

INSTITUTIONAL ECONOMIC THEORY AS A ROLE MODEL OF ECONOMY OF CONVENTIONS

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This paper explains some important elements, indicating that the consensus theory and economy of conventions, despite the indisputable originality, have their role model in neo-institutional economics theory. The author tries to define relationship between these original economic theories, their similarities and main demarcation lines. Its hypothesis is that these directions, despite many formal and conceptual differences, have enough similarities to imply the conclusion that neo-institutional economic theory in some parts can be viewed as a role model in relation to the economy of conventions.

Key words: agreement, institutions, neo-institutional economics theory, economy of conventions, theory of agreement.

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ІНСТИТУЦІОНАЛЬНА ЕКОНОМІЧНА ТЕОРІЯ ЯК РОЛЬОВА МОДЕЛЬ ЕКОНОМІКИ КОНВЕНЦІЇ

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Досліджено деякі важливі елементи теорії консенсусу та теорії економіки конвенцій, які, враховуючи їх безперечну оригінальність, відіграють важливу роль у моделях неінституціональної економічної теорії. Зроблено спробу обґрунтувати та визначити зв'язок між цими оригінальними економічними теоріями, риси їх подібності та принципові лінії демаркації. Гіпотеза наведеного дослідження полягає в тому, що ці напрямки, незважаючи на численні формальні і концептуальні відмінності, мають досить багато спільного. Зроблено висновок про те, що неінституціональну економічну теорію в деяких її частинах можна розглядати як зразок для наслідування з боку теорії економіки конвенцій.

Ключові слова: угода, установа, теорія неінституціональної економіки, економіка конвенцій, теорія угод.

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ИНСТИТУЦИОНАЛЬНАЯ ЭКОНОМИЧЕСКАЯ ТЕОРИЯ КАК РОЛЕВАЯ МОДЕЛЬ ЭКОНОМИКИ КОНВЕНЦИИ

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Исследовано некоторые важные элементы теории консенсуса и теории экономики конвенций, которые, учитывая их бесспорную оригинальность, играют важную роль в моделях неинституциональной экономической теории. Сделана

попытка обосновать и определить связь между этими оригинальными экономическими теориями, черты их сходства и принципиальные линии демаркации. Гипотеза представленного исследования заключается в том, что эти направления, несмотря на многочисленные формальные и концептуальные различия, имеют достаточно много сходства. Сделано вывод о том, что неинституциональную экономическую теорию в некоторых ее частях можно рассматривать как образец для подражания со стороны теории экономики конвенций.

Ключевые слова: соглашение, учреждение, теория неинституциональной экономики, экономика конвенций, теория соглашений.

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The issue of institutional analysis is the focus of economic science since 1980 until now. It began as a criticism of old institutionalism, later developed as neoinstitutional economic theory, an original direction of economic thought, that due to its identical methodology to some extent, represents specific (partial) extension of the neoclassical theory. Later there was a new French institutionalism as a criticism of neoinstitutional economic theory and the neoclassical one-sided and abstract rationality and appropriate treatment of methodological individualism. These directions are formally and conceptually different, but they have some essential similarities, primarily in ideological terms.

Economy of conventions is one of the modern economic science courses. It is part of a broad intellectual movement, based on discussions of economists, sociologists, historians, psychologists and other social scientific representatives. It is a heterogeneous intellectual movement, in which the researches are trying to overcome the basic principles of neoclassical economics, especially the alleged existence of market equilibrium (which implies an optimal resource allocation and pricing in the conditions of ideal market) as well as rational behavior of economic agents (who optimize their economic activities in order to draw maximum benefit). So, one can say that this is a specific critique of neoliberal notions of autonomy and even the dominance of economic factors in relation to the impact of social, political and other factors.

The phrase "economy of conventions" appeared in the last ten years as an extension of the "theory of agreement", discussed in the French economic and social journals two and a half decades ago. The research of founders of conventions economy [1 – 6] is characterized by multidisciplinary. Its outlines were registered from mid 1960 to mid 1980. According to conventionalists, resolution of the fundamental economic questions which are related to value, coordination, control, rationality, etc., is not possible without multidisciplinary discussion, research and cooperation of many social science disciplines, especially between economics and sociology.

To create conditions for multidisciplinary analysis, it was necessary to accept the basic elements of the new-institutional analysis and pragmatic sociology. It would be the first condition for postulating many coordination principles of economic and social life (as opposed to the neoclassical theory, which is recognized as the sole

coordination and regulation principles of competition, which is – institutional monism, or, as some authors call the extreme – market fundamentalism). Second, it emphasizes the interpretative rationality involved in the critical value and the ability (unlike calculating rationality standard economic theory). Third, focus is on the creation and change of norms and rules (conventions) as necessary conditions of economic activity based on the algorithm presented in previous papers of authors.

French "New institutionalism" formulated a theory of agreements (conventions, consensus), which was first exhibited by Boltanski and Thévenot [7]. Their multidisciplinary and synthetic approach implies a critique of neoclassical methodological individualism, with starting point that the economic, political and social spheres are closely linked and mutually conditioned [8].

Boltanski and Thévenot see market institution as a specific form of social relations between atomized individuals. To overcome the contradiction between the rational market behavior and the requirements for compliance with certain standards in their daily lives, they formulated the original concept and a pretty consistent standard, by which they cease to be the outer limit of rational activity, because they are used solely for better and more complete realization of individual's own interest and easier coordination of economic activities. In their interpretation, norms are the way to understand the effects of contra-agents in all situations where the direct exchanges of information are impossible. Thus, the norms become a) a significant mechanism for harmonizing actions of individuals with the environment, and therefore the actions of others and b) a realization hypothesis (certainly not a barrier) of rational choice.

Bessy and Favereau's article "Institutions and Economics Convention" [1] is one of the most important attempts to clarify the fundamental methodological issues and the essence of the concept of economic conventions. It explains the relationship of concepts, "convention" and "institute" and place the institute in conventional analysis. The central thought is, except for the organizational function, utterly contradictory, because the authors listed [9] point out that "conventions give birth to an institute and breathe life into them, institutes form the convention and organizations are place of mutual functioning." In virtue of detailed but very abstract conceptual analysis of conventions and institutes, they try to explain the relationship between economic conventions and neoinstitutionalism, as well as their disciplinary boundaries.

By identifying the basic evolution stages of the term "institute", Bessy and Favereau claim that this is not considered in orthodox economic analysis, which was focused on the coordination of economic sequence (neoclassicism) and/or its reproduction (marxism). Since the mid 1970 economic institutes are in focus of theoretical economic analysis, both in terms of economic heterodoxies, and other social sciences. In the early works of conventionalist economic institutes are not mentioned, except in the part of "incomplete" general rules. Stressing the importance of interpretive activities of economic entities, conventionalists focused their analysis on the concept of convention, explained as a scheme of a rule interpretation, instead of the institute, which is commonly defined as "the game rules". Over time institutes were increasingly recognized in conventional analysis.

Regarding the relationship between concepts of institute, convention and organization, Bessy and Favereau define conventions as an inter-subjective scheme of interpretation, that appears as something similar to reflective part of the institute. Convention "activate", i.e. "breath life" into institutions, which in return give them a form. The process of drafting new conventions lies in interpretation, application and review of the overall formal and informal rules (the institute). Organizations use both of them as resources in their approaches.

The above mentioned separate views show considerable complexity of the convention definition, both in terms of coordination problem and aspects of cognitive measurement. At the same time as the founders of conventions economy agree that the convention should not be reduced to habit or custom, whose violation can lead to sanctions by society, or random alignment between individuals. Dual character of the Convention becomes evident when compared with the concept of the institute. Conventions can be considered institutes only to the extent to which they are able to coordinate their interactions. On the other hand, they cannot identify with the institutions of traditional, new-institutional terms [10], or with the terms of "rule of conduct", "contract" or "transaction costs", which place restrictions on the operation of the market as the exclusive principle of coordination.

Respectfully, we should understand the metaphor of "society-businesses," through which Bessy and Favereau try to mark the distance of the economy compared to the mainstream and neo-institutionalism. To explain the differences between conventions and institutes [9] they cite the following metaphor: "Imagine that society = theater, institutes = roles that await implementation, organizations = actors seeking roles and conventions = play summary."

The book "Institutional Economics", edited by Olejnik [11] published with subtitle Thévenot "values, coordination and rationality: economics convention or convergence era of economic, social and political sciences," notes the ambition of the author that the former theory agreement (convention) would be called economy of agreement. Similarly to the economy of neo-

institutionalism, there is a theoretical imperialism, which is exclusively methodologically oriented (without detailed instrumentation, operationalisation or analysis), in this case not only economic, but social/economic/political. Therefore, methodology indirectly applies to universality, which can be seen from the title.

In the aforementioned article, Thévenot interpreted his own attitudes and ideas of other representatives of French conventionalism, noting that "Economic program agreement focuses on three issues, which are opposed in economic thought for the past century and a half: characteristic of the agent and his motives; variants of coordination activities and roles of value and public good, and that he tries to overcome the dichotomy of the standard theory" (referring to the neo-classical) between "rationality and coordination issues, which have never been connected with the third issue – value judgments and norms of behavior" [11; 12]. Immediately following the main explanation of the key ideas and their theories: "If we agree that coordination requires efforts that are not realized automatically according to natural laws, then follows the first interpretation, rather than calculative character of rational human behavior".

Obviously, the principle of rationality is not rejected but rather given a relative and an interpretive character, which seems quite logical, as people in everyday economic activities not only depart from their own rational calculations, but must apply and respect the different conventional framework through which they understand the intentions and actions of others (contra-agents), which involves cognitive and evaluation (interpretation) efforts.

Since the basic problems of economics have been associated with uncertainty and information, where uncertainty has the character of "critical" ("radical"), Thévenot believes that it can cut agreements (conventions) by introducing a general assessment procedure of subject (interpretability) as an assumption of coordination [7]. He proposes a new approach for the analysis of two central ideas of economic science: rationality and equilibrium.

The starting point of his approach is the fact that in many ways, many scholars have pointed that economic activities are performed in conditions different from the abstract theoretical model of perfect competition, which assumes neoclassical theory. He proposes a theory of reasonable (evidence) acting as the most acceptable explanation for the variety of coordination mechanisms. In this regard, he cites a hypothesis: "about the recognition of many important factors underlying the motivation, just as many ways of coordination". It implies that rationality is only one of motivation factors of market exchange, for which the term reasonable, not rational is used.

To give the considered theory necessary scientific consistency, understandability and applicability, Boltanski and Thévenot [7] proposed "the concept of the worlds" (key institutional and real subsystems of economic reality) directly related to the economic theory. It is about seven institutional subsystems (worlds) that have their own specific procedures and mechanisms of coordi-

nation (Figure), their own order of things and standards (requirements for people behavior).

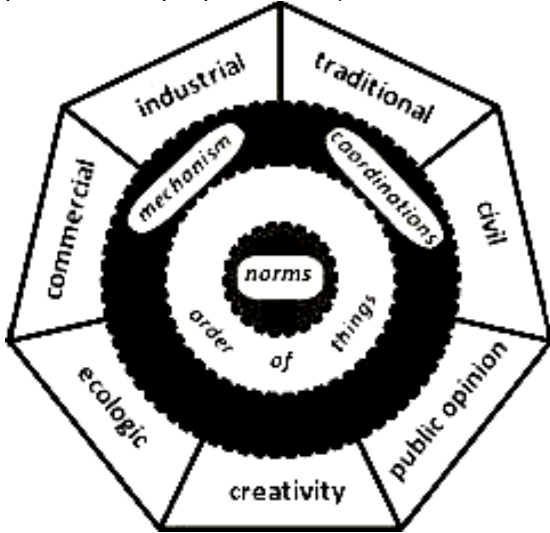


Fig. Structure of the "concept of seven institutional worlds"

Relations (Table 1) between various institutional subsystems ("worlds") of economic reality Thévenot qualifies as critical: what is important in one, is irrelevant in another world. Collision of different worlds is likely to lead to a crisis that can be avoided by seeking compromise and exceeding a critical charge between the "worlds". Compromise is very different from a private agreement, which is dominated by mutual concessions. These actions are affected by severe constraints, focused on search for reality and meaningful action in order to establish the overall balance between observed "worlds", which are variable. The search and finding of a compromise in long perspective contributes to building a new "world," said Thévenot. In fact no form of argument has a universal character because it contradicts to other forms, which allows explaining the nature of critical situations. Any form of coordination is a constitutional arrangement, whose character is manifested only in the process of conflict with other forms of coordination.

Table 1

Incomplete matrix of institutional worlds

subsystem name	coordination principle	order of things	dominant behavior
commercial	market transactions	set of goods	rationality
industrial	standardization	set of standardized goods	functionality, compatibility
traditional	personification of connections and traditions	–	–
civil	subordination of private interests to general	–	–
public opinion	based on famous and most attractive	–	–

	events		
creativity	–	–	–
ecologic	harmonization with cycles of nature	–	protection of environment

Observing the above matrix of institutional worlds, we can see it is unfinished and the criteria of specified subsystem (worlds) are heterogeneous and questionable. The issue of incompleteness becomes clear after reading the work of Thévenot "Various modes of coordination: balance and rationality in a complex world", in which he discusses the first two subsystems (commercial and civil) to explain specific phenomena of the proposed theory, such as "critical situation", "commercial agreement", "real (designed) actions" and "critical uncertainties". Other "worlds," he states pragmatically, indicate complexity of conditions and consequent unjustified simplification of economic reality and its reduction to perfect competition, where it is possible to achieve the general equilibrium.

This is an original theoretical concept, which attempts to analyze the mutual relations of different "worlds", that really exist and operate in economic reality, and to point out the complexity of economic behavior in modern conditions of exponentially growing changes. Also, there is a synergism (pluralism) of institutional subsystem, which maintains a dynamic balance of their relation and compromising reconciliation, which neutralizes possible expansion of individual subsystems at the expense of others. For a better understanding of the basic ideas of the French conventionalist-institutionalists, we "amended" these empty fields of stated matrix (Table 2).

Table 2

Amended matrix of institutional worlds

subsystem name	coordination principle	order of things	dominant behavior
commercial	market transactions	set of goods and services	rationality
industrial	standardization	set of standardized goods	functionality, compatibility
traditional	personification of connections and traditions	set of reputations, trust and habits	respecting seniority and local obligations
civil	subordination of private interests to general	collective awareness of obligations	respecting collective awareness
public opinion	based on famous and most attractive events	set of media influence	following
creativity	inspiration	set of innovations	creative scientific-research
ecologic	harmonization with cycles of nature	natural balance	protection of environment

The above figures and tables are presented to show the great complexity of economic reality and its environment, i.e. to perceive the complex conditions in which individuals make their economic decisions by exercising choice. All these institutional systems are important factors influencing the economic behavior of particular individuals, where each one has its own norms and mechanisms of behavior, principles of coordination, types of arrangements, order of things, dominant behavior, objective world, information sources and the time dimension (orientation). Considering the above factors it becomes clear that the processes of market exchange are very different from hypothetical and abstract model of perfect competition, which uses neoclassical theory. It also suggests the conclusion that these are not the imperfections of the market per se, but characteristics of the complex economic reality in which all these institutional "worlds" act as realistic and pluralistic.

In social sciences, the term "institution" is used in a different sense. Interpretations vary considerably. There is no unique definition. The institute includes constitutional system of government, any legitimate social association, a collective belief and a way of behavior, rules of the game, where players are organizations and entities of domestic economy, rules of behavior known to all members of society, whose respect is provided by personal interests or external power, codification strategies to reach evolutionary equilibrium etc.

Generally D. North views institute as a foundation for functioning of the organization [10]. Economic institutes are regulators and coordinators of economic behavior, containing rules and mechanisms for successful implementation of economic activities. Draskovic states their primary functions: a) restrict behavior of economic agents, b) economize their time and efforts in making decisions, c) reduce transaction costs, d) help adapt to changes, e) minimize the risk, uncertainty and entropy, f) allow implementation, connection and coordination of economic relations, resources, subjects and activities, g) facilitate economic and interpersonal communication, and h) provide reliable protection against opportunistic behavior [13].

According to North, the main economic institutes (property, market regulation and state regulation) are supplemented with positive acts, which regulate rights, obligations and permitted forms of economic behavior, as well as sanctions for its violation. In addition, the same author insists on importance of institutions and institutional competition because institutional development has become one of the fundamental and universal progress criteria of civilization. It includes formed institutional environment (set of basic political, legal, social and other rules governing economic activity) and existence of institutional arrangements, stipulating ways of cooperation and/or competition between economic agents. Protection is especially important part of property institute and specification of property rights on resources and results of their use, because it is the basis of any economic activities and stimulus

assumption for effective use of resources. Draskovic describes them as defined, agreed and generally accepted patterns that govern human behavior and represent means for adaptation to the changes, minimization of entropy, risk and uncertainty [14].

According to North, institutes are "game rules" of society, ie. limiting framework determined by people, serving to organize and coordinate their mutual relations (behavior).

They provide driving motives of action among people in politics, economy and social sphere. This formulation includes economic and noneconomic institutes. If institutes were game rules, then the first fundamental question concerns the nature of these rules: are they completely external or not? What are the elements of this game rules? To what extent are these economic agents recognized and what impact is made on them?

Characteristically, North presents this concept in reversed order. Institutions determine formal (rules) and informal (norms and conventions) constraints, structural interaction between the actors, especially the organization. Institutions are not always aligned with the efficiency criteria, which denies them ability to reduce (but not eliminate) uncertainty in terms of mutual interaction between agents, a priori (but not systematically) rational and working for their own interest. During a collision of informal restrictions with new (exogenous) assumptions, as well as formal restrictions and interests of organization, changes in relative prices gradually change institutes, too. That way, individual economic entities expend resources to modify the rules. But they work on two logical levels: choice of rules and ways of their implementation.

To create a rational model, which connects these logically disparate areas (i.e. levels: rule selection and in accordance with them, selection and mode of rule application), conventionalists introduced the idea of rational action, which includes: a) political adjustment (or suitability) and b) common good criteria in society. Interactions within economy of conventions are represented not only as exchange of goods and information, but also as exchange of arguments.

The consensus theory has no conceptual boundaries, which methodologically provides for the argumentative criticism of neoclassical and neo-institutional rationality. Therefore, as well as for its multidisciplinary, it presents an alternative theory, since, instead of a thesis on the universality of market behaviour norms, it insists on the existence of the abundance of (reasonable) coordination forms and consensus types. Methodologically and terminologically, it is similar to neo-institutionalism, especially in part of limitations in economic behaviour and the pluralism of coordination forms, but there is also a difference in the originality of their interpretation, language expression and extremely wide range of motivation system.

Numerous mutual elements (terms, categories, economic imperialism and similar) such as norms, regulation, reasonable as a synonym for rational and

other, imply that the attempt to create an original concept appears rather as a substitute than as a constructive and paradigmatic theoretic alternative. Additionally, we cannot deny numerous descriptive elements of convention economy conceptual originality, nor can we dispute certain visible compilation reflections of neo-institutional economic theory (Table 3).

Table 3

Similarities and differences in interpretation of institutes and conventions

differentiation criteria	neoinstitutionalists	conventionalists
basic concept	institute	convention
interpretation of basic concept	formal and informal game rules, representing restrictions	scheme of rule interpretation
short definition	rules of behavior, agreement and its mechanical implementation	interpretation (implementation) of rules
basic problem	coordination of actors (organizations)	harmonization of mutual expectations of actors, their coordination and reproduction
function	coordination i regulation of reciprocal effects	coordination and assessment of reciprocal effects
goal	meta-individual results	harmonization of social autonomy with the idea that people act individually
way of expressing	form	essence
accent on	rational behavior of economic agents	situationality and reasonable action that involves political perception and criteria of public good
reciprocal action of economic agents	exchange of goods and information	exchange of goods, information and arguments
evaluation of efficiency	reduce transaction costs	logic of justification
relationship to methodological individualism	rationality of individual agents	social essence
relationship to Popper's three worlds	objective content of thought	state of knowledge – subjective and interpersonal qualities
factor model	institutes	conventions-institutes-organizations

It seems though that the latter is much more consistent, more appropriate for economics and terminology, and more applicable in economic reality. Economy of convention provides useful tools for understanding the problems of institutional change. It allows understanding that institutes in general and economic institutes in particular, cannot develop or stabilize unless they are supported by "bottom-inside" at the organizational level, where the convention act as a generally accepted and where everyone shares the same forms and criteria of evaluation and behavior. Similarly, the sources of radical uncertainty, characteristic of post-socialist economies (often described as chaotic and limitless), should be sought in absence, or, to a lesser extent, in unclearly defined rules (of conduct).

The originality of the economy of conventions consists of understanding that empirical diversity of economic and non-logical institute is justified. Conventionalists believe that real markets, organizations and networks of economic agents coordinate by a complex set of conventions of a different nature. They go beyond the observation of the institute as a means of lowering transaction costs, i.e. minimization of losses. They believe that institutes form densely interwoven social network (environment), beyond which one cannot imagine the effect of economic agents. This means that institutes are not only simple intermediary of direct interaction, but their objective prerequisite and resource, which creates certain restrictions, on the one hand, and provides opportunities to more developed perspectives, on the other. As a result, a multidisciplinary theory of conventions is seen as a special and original paradigm in the analysis of institute.

Regardless of the previous statements, and for the purpose of the application in economic policy, it is important that the existence of norms, rules and conventions is not coherent with "universal" (essentially monistic and vulgarised) interpretation. It is about the neoliberal promotion of market and individual rationality and polarized orchestrated interpretation of state interventionism. Similar to neoinstitutionalists, conventionalists advocate for pluralistic mechanisms of coordination. They correctly imply that neither free market nor state intervention can or may be the only universal form of coordination. The cited conclusion is sufficient to evaluate the appearance and development of the economy of conventions positively from the aspect of possible influence on economic policy and economic development. Future theoretic discussions are yet to show how significant the contribution of theory of conventions is.

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