

Regulation, Competition, and Innovation
An Alternative Approach to Transaction Costs

Ping Chen

CCER(China Center for Economic Research) at Peking University in Beijing

And

CNPE(Center for New Political Economy) at Fudan University in Shanghai

Prepared for

The Third Meeting of the Initiative for Policy Dialogue Task Force on China

On Regulation

Manchester, June 25-26, 2008

Coase proposed the transaction costs approach to study organization and institution, which is a static inward-looking approach without competition and innovation. We propose an evolutionary perspective based on trade-off between stability and innovation. Two fields are examined to demonstrate main issues in regulation: financial innovation and university research in China. There are many related issues: entry barrier and monitoring; incentive mechanism for regulator and regulated players; range and measurement of performance; innovation, uncertainty, and reputation; state, local authority, and professional discipline; rule of law vs. innovation space; etc. Two issues are investigated: the under-development of rural banking and research program in higher education. The nature of regulation is selection mechanism, not transaction costs. Selections based on transaction costs are non-operational and near-sighted.

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Email: pchen@ccer.edu.cn

Web site: <http://pchen.ccer.edu.cn>