



EJW

ECON JOURNAL WATCH
Scholarly Comments on
Academic Economics

Oliver E. Williamson [Ideological Profiles of the Economics Laureates]

Daniel B. Klein, Ryan Daza, and Hannah Mead
Econ Journal Watch 10(3), September 2013: 677-679

Abstract

Oliver E. Williamson is among the 71 individuals who were awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel between 1969 and 2012. This ideological profile is part of the project called “The Ideological Migration of the Economics Laureates,” which fills the [September 2013 issue of *Econ Journal Watch*](#).

Keywords

Classical liberalism, economists, Nobel Prize in economics, ideology, ideological migration, intellectual biography.

JEL classification

A11, A13, B2, B3

Link to this document

http://econjwatch.org/file_download/783/WilliamsonIPEL.pdf

Oliver E. Williamson

by Daniel B. Klein, Ryan Daza, and Hannah Mead⁷⁶

Oliver Williamson (1932–) was born and raised in Superior, Wisconsin. His parents were both high school teachers in a small rural town. Williamson’s father and grandfather joined to start a small business in real estate. Williamson reflected on his father:

My father was...outgoing and had an unusual gift with children. His own children were devoted to him. He was friends with and was regularly consulted by other youngsters. He was Superior’s Santa Claus—at the Kiwanis, the orphanage, for neighbourhood kids, his grandchildren, and on request—for about fifteen years. He was also active in civic affairs—the Chamber of Commerce, the hospital and was on the City Council for about twelve years, ten of them as its President. His generous spirit was combined with fiscal conservatism. His integrity was legendary. (Williamson 1986, xi-xii)

Williamson, attracted to math and science in high school, decided to become an engineer (Williamson 1986, xii). He enrolled in Ripon College’s joint program with MIT and earned his bachelor’s degree; while at MIT, Williamson was mentored by Kenneth Arrow (Williamson 2010). After working as an engineer, which gave him the “opportunity to learn about both big government and big business” and “got a good idea of how bureaucracy functioned” (Williamson 1986, xii), Williamson went to Stanford for graduate school, but decided to switch from business to economics (Williamson 2010), moving on to Carnegie-Mellon for his Ph.D. Upon earning his degree, Williamson became a faculty member at the University of California at Berkeley. He went on to the University of Pennsylvania and Yale University, then returned to Berkeley in the late 1980s and has stayed there since (Williamson 2010).

Focusing on the effect of formal and informal institutions on transaction costs, Williamson was a pioneer in what has become known as New Institutional Economics. In 2009, he won the Nobel Prize in Economics “for his analysis of economic governance, especially the boundaries of the firm,” sharing the prize with Elinor Ostrom. The Nobel committee described Williamson’s contribution as providing “a theory of why some economic transactions take place within firms and other similar transactions take place between firms, that is, in the marketplace.”

76. We thank Peter G. Klein for feedback on this profile.

ECON JOURNAL WATCH

Alex Tabarrok explains Williamson's thinking using the context of Adam Smith's pin factory:

Following Coase, Williamson asks different questions, 'Why a pin factory?' 'Why are the 18 steps to make a pin performed by a single firm rather than two or more?' 'Why are there many firms instead of one large firm?' 'Why does the pin factory not vertically integrate upwards to buy the steel factory and downwards to buy the retail hardware shop?'

Williamson's answers rest on the notions of bounded rationality, contract incompleteness, asset specificity and opportunism. Start at the end, asset specificity and opportunism. When a deal has been sealed the parties typically move from having many potential partners to being locked in. That's bad because it raises the possibility of opportunism—one party can exploit the other. But it's also good because when the lock-in is credible each party may be more willing to invest in assets which are extra-productive but specific to the relationship. (Tabarrok 2009)

Williamson is very reserved and reticent in policy judgments and politics. On the whole, we get the impression that he is not hostile to classical liberal, free-market ideas.

The economist Peter Klein, of the 'Austrian' school, says, "Williamson is no Austrian," but that Williamson "is sympathetic to Austrian themes (particularly the Hayekian understanding of tacit knowledge and market competition)." In the classroom, Williamson "encourages students to read the Austrians (particularly Hayek, whom he cites often)" (P. Klein 2009).

Having worked at the Antitrust Division of the U.S. Department of Justice, Williamson has applied his theories of the firm, specifically vertical integration, to issues of antitrust. Carl Shapiro describes Williamson's bearing at this juncture:

Williamson was skeptical of the conventional wisdom of the time, which presumed that the purpose and effect of many vertical practices was the enhancement of market power and the erection of entry barriers. Contrary to this view, which was widely adopted by antitrust lawyers and courts in the 1960s, Williamson could see rationales for various vertical practices that were based instead on economic efficiency. (Shapiro 2010, 138)

Williamson also saw that transaction costs apply not only to firms but also to governments. He notes that, prior to changes in thinking, "whereas markets were

subject to ‘failures’ for which corrective public policy measures were prescribed, there was no corresponding provision for failures in the public sector” (Williamson 2010).

References

- Klein, Peter G.** 2009. Williamson and the Austrians. *Mises Daily*, October 14. [Link](#)
- Shapiro, Carl.** 2010. A Tribute to Oliver Williamson: Antitrust Economics. *California Management Review* 52(2): 138-146. [Link](#)
- Tabarrok, Alex.** 2009. Oliver Williamson and the Pin Factory. *Marginal Revolution*, October 12. [Link](#)
- Williamson, Oliver.** 1986. *Economic Organization: Firms, Markets, and Policy Control*. New York: New York University Press.
- Williamson, Oliver.** 2010. Autobiography. In *Les Prix Nobel: The Nobel Prizes 2009*, ed. Karl Grandin. Stockholm: Nobel Foundation. [Link](#)