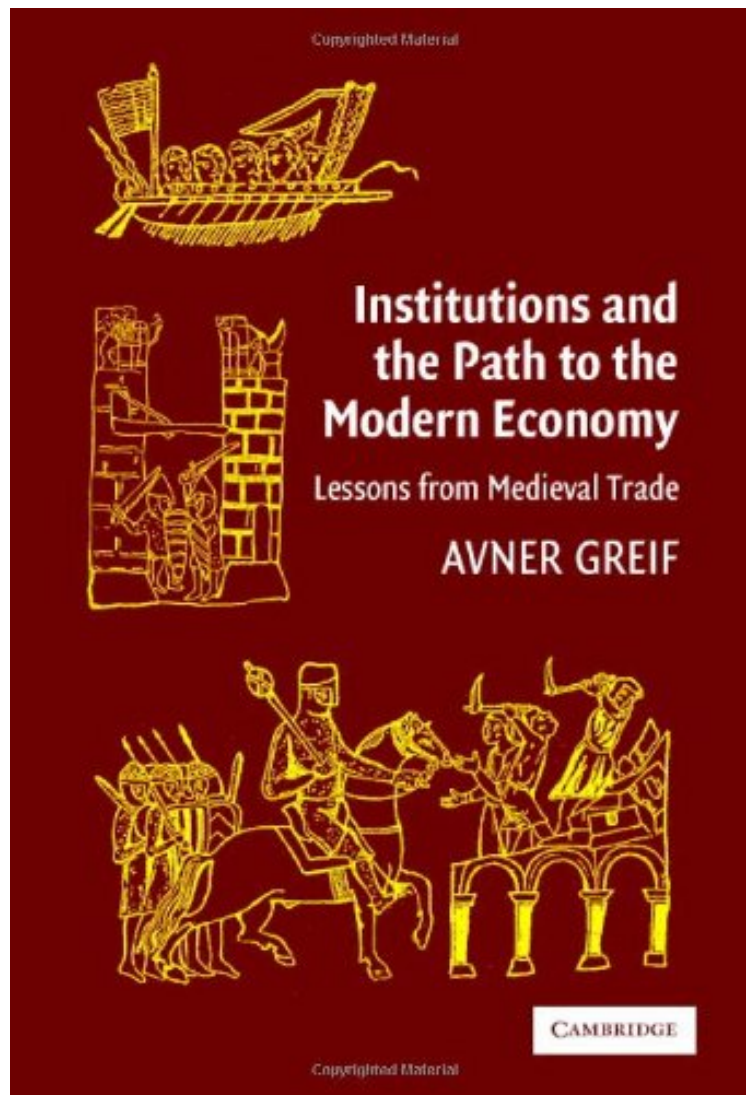


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Institutions and the Path to the Modern Economy: Lessons from Medieval Trade (Political Economy of Institutions and Decisions)

Avner Greif

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Avner Greif : Institutions and the Path to the Modern Economy: Lessons from Medieval Trade (Political Economy of Institutions and Decisions) before purchasing it in order to gage whether or not it would be worth my time, and all praised Institutions and the Path to the Modern Economy: Lessons from Medieval Trade (Political Economy of Institutions and Decisions):

1 of 1 people found the following review helpful. A strong method for economic analysisBy Mr. M. J. WilkinsonI recently read Greif's book to help with the completion of my Masters thesis in economics. The framework of

institutional change he creates in this book represents an very strong method for economic analysis, one that I have not seen, elsewhere. Briefly, Greif focuses on how actors decide which action to take. When actors' payoffs depend on the actions of others, they will attempt to predict how others behave. When they themselves behave similarly, regularities of behaviour - institutions - will form. Greif explains that actors will often make use of institutions that were used in earlier situations - explaining the path dependence often observed in institutional analysis - but that new institutions will form when parameters are such that actors will do better by following different patterns of behaviour. Although Greif develops his framework in relation to medieval trade, I found invaluable for the economics analysis of a much more modern subject, retail payment systems (such as debit or credit cards). I thoroughly recommend this book as a seminal work in the developing area of the economic analysis of institutions. Kind regards, Mike Wilkinson

11 of 12 people found the following review helpful. *The Death and Rebirth of Historiography?* By Herbert Gintis

Despite my love for a great many works of historical research, and despite my abject dependence upon such works for the information needed to formulate and evaluate models of historical change, I never really understood what position historical works have in with relation to the behavioral sciences (economics, psychology, sociology, etc.). Historians are well trained in the scientific method, but they do not have any "theory" to go on in deciding what material to collect and how to interpret their findings. In a way, this allows historians to "just find out what really happened," without trying to force the facts into a preconceived paradigm and without using theoretical prejudices to decide what "facts" to collect. But then I learned that there are no "facts" independent from a theoretical framework that makes sense of the facts. And this appears true, at least if the "facts" involve higher-level constructs, such as "power," "purpose," "culture," and the like. Well, now that I have found out that society is a complex adaptive dynamical system that will never be fully modeled, and have learned that the human mind is full of partially filled-out "templates" that can be deployed and refined given a new set of data, I no longer am uncomfortable with the historian's musings. Now Avner Greif comes along and tries to convince the reader, rather successfully, that historical research can after all be undertaken fruitfully and synergistically with the social sciences. But, and this is a rather giant but, only if we accept a broad notion of the social sciences in which transdisciplinary arguments are routinely made and upheld, and when a reasonable effort is made to adjudicate the differences across disciplines by developing novel arguments as syntheses. The great merit of this book is to have largely accomplished this feat. Perhaps we are witnessing the death and rebirth of history as a discipline. Just as philosophers have come to the realization that knowledge of science complements their studies, perhaps historians---at least those who deal with big themes and broad expanses of time---will realize the value of integrating their discipline with traditional, rigorous, social-scientific studies. Greif argues that the late Medieval Maghribi are best represented as a "reputation-based private-order institution." Greif's basic trade model is that of a merchant in one country hiring an agent in another country to carry out the many tasks involved in protecting and selling the merchant's goods in the agent's country. The critical point in this classical principal-agent model is that the agent has an incentive to cheat the merchant. If the volume of trade is sufficiently high, and if the agent can be harshly punished for a transgression by being fired, then the merchant can use the threat of dismissal to induce the agent to behave honestly (for a general model of this type, see Samuel Bowles and Herbert Gintis, "Walrasian Economics in Retrospect", *Quarterly Journal of Economics* 115,4 (2000):1411-1439; and "The Revenge of Homo economicus: Contested Exchange and the Revival of Political Economy", *Journal of Economic Perspectives* 7,1 (1993):83-102). However, in many cases, including those of medieval trade, a more sophisticated social process was required, in which the agent had to sustain a general reputation among all merchants as being honest, so that the report of cheating by one merchant would lead to the perpetual ostracism of the agent from dealings with other merchants for the foreseeable future. The construction of this model brings Greif into a significant game-theoretic model-building exercise, from which the careful reader will learn much about the general value of game theory in elucidating social research. One of Greif's greatest achievements is to show convincingly the value of a model in which individuals obey both the canons of rationality so beloved by the economists, and at the same time exhibit the moral inclinations, emotions, social attachments, and internalized norms so beloved by the sociologists and social psychologists. For a general treatment of how these aspects of human sociality interact creatively see my book *The Bounds of Reason: Game Theory and the Unification of the Behavioral Sciences* (Princeton University Press: 2009). I there argue that contemporary sociology's descent into theoretical oblivion is due precisely to its rejection of economic reasoning, and contemporary economics' descent into theoretical aridity is due to its rejection of sociological reasoning. I have an ally in Avner Greif, who combines the two modes of reasoning quite adeptly. Indeed, Greif goes to great length to convince the reader that this is not simply a standard exercise in economic reasoning, because the "perfect information" assumptions of his model are not historically plausible. How can a merchant be sure the agent cheated him? Why can't a merchant blackmail an agent into giving him a better deal by threatening him with ruining his precious reputation? Indeed, why should a merchant report that he has been cheated at all? Does he do this out of love for justice, out of the desire for revenge and retribution, or because he cares about the well-being of his fellow merchants? Why do Maghribi trade networks exhibit strong ethnic regularities, but not strong kinship regularities? These are all obvious questions that a traditional game-theoretic analysis cannot handle, but can be addressed using a modicum of standard sociological analysis. Greif deserves a careful reading, and I consider this a great book, because the author has gone

where few have had the guts to tread. However, this book is a beginning and not an end. There are many faults, all of them associated with the book's great novelty. The book should be at best half the size, and the social theory should be much more sophisticated and better integrated with the formal models. For instance, Greif alludes to several areas of social theory that might help answer the questions I posed in the previous paragraph, but he does not in fact answer them head-on. Why does the merchant bother informing on a cheating agent? How does a merchant determine that he has been cheated? What is the status of ethnic ties? I would like to have seen a much more pointed analysis. Instead, we get very general high-level theorizing that leaves the key questions "sort of answered," but not really. The following is typical: "The Maghribis and the Genoese were constrained by the same technology and environment, and they faced the same organizational problems. But their different cultural heritages and political social histories gave rise to different cultural beliefs. Theoretically, their distinct cultural beliefs are sufficient to account for the diverse institutional trajectories of the two groups. Cultural beliefs may thus have had lasting impact despite their temporary nature." (p. 300) Statements such as these are both theoretically trivial and at the same time hard to accept. Are not cultural beliefs codetermined with other aspects of social life, rather than being autonomous and determining? In sum, this exceptional book has a theoretical tentativeness that marks the opening of a new era in social theory. The aspiring social theorist and/or historian will see the future in Greif's adept reasoning, even if through a glass not darkly, yet not fully illuminated, thus leaving work to be done by standing on the giant's shoulders. 22 of 23 people found the following review helpful. Original and engaging

By Claire Mbeki

This original book draws into historical studies to illustrate the evolution of economic institutions. The application of economics, history and game theory is very creative and a definitely achievement of the book, in the tradition of North's "Understanding the Process of Economic Change" or other recent followers like Acemoglu's "Economic Origins of Dictatorship and Democracy". The book is divided in four main sections and 14 chapters. First, the author explains institutions as systems in equilibria, applying history and game theory. Then, he enlightens institutional dynamics as historical process (focusing on endogenous change or how history affects institutions and cultural beliefs) only to conclude with a method to apply in sociological and historical studies. This is a seminal work and Greif's is able to clarify how market institutions work and evolve, how control and oversight institutions are created and how this questions relate to economic history and theory. Moreover, he illustrates them with real examples, like the evolution of medieval trade. It is a careful, readable and historical approach to economic development, applying economic and game theory to explain institutional patterns and change. Interesting!

It is widely believed that current disparities in economic, political, and social outcomes reflect distinct institutions. Institutions are invoked to explain why some countries are rich and others poor, some democratic and others dictatorial. But arguments of this sort gloss over the question of what institutions are, how they come about, and why they persist. They also fail to explain why institutions are influenced by the past, why it is that they can sometimes change, why they differ so much from society to society, and why it is hard to study them empirically and devise a policy aimed at altering them. This 2006 book seeks to overcome these problems, which have exercised economists, sociologists, political scientists, and a host of other researchers who use the social sciences to study history, law, and business administration. It presents a multi-disciplinary perspective to study endogenous institutions and their dynamics.

"Greif strips economic transactions down to their elements. He focuses on the core question: who (or what) were the watchdogs that allowed the merchants to trust one another and to bear with the princes who could confiscate the fruits of all their efforts? And who (or what) were the watchdogs' watchdogs? Greif repeatedly and carefully relates these questions to economic theory. He illustrates them with real transactions of medieval merchants. He takes the right approach to economic development, and thereby achieves an original and important new perspective on its causes. Institutions and the Path to the Modern Economy is a seminal work in economics and in history. It should be read by all social scientists." -George A. Akerlof, 2001 Nobel Laureate in Economics and University of California, Berkeley

"If economic theory is worth anything at all, it should illuminate economic history. The most usual attempts to interpret history in terms of mainstream economic theory have tended to leave out the specifics and, in particular, the influence of past events and structures on later ones. Avner Greif's work demonstrates the power of using economic theory, especially game theory, to illuminate both structural patterns and change, while still respecting historical specificity. The evolution of medieval trade is used as a case to show how the problems raised by economic theorists (e.g., the need for enforcement of contracts) are resolved by the creation of institutions which are constrained to be self-enforcing equilibria. I believe Greif's approach will lead to a revolution in the study of other eras and even the changes in present regimes." -Kenneth Arrow, 1972 Nobel Laureate in Economics, and Professor Emeritus, Stanford University

In *Institutions and the Path to the Modern Economy*, Avner Greif explores the cultures that prevailed in the European and Islamic portions of the Mediterranean in the Medieval period and the implication of their differences for the modern world. To tackle so grand a theme, Greif rearranges the intellectual furniture. Embedding game theory within the behavioral sciences, blurring the boundaries between deductive reasoning and empirical research and

qualitative and quantitative methods, Greif teaches us not only about history but also about the place of history in causal explanation. Greif's book will shape future work in history, the study of development, and the social sciences." - Robert H. Bates, Harvard University "Avner Greif's study is a major landmark on the road to increasing our understanding of institutions and the role that they play in economic performance." -Douglass C. North, 1993 Nobel Laureate in Economics "[B]y creating new tools for studying institutions, [this book] is likely to inspire research for years to come. By all rights it deserves to do so, in economics, in sociology, in political science, in law, and (to the extent that historians in history departments pay attention to the social sciences) in history too. Economic historians obviously have special reason to prize the book, since it takes up some of the biggest issues in the field and makes a vigorous case for economic history within the larger discipline of economics. But other social scientists will highly value it too, and it will be no surprise if it ends up becoming -- and rightfully so -- a classic." -Philip T. Hoffman, Division of Humanities and Social Sciences, California Institute of Technology, EH.NET "Greif displays not only a masterful command of game theory and relevant historical detail, but also admirable and insightful integration of work by sociologists and political scientists on organizational and institutional change...The book provides a cogent demonstration of how game theory, careful attention to historical detail and interdisciplinary analysis can illuminate each other. Highly recommended." -Choice "brilliant" -Clyde G. Reed, Simon Fraser University "Greif has addressed the great issues in economic expansion: emergence of markets, organization of trade, and how the medieval world provides the first encounter with the dynamic conditions that lay behind modernity." -Susan Mosher Stuard, Haverford College (Emerita), Journal of Medieval Studies "Greif's comparative approach, and his provocative conclusions regarding the centrality of institutions, are worth serious consideration." -George Duncan, Saint Michael's College, Journal of Interdisciplinary History "...[this] book is among the two or three most important to emerge during the past two decades on the historical development of economic institutions." Perspectives on Politics, Rogers Hollingsworth, University of Wisconsin About the Author Avner Greif is the Bowman Family Endowed Professor in Humanities and Sciences at Stanford University where he teaches economics. He is the recipient of fellowships from the American Academy of Arts and Sciences, the Econometrics Society, and the MacArthur Foundation. He has published articles in American Political Science, European Journal of Economic History, Chicago Journal of International Law, and the Journal of Political Economy as well as many edited books. Greif is also a co-author of Analytic Narrative (1998).