BOOK REVIEW

Douglas W. Allen: The institutional revolution: measurement & the economic emergence of the modern world

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In *The Institutional Revolution*, Douglas W. Allen makes an important contribution to our understanding of social and political institutions. In addition to the way in which he engages his fellow economists, he serves as something of an ambassador from the tribe of the Econ to our friends in history, political science, and sociology. He does what I think economists do best: he combines a few very simple insights—scarcity, choice, and transaction costs—into an explanation of a lot of historical phenomena that might, at first glance, appear impossible to understand. It's a very readable and fascinating account of a lot of social practices that can be explained as responses to transaction costs.

One of the takeaways from Allen's book is that a bit of humility might be in order: our ancestors weren't as irrational as we sometimes make them out to be. Many historical institutions either offend our moral sensibilities or our modern rationality. Institutions and practices like dueling, for example, would not pass judgment before the bar of reason in modern times. What Allen does, however, is explain why practices we might today consider bizarre, primitive, or even barbaric emerged and persisted due to the constraints people faced at the time.

The subtitle's first word is "measurement," and this is central to Allen's project. When we think of "institutions," we generally think of them as rules and constraints. Allen points out how institutions developed in light of transaction costs and monitoring costs, particularly the costs of measurement. Dueling, for example, wasn't just the undertaking of immature, self-styled macho men. It was a screening device that helped solidify and maintain the aristocracy given that monitoring was costly.

The Institutional Revolution is also comfort food for scholars raised on Ronald Coase, Douglass North, and the importance of transaction costs for understanding the world. From our modern perspective, it is easy to look back at the historical institutions of aristocracy and conclude that they were "irrational." However, Allen cautions humility by pointing out that the way we should analyze institutions that persisted in a relatively competitive environment

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is to ask which problems they solve. In example after example, he shows that seemingly irrational military tactics and practices like the aforementioned aristocratic dueling, as well as allowing people to purchase military offices, served important transaction cost-reducing purposes. Contrary to the knee-jerk reaction that these practices were (are) primitive and irrational, Allen demonstrates how such practices were rational responses to the context-specific incentives people faced.

Critics will likely charge Allen with technological determinism, and indeed, I can almost hear a Marxist discussing how social relations are conditioned by the material forces of production. Rather than engines of exploitation, however, the institutions that emerge are responses to measurement and contracting problems that can be solved. It would be a mistake, I think, to infer from this a la Becker, Stigler, and early North that whatever institutions emerge are "efficient;" however, it provides a tractable explanation for why these institutions emerge.

Readers will also come away from the book with a new perspective on how social institutions, rules, and mores are changing in light of 21st century communications technology. Almost everything is measurable, and data are getting cheaper and more abundant with every passing day. Which social conventions will be discarded as the problem they solve becomes cheaper to solve using direct measurement? One interesting extension and application of Allen's work would consider the conclusions of John Murray's 2007 book, *The Origins of American Health Insurance*, in light of Allen's larger story. Murray points out that industrial sickness funds died out in the United States when advances in actuarial science gave an advantage to larger insurance companies. His explanation is consistent with Allen's larger story about institutions.

Allen accomplishes a lot in a relatively short space (only 227 pages of text), and he is very forthright in his introduction about the weaknesses of his project and the limitations of his expertise. There are a few things I had hoped to see. Allen does not mention Noel Johnson's work on French tax farming, for example, and his discussion of the organization of the British Navy cried out for a comparative discussion in light of Peter Leeson's work on the industrial organization and constitutional political economy of pirates. His discussion of the emergence of police services could have been enriched by engagement with Daniel D'Amico's work on prisons and Fred McChesney's research on the emergence of government fire services in the United States as opportunities for political patronage. I also would have liked to see a more detailed discussion of the (social) efficiency properties of aristocratic contempt for bourgeois, commercial undertakings in light of Deirdre McCloskey's ongoing project on the Bourgeois Era.

These are minor weaknesses in an otherwise excellent, fascinating, and efficiently-written book, and they create opportunities for enterprising and entrepreneurial scholars to fill in gaps. This is a book that should have a place on syllabi for courses in institutions, organization, and economic history alongside recent works like Deirdre McCloskey's *Bourgeois Dignity* and Joel Mokyr's *The Enlightened Economy*. When I finished, the margins of my copy were littered with comments, question marks, asterisks, and assorted squiggles. In short, *The Institutional Revolution* is no consumption good. It's an input into my scholarly agenda. I suspect that readers interested in the economics of institutions will draw the same conclusion.

