Die institutionelle Revolution: Eine Einführung in die deutsche Wirtschaftsgeschichte des 19. und frühen 20. Jahrhunderts [The institutional revolution: An introduction to German economic history in the nineteenth and early twentieth centuries]. *By Clemens Wischermann and Anne Nieberding.* Stuttgart: Franz Steiner Verlag, 2004. 309 pp. Figures, bibliography, notes. Paper, €24.00. ISBN: 3-515-08477-0.

Reviewed by Werner Plumpe

That economic historians are beginning to turn to institutional economics for answers is a result of economists' increasing willingness to sidestep neoclassical model theory without relapsing into noneconomic explanatory models. Advocates of cooperation between economics and economic history see the possibility of closing the gaps that have existed between the two fields and reconciling their differences about the economy, which have intensified since the decline of the historical school of economics. Nevertheless, success in this endeavor will depend on the ability of the institutional economic method to yield fruitful explanations of historical problems.

Economic historian Clemens Wischermann (University of Konstanz) and business historian Anne Nieberding, who regrettably died soon after completion of this book, are not only convinced of the usefulness of institutional economics to the field of history; they also believe that, in order to render a plausible account of the origins of Western modernity, they can replace the dominant neoclassical paradigm of the "Industrial Revolution" with the model of the "Institutional Revolution." The "European miracle" thus would be explained by the constitution of basic institutional patterns, especially during the *Sattelzeit*, or transitional period, between 1750 and 1850. To that purpose, they initially describe the well-known deficiencies of neoclassical theory (such as *homo economicus*, complete rationality, perfect information, and clear preferences). Then they argue that, up to now, research in industrialization, because it was directed by the principles of neoclassical theory, has neglected institutional change. Finally, they make their own opposing assumptions based on institutional economic theory. In particular, they emphasize the concepts of property rights and transaction costs and the theories of limited rationality and relational contracting. These premises, Wischermann and Nieberding argue, inevitably lead to the conclusion that institutional arrangements determine economic behavior and direct its efficiency, and that institutional change in the direction of a competitive economy is what made the breakthrough to economic modernity possible.

Wischermann's and Nieberding's assumptions are, in fact, not as different from neoclassical theory as they suggest. The authors merely have a more complex understanding of the factors that shape the conditions of individual behavior. Yet, at the heart of their concept, too, is the point that economic change is the result of (aggregated) individual actions that need to be understood. Their descriptions turn out to be in accordance with this principle. They begin by depicting a premodern Europe, in which individuals' actions were determined by their ties to older institutions, in particular households, which were included within municipal or parochial institutional orders (such as guilds and manors). Within the premodern European institutional framework, self-interest was considered sinful. Therefore, to bring about institutional change, traditional ideas of a "moral economy" had to be diluted in favor of concepts of self-interest. Once self-interest became acceptable, a new institutional order became conceivable and, finally, practicable. Wischermann demonstrates this point in a chapter on the transition from a "moral economy" to one that accepted the "legitimacy of competition." He continues by considering the modern German company, stock-corporation law, and the concept of the entrepreneur. These reflections are complemented by an analysis of Germany's social, economic, and commercial policy until 1870 and an overview of its competitive markets.

Anne Nieberding describes institutional change between 1870 and 1930, keeping to the pattern laid out by Wischermann and proceeding from company law and general policymaking to the functionality of labor markets and cartels. These chapters are informative and are generally accurate summaries of the current state of research in the field. A dominant theme running throughout is that of the connection between a competitive order and efficient economic behavior.

The book, however, fails to make a successful case for the role of institutional economics in economic history. For one thing, it does not address the problems involved in institutional economics: in particular, the distinction between institutional economics and institutionalism is not considered; nor is there mention of the critique of institutional economics as a static concept. Thus the obvious difficulties that arise when models taken from economic theory are applied to historical change remain unresolved. The authors' allegations that the perspective of industrialization studies is too narrow because of their basis in neoclassical theory cannot be taken seriously. All the results achieved by the institutional economic approach have been yielded by studies using the neoclassical approach.

Nevertheless, this book is a useful study, for it clearly explains a fashionable economic concept and elucidates older studies by reinterpreting them in a new light. Furthermore, the authors are modest enough not to claim that institutional economics is the key to world history, as they limit its explanatory power to the "special case" of the European context. Yet surely this special case cannot be explained by an economic model but must be presented in terms of historical development.

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