

Williamson O E. *Markets and hierarchies: analysis and antitrust implications*.
New York: Free Press, 1975. 286 p.
[University of Pennsylvania, Philadelphia, PA]

This book examines alternative forms of economic organization from a comparative institutional point of view in which transaction cost economizing is emphasized. It develops and applies a combined economics and organization theory perspective. [The *SSCI*® indicates that this book has been cited in over 905 publications.]

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Markets and Hierarchies is the evolutionary product of (1) my interdisciplinary training at Carnegie-Mellon University, (2) the year that I spent as special economic assistant to the head of the Antitrust Division at the US Department of Justice, (3) my efforts to unpack the sources of market failure while teaching a course on Theories of Institutions at the University of Pennsylvania, and (4) discussing problems of economic organization with my students and colleagues.

I was a graduate student in economics at Carnegie-Mellon (then Carnegie-Tech) from 1960 to 1963. There was widespread agreement among the faculty that the study of organization ought to inform economics and the reverse. I was persuaded of the merits of this joiner and adopted it as a general research strategy.

I spent the 1966-1967 academic year in Washington with the Antitrust Division of the US Department of Justice. I worked on a large number of cases and developed a keener sense of the strengths and limitations of prevailing antitrust doctrine. I was especially dismayed by the inadequacy of the theory that informed antitrust enforcement in the areas of vertical integration and vertical market restrictions.

The opportunity to join economics and organization theory in a more concerted way

was presented to me when I was asked to teach a course in organization theory (which I offered under the title *Theories of Institutions*) in 1969 while I was a member of the faculty at the University of Pennsylvania. Much of the literature that the students and I worked through dealt with market failures. We continuously attempted to address these issues in a comparative institutional way (whence the only policy-relevant failures are those for which efficacious remedies can be fashioned) and furthermore attempted to trace all failures to their microanalytic origins.

This effort required that we be explicit about our choice of behavioral assumptions and also led us to examine the microanalytic attributes of transactions. My first effort to pull this approach together was in an article published in the *American Economic Review* in 1971.¹ I recall telling a colleague at the time that I had the feeling of being the first person in the world to understand vertical integration.

It was clear to me that the contractual issues addressed in this paper recurred, with variation, elsewhere. One application was to the study of labor markets. Another was to vertical market restrictions. Regulation was a third. Many disparate phenomena seemed to coalesce.

Markets and Hierarchies progressively took shape and was published in 1975 by the Free Press after the Brookings Institution, which had rights of first refusal, declined. The Free Press projected small sales and planned to discontinue production after the first run. The book was out of print for most of a year. I chuckled when I found myself sitting behind a student at the Stanford Business School when we both attended a seminar in the fall of 1977: she and others in her class had photocopied the entire book. I was convinced that the book would make it. The Free Press thereafter reprinted the book several times and eventually came out with a paperback edition.

Markets and Hierarchies was very hard to write (and it is very hard to read). It has nevertheless helped to develop a new perspective—which I have subsequently referred to as Transaction Cost Economics—in which issues of law, economics, and organization are joined. The applications of this combined perspective are endless. For a recent review of this approach see reference 2.

1. Williamson O E. The vertical integration of production: market failure considerations. *Amer. Econ. Rev.* 61:112-23, 1971. (Cited 115 times.)
2. Swedberg R. Economic sociology: past and present. Part II: towards a new economic sociology, 1960s—?. *Curr. Sociol.* 35:63-154, 1987.