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PHD THESIS SUMMARY: Evolutionary foundations of Coasean economics: transforming new institutional economics into evolutionary economics.

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In recent years, interest in the role of institutions in economic society has increased and economists have been forced to incorporate them into economic analysis. The institutional perspective has not only brought new challenges for economics, but also led to a re-evaluation, redefinition, and transformation of the discipline itself. It would not be an overstatement to say that the method by which we deal with and formalize institutions determines the boundaries among the various schools of economic thought, and between economics and related disciplines.

New institutional economics (hereafter NIE), is one of the fields that have fluctuated between such boundaries. The work of the official founder of NIE, Ronald Coase, is an appropriate starting point for considering the characteristics of the field and its prospective development. This historical and methodological study explores the development of Coase's economic thought from the 1930s through the 1970s and into recent times. I show that Coase's theoretical orientation transformed around the 1970s from a neoclassical to an anti-neoclassical stance; a fact that points to the evolutionary foundations of Coasean economics.

Chapter 1 begins with the general relationship among neoclassical, new institutional, and Coasean economics. Invoking Imre Lakatos's methodology of scientific research programmes, NIE is distinguished from neoclassical economics: though they share a theoretical core, the former is positioned as an expansion of neoclassical economics. Then Coase's two facets in relation to NIE are provisionally confirmed: the one as a founder of NIE and the other as a critic of mainstream economics. That is to say, whereas Coase's arguments in "The nature of the firm" (1937) and "The problem of social cost" (1960) had some elements that could be used to defend and expand the neoclassical approach, after the 1970s he dissented from mainstream economics. I therefore call the latter "Coasean economics", as distinguished from a mere expansion of neoclassical economics.

Chapter 2 examines the historical development of Coase's institutional economics in a phased manner. At the London School of Economics (LSE) during the 1930s, under the influence of his supervisor, Arnold Plant, and of LSE's opportunity cost theory, Coase wrote two interrelated articles: "The nature of the firm" (1937) and "Business organization and the accountant" (1938). Examining their interrelationship confirms that his theories of the firm and of opportunity cost were inseparably related. That had implications later in the 1970s, when Coase's view of economic agents and institutions diverged from the neoclassical theoretical core and he objected to the concept of rational maximizing agents. Because of his realist methodology (Coase 1977; and 1988a), Coase interpreted institutional costs (transaction or organizing costs) as real costs confronting relevant agents, and his main concern was how agents' recognition of such costs leads to institutional structuring. Hence, Coase views economic institutions in terms of interrelated institutional costs recognized by economic agents through the price mechanism and accounting systems (Coase 1988b; 1990; and 1992).

Chapter 3 contrasts Oliver Williamson's view of economic agents and methodological attitudes with that of Coase. I begin with Williamson's criticism of Coase's theory of the firm, from which the features of Williamson's transaction cost economics arose. Examining Williamson's calculative view of economic agents based on opportunism and bounded rationality, I demonstrate that his strategy is operationalist in seeking falsifiable hypotheses and instrumentalist in emphasizing predictions based on unrealistic assumptions. Williamson regarded transaction costs as the economic counterpart of friction in physical systems and used them merely as an analytical instrument for economists to identify where problems (frictions) reside. (He later shifted his analytical focus to agents' opportunistic behaviour in relation to the attributes of a transaction.) The source of such instrumentalism (and of neoclassical evolutionary arguments) can be traced back through Milton Friedman's methodology to Armen Alchian's evolutionary theory (Alchian 1950), where we can find an "outward-looking" type of evolutionary argument that concentrates on order formation outside agents by economic natural selection.

The final chapter first reviews Adam Smith's "invisible hand" and Friedrich Hayek's "spontaneous order" arguments as typical examples of evolutionary theories in the social sciences. In contrast, on the surface, Coase's institutional economics seems to be a design theory rather than an evolutionary theory in that he regards institutions as the intentional constructs of economic agents. Indeed, in common with Edith Penrose (1952), Coase warned against the use of biological analogies in economics. Nevertheless, I demonstrate that, although Coase never advocated "evolutionary economics" nor is he regarded as an "evolutionary economist", his institutional economics has two evolutionary features. One arises from his interest in the human nature of economic agents—including rule learning and expectations—as the product of evolution (Coase 1978), and although he did not follow through on this interest, it can lead to a long-term analysis of the relationship between human evolution and institutions. The second feature appears in his theory of alternative institutional structures in relation to costs. Although not in a mathematically formalized manner, Coase actually aimed for a dynamic analysis of interrelated changes in institutional structures (Coase 1998).

Both features can be regarded as an "inward-looking" type of evolutionary argument that delves into the internal structure of agents and institutions, in contrast to Alchian's "outward-looking" argument based on economic natural selection. To fulfil the evolutionary framework of Coasean economics, both these features are required. Its implication is that, in the real world of social institutions, economic policy planning must invoke not a one-time, ready-made design, but trial-and-error processes without any fixed goals.

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