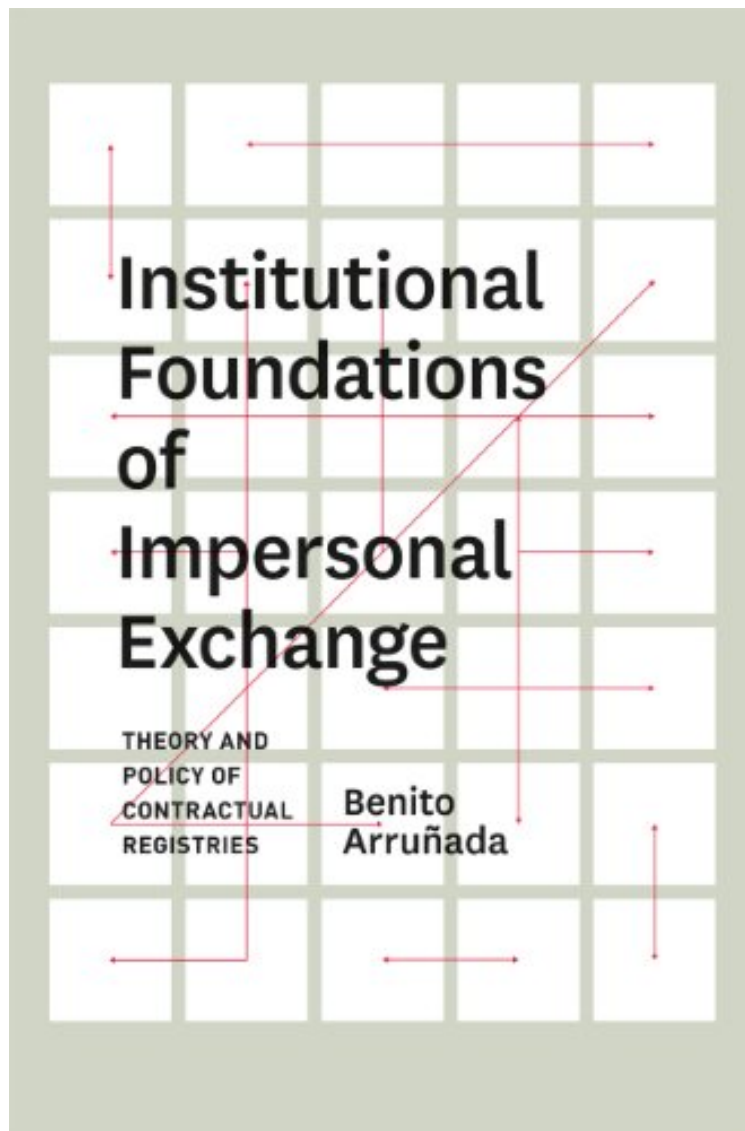


[Mobile ebook] Institutional Foundations of Impersonal Exchange: Theory and Policy of Contractual Registries

Institutional Foundations of Impersonal Exchange: Theory and Policy of Contractual Registries

Benito Arruntilde;ada

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#2524617 in eBooks 2012-09-15 2012-09-15 File Name: B0097E4JHU | File size: 35.Mb

Benito Arruntilde;ada : Institutional Foundations of Impersonal Exchange: Theory and Policy of Contractual Registries before purchasing it in order to gage whether or not it would be worth my time, and all praised Institutional Foundations of Impersonal Exchange: Theory and Policy of Contractual Registries:

2 of 2 people found the following review helpful. From the Washington Consensus to Arruntilde;ada's Institutional Foundations of Impersonal ExchangeBy Nuno GaroupaSince the Washington Consensus and the deregulation

movement took place thirty years ago, administrative simplification and reduction of bureaucracy has been on the agenda of policymakers. In fact, economists tended to agree that a strongly market-based approach requires an effective public administration imposing light burdens on economic players (thus creating a business-friendly economic environment). This view was later popularized by De Soto's *The Other Path* in 1989 which inspired the work of many international organizations and the (by now) famous *Doing Business Project* in the late 1990s. Simplification, cutting red tape, one-stop bureaucratic agencies, reduction of licenses and procedures, de-formalizing business activities have become popular slogans with many governments around the world. The important work of Benito Arruntilde;ada takes a fresh look at these issues. We all know that the Washington Consensus promotes deregulation, but it also defends strong legal security for property rights (understood in a nontechnical way, that is, both rights in rem and rights in personam) in the tradition of Coase, Williamson and North. In his book, Arruntilde;ada convincingly shows that certain simplifications of procedures and some forms of de-formalization actually hurt important safeguards. In other words, there could be an intrinsic and convoluted trade-off between the popularized programs of administrative simplification and adequate legal certainty. Eliminating certain formalisms might save some apparent costs in the immediate, but augment considerably transaction costs in time, therefore damaging the proper functioning of markets. Economists have a tendency to see formalism as an example of capture by private interests, thus promoting rents, increasing transaction costs and, as a consequence, damaging business activity (including business creation and investment) and economic growth. In the context of contractual registries, Arruntilde;ada explains that some formalism responds to efficient institutional design precisely to reduce transaction costs and facilitate impersonal exchange. More importantly, in the absence of such formalism, efficient transactions might not take place and market failures could be more acute. My understanding of the policy implications from Arruntilde;ada's work is simple. First, not all simplification is good, not all formalism is bad. A degree of formalism is important to promote development and trade in a globalized world of impersonal exchange. Second, when de-formalizing, policymakers should consider the extent to which they are eliminating unnecessary procedures (those in place to satisfy mainly a few particular private interests) and not institutions governing property rights protection. Finally, the appropriate formalization in the context of contractual registries (for property as well as for business transactions) responds to a set of determinants identified by Arruntilde;ada that could vary across jurisdictions. Concerning de-formalizing, there is no such thing as a "one-size-fits-all" policy.

0 of 0 people found the following review helpful. Public Institutions and Endogenous Information in Contracting By Stephen Hansen Benito Arruntilde;ada's *Institutional Foundations of Impersonal Exchange: Theory and Policy of Contractual Registries* is an impressive and erudite study of the relationship between legal institutions and impersonal exchange. While clearly valuable for better understanding policies regarding formalization, in my mind it also introduces ideas that are relevant for contract theory more generally and yet hardly treated in the literature. Since the 1970s economic theorists have understood that information asymmetries between parties who write contracts are a key source of inefficiencies in exchange. Since then, a vast literature has developed exploring this idea from many different angles. Nevertheless, two key features usually appear. First, the set of parties who write contracts all observe each other, know they are contracting with each other, and (with some exceptions) observe the terms of the contracts agreed. Second, the information asymmetries are assumed to be a fixed, exogenous feature of relationships. Benito's book convincingly shows that both of these limit our understanding of trading frictions in the real world. A key insight is that, in addition to his "type" or "action" (to use the language of contract theory), the formal contracts that an economic agent has written with others may be unobservable. After reading the book, it became clear to me that this dimension of non-observability is just as important for generating market failure as others. The second, and intimately related, insight is that the degree of non-observability of contractual rights depends on public institutions, in particular registration systems. Whereas it is unclear how a public body would help contracting parties discover -- to take a standard example -- each other's preferences over the good they are proposing to trade, Benito shows that they can affect the amount of information they have about each other's formal legal rights. And, in line with what one would expect, when institutions can reduce this information asymmetry, the likelihood of efficient trades increases. Putting these two ideas together provides an original and to me very exciting view on the value of legal systems. Economists often discuss "good" legal systems as those which enforce written agreements transparently at low cost. After reading Benito's book, I recognized that legal systems also act to endogenously affect the amount of information that parties have available to reach those agreements in the first place. This deserves to be an influential idea in future discussions of law, economics, and contract theory.

0 of 0 people found the following review helpful. Towards an economic theory of the firm as a legal person By Giorgio Zanarone Benito Arruntilde;ada's *"Institutional Foundations of Impersonal Exchange"* develops a unified theory of property and business registries, provides the reader with deep historical and institutional analyses that make the theory compelling, and discusses paths for the reform of business formalization policies that challenge the conventional wisdom. Even more importantly, the book shifts the unit of analysis in the theory of the firm from personal to impersonal exchanges. From Coase (1937, 1960) and Williamson (1979) to Grossman and Hart (1986), Holmstrom and Milgrom (1994), and others, the economic theories of the firm have treated contracts as personal exchanges, with little analytic distinction between physical and legal persons. This has led to Alchian and

Demsetz's (1972) famous definition of the firm as a "nexus of contracts". By focusing on how hidden "originative" contracts make the consequences of present contracts uncertain, and on how registering contracts ex ante can reduce the uncertainty of good-faith acquirers of rights, Arruntilde;ada's book moves an important step towards an economic theory of the firm as a legal person. In that perspective, the nexus of contracts we call "firm" differs from a similar nexus of market contracts because, being the firm registered, external parties can contract with it without fearing that previous "internal" contracts will dilute their rights. In this sense, one could say that ex ante registration marks the boundary between firms and markets.

Governments and development agencies spend considerable resources building property and company registries to protect property rights. When these efforts succeed, owners feel secure enough to invest in their property and banks are able use it as collateral for credit. Similarly, firms prosper when entrepreneurs can transform their firms into legal entities and thus contract more safely. Unfortunately, developing registries is harder than it may seem to observers, especially in developed countries, where registries are often taken for granted. As a result, policies in this area usually disappoint. nbsp;

"This is law and economics at its best. Benito Arruntilde;adarsquo;s brilliant book greatly advances our understanding of how law and legal institutions affect the possibilities for trade. Very unusually, it also demonstrates how the needs of transacting parties and the interests of those who serve them profoundly shape a wide range of institutions from contract enforcement to title registries."