INSTITUTIONS AND THE PATH TO THE MODERN ECONOMY: LESSONS FROM MEDIEVAL TRADE, Avner Greif, 2006, Cambridge University Press, New York, 503 p.

Review*

In his review of Avner Greif's book *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade* economic historian Gregory Clark (2007) wrote that the book is "ambitious, complex, long, and difficult. It will cause much work and trouble to reviewers. It will vex students for generations to come". Furthermore, Clark thought the book was at times an "exquisite torture". It is probably not very recommendable to start your own review with quoting somebody else's review of the same book, but this author was relieved to see that someone shares her opinion. Why?

The book comes recommended by three Nobel Prize wining economists who describe it as "a seminal work in economics and history" that "should be read by all social scientists" (George Akerlof), a "major landmark on the road to increasing our understanding of institutions and the role they play in economic performance" (Douglass North), a book that will lead to a revolution in the way economic history is studied (Kenneth Arrow). Probably this has contributed to the relatively large number, taking into account that the book was published only two years ago, of economists, historians and sociologists who decided to read the book and write about it (Aydinonat (2006), Clark (2007), Dameron (2008), Edwards and Ogilvie (2008), Faille (2007), Fligstein (2007), Heydemann (2008), Hoffman (2006), Kiser (2007), Persson (2007), Reed (2007), Reyerson (2006), Stuard (2007)). The fact that the book has caused so much interest and attracted so much praise should be a recommendation of its own, but this reviewer is still troubled with its content.

First of all, the book is not very well written; it brings memories of student textbooks that were particularly hated because every sentence looked like a definition of something that students were supposed to memorize. Furthermore, those sentences are crammed with ambiguous concepts. For example, Greif defines an institution as a "system of rules, beliefs, norms, and organizations that together generate a regularity of (social) behavior" (p. 30). This is very general and makes it seem that almost anything could be defined as an institution. The fact that the author spends twenty four pages on a discussion of how we

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should define the term institution does not make it any clearer. Just the opposite. Even though it is obvious throughout the book that Greif is a brilliant scholar, his writing makes it hard to appreciate his knowledge and analytical skills. Maybe this should not be taken as a big minus (probably it depends on reader's preferences) because Greif is trying to tackle the extremely difficult question of why some countries are rich and the others poor. Most of the time it actually feels as if the author were trying to understand how the whole world functions - if you want to do it in five hundred pages, you are probably bound to give your readers a headache because immense concentration is required. Still, probably he could have tried harder to convey his ideas in a simpler way.

The book is divided in five sections: Preliminaries, Institutions as Systems in Equilibria, Institutional Dynamics as a Historical Process, The Empirical Method of Comparative and Historical Institutional Analysis, and Concluding Comments. These sections are then divided in twelve chapters and there are also three appendixes. As the author states, the book grew out of an attempt to acquire a better understanding of the causal factors underpinning economic and political outcomes during the late medieval period (circa 1050 to 1350) and their implications on subsequent development. In that period the Muslim Mediterranean world was more advanced technologically, economically, and scientifically than European Latin world. However, in the following centuries the Europeans became better off in the long run. Greif explains this divergence with institutional differences. Comparing two groups of merchants, one from the Muslim world and the other from the European world, he emphasizes that "cultural beliefs influence the selection of institutions, and direct the process of institutional innovations and responses to new circumstances". The European culture of individualism, versus collectivism, triggered the development of interest-based, self-governed corporate forms of organization (i.e. representative institutions in the state, guilds in the economy) which facilitated risk-taking, anonymous exchange, and technological progress.

Greif especially stresses that institutions are not just the politically determined rules of the economic game in any society; the real institutions are the combination of formal and informal rules (actual social practices). Institutions thus include legal rules and people's responses to those rules. This is in contrast to how institutions are usually defined today in economic journals. Different institutions (solutions to problems) arise because of the different cultures, norms, and organized groups with different amounts of power. Furthermore, the same formal institutions work diversely in different cultural contexts. What matters is what makes institutions work; Greif focuses on institutions that are stable because agents find it in their own interest to follow the rules. In a way, his approach comes as a critique to numerous empirical papers where institutional quality is compared only through formal rules. In general, Greif shows reluctance for comparative empirical research although it is not clear why his case studies that focus on specific historical examples should be trusted more.

The innovation Greif makes is that he is applying economic and game theory to historical examples (mostly Maghribi traders, as part of the Muslim world, and Italian city-states, particularly Genoa) in order not only to state that institutions are closely correlated with economic performance, but also to study how institutions evolve and change in general. Greif applies game theory but the final result is one that we could figure out intuitively: people behave in the way they do because their actions seem to them the best available, given the existing constraints of various kinds. The more complicated the analysis gets, the more the reader finds out that there are uncountable number of possible institutional equlibria, which basically rules out prediction. Real situations soon become too complicated to model successfully using game theory. Only by understanding particular historical details and cultural backgrounds, which are outside the scope of the game, can Greif explain why one equilibrium emerges out of many possibilities. So, how useful is game theory in this context apart from its capacity to check the logical consistency of historical narratives? It also seems that a more appropriate framework for studying the origin of institutions would be evolutionary and not standard game theory, which is appropriate for studying the self-reinforcing nature of institutions.

Another problem is that it seems hardly likely that one can make the right conclusions about the entire path of the economy based on medieval experience for this is at odds with Greif's constant stress on the importance of specific historical contexts. In addition, he is sometimes very exclusive in his historical interpretations. For example, Greif claims that institutional innovation enabled commercial revolution through the long distance trade that transformed the medieval economy, and he neglects the possible effects of demography and technological innovation in agriculture or any other noninstitutional factors. Furthermore, long distance trade existed prior to that period and the author also ignores the quantitative aspects of his story; how much did trade actually contribute to the overall efficiency of preindustrial societies? Greif's book does not include a single table with historical figures. He also neglects the issue of causality: did institutions create the trade or did trade possibilities create incentives for the emergence of its own institutions? Edwards and Ogilvie (2008) even disputed the empirical basis for Greif's view that multilateral reputation mechanism mitigated agency problems among the eleventh-century Maghribi traders. They assert that the relations among merchants and agents were law-based. Greif (2008) soon wrote a reply to their paper, claiming that their assertion was based on "unrepresentative and irrelevant examples, an inaccurate description of the literature, and a consistent misreading of the few sources they consulted".

Does the book offer policy recommendations? Nothing that we do not already know. It is not enough to have laws; more important is to make them work. How? That depends on the specific cultural and historical context. There are no universal recommendations. Furthermore, Greif insists on path-dependence, which does not provide many reasons for optimism regarding institutional changes. Will this book really become a classic as Hoffman (2006) believes? Will it be "a milestone in the history of institutional economics" (Aydinonat, 2006)? It is definitely the cutting edge when it comes to institutions. Economic historians might love the book because Greif stresses that in order to understand institutions you have to know the specific historical context. It seems that some sociologists already love it; Fligstein (2007) wrote that Greif is probably the only economist who actually reads sociology, tries to understand it, cites it, and takes sociological ideas seriously in his analysis. Greif tries to develop a more sociological and historical version of rational choice theory. Institutional economists might be happy about this book because it incorporates institutions into economics by using game theory, which finally makes institutional economics more mainstream. However, there is an impression that Greif did not develop a new theory of institutions; he has just showed many obstacles to the science of institutions. The book should be read as being mostly about methodology.

If you are a beginner in institutional economics, do not start with this book. It might scare you away. If you already know a bit more about institutions, it might make you feel uneasy because you cannot but think how difficult it will be to get any further understanding of institutions. At one point every macroeconomist probably wishes she was actually a physicist from Russia with interest in economics. What should an institutional economist wish she was? It is an extremely interdisciplinary area and it will be interesting to follow in which direction it will develop. Greif should be congratulated because of his contribution. If nothing else, he has at least tried to figure out something that is very complex.

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