

REVIEW OF MASSIMILIANO VATIERO, *THE THEORY OF TRANSACTION IN INSTITUTIONAL ECONOMICS. A HISTORY*,
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The book by Massimiliano Vatiero provides a timely and needed conceptualization of “transaction”, as the basic unit of analysis of institutionalism. In a period of rapid change in the order of actions and disruptive innovation in the economy, this book provides a comprehensive view of the fundamental elements of transactions that will prove of use in these turbulent times. With limited concern for disciplinary boundaries, Vatiero proposes a definition of the transaction as the “composite institutional setting that transfers control over a resource”. He suggests a multi-fold setting that comprises competitive, legal and political elements involving several parties beyond the actual transactors.

This ample perspective allows the author to articulate an analytical framework including at least five parties in each transaction, whose interactions occur within a complex institutional setting. As a general framework for the analysis, Vatiero primarily draws on the basic intuitions of Ronald Coase, Robert Lee Hale, John Commons and Oliver Williamson. He recombines these intuitions in innovative ways to solve some traditional issues in the theory of the firm literature – e.g., holdup problems.

In the six chapters of the book, the author analyzes the main legal, competitive and political dimensions of transactions. He does so by uncovering the many ways these profiles complement and influence each other, through the interdependent actions of the various parties involved. Vatiero emphasizes the fact that, alongside the immediate and obvious economic exchange, we find the legal, political, and competitive dimensions of transaction that co-evolve through the actions of all the parties.

In the first chapter, Vatiero sets the stage for the book. He lays down the main theoretical tools of his analysis, as inspired by the four leading figures

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mentioned above. Vatiéro starts with Ronald Coase, discussing his seminal articles on the nature of the firm and social costs, where he characterizes the transaction as a “rearrangement of legal rights”. Vatiéro also recalls Coase’s three types of institutional mechanism for rearranging rights in the economy: the market, the firm, and the state. The intuition is that each of them is legally founded with differing transaction costs. From John Commons, the author borrows the idea of transaction as a multi-party institutional transfer of the possession of a resource. In this perspective there are at least 5 parties involved: the two actual transactors, the two alternative transactors and the public official who secures stable expectations of legal protection.

As for Robert Lee Hale’s scholarship, Vatiéro emphasizes that the working of legal rights relies on the interplay between legal and economic freedoms and compulsions. From this perspective, the very question whether the State should play a larger or smaller role in the economy seems pointless, because economic freedoms are legally defined by the State through the allocation of freedoms and restraints among individuals. Individual freedoms are largely the result of state intervention and are mutually coercive, because they are defined by the rights endowed to some and the restrictions imposed on others by the law. Lastly, Vatiéro emphasizes Williamson’s focus on the role of technology as a defining element of any transaction. For Williamson, a transaction is the transfer of a good or a service across a technologically separable interface. In this view, technology is an enabling constraint distinguishing between phases of production. In that respect, asset specificity of investments affects the cost of transactions and makes them risky, because they may expose some parties to ex post opportunistic behaviors. Usually, to address holdup problems that may arise, non-market arrangements are put in place to design governance structures that make opportunism more difficult and expensive. To deal with that, Vatiéro emphasizes Williamson’s original views based on the two key concepts of a transaction, adaptation and commitment, whose interplay may reduce the risk of holdup problems. Williamson sees a trade-off between the two concepts, as commitment tends to introduce elements of rigidity in the transaction, while adaptability allows for the flexibility needed to adjust to changing market conditions.

In the second chapter Vatiéro expands on the definition of “transaction” by analyzing its co-evolutionary and multi-fold dimensions, which are rooted in the legal, competitive and political factors at play in the real world. The complex interrelations between these profiles result from the “actions and promises of actual transactors but also of the expected actions held by potential transactors, and [are] also influenced by the power of the legal system”. Each actor affects every other actor and each dimension of

the transaction has a bearing on the others. In the third chapter, Vatiéro explores the adversarial nature of legal positions, which is often overlooked by lawyers themselves. Drawing on Hohfeld's, Commons's and Lee Hale's contributions, he shows that legal relations have correlative and adversarial legal positions. In fact, any form of freedom to perform an action is also the result of the introduction of increasing restrictions "through the law on the freedom of others". Such positional concerns, due to the nature of legal positions, demonstrates that public officials' assignment and enforcement of rights cannot be neutral and costs imposed on others shall be accounted for by rule makers when gauging policy choices.

In the fourth chapter, Vatiéro explores the competitive dimension of transactions. He focuses on the Hartian approach to holdup problems in the case of specific investments. He argues that alternative solutions might be preferable if the competitive dimension of each transaction is duly considered. From the traditional Hartian perspective, the preferable governance solution to holdup problems would be to assign residual control rights to one or all parties. By contrast, the author underscores how Williamson's approach may suggest a different solution. This is because ex post implications of specific investments may "transform" the configuration of alternatives in the outside market, making it less convenient to behave opportunistically. As Williamson argued, the costs of re-deploying specific investments outside the relationship in the post transaction market may prove too high. As a result, it may well be that specific investments act as an enforcement device, rather than the opposite, as far as the competitive aspects of each transactions are duly considered. Such an approach questions the dominant views on asset specificity, the investor's ex post bargaining power, and holdup problems. Thus, the ex post competitive implications should be accounted for when selecting the optimal ownership structure to avoid costs linked to unnecessary residual control rights.

The fifth chapter covers the political dimension of transactions. Vatiéro traces the debate between A.A. Berle and M. Dodd to explore the evolution of their alternative (at least in the beginning) views on the political nature of the corporation as well as on the differing purposes it should fulfill. Analyzing choices that are contingent on political constraints and forces at play helps understand how the corporation's role as a legal entity oscillates between pursuing public benefits or shareholders' returns. In this perspective, Vatiéro shows the ample role played by corporate actors in exercising multiple forms of pressure on regulatory, judiciary and political systems to grab a larger share of the rents originated by corporations and the economy. He emphasizes that the study of the political or public choices, in the domains of labor, market regulation and innovation policies,

can help explain how institutional complementarities emerge between legal, competitive and political aspects.

In the last chapter, Vatiero recaps his reasoning and offers some reflections. He suggests that many avenues of research could spring from the broad conception of a transaction as “the composite institutional setting that transfers control over a resource”. In particular, it may help relaunch the study of “transaction costs” and its broad implications for the economy. Correctly defining the transaction may help clarify the meaning of “transaction costs”, whose oft-criticized vagueness reflects the lack of a clear-cut definition of the former. For this reason, Vatiero sketches out a promising research program aimed at studying “transaction costs theoretically and empirically”, starting from a concise new definition of transaction. This book is a valiant first step in that direction.

To conclude, the book will be of great interest to those involved in the study of the economy from several disciplinary perspectives: economists, political scientists, lawyers, and sociologists. It provides a gateway to get familiar with a multi purpose theoretical toolkit to explore the various interlocking coordination mechanisms at play within the State, the market and the firms. Of course, the dogmatic expert of the law, of political studies or of mainstream economics might not be enthusiast about Vatiero’s unifying effort. By contrast many others will, for they will be encouraged to keep exploring the economic reality at the crossroad of so many disciplines. As a matter of fact, the great transformation we are experiencing requires us to free the analysis from dogmatism and the preservation of static disciplinary boundaries. Otherwise we run the risk of becoming an irrelevant component of society, incapable of proposing a meaningful understanding of the reality outside of University Campuses.