September of 1998.

With the blessing of the Board, Doug North set up an office for ISNIE at Washington University and convinced Mary Drobak to be the first Coordinator. She was hired to get the Society organized, which she did with a lot of energy, with ISNIE growing from about 300 members to over 1000. She also provided decisive support to the organization of the following conferences, particularly the one in Paris. As part of the efforts to publicize the Society, Alexandra Benham also provided very active support through a newsletter with interviews and papers from the leading figures of ISNIE and information for the members.<sup>12</sup>

Beside organizational issues, a major challenge for a young society facing such rapid expansion concerns its finance and, relatedly, its legal status. All the initial activities benefited from the financial support of Washington University and, to a lesser degree, the University of Paris (Pantheon-Sorbonne). After ISNIE became a non-profit corporation, Doug North and Ronald Coase were able to convince the Bradley Foundation and the Olin Foundation to provide support to the activities of the Society while the Earhart Foundation provided grants to faculty and students from developing countries to attend the annual conferences and to participate in the Society’s activities. Although it was basically a formality for the Society to receive non-profit status (under section 501(c)(3) of the U.S. Internal Revenue Code), the Society wanted to receive qualification as a “public” non-profit corporation from the Internal Revenue Service, which would enable it to receive donations from a broad range of foundations and other funding sources. This classification as a public non-profit can be difficult to achieve, especially for an organization that gets its start-up or principle funding from only one or two sources. John Drobak led this effort, with the guidance of the Society’s lawyers. In order to get this status, the Society had to demonstrate funding support from a broad range of donors over a five-year period. Thanks to many of the officers and directors, as well as the conference organizers,

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<sup>12</sup> The newsletters are included in the Archival Material.

the Society received financial support from enough sources to qualify. These “public” sources included sponsors of the early conferences, such as the University of Paris, the World Bank, the University of California, and the European Union, as well as the membership fees. That the Society was able to achieve this public status through such widespread support demonstrates the truly international scope of the Society.

## THE INITIAL CONFERENCES

The rousing success of the initial conference was not a flash in the pan. Subsequent conferences organized by Claude Menard in Paris in 1998, Mary Shirley in Washington (DC) in 1999, and Rudolf Richter in Tubingen (Germany) in 2000 were equally well attended and increased the participation of development economists and legal scholars. As these locations suggest, ISNIE was truly international, alternating countries between the U.S. and Europe.

The early Board meetings focused on: how should the Society be organized (e.g., should there be regional boards?), how should the membership be broadened (e.g. should Board members be added from related academic disciplines?), should ISNIE sponsor a journal, should the Society have a program to support younger researchers<sup>13</sup>, and should there be changes in corporate governance as the Society became permanent. However, a major event dramatically disrupted the Board’s usual work and threatened the progress of the youthful Society.

ISNIE’s fourth annual conference was about to start in Berkeley on September 13, 2001. Suddenly everything changed with the September 11<sup>th</sup> attacks on the World Trade Center. Flights were cancelled or rerouted to non-U.S. airports, and tensions ran high, prompting even some who could drive to the conference to cancel. As a result, the majority of contributors would not attend. Nevertheless, President Williamson and president-elect Menard made a rapid decision to go ahead with the conference, not only because some participants were already in Berkeley<sup>14</sup>, but also to send a clear signal to our members (and beyond) that the Society would not submit

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<sup>13</sup> Disagreements on this issue ended with the creation in February 2000 of the Ronald Coase Institute which supports younger scholars studying institutions. Lee Benham, Ronald Coase, Claude Menard, Douglass North and Mary Shirley composed the initial board, with Alexandra Benham as secretary. The Board later integrated Kenneth Arrow, Phillip Keefer, Gary Libecap, Elinor Ostrom, Sam Peltzman, and Chenggang Xu.

<sup>14</sup> In particular the Ronald Coase Institute had organized a workshop before the Conference so that several attendants and contributors were already in town.

to terrorism. The organizers scrambled to provide support to contributors who had been rerouted to different cities and to reschedule sessions to take account of the many contributors who could not make it, the many who showed up at different times than scheduled, and above all, the many who changed their plans to come to the conference in support of the Society's decision.<sup>15</sup> The solidarity among members, including hosting those who were rerouted to foreign cities, was remarkable, and symptomatic of the already strong bonds that united them.

## LATER DEVELOPMENTS

Parallel to this dramatic episode, changes in the governance of the society were initiated by Oliver Williamson and other members to move the organization more into line with standard academic societies. Initially, the society's board of directors elected the officers in order to guide the society in its formative years. Among the changes were direct election of officers by the members with a President in charge for one year, a president-elect organizing the annual conference before becoming president, the affiliation of the young society to the influential Allied Social Sciences Association, and other changes. Thereafter, the annual conference became more routinized. Prestigious institutions hosted it, and continued to do so after the change in name adopted in 2015, as well illustrated by the chronological listing of the conferences on the SIOE website.

## CONCLUSION

In this short note<sup>16</sup>, we reviewed the different episodes through which our society was born. The central message sent by the founders was not only do institutions and organizations matter, but there are tools to rigorously explore their central role (often summarized as the 'golden triangle' formed by the concepts of transaction costs, contracts, and property rights). That this research program attracted so many young scholars as well as confirmed researchers was a clear signal of the relevance of the issues at stake and of the need to go further. The formative years have enriched and extended the initial agenda. More can be expected in the years ahead.

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<sup>15</sup> Let us mention Georges Akerlof, Kenneth Arrow, Susan Woodward, among so many others. Beside an electronic message at the time of the conference, a letter explaining what happened, the decision made, and its motivation was sent by Menard to all members on September 25, 2001. This letter is included in the Archival Material.

<sup>16</sup> More details to be found in our coming, more extensive paper; and in the Archive Material that we are collecting.