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Handbook of New Institutional Economics, Second Edition. By Claude Ménard & Mary M. Shirley (Eds.), Springer 2025

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Abstract. New Institutional Economics (NIE) is a dynamic field that studies the rules and norms, both formal institutions (like written contracts and laws) and informal institutions (like social norms), that people develop to reduce uncertainty and control their environment. Since the first edition in 2005, NIE has grown rapidly, expanding with new discoveries, topics, and methodologies both within and outside economics. This second edition has been extensively revised and expanded to reflect these rich developments, featuring 18 completely new chapters out of 41. The Handbook preserves the core diversity of NIE. The field is essentially structured around the distinction made by Douglas North: "institutions are the rules of the game in a society." It splits into two main branches: the "Northean" strand, which focuses on the fundamental rules of the institutional environment, and the "Williamsonian" strand, which concentrates on organizations and their governance structures. The book covers core NIE areas such as the Scope of Institutions, Political Institutions, Legal Institutions, Organizations and Governance, Contracts, Institutional Change, and Culture and Informal Institutions. It also includes a dedicated section on new methodologies, including case studies, machine learning, and econometrics. This comprehensive volume serves as an essential reference for researchers and students seeking to understand the emergence, function, and evolution of the institutional arrangements that shape the performance of the market economy.

Keywords. New Institutional Economics (NIE); Institutions; Transaction Costs; Property Rights; Governance.
JEL. B52; K10; L20; O10; P10.

Book Review

The *Handbook of New Institutional Economics, Second Edition*, edited by Claude Ménard and Mary M. Shirley, is a seminal and indispensable reference that offers a deep analysis of the current state of New Institutional Economics (NIE), one of the most dynamic and expanding branches of economic thought for over two decades. The publication of this massive volume as an open-access resource, made possible by a generous donation in honor of the Ronald Coase Institute, is a commendable step that ensures its reach to researchers globally. The book positions NIE not merely as a sub-discipline, but as a mature research program that provides a fundamental analytical framework for all social sciences. To integrate the vast body of knowledge accumulated since the first edition in 2005, this second edition has extensively revised and updated much of its content, featuring 18 entirely new chapters out of 41, demonstrating the field's rapid pace.

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The Core Axes and Vision of NIE

NIE departs from standard neoclassical assumptions by incorporating concepts like bounded rationality, incomplete information, and the resulting concept of transaction costs into the analysis. For New Institutionalists, the performance of a market economy depends critically on the formal and informal institutions and the organizational forms that facilitate private transactions and cooperative behavior. The book opens with classic contributions from the four Nobel laureates considered the founders of NIE: Douglass C. North, Ronald H. Coase, Oliver E. Williamson, and Elinor Ostrom.

- North's Vision: Douglass North's contribution defines institutions as "the rules of the game in a society," focusing on the potential of NIE to move from a static theory to a dynamic one. North emphasizes that understanding economic change requires grasping not only the rules but also people's beliefs and learning processes.
- The Core Analysis of Coase and Williamson: Ronald Coase's chapter, "The Institutional Structure of Production," refers to his groundbreaking work linking the existence of firms to the need to reduce transaction costs. Oliver Williamson adopted this "Great Idea" and systematized Transaction Cost Economics (TCE). Williamson's framework analyzes how activities are allocated among market, hierarchy (firm), or hybrid organizational forms, based on transaction characteristics such as asset specificity, uncertainty, and frequency.
- Ostrom's Analytical Framework: Elinor Ostrom's contribution highlights the interaction effects, arguing that institutional analysis cannot be done by holding other institutions constant, as the impact of one type of rule on incentives and behavior is not independent of others. Ostrom developed a comprehensive, interdisciplinary framework (Institutional Analysis and Development - IAD) that can be used to analyze different institutional arrangements.

The Institutional Divide: Northean and Williamsonian Strands

The Handbook organizes NIE across these fundamental divisions into eight parts:

I. Macro-Institutions: The Political and Legal Environment (The Northean Strand)

The Handbook's sections on Political Institutions (Part II) and Legal Institutions of the Market Economy (Part III) focus on the macro-level identified by North. Barry Weingast examines the fundamental dilemma between protecting property rights and the government's power to predate, showing how constitutional constraints and the separation of powers influence governmental incentives. This section reinforces the NIE approach, which views the government neither as benevolent nor as a Leviathan, but focuses instead on its incentives.

- Political Institutions: Gary Cox's chapter on electoral institutions analyzes how different electoral rules affect political competition, voter coordination, and mobilization, which ultimately determine policy preferences. John Carey and Juan Pablo Micozzi examine hybrid arrangements between presidential and parliamentary systems, demonstrating how these structures affect the survival risk of fragile democracies.

- Legal Institutions: Legal arrangements play a central role in reducing transaction costs and fostering the development of financial systems. Thorsten Beck and Ross Levine review the literature showing that strong legal systems (which protect private property rights and enforce contracts) make savers more willing to finance firms, and financial markets allocate capital more efficiently. Gillian K. Hadfield and Alexander Bernier address the complex structure of legal institutions that enforce contractual commitments in a globalized world.

II. Micro-Institutions: Organizations and Contracts (The Williamsonian Strand)

This part of the book focuses on topics derived from Williamson's Transaction Cost Economics. Organizations and Governance (Part IV) and Contracts (Part V) constitute the segment of NIE that examines the boundaries and internal workings of firms.

- Organizations and Governance: The updated chapters on vertical integration by Paul L. Joskow and the 'Make or Buy' decision by Peter G. Klein and João Fernando Rossi Mazzoni demonstrate how transaction characteristics determine organizational boundaries. Claude Ménard's chapter on hybrid structures addresses new challenges in the economics of organization. Furthermore, the newly added chapter on "Governance and Regulation of Platforms" by Martin Peitz proves the applicability of NIE tools in the digitalizing economy.
- Contracts: This section is updated with new research, particularly on relational contracts. Ricard Gil and Giorgio Zanarone examine the theory and empirical evidence of relational contracts, showing how such agreements, though not fully enforceable by courts, function through the complementary support of formal contracts. Jean Beuve and Stéphane Saussier's analysis of public procurement contracts analytically reveals how public contracts differ from private ones due to the intervention of third parties, such as political rivals and interest groups, in the contracting process.

III. Cross-Cutting and New Topics: Change, Culture, and Methodology

The Handbook pushes the boundaries of the field by focusing on the most significant areas of growth in NIE research in recent times.

- Institutional Change (Part VI): Desiree Desierto and Mark Koyama examine different approaches to institutional change (functionalist and conflict/cooperation-focused approaches). The authors argue for the necessity of detailed historical and institutional knowledge to understand institutional change, illustrating this requirement with important case studies like serfdom and the Magna Carta. Avner Greif presents a broad framework that explains the dynamics of market-supporting institutions through the interaction between contract-enforcement institutions and coercion-constraining institutions.
- Culture and Informal Institutions (Part VII - New Section): While NIE initially focused on formal institutions, recent work has given increasing importance to the role of informal institutions such as social norms and culture. Joel Mokyr's chapter, which addresses the question of "Culture or Institutions in the Great Enrichment," is central to this new focus. Additionally, Philip Keefer's chapter on "Trust and the New Institutional

Economics" analyzes the fundamental paradox of institutions solving problems of distrust, yet distrust undermining the effectiveness of institutions themselves. This section deepens NIE's interest in cultural origins with new chapters examining topics like Religion, Corruption, and China's modern economic development.

- Methodology (Part VIII): NIE's pursuit of new questions necessitates new methodologies. This new section includes advanced empirical techniques, such as Peter Grajzl and Peter Murrell's combination of machine learning and econometrics to study the historical roots of institutions. Omar Al-Ubaydli, Faith Fatchen, and John List discuss the potential contribution and challenges of field experiments to the NIE toolkit. These chapters underscore the field's commitment to empirical rigor.

Analytical Assessment and Conclusion

The Handbook of New Institutional Economics, Second Edition strongly demonstrates that NIE is not merely a theoretical framework but an interdisciplinary research program integrating concepts and methodologies from political science, sociology, law, and anthropology.

The book's most significant analytical contribution is its showcasing of NIE's diversity and its successful treatment of the core challenge of institutional analysis: the non-independence of one rule's effect from others. For instance, the chapter on political institutions shows how the effects of electoral rules interact with constitutional structures, while the relational contracts chapter analyzes how formal law (the court system) integrates with informal (trust-based) agreements.

However, despite this comprehensive approach, some fundamental issues are also addressed in the book. For example, as North noted, the continued lack of good models to explain political systems in developing countries suggests that the interface between economics and politics remains in a "primitive state." The book presents a robust research agenda to fill these gaps.

In conclusion, this second edition, edited by Ménard and Shirley, is a comprehensive documentation of the maturity and dynamism achieved by the NIE field. It synthesizes the essential lessons from the four founding pillars of the theory (North, Coase, Williamson, Ostrom) with the most current topics, including organizational governance, contract design, political competition, institutional change, and cultural norms. The work is an indispensable reference for both young researchers seeking to grasp the core concepts of NIE and seasoned academics looking to track the latest developments in the field. Its open-access availability further strengthens its contribution to the global dissemination of this vital body of knowledge.