
Oliver E. Williamson: A Personal Appreciation

Scott E. Masten

By virtually any measure, Oliver Williamson has been one of the most influential scholars in the economics of organization and institutions. He is widely credited (including by Ronald Coase himself) with rescuing transaction cost economics from its tautological origins by showing how the advantages and liabilities of alternative organizational arrangements could be related to features of transactions in a way that allowed refutable hypotheses to be generated and tested. In doing so, Williamson opened the door to the systematic investigation of a host of organizational problems that had previously resisted economic analysis. Though firmly rooted in economics, Williamson's scholarship drew on and had a tremendous influence on law, political science, and organization theory. Indeed, there is hardly a niche in the social sciences that has not been affected in some way by Williamson's writings.

It is difficult to do justice in a short space to the depth or breadth of Williamson's contributions. Fortunately for me, I have had previous occasions to elaborate on Williamson's insights and contributions at some length.¹ What I would like to do here is try to convey some of the personal and professional qualities of Oliver Williamson drawn from recollections of my relationship with him over the years.

¹ Versions of my attempts to describe Oliver's contributions have appeared in several outlets:

"Oliver E. Williamson," in Warren J. Samuels (ed.), *American Economists of the Late 20th Century*. Aldershot, UK: Edward Elgar Publishing, 1996, pp.384-406. (reprinted as "About Oliver E. Williamson," in Glenn R. Carroll and David J. Teece, eds., *Firms, Markets, and Hierarchies: The Transaction Cost Economics Perspective*. New York: Oxford University Press. 1999. 37-59),

"Oliver E. Williamson," in Palgrave Macmillan (eds) *The New Palgrave Dictionary of Economics*. Palgrave Macmillan, London. 2010. pp. 14608-17. Palgrave Macmillan. 2010.

"Williamson, Oliver E. (born 1932)," in Mie Augier and David J. Teece (eds), *The Palgrave Encyclopedia of Strategic Management*. Palgrave Macmillan, London. 2018, pp. 1823-31.

"Oliver E. Williamson," laudation in *Production and Operations Management*, 18, Nov.-Dec., 2009, pp. vii-viii.

My initial perceptions of Oliver Williamson's many qualities — his judgment, perceptiveness and generosity, in particular — were formed as his student, advisee, and research assistant. Others, such as his patience and sense of humor, I came to appreciate fully only over time.

I first set eyes on Oliver Williamson on September 6, 1979, in room 395 of McNeil Hall, a seminar room in the University of Pennsylvania's economics department. I was a third-year graduate student, and it was the first session of Williamson's graduate Industrial Organization course. My attraction to Williamson's work, and my motivation for taking his course, grew out of an interest in markets and hierarchies at the level of economic systems rather than of the firm: My principal field in graduate school to that point had been Comparative Economic Planning, although I also had an interest in law and economics, which I had studied as an undergraduate but which Penn did not at the time offer as a course of study. I had read *Markets and Hierarchies* on my own the previous year and had perceived in it (though rudimentarily on my part) a conceptual framework that seemed to organize and unify concerns running throughout both the comparative systems and law and economics literatures with which I was familiar.

The industrial organization in Williamson's course was not the IO that I had been exposed to (and was unexcited by) as an undergraduate. Together with the concurrently run Transaction Cost Economics Workshop (nee the IO Workshop, renamed under terms of a Sloan Foundation grant, I believe), Williamson's course was far and away the most influential experience of my academic life. Even the traditional topics of IO — oligopoly pricing, entry deterrence, regulation — were revealed in a new light. But it was the treatment of the firm and vertical relations, and particularly Williamson's newest article, "Transaction Cost Economics: The Governance of Contractual Relations" (1979), which the class read in galley form, that really grabbed me. Here was an approach that integrated the subjects of (and my interests in) economics, organization and law. I dropped Comparative Economic Planning as my primary field (fortuitously, it turns out, in light of the subsequent collapse of the Soviet Union and, with it, the field itself) and turned my attention to this new, emerging subject matter.

The influence of Williamson and his framework on me was such that, over the course of the semester, I found myself taking increasingly more provocative positions with my classmates. One such incident — illustrating a lesson on the usefulness of tautologies that I learned from Williamson — occurred at the weekly post-workshop dinners we doctoral students held to discuss the workshop presentations among ourselves. After one particularly stimulating seminar, I felt emboldened to make the claim that "all interesting issues in economics turn ultimately on transaction costs." Taking the dare, my dinner companions (who included Russ Cooper, Tom Ross, and Mike Waldman — Penn produced some outstanding economists during that time) offered up a series of challenges, the first few of which I fended off successfully. Finally, Mike Waldman, thinking he finally had me

stumped, said, “How about comparative advantage?,” to which I could only give the face-saving answer, “*That* is not an interesting issue.”²

My first direct personal experience with Oliver’s foresight and good judgment on matters of research was a rather painful one. In Penn’s department, as in most economics departments, formal theory rested at the top of the academic pecking order. Consistent with this, the most often-heard criticism of Williamson’s framework while I was in graduate school was its lack of formalization. Inspired partly by some then-recent work on modeling damages for contract breach, I decided to make the modeling of Williamson’s theory of vertical integration the subject of my thesis. After several months of work, I produced a model that I thought captured the essential features of the Williamson framework. Proud of myself for a job well done, I sent Williamson the manuscript, organized in chapters, and arranged a meeting to discuss his reaction, expecting to schedule a thesis defense date after, perhaps, some minor revisions. What I heard instead was “This is fine but how are you going to test it?”

WHAT? Test it? Everyone knew that you could not test such a theory! There were no data available on firms’ procurement decisions much less on explanatory factors such as “asset specificity,” “complexity,” and “frequency of transactions.” Impossible, I told him. His response: “Then what else do you propose to do to complete your dissertation?”

I spent the next two weeks in my apartment stewing. If I hadn’t before, I now fully internalized the meaning of “relationship-specific investment” and “ex post opportunism.” Finally, swallowing my pride (particularly tender after two weeks of stewing), I made another appointment with Williamson. He provided me with a letter of introduction to the General Manager of General Electric’s Reentry Systems Division — which happened to be located in West Philadelphia just off the Penn campus — where GE produced the reentry vehicles for the Minuteman ballistic missile under contract with the U.S. Air Force. Over the course of several visits, I received tours of the production facilities, introductory lessons from the procurement staff on the intricacies of Defense Acquisition Regulations, and a set of completed surveys on their make-or-buy program, including characteristics of components. I entered the data (on punchcards!) and, lo and behold, the theory worked. Time passed, my formalization of the “make-or-buy” decision languished, and the empirical analysis became my best-known work. What I regarded as opportunism at the time turned out to be the best advice I ever received.

The reception given transaction cost analyses in those relatively early years was not always warm, and Williamson warned me to expect some resistance. (Twenty percent will already accept the argument; twenty percent will be certain that it is nonsense; the sixty percent in the middle is who you need to concentrate on convincing, I remember Williamson

²Here is Mike Waldman’s version from a June 21, 2000, e-mail to me:

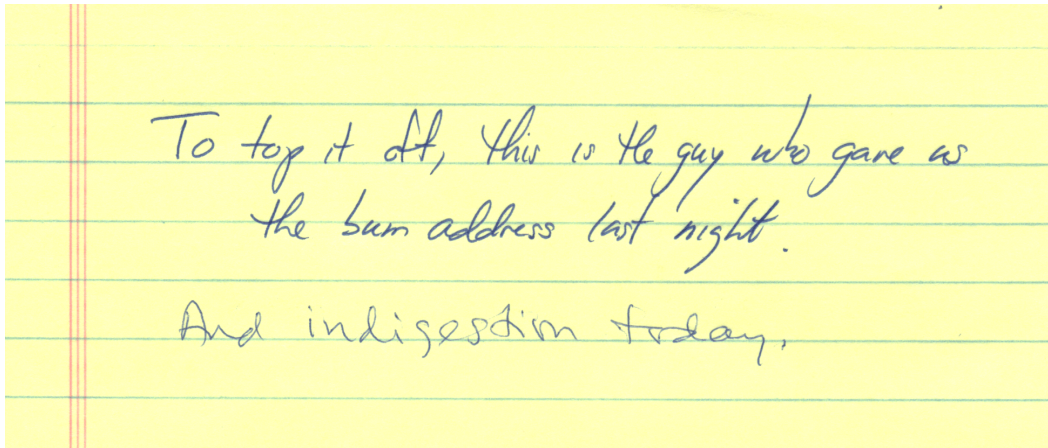
This is how I remember the exchange. You challenged me and Tom [Ross] to come up with some “interesting” issue in economics that is not fundamentally a transactions cost topic. We suggested a number of topics each of which you successfully argued was a transactions cost topic. I then suggested the topic of comparative advantage at which point you hesitated and then replied that comparative advantage is not interesting. I am still not sure who “won” the argument.

telling me before I went out on the job market (although I may be off on the percentages).) The Williamsonian framework was still fairly new and involved a significant departure from orthodox assumptions and an investment in some new terminology. And let's face it, Oliver's syntax didn't necessarily make it easier. But if others sometimes struggled with Williamson's style, it could very well have put a premature end to my academic career. As many of you may know, Oliver spent time most summers in his much-beloved, native Wisconsin. I had agreed to house-sit one such summer (1981) and was invited to dinner at the Williamsons' suburban-Philadelphia home to become acquainted with the house and review my responsibilities. Things went reasonably well until, responding to some minor infraction of table manners by one of the twins, Dean and Oliver (who were then in their early teens), Williamson reprimanded the offending offspring — using the same inimitable (actually, that's not true; a number of us could do pretty darn good Williamson impersonations back in those days) manner he would use expounding on, say, the adaptive properties of hierarchical governance. On hearing this, I nearly spewed my dinner across the table. Needless to say, this attracted some attention from the family. I tried my best to apologize, explaining my surprise in hearing Professor Williamson speak to his children the same way he spoke in class. Seeing my embarrassment and taking pity on me, Dolores Williamson offered a reassuring remark, but it was no use. My career flashed before my eyes.

Although I experienced no immediate repercussions — Williamson kept me on as his research assistant for another year, supervised my thesis to the end, and supported my job search — I nevertheless worried about this incident for years afterwards. Only as my career progressed without obvious detriment did I gradually conclude that maybe my dinner indecorum had not left as big an impression on Williamson as it had on me. Then, out of the blue, I received a nice, handwritten Christmas card from Dolores relating how, while visiting family in New England, one of Olly's young nieces observed, "Uncle Olly talks funny," to which Dolores appended the comment "*and I thought of you.*" The fact that I had not been immediately and permanently exiled back to the Comparative Economic Planning gulag following that dinner is a sure sign of Oliver's kindness and forgiving spirit.

Since those days, I had many other opportunities to observe Williamson's grace, patience and wit. On one occasion, a conference in Europe, I saw Williamson sit patiently while a pair of panel members debated whether his writings revealed him to be an "Aristotelean essentialist" or an "accidental historical rhetorician." (I forget the conclusion.) Later in the conference, two professors argued over what Williamson meant by a certain passage in *Markets and Hierarchies* — with Oliver sitting in the audience not three meters (it was Europe) in front of them. (A less patient Keith Crocker leaned over to me part way through the exchange and asked, "For crying out loud, why don't they just ask him?") But even Oliver has his limits. Having received faulty directions to a restaurant from a local conference participant, a small group of us ended up lost in a decidedly seedy part of the city. The next day at the conference, that same individual gave a presentation that was as inaccurate about transaction cost economics as his dinner advice had been the night before. I passed a note forward to Oliver informing him that this was the fellow who had given us

“the bum address” the previous evening. Oliver passed the note back with his response (see Exhibit A), triggering an interruption by (yet another occasion of) inappropriate laughter.

A photograph of a handwritten note on a yellow sticky note with green horizontal lines. The text is written in blue ink in a cursive script. The note is placed on a white background with faint horizontal lines.

To top it off, this is the guy who gave us
the bum address last night.
And indigestion today.

Exhibit A: “To top it off, this is the guy who gave us the bum address last night.” “And indigestion today.”

Finally, no one accomplishes what Oliver Williamson has without taking some risks and without certain amount of luck. I can attest that Oliver was a risk taker. Being unfamiliar with the relevant statutes of limitations and standards of proof, I will not describe the evidence in detail other than to say that it involved Paul Joskow, Keith Crocker, and myself, international borders, and two rental cars with Oliver and Dolores alternately at the wheel of one. As for luck, no more evidence is needed than Oliver’s good fortune in having met and married Dolores, who was simply the nicest person one could ever hope to know.

Oliver Williamson received many awards and much-deserved recognition for his scholarly work. In addition to our gratitude for his professional contributions, many of us owe him personal debts for his friendship, wit, and generosity of spirit.