

Abstract: *The Economics of Governance: Transaction Cost and New Institutional Approaches*

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Mutually beneficial exchange determines the growth and progress of societies. Without the ability to engage in economic exchange – the trade of goods for services, labour for goods, and goods for goods – a society's growth is limited. Societies not only structure economic exchange, but social and political exchange, New institutional approaches seeks to understand social, legal and economic exchange, with a sub-branch of economics, new institutional economics, developing a theory of institutional change, or economic growth, that defines the key relationships linking individuals, organisations and institutions to the long-run economic evolution of societies.

Transaction cost economics is concerned with the organisations that undertake economic transactions or exchanges, and the governance arrangements that structure economic exchanges. There are three types of organisations or governance structures that arrange the economic transactions, or the exchange of exchange property rights in goods, services and labour: the market; intermediate arrangements; and firms.

This paper explores the properties of each governance structure and how transaction costs approaches to governance structures can be embedded in the wider theory of new institutional economics. The paper provides examples of how transactions are managed through non-market governance structures under different institutional regimes, including 11th century Mediterranean Maghribi traders, the merchant courts at the Champagne fairs, 1990s Vietnamese manufacturers-suppliers, the 'fall' of the Soviet Union and Contractual joint ventures in China. Finally, the paper analyses how governance structures evolve.