Quotes of the Day

“Oliver Williamson’s research has offered new insights on how transaction costs determine the boundaries of the firm. Both laureates have profoundly enhanced our understanding of economic governance.”

Nobel Economics Committee Chairman Bertil Holmlund, commenting on Williamson & Elinor Ostrom, who shared the prize

“Whenever you are trying to figure out why companies are structured the way they are, you’re going to turn to Williamson.”

Charles Calomiris, professor of finance and economics at Columbia University, AP

Williamson “had a profound influence on generations of scholars who came after him.”

Richard Lyons, Haas School of Business dean, San Francisco Chronicle

“Twice in eight days we’ve been reminded by the Nobel committee of how vital UC Berkeley is to the future of our state, nation and world. We’ve been reminded that we have a treasure in the East Bay that we must protect and we must support.”

Contra Costa Times editorial

“They’re reminders that investing in research has a payback, both for the region’s innovation economy and in improving lives.”

San Jose Mercury News editorial, referring to Bay Area professors Elizabeth Blackburn and Oliver Williamson’s Nobel Prizes

“Berkeley is really a glorious place. The commitment to excellence is extraordinary.”

Oliver Williamson, UC Berkeley Nobel laureate in economics

Media Highlights of Oliver Williamson’s Nobel Prize

October 2009

Provided by Media Relations, UC Berkeley Public Affairs newscenter.berkeley.edu
# Media Highlights of Oliver Williamson’s Nobel Prize

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**October 2009**

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American economists Elinor Ostrom and Oliver Williamson, who study the way economic decisions are made outside markets, were awarded the Nobel Prize in economics Monday.

Ms. Ostrom, who teaches at Indiana University in Bloomington, Ind., is the first woman to win the economics prize, which had been awarded to 62 men since its launch in 1969. The judges cited her analysis of what happens when natural resources are shared commonly.

Mr. Williamson, who teaches at the University of California, Berkeley, was cited for explaining why some decisions are made more efficiently inside corporations rather than at arm's length in markets.

Within the economics profession, neither was seen as a likely choice for the award, officially the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. Ms. Ostrom's doctorate is in political science, though she considers herself a political economist. Ms. Ostrom, 76...
years old, said that when the phone rang at 6:30 a.m. Monday, she thought it might be a telemarketer. Mr. Williamson's work, meanwhile, has been highly influential on fields outside of economics. The 77-year-old has been described as the economist most cited by noneconomists.

Both have highlighted areas where standard approaches of economics are inadequate at explaining what actually occurs. "They both pay incredible attention to what happens in the real world," said Wharton School economist Witold Henisz, a former student of Mr. Williamson's.

Ms. Ostrom's work challenged the view that when people share a finite resource, they will end up destroying it -- what is known as the tragedy of the commons. That view argues that resources that are important for the common good need to be highly regulated or privatized.

As a graduate student in the early 1960s at the University of California, Los Angeles, Ms. Ostrom researched the way water was being managed in Southern California. Groundwater levels were falling, and saltwater was seeping into the system. But rather than collapsing into a tragedy of the commons, communities and water producers hashed out a solution. That led her to explore situations throughout the world where resources were commonly held, and she found that people often developed institutions, networks and other ways of interacting that solved problems.

Economists had largely ignored the importance of such networks, said Yale University environmental economist Matthew Kotchen, in part, because they couldn't come up with elegant models to describe them.

When it comes to large-scale problems such as climate change, where there are few existing relationships on which to build, solutions are less likely to come from the ground up, Ms. Ostrom said. "But that doesn't mean we should just wait until the international agreement comes through," she said. Instead, governments should encourage and aid people where they are trying to solve the problem, such as finding ways to make it easier for
them to use solar energy or to bicycle to work.

Mr. Williamson's work stems from time he spent in the late 1960s working in the Department of Justice's Antitrust Division, and noticing that experts there paid scant attention to the internal economic workings of companies. "The way economists used to think of the firm was as a black box that transfers inputs into outputs, and they didn't look inside," Mr. Williamson explained in an interview.

He found that many economic decisions that standard theory said would be more efficiently left to the marketplace were actually better left within a firm. "Competitive markets work relatively well because buyers and sellers can turn to other trading partners in case of dissent," the Nobel judges said. "But when market competition is limited, firms are better suited for conflict resolution than markets."

**Economist Steve Tadelis at the University of California, Berkeley's Haas School of Business**, who has worked with Mr. Williamson, cited the 787 Dreamliner being developed by Boeing Co. as an example of how firms can be more efficient than the marketplace. Boeing, which previously designed and built planes in-house, outsourced much of the Dreamliner's manufacturing. But because it had less control over its supply line, Boeing couldn't adapt as quickly and flexibly to the changes and problems that invariably arose within a project as complex as the Dreamliner. Boeing has since taken much of the Dreamliner's production back in-house.

Mr. Williamson's work is driven by two key ideas. The first is that a contractual agreement can never be complete; there are always contingencies that haven't been accounted for. The other is that people act opportunistically within the gray area of contracts to make sure they benefit the most, and that can lead to problems.

One problem that has arisen during the financial crisis, the Wharton School's Mr. Henisz said, is that many credit-market contracts were written without regard for the possibility that so many loans could fail, and then market participants further snarled markets by haggling over contract terms with one another.

The economics prize, founded by the Swedish central bank, is the only one of six Nobel prizes not created by the 1896 will of industrialist Alfred Nobel. The two will share a prize of 10 million kronor ($1.4 million).

To view this article online, visit: [http://online.wsj.com/article/SB125534373296580027.html](http://online.wsj.com/article/SB125534373296580027.html)
The Nobel Memorial Prize in Economic Sciences was awarded on Monday to two American social scientists for their work in describing the numerous relationships within a company or among companies and individuals that shape market behavior.

The prize committee cited Elinor Ostrom, 76, at Indiana University, and Oliver E. Williamson, 77, at the University of California, Berkeley, for work done over long careers. Ms. Ostrom is the first woman to receive the economics prize in the 41-year history of the award. She is a political scientist, not an economist, and in honoring her, the judges seemed to suggest that economics should be thought of as an interdisciplinary field rather than a pure science governed by mathematics.

“This award is part of the merging of the social sciences,” said Robert Shiller, a Yale University economist. “Economics has been too isolated and too stuck on the view that markets are efficient and self-regulating. It has derailed our thinking.”

The Nobel judges in Stockholm notified the winners when it was 6:30 a.m. in Bloomington, Ind., where Ms. Ostrom lives, and 3:30 a.m. in California. Mr. Williamson’s grown son, home on a visit, answered the ringing telephone and passed the call to his father, awakening him. Ms. Ostrom said she, too, was awakened by the call and afterward made herself a cup of coffee in the kitchen. Both expressed surprise that the award had come their way.
They will split $1.4 million in prize money.

Neither Ms. Ostrom nor Mr. Williamson has argued against regulation. Quite the contrary, their work found that people in business adopt for themselves numerous forms of regulation and rules of behavior — called “governance” in economic jargon — doing so independently of government or without being told to do so by corporate bosses.

The Nobel judges, in their description of Mr. Williamson’s and Ms. Ostrom’s achievement, said that “economic science” should extend beyond market theory and into actual behavior, and the two award winners, in their empirical work, had achieved this. Summarizing their findings, the award announcement said: “Rules that are imposed from the outside or unilaterally dictated by powerful insiders have less legitimacy and are more likely to be violated. Likewise, monitoring and enforcement work better when conducted by insiders than by outsiders. These principles are in stark contrast to the common view that monitoring and sanctions are the responsibility of the state and should be conducted by public employees.”

Ms. Ostrom’s work deals in the concept of “commons” shared by a number of people who earn their living from a common resource and have a stake, therefore, in preserving it. Her most recent research has focused on relatively small forests in undeveloped countries. Groups of people share the right to harvest lumber from a particular forest, and so they have a stake in making sure the forest survives.

“When local users of a forest have a long-term perspective, they are more likely to monitor each other’s use of the land, developing rules for behavior,” Ms. Ostrom said in an interview. “It is an area that standard market theory does not touch.”

Often working with her husband, Vincent, 90, who is a professor emeritus at Indiana, Ms. Ostrom concluded in her research that the “tragedy of the commons” was an inaccurate concept. Particularly in 17th- and 18th-century England and Scotland, the concept described villagers’ overgrazing of their herds on the village commons, thereby destroying it as pasture.

The solution often invoked was to convert the commons to private property, on the ground that self-interested owners would protect their pasture land.

“Conservatives used the tragedy of the commons to argue for property rights, and efficiency was achieved as people were thrown off the commons,” said Joseph E. Stiglitz of Columbia University, a Nobel laureate in economics himself. “But the effects of throwing a lot of people out of their livelihood were enormous. What Ostrom has demonstrated is the existence of social control mechanisms that regulate the use of commons without having to resort to property rights.”

Mr. Williamson is a professor emeritus of business, economics and law who retired five years ago from the Graduate School of Business at the University of California, Berkeley. The award recognized, in particular, his studies of corporate organization, and his finding that large corporations exist because, under the right conditions, they are an efficient way to do business.

“If you believe that markets operate in Alan Greenspan fashion, then you don’t inquire into the details,” Mr. Williamson said in an interview. One assumes, as Mr. Greenspan does, that the outcome is optimal, but that assumption cannot be made, he said. “If you choose to integrate activities that are well served by the market, you are taking on disadvantages,” he said. “There is a place for each mode of organization” and this is not well understood in economics.

To view this article online, visit: http://www.nytimes.com/2009/10/13/business/economy/13nobel.html?_r=2&hp=&pagewanted=print
Building economic models usually involves stripping the world down to its most essential features. But simple theories often struggle to explain the way things really work. Elinor Ostrom of Indiana University and Oliver Williamson of the University of California at Berkeley, the winners of this year’s Nobel prize for economics, have both been honoured for recognising this complexity. Their research provides insights into economic institutions that play crucial roles in the real world, but to which economists have not paid enough attention.

In the case of Mr Williamson, that institution is the company. With hierarchical decision-making processes based on rules and authority, firms ought to be less efficient than decentralised market exchange based on relative prices, which is how standard economic theory assumes that transactions occur. So why do companies exist at all? This question was first addressed in 1937 by Ronald Coase, the winner of the 1991 Nobel prize for economics and the intellectual forefather of both of this year’s winners. Mr Coase argued that all economic transactions are costly — even in competitive markets, there are costs associated with figuring out the right price. The most efficient institutional arrangement for carrying out a particular economic activity would be the one that minimised transaction costs. This would often be the market. But using authority and rules within a firm would
sometimes prove to be more efficient.

Mr Coase’s theory explained why companies existed but it was not specific enough to predict the conditions under which firms, or markets, would be the superior form of organisation. Clarifying this was Mr Williamson’s signal contribution. In a series of papers and books written between 1971 and 1985, he argued that the costs of completing transactions on spot markets increase with their complexity, and if they involve assets that are worth more within a relationship between two parties than outside it (a rear-view mirror made to the specifications of a particular car manufacturer, for example).

Both these features make writing and enforcing contracts which take every possible eventuality into consideration difficult, or even impossible. At some point, therefore, it makes sense to conduct the associated transaction within a single legal entity rather than on a market. The car company might prefer to produce its rear-view mirrors in-house, for example, perhaps by buying the mirror company. This would reduce the time and resources spent haggling over profits, because decisions would simply be taken by fiat.

Mr Williamson’s theory helpfully specified measurable attributes of transactions that would make them more or less amenable to being conducted on markets. That meant his thinking could be tested against decisions by companies to integrate parts of their supply chain. It has held up remarkably well. Several studies find, for instance, that when an electricity generator can choose between the output of many nearby coalmines that produce coal of a particular quality, it tends to buy its coal on an open market. But if there is only one nearby mine that can be relied upon as a supplier, the electricity generator tends to own it. A transaction that could be done on the market moves into the firm.

According to Mr Williamson, one lesson from organisational theory is the importance of identifying common patterns of behaviour in seemingly disparate situations. That sums up the way Elinor Ostrom has spent her working life. The first woman to win a Nobel prize for economics, she studies the governance of “common resource pools” — such as pastures, fisheries or forests — to which more than one person has access. Unlike pure public goods such as the atmosphere, where one person’s use does not reduce the amount available to others, people deplete these resources when they use them. Standard economic models predict that in the absence of clearly defined property rights, such common resources will be overexploited, with individuals acting without regard for the effects of their actions on the overall pool. Overfishing or overgrazing (the “tragedy of the commons”) will result. Over time, stocks of the common resource will dwindle.

But in 40 years of studying how common resources — from lobster fisheries in Maine to irrigation systems in Nepal — are actually managed by communities, Ms Ostrom found that people often devise rather sophisticated systems of governance to ensure that these resources are not overused. These systems involve explicit rules about what people can use, what their responsibilities are, and how they will be punished if they break the rules. In particular, she found that self-governance often worked much better than an ill-informed government taking over and imposing sometimes clumsy, and often ineffective, rules. In this, she too shadows Mr Coase, who argued that those who
advocated government ownership of common resources ignored the transaction costs associated with collecting taxes. Tit for tat

One problem with the idea of the tragedy of the commons, Ms Ostrom found, was that it did not account for the fact that people sharing a pool of resources tend to interact repeatedly, making all sorts of clever punishments for wrongdoing feasible. Being able to threaten credible retaliation makes co-operation possible. This is the province of game theory, to which Ms Ostrom has contributed, both through formal modelling of what she found in the field and subsequent laboratory tests of her models.

Both Mr Williamson and Ms Ostrom have built on Mr Coase’s idea that all transactions have costs but that these costs will be minimised by different institutional arrangements in different situations. Their work uses methods and insights from fields that many economists are not sufficiently familiar with: detailed case studies, in the case of Ms Ostrom, a political scientist by training, and insights from the law in Mr Williamson’s case. Their win reminds economists that borders between disciplines, like those between the firm and the market, can be profitably crossed.

To view this article online, visit: http://www.economist.com/businessfinance/economicsfocus/displaystory.cfm?story_id=14638409
In Nobel Award in Economics, Glimpses of Harmony Among the Social Sciences

OCTOBER 12, 2009
DAVID GLENN

The two American scholars who on Monday were named winners of the 2009 Nobel Memorial Prize in Economic Science study the boundaries between corporations, governments, and other economic actors. Their selection has prompted other scholars to reflect on boundaries of a different sort: the academic lines that divide the social sciences.

One of the two honorees — Oliver E. Williamson, a professor emeritus of business, economics, and law at the University of California at Berkeley — has been deeply influential among organizational sociologists and legal theorists, not just among his fellow economists. The other winner — Elinor Ostrom, a professor of political science at Indiana University at Bloomington — is Mr. Williamson's mirror image: a non-economist whose work has left a mark within economics.

For more than four decades, Ms. Ostrom has studied how government regulations and informal social norms interact when communities try to sustain scarce natural resources. One of her major themes is that public ownership and strong laws are no panacea, and that local, informal networks sometimes do a surprisingly good job of conserving resources.

Much of Ms. Ostrom's work has been supported by grants from the National Science Foundation's political-science program, which last week was targeted for elimination by U.S. Sen. Tom A. Coburn, Republican of Oklahoma. As recently as July, Ms. Ostrom received a grant from the program.

The title of Mr. Williamson's 1975 book, Markets and Hierarchies, reflects the major questions of his scholarship: When and why do companies prefer to allocate resources through management and hierarchy (as when a car company owns and directs its parts suppliers)? Put more simply, how do companies decide when to buy something and when to make it themselves?

His insights have been central to the evolution of economic sociology and organizational sociology during the last quarter-century (though he has often been criticized by sociologists in those subfields). And unlike some other economists whose work has provoked non-economists, Mr. Williamson has not been shy about engaging in dialogue. One of his major papers appeared in the American Journal of Sociology, in 1981.

During a news conference Monday, Mr. Williamson praised the interdisciplinary climate both at Berkeley and at the University of Pennsylvania, where he taught from 1965 to 1983. As
a young scholar at Penn, he said, "I related immediately to the idea that the social sciences should communicate with one another, and that there are boundaries that we ought to be prepared to cross."

Ms. Ostrom made similar comments during her own news conference. "My work was cross-disciplinary from the very beginning," she said, noting that she formally minored in economics while earning her doctorate in political science at the University of California at Los Angeles.

Response Across Disciplines

The cross-disciplinary nature of this year's awards generated cross-disciplinary chatter on several academic blogs on Monday. "Political scientists are going to be very, very happy today," wrote Henry Farrell, an associate professor of political science at George Washington University, in a post at Crooked Timber, a group blog. Ms. Ostrom's work, he wrote, has demonstrated the weaknesses of standard economic models of resource management, replacing them with "a set of explanations that are nowhere near as neat, but are far more true to the real world."

At another group blog, orgtheory.net, Sean C. Safford, an assistant professor of organizations and strategy at the University of Chicago, praised both winners, noting that Ms. Ostrom's insights are "at base ... sociological."

The economists who blog at Marginal Revolution offered a long series of posts. Tyler Cowen, a professor of economics at George Mason University, wrote there that the awards are "a nod in the direction of social science, rather than economics per se."

For many years, there have been complaints about the "disciplinary imperialism" of economics—that is, a worry that economists will try to subsume all of the social sciences into a single analytic framework that some scholars regard as sterile and narrow.

Those anxieties have not gone away. But the prize announced on Monday — along with the 2002 economics Nobel that went to Daniel Kahneman, a [UC Berkeley] psychologist who studies irrationality in economic decision-making — are a reminder that disciplinary imperialism can be a two-way street. When the stars are aligned, political science, psychology, and sociology have the ability to shake up economics.

(For a taste of one model of cross-disciplinary social science, see a 2006 paper on deforestation in India by Ms. Ostrom in the Proceedings of the National Academy of Sciences. In that paper, which she wrote with Harini Nagendra, Ms. Ostrom used a broad suite of methods, including on-the-ground interviews, satellite-imagery analysis, and game-theory-based laboratory simulations of forest owners' responses to legal sanctions.)

Though Ms. Ostrom is not the first non-economist to win the prize, she is the first woman.

During her news conference Monday, she was asked if she believed that distinction was significant. "Yes, if you have lived through the era that I've lived through," she said. "Getting into graduate school was a challenge. I won't go into all of the details. But you can't have received a Ph.D. in 65 as a woman and not be deeply aware" of sexist barriers, she said.

She said she entered the field "for love." "I didn't enter it to get a job, because I was warned I wouldn't get one."

To view this article online, visit: http://chronicle.com/article/In-Nobel-Award-in-Economics/48793/
Twice in eight days we've been reminded by the Nobel committee of how vital UC Berkeley is to the future of our state, nation and world. We've been reminded that we have a treasure in the East Bay that we must protect and we must support.

On Oct. 5, Elizabeth Blackburn and Carol Greider learned they will share the Nobel Prize for medicine in recognition of their work that inspired new lines of research into cancer. Much of their research was done at Cal, where Blackburn was a professor and Greider was one of her graduate students as they solved the mystery of how chromosomes protect themselves from degrading when cells divide.

On Monday, UC Berkeley Professor Oliver Williamson shared the Nobel economics prize for his research on the internal workings of businesses to help understand how they make decisions on issues such as whether to manufacture internally or outsource production. His work has profound implications for how and when we should regulate businesses.

Pioneering work in both cases, made possible by an academic environment that has valued basic research. But the recognitions are not for work done yesterday or last year. They are for careers of accomplishments spanning decades.

This isn't like a football team that is only as good as its season's record, where winning or losing can be determined by a field goal or a touchdown, and where there's always next year when you can start all over. This is recognition of a lifetime of meticulous study, experimentation and research, building one block of knowledge on top of another.

Cal hasn't been to the Rose Bowl since 1959, and it doesn't look like this season will be any different. But 21 of its faculty members have won Nobel Prizes since 1939, as have 25 of their alumni dating back to 1934. Recognition has gone to names like Ernest Lawrence (Physics, 1939), Glenn Seaborg (Chemistry, 1951), Steven Chu (Physics, 1997) and George Akerlof (Economics, 2001).

"Berkeley is really a glorious place," Williamson said Monday. "The commitment to excellence is extraordinary."

But will it last? Berkeley is the flagship campus of a UC system that is being squeezed dangerously tight. The governor and Legislature cut roughly $1 billion out of UC's budget. Regents are expected to raise student fees nearly 40 percent over the next year. Thousands of faculty and staff positions have been eliminated.

"There is real jeopardy," Williamson said. "And the longer it goes on, the more we're at risk."
UC Berkeley Chancellor Robert Birgeneau has proposed that the federal government provide basic operating funds for the university system. While we agree that there is a federal benefit in assisting UC, the basic problems the system faces were created here.

University administrators need to look carefully at their administrative costs. State officials must seriously address California government's fiscal meltdown and more rationally prioritize funding. We shouldn't be spending more on prisons than higher education.

Cal and the entire UC system are vital to our future. If we don't save them, the next generation of students and research could be lost.

To view this article online, visit: http://www.contracostatimes.com/opinion/ci_13552513?nclick_check=1
UC Berkeley professor shares Nobel in economics

OCTOBER 13, 2009
JILL TUCKER

Mike Kepka / The Chronicle

UC Berkeley economics Professor Oliver Williamson says, "Some of the stuff I do is kind of controversial."

Oliver Williamson doesn't look like a rebel — he looks like what he is, an economics professor.

Yet it was the UC Berkeley professor's academic rebellious streak that landed him the Nobel Memorial Prize in Economic Sciences on Monday, an honor that recognized his pioneering work in "economic governance."

He shared the prize with Elinor Ostrom, Indiana University professor of political science and public and environmental affairs, whom the Nobel committee selected for her work in how common property can be effectively managed by multiple users. She was the first woman to win a Nobel in economics.

Williamson, 77, opened up a whole new field of economics starting in the mid-1970s related to the "boundaries of the firm" —
in other words, how a company can decide whether it's better to do something itself or to have someone else do it.

It was a groundbreaking look at the inside workings of companies, a topic few other economists pursued at the time.

In 1975, he published the economics classic, "Markets and Hierarchies: Analysis and Antitrust Implications."

The recent development of the Boeing Dreamliner is a Williamson case in point, said Richard Lyons, dean of the UC Berkeley Haas School of Business. Boeing outsourced much of the airplane's construction, but Boeing found it difficult to adapt under that arrangement as the aircraft's design changed. It was a modern-day example of how a bigger company would have operated better, Lyons said.

**A nontraditional approach**

Williamson's work has been applied to government as well.

Instead of focusing on the traditional market forces of supply and demand, Williamson looked at the internal workings, culture and structure of companies to better understand how and why business decisions are made.

Decades ago, for example, steel companies did everything — mined the ore, forged it and created final products — because it was most efficient way. But the industry changed and the large corporate structure failed to be as competitive as smaller companies that focused on one aspect of the supply chain, Lyons said.

Williamson concentrated on understanding why that would happen, Lyons said.

His ideas have influenced corporate financial structure, how contracts are written and the regulation of energy companies. His work has also touched on antitrust policy, with Williamson arguing that large companies abusing their position in the marketplace should be regulated rather than limited in size, UC officials said Monday.

"Some of the stuff I do is kind of controversial," Williamson said at the Monday news conference.

The Nobel selection committee noted the winners broke ground in an area outside traditional economic theories like the free market system.
"Economic transactions take place not only in markets, but also within firms, associations, households, and agencies," the selection committee said in its announcement early Monday. "Whereas economic theory has comprehensively illuminated the virtues and limitations of markets, it has traditionally paid less attention to other institutional arrangements."

**Influencing a generation**

Williamson's Nobel recognition was "long overdue," Lyons said. He had "a profound influence on generations of scholars who came after him."

UC Berkeley officials noted that Williamson's research ventured across academic lines into law, business and other social sciences to expand the influence of his work and his teaching.

Williamson first came to Berkeley in 1963 as an assistant professor, later teaching at the University of Pennsylvania and Yale University before returning to Cal in 1988.

**His was the fifth Nobel Memorial Prize in Economic Sciences for UC Berkeley, and its 21st Nobel overall.**

Ostrom said she was surprised to be selected. The 76-year-old political scientist showed how common resources — forests, fisheries, oil fields, grazing lands and irrigation systems — can be managed successfully by the people who use them, rather than by governments or private companies.

"Until her work, the thinking was, 'Let the state intervene. If you leave it to individuals to do whatever they want, resources will be depleted,'" Paul Dragos Aligica, a political scientist at George Mason University, told the Associated Press. "But she said 'Hold on,' and found that's not the case."

The honor comes with about $1.4 million, to be split between the two winners, money for which Williamson said he had "worthy purposes in mind."

And perhaps worth more than the money, he also will receive a Nobel laureate personal parking space at Cal, something he said was very much looking forward to using.

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2 Nobel winners may shape financial crisis debate

OCTOBER 12, 2009
JEANNINE AVERSA, KARL RITTER MATT MOORE

Washington — One scholar studies how best to manage resources like forests, fisheries and oilfields. A fellow American looks at why some companies grow so large. Together they're winners of this year's Nobel Prize in economics for groundbreaking work that could affect efforts to prevent another global financial crisis.

Elinor Ostrom, 76, known for her work on the management of common resources, is the first woman to win a Nobel in economics. She shares this year's prize with Oliver Williamson, 77, who pioneered the study of how and why companies structure themselves and how they resolve conflicts.

Monday's final prizes of 2009 capped a year in which a record five women won Nobels. And it was an exceptionally strong year for the United States, too. Eleven American citizens, some of them with dual nationality, were among the 13 Nobel winners, including President Barack Obama, who won the Nobel Peace Prize on Friday.

The Royal Swedish Academy of Sciences said it chose Ostrom and Williamson for work that "advanced economic governance research from the fringe to the forefront of scientific attention." They will share the $1.4 million prize.

Ostrom showed how common resources — forests, fisheries, oilfields, grazing lands and irrigation systems — can be managed successfully by the people who use them, rather than by governments or private companies.

"What we have ignored is what citizens can do and the importance of real involvement of the people involved — as opposed to just having somebody in Washington ... make a rule," Ostrom, a political scientist at Indiana University, said during a brief session with reporters in Bloomington, Ind.

"Advanced economic governance research from the fringe to the forefront of scientific attention." They will share the $1.4 million prize.

Ostrom, a political scientist at Indiana University, said during a brief session with reporters in Bloomington, Ind.

University of California, Berkeley's Oliver Williamson smiles during a news conference on campus in Berkeley, Calif., Monday, Oct. 12, 2009. Americans Elinor Ostrom and Williamson won the Nobel economics prize on Monday for their analyses of economic governance, the rules by which people exercise authority in companies and economic systems.

Williamson, an economist at the University of California, Berkeley, focused on how companies and markets differ in resolving conflicts. He found that companies are typically...
better able than markets to resolve conflicts when competition is limited, the citation said.

The academy did not specifically mention the global financial crisis. But many of the problems at the heart of it — bonuses, executive compensation, risky and poorly understood securities — involve a perceived lack of oversight.

"There has been a huge discussion how the big banks — the big investment banks — have acted badly, with bosses who have misused their power, misused their shareholders' confidence, and that is in line with (Williamson's) theories," prize committee member Per Krusell said.

Experts said the two scholars' research did not suggest that more government oversight was the way to prevent financial crises. Still, they said the work of both — especially Williamson — could help shape debate and inspire research to help prevent another debacle like the one that triggered the global recession.

It also could influence the thinking on other divisive issues, such as health care coverage and global warming, experts said.

"The one lesson from the financial crisis is that we have overconfidence in institutions that are important to the functioning of the economy," said Barak Richman, a law professor at Duke University who completed his doctorate under Williamson's supervision. "Both Ostrom's and Williamson's research reveal how critically important it is to understand these so-called non-market institutions such as companies, governments, regulators and courts."

Ostrom, also the founding director of Arizona State University's Center for the Study of Institutional Diversity, has devoted her career to studying the interaction of people and natural resources.

"Until her work, the thinking was, 'let the state intervene,'" said Paul Dragos Aligica, a political scientist at George Mason University. "'If you leave it to individuals to do whatever they want, resources will be depleted.' But she said 'hold on' and found that's not the case." Aligica wrote his doctorate under Ostrom's guidance.

Ostrom told the academy by phone that she was surprised by its choice.

"There are many, many people who have struggled mightily, and to be chosen for this prize is a great honor," Ostrom said. "I'm still a little bit in shock."

Williamson was cited for his studies on how organizations — including companies — are structured and how it affects the cost of doing business. According to his theory, large private corporations exist primarily because they are efficient.

"Large corporations may, of course, abuse their power," the citation said. "They may for instance, participate in undesirable political lobbying and exhibit anticompetitive behavior."

Williamson found it is better to regulate such behavior directly rather than with policies that restrict the size of corporations, the academy said.

Williamson, who said he thinks the committee was influenced "very little" by the recent financial meltdown, hoped that "organizations will play a more prominent role in the study of economic activity."

"The organization of the government itself is something which we ought to examine in a more self-conscious way — the Federal
Reserve and the Treasury and the Securities and Exchange Commission," Williamson said. "The mission that each of them has is mainly economic but should be informed by good organizational practices."

Williamson had worked as a consultant to the U.S. Federal Trade Commission from 1978-1980 and as a special economic assistant to the assistant attorney general for antitrust at the Department of Justice in 1966-1967.

"Whenever you are trying to figure out why companies are structured the way they are, you're going to turn to Williamson," said Charles Calomiris, professor of finance and economics at Columbia University.

Williamson's work could influence the debate over how to handle colossal financial companies whose failure could endanger the entire U.S. economy, Calomiris and other academics said. The Obama administration wants to place them under tighter regulation and create a mechanism to safely wind them down.

"The first thing you need to do is ask is why do we have such big financial institutions," Calomiris said.

"Williamson's analysis would be relevant in trying to answer that question."

In addition to the prize money, Nobel winners will receive gold medals and diplomas from the Swedish king on Dec. 10, the anniversary of Alfred Nobel's death in 1896.

The choice of Obama was the biggest surprise of this year's awards.

In other awards, American scientists Elizabeth H. Blackburn, Carol W. Greider and Jack W. Szostak shared the prize in medicine for discovering a key mechanism in the genetic operations of cells, an insight that has inspired new lines of research into cancer.

The physics prize was split between Charles K. Kao, who helped develop fiber-optic cable, and Americans Willard S. Boyle and George E. Smith who invented the "eye" in digital cameras.

Americans Venkatraman Ramakrishnan and Thomas Steitz and Ada Yonath of Israel shared the chemistry prize for their atom-by-atom description of ribosomes.

Romanian-born German writer Herta Mueller won the literature prize for her critical depiction of life behind the Iron Curtain. Ostrom said it was an honor to be the first woman to win a Nobel Prize in economics — and promised that she won't be the last. She said people discouraged her from seeking a Ph.D. when she applied for graduate school but she loved studying economics.

Reflected Williamson: "You're sort of in the limelight for a day and then you're back to work."

Ritter and Moore reported from Stockholm. AP Writers Malin Rising in Stockholm, Martha Raffaele in Philadelphia and Michelle Locke in Berkeley, Calif., contributed to this report.

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Two Americans with California ties win the Nobel in economics

OCTOBER 12, 2009
DON LEE

Oliver Williamson, the academy said, developed a theory in which business firms could serve as structures to resolve conflicts. Elinor Ostrom’s work demonstrated how common property could be managed by groups using it.

Reporting from Washington

Two Americans have won the Nobel Memorial Prize in Economic Sciences today for their research in the way economic decisions and transactions are made outside of the market.

Elinor Ostrom, a Los Angeles native who teaches at Indiana University in Bloomington, Ind., became the first woman to win the prize for economics since it was first awarded 40 years ago.

She shares the $1.4-million award with Oliver E. Williamson, a professor at UC Berkeley.

Ostrom and Williamson were cited for their work beginning in the early 1970s that expanded economics beyond the traditional analysis of market prices. Specifically, the Royal Swedish Academy of Sciences said the pair established "economic governance" as a field of research that had "greatly enhanced our understanding of non-market institutions."

Ostrom, who received a doctorate in political science...
from UCLA in 1965, was recognized for her research demonstrating how common property, particularly natural resources such as pastures, woods and lakes, can be successfully managed by user associations and other forms of institutional arrangements. She "has challenged the conventional wisdom that common property is poorly managed and should be either regulated by central authorities or privatized," the Nobel economics committee said.

The panel said Ostrom based her conclusion on case studies, including her own fieldwork that began with her doctoral dissertation that studied institutional entrepreneurship and saltwater intrusion into a groundwater basin in the Los Angeles area.

Williamson, who was born in Superior, Wis., and received a doctorate in economics from Carnegie Mellon University in 1963, "proposed a theory to clarify why some transactions take place inside firms and not in markets." The committee said his research offered insights into conflict resolutions at businesses and other organizations.

He "has argued that markets and hierarchical organizations, such as firms, represent alternative governance structures which differ in their approaches to resolving conflicts of interest," the Nobel panel said. "The drawback of markets is that they often entail haggling and disagreement. The drawback of firms is that authority, which mitigates contention, can be abused."

Williamson and Ostrom will be honored Dec. 10 in Stockholm. The economics prize was launched in 1968 by the Swedish central bank in memory of Alfred Nobel, the Swedish chemist and industrialist who established the awards for achievements in physics, chemistry, medicine, peace and literature in his will in 1896. It was awarded for the first time the following year.

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Bay Area remains a hotbed of academic talent

OCTOBER 13, 2009

President Barack Obama's Nobel Peace Prize has overshadowed the addition of two more faculty members from Bay Area universities to the list of Nobel laureates. The new total for prizes won here is 52, an incredible record.

Molecular biologist Elizabeth Blackburn of the University of California-San Francisco shared the Nobel Prize in Physiology or Medicine, and University of California-Berkeley economist Oliver Williamson shared the prize in economics.

They're reminders that investing in research has a payback, both for the region's innovation economy and in improving lives. For example, Blackburn's work "revolutionized scientists' understanding of the way in which cells function," said UCSF Chancellor Susan Desmond-Hellmann, showing the effects of stress on age-related diseases. In 1997, UCSF's Stanley Prusiner discovered a disease-causing agent affecting the brain.

That so many achieve the pinnacle of recognition here shows the importance of the work that takes place — and must continue.

To view this article online, visit: http://www.mercurynews.com/opinion/ci_13553855?nclck_che ck=1
US professors win Nobel prize for their work on governance

OCTOBER 13, 2009
CHRIS GILES

Two economists who specialise in understanding behaviour and transactions that are not covered by detailed contracts or law shared the 2009 Nobel prize for economics yesterday.

Elinor Ostrom, a professor from Indiana University, was honoured for her work on the management of common resources such as fish stocks.

"new Nobel" has been awarded to a woman.

Professor Ostrom said her first reaction was "great surprise and appreciation".

She added: "There are many, many people who have struggled mightily and to be chosen for this prize is a great honour and I'm still a little bit in shock."

In a year when many people might think economists did not deserve recognition at all, the Nobel has gone to a branch of economics unrelated to the financial crisis and is unlikely to stir the same controversy as last year's award to Paul Krugman of Princeton University, a macroeconomist who has commented on the world economic crisis.

The two economists won their prize for the study of how to enforce rules where detailed contracts or legal frameworks do not exist. Their work has helped to foster understanding on why natural resources are not always degraded, contrary to more simple theories, and why large companies exist, but also outsource some operations.

Prof Ostrom has challenged the conventional "tragedy of the commons" theory, arguing that societies and groups regularly devise rules and enforcement mechanisms that stop the degradation of nature. The traditional theory holds that pollution and depletion of resources would occur because individuals did not recognise their effect on others. She argued, however, that people could manage resources tolerably well without rules imposed by the authorities if rules evolved over time; entitlements were clear; conflict resolution
measures were available; and an individual's duty to maintain the common resource was in proportion to the benefits from exploiting it.

Active participation in setting and enforcing rules was the key feature of such success stories, she found. Prof Williamson also studied economic governance, but within companies. Since much of economic life happens within organisations, he examined how decisions were made, rather than just the decision that was taken.

That helped him develop a theory of why companies exist - they can be efficient at resolving conflict, via the use of hierarchy.

He also found that where transactions were complex, or depended on shared knowledge, companies were more efficient than individual contracts would be.

The theory helps to explain the shifting boundaries of companies; why they often abuse their power; and why large companies evolve in certain industries.

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Two Americans Capture Top Nobel Economics Prize

OCTOBER 12, 2009
TOM RIVERS

Two Americans, Elinor Ostrom and Oliver Williamson, share this year's Nobel Prize in Economics.

The last award in this year's Nobel series, the Economics Prize, has been awarded to Elinor Ostrom from Indiana University and to Oliver Williamson from the University of California at Berkeley.

The two won for their analysis of how authority is exercised in economic systems and in companies.

Nobel Economics Committee Chairman Bertil Holmlund said their work was enlightening.

"Elinor Ostrom's research has provided novel lessons about the mechanisms that sustain human cooperation," he said. "Oliver Williamson's research has offered new insights on how transaction costs determine the boundaries of the firm. Both laureates have profoundly enhanced our understanding of economic governance."

Williamson developed a theory where business firms can serve as structures to resolve conflicts.

Ostrom's research has focused on the interaction of people and natural resources and how common property can be successfully managed by those groups using it.

In a phone call press conference in Stockholm, professor Ostrom was asked how she felt about becoming the first woman to win the Nobel Economics Prize since it was first awarded in 1968.

"I had not realized that that was the case until just recently when they called. My first reaction was great surprise and appreciation," said Ostrom. "There are many, many people who have struggled mightily and to be chosen for this prize is a great honor. And I am still a little bit in shock."

Ostrom was also asked about what her research might say about how we deal with the growing problem of global warming.

"A lot of people are now waiting for international negotiations to solve it," said Ostrom. "That again is the presumption that there are public officials who are genius and the rest of us are not. It is going to be important that there is an international agreement, but we can be taking steps at family level, community level, regional level, provincial, state, national and there are many steps that have already been taken that are not going to solve it themselves but cumulatively can make a big difference."

Ostrom and Williamson share the $1.4-million prize. They will also receive a gold medal and a diploma from the Swedish king on December 10, the anniversary of Alfred Nobel's death in 1896.

To listen to this story online, visit: http://www.voanews.com/english/2009-10-12-voa22.cfm
UC Berkeley professor wins Nobel Prize in economics

OCTOBER 12, 2009
ASSOCIATED PRESS

Williamson was the 21st UC Berkeley professor to win a Nobel. It was the school's fifth economics award and the third in the past nine years.

The university's energy and collegial atmosphere nurture groundbreaking research, he told reporters at a campus press conference Monday.

"Berkeley is really a glorious place," he said. "The commitment to excellence is extraordinary."

Ostrom, who has devoted her career to studying the interaction of people and natural resources, told the Royal Swedish Academy of Sciences by telephone that she was surprised by the Nobel.

"There are many, many people who have struggled mightily and to be chosen for this prize is a great honor," she said. "I'm still a little bit in shock."

The academy cited Ostrom "for her analysis of economic governance," saying her work had demonstrated how common property can be successfully managed by groups using it.

The economics prize was the final Nobel award to be announced this year. It's not one of the original Nobel Prizes, but was created by the Swedish central bank in Alfred Nobel's memory.

Surprised by award

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26
Nobel Prize winners receive 10 million Swedish kronor ($1.4 million), a gold medal and diploma from the Swedish king on Dec. 10, the anniversary of Nobel's death in 1896.

The Academy said the American winners' research shows that economic analysis can shed light on most forms of social organization.

"Elinor Ostrom has challenged the conventional wisdom that common property is poorly managed and should be either regulated by central authorities or privatized," the academy said. "Based on numerous studies of user-managed fish stocks, pastures, woods, lakes and groundwater basins, Ostrom concludes that the outcomes are, more often than not, better than predicted by standard theories."

Managing resources

One notable Ostrom publication in 1990 examined both successful and unsuccessful ways of governing natural resources — forests, fisheries, oil fields, grazing lands and irrigation system — that individuals use.

Williamson was cited for arguing that markets and hierarchical organizations, such as firms, are alternative governance structures that differ in their approaches to resolving conflicts of interest.

Issues of governance — the rules by which authority is exercised in companies and economies — have been at the heart of the ongoing world economic crisis. The failure by boards of directors, for instance, to police excessive compensation, or prevent bonuses that reward excessive risk-taking, can be considered a corporate governance issue.

Williamson told the Bay Area News Group the Nobel may give him weight to lobby on behalf of the University of California system, which has seen its state funding cut dramatically the past two years.

Applying the principles

The university needs to turn its finances around quickly in order to maintain quality, said Williamson, who was congratulated by Gov. Arnold Schwarzenegger on Monday and hopes to speak to him about funding cuts.

"There is real jeopardy, and the longer it goes on, the more we're at risk," he said. "It's nothing less than a really severe challenge."

On a lighter note, Williamson said he was happy to gain the lucrative prize given to Berkeley Nobelists: a reserved parking spot.

"It's a convenience," he said. "It's the carrot that drives the place."

To view this article online, visit: http://www.mercurynews.com/topstories/ci_135440
Stockholm (KGO) — UC Berkeley is basking in the glow of one of its own winning the Nobel Prize in economics. **Professor emeritus Oliver Williamson** shares the award with the first woman the Nobel Committee has ever honored for economics, Elinor Ostrom.

The celebrating started at home for Professor Oliver Williamson and it started early, with a 3:30 a.m. phone call that his son answered.

"He came over to our bedroom and alerted me by telling me that quote 'I think this may be the call,'"" said Williamson, Ph.D.

There's been a lot of laughing ever since — not to mention hand shaking and standing ovations.

But the 77-year-old professor spent much of the day trying to explain to laymen what exactly his research on "transaction cost economics" really means.

"Organization matters and, I guess, can be made susceptible to analysis," said Williamson, Ph.D.

Translation: it's about how businesses are organized and how they resolve conflicts. The prize committee said his research on the economic activity inside firms has real world impact.

Williamson's UC Berkeley students and colleagues couldn't be more proud.

"Oliver Williamson's work is not only profound, but it
spans so much intellectual space," said **Haas School of Business Dean Richard Lyons, Ph.D.**

"It's a good day for economics in general," said **Berkeley student John Mondragon.**

A Haas School of Business professor hasn't won a Nobel Prize in 15 years.

There are a number of perks that come with winning the Nobel Prize such as the notoriety and the $1.4 million prize that Professor Williamson will share. But there's one perk in particular that he is excited about: that's the new campus parking space he'll get.

"The chancellor is under the gun to make a good delivery," said Williamson, Ph.D.

He plans to make a good delivery himself by donating some of his prize money to higher education.

Nobel Prize winner Elinor Ostrom says back in the 60's, she was asked by her advisors why, as a woman, she would want to pursue studying economics. Today Ostrom is proud that she did.

"I think we're entering, we've already entered a new era. We recognize that women have capabilities of doing great scientific work, and yes I appreciate that it is an honor to be the first woman, but I won't be the last," she said.

Ostrom says the early morning call from Stockholm was a great thrill and a very big surprise. Ostrom was born and raised in Los Angeles.

Winning a Nobel Prize is difficult enough. But on the campus of the University of California, Berkeley, there is something that might be even more difficult to get: a parking space on the central campus.

That's why Berkeley has made it a practice to offer its Nobel laureates an extra-special perk: a free lifetime permit to park in the highly coveted spaces near the central campus. The spots would normally cost about $1,500 a year.

Berkeley professor Oliver Williamson won the Nobel Prize in economics earlier this week. He's been showered with the congratulations from colleagues and students. But, perhaps even better, he's getting that Berkeley parking perk.

"Oh, I plan to receive a copy of that parking permit and put it to good use," said Williamson, who's the eighth Nobel laureate on Berkeley's current faculty.

The special parking places reserved for Nobel laureates include five parking spaces in a row between the physics and economics buildings, and another two behind the chemistry building, reflecting the various departments currently enjoying the awards. The spaces are marked with special signs that read: "Reserved For NL/Special Permit Required".
At All Times." That "NL," of course, stands for Nobel laureate.

Physics professor George Smoot, who won the Nobel Prize in 2006, said there's a catch to the permit: It's free, but it's not automatically renewed each year. Some of Berkeley's Nobel laureates have let their permits lapse.

"It's a temporary permit," Smoot explained. "You've got to renew it every year — like your Nobel laureate's going to go away, or something! And so, twice now I've gotten tickets because I didn't, you know, remember to renew it on time."

But Williamson says a little paperwork will not discourage him from getting the permit.

"I think it ought to be automated, but apply if I must, apply I will," he said.

Earlier this week, Williamson said he was hoping to get his parking permit quickly. The university's chancellor was holding a banquet in his honor, Williamson said, "and I'm hoping that he has in his pocket the parking pass, but we'll see."

Still, he said, "I won't be disappointed if I have to struggle for the next six weeks without it."

As it turned out, Williamson did not receive the permit at the chancellor's dinner, but upon hearing of his interview with NPR, the chancellor produced a handwritten temporary parking permit for Williamson on the spot.

In the meantime, campus parking and transportation officials are working to set up Williamson's space near his office. He'll collect his Nobel Prize in Stockholm on Dec. 10.

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