

EXPLAINING THE PROCESS OF CHANGE TAKING PLACE IN LEGAL RULES AND SOCIAL NORMS: The cases of institutional economics and new institutional economics

Fernando Toboso (*)

Department of Applied Economics
University of Valencia
Av. Tarongers s/n, 46022 Valencia, Spain
Fax: 96-3828415
E-mail: Fernando.Toboso@uv.es

ABSTRACT

This paper deals with the phenomenon of institutional change and it has been conceived as an attempt to answer the following question: Can we retain the image of institutional change contained in a theory when we replace a methodological foundation upon which the theory was built by a different and alternative one? . For an answer to be developed, special attention is paid to the contributions made by institutional economists (IE) and to those others by transaction cost-new institutional economists (NIE). The question clearly shows that it is rather a paper on applied methodology than a survey on institutional change contributions. Because of that, its main purpose is not to increase our knowledge about the characteristics of real changes in legal rules and social norms, their causes, their processes, nor their effects, though several examples are given of those institutionalist and new institutionalist contributions that analyze those changes. Our purpose consists of investigating the way in which these two groups of economists approach the object of analysis already mentioned. Our conclusion will be that institutionalist and new institutionalist contributions are built upon two different and mutually exclusive approaches because their respective methods of analysis (holism versus methodological individualism) are different and, above all, because they build their respective analyses upon some concepts that are mutually exclusive (concepts showing power/non-voluntary influences versus concepts showing voluntary transactions). Their analyses contain different and mutually exclusive images of the changes taking place in legal rules-formal institutions and social norms-informal institutions. Some comments about the limitations of the holist method of analysis are made in the paper.

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I. INTRODUCTION

This paper deals with the phenomenon of institutional change and it has been conceived as an attempt to answer the following question: Can we retain the image of institutional change contained in a theory when we replace a methodological foundation upon which the theory was built by a different and alternative one? For an answer to be developed, special attention is paid to the contributions made by institutional economists (IE) and to those others by transaction cost-new institutional economists (NIE). The question clearly shows that it is a paper on applied methodology rather than a survey on institutional change contributions. Because of that, its main purpose is not to increase our knowledge about the characteristics of real changes in legal rules and social norms, their causes, their processes, nor their effects, though several examples are given of those institutionalist and new institutionalist contributions that analyze those changes. Our purpose consists of investigating the way in which these two groups of economists approach the object of analysis already mentioned. Being a paper on applied methodology, and being also the said contributions of a high level of generality and abstraction, it is much more abstract than both the theoretical and applied standard papers.

The answer to the former question is: no, of course not. We cannot retain the same image because it greatly depends upon the methodological foundations and other principles the researcher uses in order to conduct his research and build his analyses. As is well known, the preconceptions that are implicit in the concepts used, the motivational assumption or model of man, the method of explanation-analysis and some other assumptions made and criteria adopted by the researcher are all good examples of these methodological foundations. In order to develop the answer, however, the first part of the paper reminds us that it is a distinguishing characteristic of institutional economists to acknowledge the existence of this subtle influence that affect the analyses elaborated. Although some references to the debates, discrepancies, and incompatible analyses elaborated by the self-labeled institutionalists are given in the paper, it is also argued that two compatible methodological foundations can be found among those contributions that deal with the complex task of explaining the process of institutional change. The same can be said about the transaction cost-new institutional contributions that deal with that processes of change, though these ones have come about more recently and still are less abundant than those other new institutionalist analyses about institutions which are only exercises of comparative statics.

Furthermore, we will direct attention to these two methodological foundations commonly shared by many institutional economists that are usually referred to as holism and power conceptualization. We will briefly introduce those foundations and show how they affect the image of institutional change contained in institutionalist analyses. Some comments will be also made concerning some limitations of the holist method of explanation.

Next, special attention is paid to the contributions made by the transaction costs-new institutional economics, in which, among other differences, holism is replaced by methodological individualism and the power conceptualization is replaced by a voluntary conceptualization. New institutionalists are also known for their adoption of transaction cost concepts. These other contributions represent an example of how these new foundations lead to the elaboration of analyses that contain a different and alternative image of institutional change from that other that is found in institutional economics. Some examples from both camps are given and compared, both in the case of changes in social norms-informal institutions and in the case of changes in legal rules-formal institutions. Our conclusion will be that institutionalist and new institutionalist contributions are built upon two different and mutually exclusive approaches because their respective methods of analysis are different but, above all, because the said conceptualizations are not only different but mutually exclusive.

Since some limitations are mentioned in the paper concerning the holist method, a partially new question will be posed and a preliminary answer will be briefly sketched at the end of the paper in order to signal areas of complementary research. This question is: What kind of image of institutional change could we build through an analysis that were based upon an individualist method of explanation such as the institutional individualism of J. Agassi (1975) and upon concepts showing power influences?.

II. THE METHODOLOGICAL FOUNDATIONS AS INEVITABLE CONSTRAINTS.

Once the steps to be followed in this paper have been indicated, we need to begin again by emphasizing that the image of reality contained in a theory greatly depends on the methodological foundations upon which the theory has been elaborated. Present day institutionalists, as well as their pioneer predecessors at the first quarter of this century, have been explicit enough on this point, having

dedicated a large part of their intellectual efforts to reveal how the methodological foundations adopted by neoclassical economists influence the image of the market processes they offer, and to stress that upon different methodological foundations a different image may be elaborated¹. As must be known, it is sometimes asserted that nothing else apart from radically critical analyses and unorganized descriptive materials can be found in the contributions of these economists who seem to share some philosophical conceptions of the German Historical School. It is more frequently asserted that their contributions do not qualify as a well-established Kuhnian paradigm nor as a mature Lakatosian scientific research program². But I want to argue here that, particularly in the last twenty years, I see the institutionalists making a renewed effort to deep into and explicitly point out the methodological bases and conceptions they usually share in doing their research task³. May we derive any conclusion from these efforts? I think so⁴. I think it is possible to point out a minimum set of compatible methodological foundations which are usually present in many institutionalist contributions dealing with the task of explaining the process of institutional change. As we will also emphasize in several sections of this paper, it must not be deduced from this statement that differentiated positions and incompatible analyses cannot be found among the institutionalists, nor that methodological monolithism is a desired requirement for doing research⁵. Concerning the new institutionalist contributions, we are going to see that a consistent methodological approach can be also found here, despite some methodological differences that also exist among the new institutionalists.

Though built upon compatible methodological foundations, it is certainly possible to believe that the images of institutional change that the institutionalists usually build in their contributions or those others elaborated by the new institutionalists are very poor representations-explanations of reality, or even mistaken ones, and that this is a result of the methodological foundations that usually characterize their respective approaches. In both camps we can find arguments of this kind concerning the contributions made in the other camp. On this, I must say that it is not the purpose of this paper to comparatively assess the explanatory accuracy or empirical relevance of the two contributions, though some comments will be made concerning some problems and limitations with the holist mode of explanation.

In this paper, I am using the term "methodological foundations" in a broad sense that includes, as mentioned in the introduction, the main concepts-conceptualizations used, the motivational assumption or model of man adopted, the mode of explanation-analysis employed as well as some other specific assumptions, rules, criteria and principles adopted by the researchers in order to do their work, in this case, to build the best image of the institutional change they can.

I should also explicitly mention now what has been implicit until here in the paper, that is, that I am particularly concerned on discerning how some methodological foundations adopted by the researchers affect/constrain the image of institutional change that they offer us in their contributions, that is, how these foundations affect the initial and subsequent characteristics, the size, the causes, the interconnections, the timing of the change, etc., that we see in their contributions. I am not concerned in this paper about how some specific methodological foundations (the term used in a broad sense) adopted by the researchers may influence-constrain their valuations-assessments concerning whether the institutional change they are dealing with is desirable or not, good or bad, efficient or inefficient, fair or unfair, just or unjust, whether it has instrumental value or ceremonial value, etc. (and for whom it is desirable, etc.), because I am not considering these explicit valuations-assessments nor the recommendations-prescriptions for public action or reform also derived from criteria or principles such as those just mentioned. It must be noticed, however, that these assessments and recommendations are the central tasks of most institutionalists and what they consider to be the final purpose of the social sciences⁶. It must be also noticed that, since an "efficiency view" is adopted in many new institutional explanatory analyses, I will have to critically comment a bit on this later⁷.

And the last comment of this section is to explicitly declare that the choice I have made concerning what I consider to be two basic methodological foundations of each camp is subject to discussion among the scholars of each camp themselves⁸. However, since the purpose of this paper is not to take a position on these debates but to answer the initial question, it is not a topic to be worried about here whether the methodological foundations we focus on really are the basic ones or not. For our purpose, they might not even be the most important ones and our arguments and conclusions would not be affected either⁹. On this respect, I must also say that in investigating both types of contributions for answering the initial question, I intend to be constructive and not critical or destructive.

III. SOME METHODOLOGICAL FOUNDATIONS OF INSTITUTIONAL ECONOMICS.

Which are then these two methodological foundations commonly shared by many institutionalists I am referring to? . They are the methodological holism as a mode of explanation-analysis and the power conceptualization.

To refer to the first one, terms such as methodological collectivism and functionalism have also been used with a sometimes slightly different meaning. Gruchy, A. (1947) is considered the pioneer among the institutionalists in introducing the term holism to characterize institutionalist contributions. On the history-philosophy of sciences camp, it was in the last sixties and the early seventies that the last big debate on how should be explanations in the social sciences took place, particularly confronting what are considered two extreme modes-methods of explanation-analysis: the psychologistic methodological individualism and the methodological holism/collectivism¹⁰ . I think it is obvious that the traditional neoclassical general theories are usually elaborated upon the first of these methods. For most institutionalists, however, this mode of explanation-analysis is not considered a proper one in dealing with the research questions they usually want to answer¹¹ , but we are not interested here about this method. On the contrary, we want to pay attention to the methodological collectivist mode of explanation upon which many institutionalist analyses on institutional change are built.

Which are the main characteristics of the holist/methodological collectivist mode of explanation?. As a way of briefly but accurately summarizing the institutionalists' position on this, I can say that, to adopt this method implies presupposing that individual actions are only properly understood-explained if individuals are considered parts-components of some other entity(s), being the position they occupy a basic factor in determining the values, ideas, knowledge, preferences, purposes and constraints faced by them. Then, analyzing human actions and interactions and the generated events means paying special attention to those entities (groups, associations, corporations, political parties, churches, cities, states and other organizations and institutions) to which most of the individuals belong to, most of the time, as passive members who assume (we do not now specify how) the purpose, values, rules, norms, etc., usually established long before as a distinguishing mark of the entity-organization-institution¹² . It is because of this that these collective entities, social entities or institutions take such a central position in the institutionalist contributions and that it is even sometimes asserted that these entities have objectives of their own, usually established long before by individuals that may even be dead. And, it is so when those objectives and rules remained written, and also when they were only kept in the minds of the founders and were orally transmitted. We are not paying attention now to the mechanisms established to enforce these objectives and rules. But institutionalists are also interested in analysing-explaining the changes that take place in these entities-institutions. To examine the image of institutional change they build is one task of this paper, as is surely remembered. In explaining-analysing institutional changes with a methodological collectivist mode-method, institutionalists are also required to pay special attention to the position the evolving institution occupies in the overall institutional matrix or structure, as well as the position occupied by other entities that might benefit from this evolution or change. The actions of the individuals involved are only properly understood-explained if the position they occupy in the institutional structure, and how it affects them, is taken into account¹³ .

Of course, the holist-collectivist mode of explanation leads to the elaboration of a discourse-analysis of a very high level of abstraction in which many concepts and arguments that do not have an empirical counterpart (directly or indirectly observable) are used. This makes the task of refuting the explanations an even more difficult task than usual (even if in a comparative and sophisticated Lakatosian way). The autonomous-impersonal social forces and factors appearing in institutionalist contributions are an example of that¹⁴ .

The second methodological foundation of institutionalist contributions on institutional change mentioned in this section is the power conceptualization. This one is not a mode of explanation but a set of concepts or analytical categories that imply concrete preconceptions and that profoundly affects the image of reality offered to us in the analyses so elaborated. It must also be obvious in this case that traditional neoclassical general theories about the market are not elaborated using power concepts-preconceptions except in rare and anomalous situations such as that of the monopoly¹⁵ . They are built, on the contrary, using what may be called a voluntary and static maximization approach and, more recently, since the introduction of the theory of games' tools, using a voluntary and strategic maximization conceptualization. In both cases, the object to be analyzed-explained is approached through a set of concepts-preconceptions

that only allow us to see and show voluntary actions and interactions between free individuals, that is, voluntary exchanges.

In the institutionalist contributions elaborated upon the power conceptualization, however, the transmitted image of the market processes (as well as other processes and institutional changes) is a different one from that other mentioned above. Instead of a picture-film where consumers appear making free choices in the supermarket, or where potential traders freely make offers in order to reach an agreement, or where a potential employee also freely decides to accept or not any of the available jobs, to mention just a few elementary examples, in the institutionalist contributions concerning the market processes, by contrast, the picture-film is one in which, for example, consumers arrive at the supermarket greatly influenced in their values and preferences by the power of the big corporations and their control of the mass media, where consumers are compelled to choose between A, B and C versions of a product but not replace his D version which is no longer produced by the firm, or where unions attempt to increase their bargaining power when confronting the bargaining power of the corporation¹⁶. As already stated, institutionalists also use power concepts in their analyses of institutional changes but we leave the investigation of the image so offered for sections 5 and 6 when comparing it with the image of institutional changes offered by the so-called transaction cost-new institutional economists. The basic purpose of this step in answering our initial question has only been to point out and briefly introduce the two methodological foundations of institutional economics mentioned, that is, the methodological holist/collectivist mode of analysis and the power conceptualization. Here, we only have left to emphasize that, as is obvious in the examples just given, both foundations work together. And that means that in explaining-analysing the sources of power, the process of power influences, the impacts of power, etc., special attention must be given to the specific entities-institutions always present, to the positions individuals occupy in them, and to the overall institutional structure under which the phenomena to be analyzed take place. Autonomous and supraindividual powers are usually basic factors in those contributions. The limitations mentioned above apply also here.

IV. THE ALTERNATIVE METHODOLOGICAL FOUNDATIONS OF THE NEW INSTITUTIONAL ECONOMICS.

Let us go with another step in developing the answer to our initial question. The question was: Can we retain the image of institutional change contained in a theory when we replace a methodological foundation upon which the theory was built by a different one?. The straightforward answer was: no. Now it is time to offer an example. As we are interested on institutional changes, we should find a set of contributions to the analysis of those changes that had been elaborated upon different methodological foundations from those already mentioned in the case of institutional economics. Once found, we should investigate how the new foundations affect the image and whether the image is a different one from that which is offered by institutionalists. We are lucky because there is a group of economists that are doing it, working closely with each other and systematically debating their progressions. They have called themselves new institutional-transaction cost economists. Although this intellectual movement has Ronald Coase as one of its leaders and the classic works of Coase, R. (1937) and Coase, R. (1960) as inevitable references together with the contributions of the property-rights theory in the sixties and seventies, it has been in the eighties that this movement has acquired its distinguishing characteristics, particularly since the international seminar series on the "New Institutional Economics" began in 1983 and these debates were published in the *Journal of Institutional and Theoretical Economics*¹⁷. It must also be said that though several scholars closely related to the Public Choice Center and the Virginia school actively participate in these debates, the new institutionalist contributions represent an emerging research program differentiated from the public choice one¹⁸.

Which are the basic methodological foundations commonly shared by the new institutional-transaction cost economists?. Let me say again, before answering, that the latter two comments of section 2 are equally relevant here, particularly the latter one. Therefore, neither is the purpose of this paper to deal with and take a position on the methodological debate that is taking place among the new institutionalists already mentioned in note 8, even if their own reflections reveal that there still are too many methodological aspects to be discussed¹⁹. Even the editor of the international seminar series, Furubotn, E. [1993, p. 8] has recently stated: "If it was thought previously that the work of the new institutional economics could be accomplished simply by extending neoclassical theory, there is reason today to believe that something more is required. (...) Some insights yielded by neoclassical analysis will continue to be valuable, but theoretical

movement seems likely to be in the direction of a more flexible and comprehensive model of political economy".

Nevertheless, I am going to be as constructive here as I was in the case of institutional economists to state that two basic methodological foundations commonly shared by many new institutional economists when analysing-explaining institutional changes are the methodological individualism mode of explanation and the so-called voluntary conceptualization²⁰.

As already said, they are also well-known by their emphasis on adopting a transaction cost conceptualization, though not everyone self-labeling himself new institutionalist adopts this foundation as we are going to comment next. They usually combine also the methodological individualist mode of analysis and the so-called bounded-procedural rationality assumption²¹. As they themselves have written, when, by contrast, full information-unbounded rationality is assumed, transaction costs may be disregarded because this concept is defined as the cost of measuring the different aspects of the options available for action, the cost of negotiating the terms of the exchange-contract selected, and the cost of enforcing these terms once established. Even if discussions always appear in deciding who is going to settle what is full and what is less than full information in every situation, one could logically imagine that if full information existed for all the agents, and they also had no cognitive-processual limitations, none of these costs would be relevant because the processes that generate them would be, under the assumption-s made, almost automatically-instantaneously solved and then transaction costless by definition of this concept. So then, in referring to the transaction cost conceptualization of the new institutionalists, an implicit reference is usually also made to the bounded rationality assumption. As known, many neoclassical economists usually adopt the full information-unbounded rationality assumption when building their general theories²².

These methodological differences from the traditional neoclassical analyses allow the new institutionalists to offer also new insights and a differentiated image of many market processes neoclassical analyses usually deal with²³. And, what is more important to us here, new institutionalists also attempt, among other things²⁴, to analyze-explain the institutional changes that take place and significantly affect economic performance, broadly conceived. All this no doubt makes a difference from neoclassical contributions but, as we are going to see next, there are also significant similarities that we must not disregard if a complete but simplified view of the new institutional economics is to be transmitted. What must be emphasized right now is that this comparison between neoclassical economics and transaction cost economics already represents an example of how it is not possible to retain the same image of reality when we replace a methodological foundation upon which it has been elaborated by a different and alternative one (unbounded rationality-transaction costless versus bounded rationality-transaction costs in the present case).

But we are interested here in comparing images of institutional change, not in comparing images of market processes and organizational activities under assumedly stable market rules-institutions. And, in this respect, we want to compare the images of institutional change (and their respective foundations) contained in institutional economics and those others contained in new institutional economics. In doing so, our focus will be directed to compare the power conceptualization adopted by the institutionalists and the voluntary conceptualization adopted by the new institutionalists. Let us take, then, another step in developing the answer that keeps us arguing.

V. ON HOW DIFFERENT ARE THE IMAGES OF INSTITUTIONAL CHANGE: THE CASE OF INFORMAL INSTITUTIONS-SOCIAL NORMS.

If I have just said that the new institutional approach methodologically differs from that of the traditional neoclassical economics, I am going to emphasize now that it differs much more from that of the institutional economists sketched in section 3 of this paper. Up to this point, this must not sound strange to anyone who has carefully read the two previous sections. Furthermore, the new institutional-transaction cost economists have themselves dedicated some of their time to explicitly remark that the antecedents of this new movement cannot be found in what they call the old institutionalism and their modern successors, though both camps share some areas of concern²⁵. They have also repeatedly expressed that their intention is to extend neoclassical microeconomic theory by relaxing some of its core assumptions in order to incorporate institutional factors and organizational aspects into their theories²⁶, though Furubotn, E.

[1993, p. 8] has recently shown the reservations already mentioned in the previous section. All these comments serve as a further endorsement of our conclusion even if it does not rest on them.

How important are the existing methodological differences between institutional economics and new institutional economics? They are so important that we can refer to them as two different and mutually exclusive approaches. And the central role in this differentiation is played by the power conceptualization that is usually adopted by institutional economists and neglected in new institutional contributions which, on the contrary, are elaborated upon the so-called voluntary conceptualization. Despite their methodological differences from the traditional neoclassical approach, the new institutionalists share with neoclassicals this last methodological foundation mentioned. The contributions of both groups are built upon a voluntary maximization approach, though in the case of the new institutionalists the maximization is assumed to be rationally bounded and strategic and, consequently, with positive transaction costs. To build the analyses of institutional change upon power concepts or to build them upon concepts that only allow us to show voluntary interactions or transactions is a radically different intellectual activity which leads to a radically different image of the institutional changes under investigation.

It must be noticed here that I am not pointing out the maximization or rationality aspect of the assumption mentioned. Neither am I referring to the differences that are a result of the different modes of analysis employed, though they are important too²⁷. I am interested here, however, in emphasizing and briefly comparing the differential impacts over the image of institutional change that are generated as a result of alternatively using a power conceptualization or a voluntary conceptualization. In order to show these specific differences, it is worthwhile to group the analyses according to the type of institution they deal with. Let us go to compare now the images of change concerning informal institutions-social norms. In the next section we will compare the images of change concerning formal institutions-legal rules.

In this sense, we can first say that there are an increasing number of these new institutionalist contributions on institutional change which particularly deal with change in what is called informal institutions, social institutions, social norms or social conventions. Schooter, A. (1981), (1986), Vanberg, V. (1988a), (1988b), Ault, R. W. & Ekelund, R. B. (1988), and even most of Witt, O. (1989) may be pointed out as some examples²⁸. In these works, the central focus of interest is put on explaining-analysing the emergence, the change and the effects of social norms-informal institutions such as "to settle disputes among gentlemen by dueling", "not to defect", to "rapidly pay doubts", "to keep your word", "to help your neighbor", "to always drive along the same side", and many other traditions and customs that are, basically, behavioral rules widely respected by the members of a community. These widely shared informal institutions or behavioral rules lead to what is labeled in this literature as rule-following behavior on the part of individuals, as opposed to the case-by-case maximizing calculation of traditional neoclassical analysis on market processes.

The point to be emphasized here is that the new institutionalists usually explain the emergence and change of these behavioral rules as a result of deliberate and voluntary personal decisions taken by most, if not all, of the individuals of a community. Often, the image of institutional change contained in these contributions shows us that it takes a long time for the behavioral rules to gradually evolve and change. In some other cases, specific characteristics of an informal institution are presented as rapidly changing because of an imitation process on the part of the individuals when confronted with new circumstances.

Among those self-labeled new institutionalist contributions, we can find some works where the emergence of these behavioral rules is explained with an approach explicitly based on the psychologistic methodological individualism mode of analysis here attributed to the traditional neoclassical contributions and, because of that, not fitting very well in the methodological presentation of the new institutional economics given in section 4, though they still are built upon the voluntary conceptualization. This is the case, for example, of the image contained in those contributions dealing with the emergence of the "to cooperate if others do" behavioral rule in which unbounded rationality-complete information, small number of participants and continuous repeated game interactions are assumed. Under these assumptions it seems rational for individuals to adopt this rule of behavior instead of being calculating on every occasion whether or not to cheat in their transactions with other members of the small community. The free-rider problem gets eliminated²⁹. Obviously, this image of the emergence of informal institutions does not account for aspects so important in proper new institutional contributions such as transactions costs, information limitations, and limited cognitive abilities on the part of individuals implicated. The abstract maximizing individual mentioned in G. Hodgson (1989) continues to be the central tool of analysis here, together with some other concepts of game theory. However, among the new institutionalist contributions we find also many other works that fit

better in the methodological presentation of new institutional-transaction cost economics given in the present paper. The image of institutional emergence and change here elaborated rest upon all methodological foundations mentioned in section 4, that is, the methodological individualism mode of analysis, the voluntary conceptualization, and the transaction cost conceptualization-bounded rationality assumption. If positive transaction costs-bounded rationality is assumed to exist, it may be a reasonable decision for an individual to voluntarily adopt a behavioral rule which in his own opinion proves to yield good average results instead of incurring the transaction costs and risks implied by the case-by-case strategic maximization and all its requirements³⁰. If other members of the community arrive at the same conclusion or simply imitate such a profitable strategy, the initially personal rule of behavior may become an informal institution which endures through time and passes on from some individuals to others. In the image contained in these contributions, this informal institution may be gradually modified or altered if new circumstances systematically and increasingly led individuals to perceive the average results as more and more disappointing³¹.

Transcending all the peculiarities, what is important to emphasize here is that all these contributions on the emergence and change of informal institutions are elaborated upon a voluntary conceptualization. In this image, individuals appear voluntarily deciding what behavioral rules (social norms, social conventions, etc.) they are going to follow and when they are going to change them. This is a radically different image of these phenomena from that other which is contained in institutionalist contributions and is built upon power concepts. Let us give some examples of the latter before coming to compare their respective images concerning changes in formal institutions.

As W.T. Waller (1988) points out, when institutionalists refer to this kind of phenomenon we are now dealing with, they usually focus their attention on what they generally call social habits. The emergence of shared habits and their gradual alteration constitutes a major theme of research concern to institutionalists since the times of Th. Veblen and J.R. Commons. Though in investigating these phenomena, present day institutionalists such as W.T. Waller (1988) himself, G. Hodgson (1993), W.M. Dugger (1980a), and some others have enriched the set of concepts they inherited from these and other pioneers³², the two basic methodological foundations mentioned in section 3 have remained in most, though not all, of their contributions. To use holism/methodological collectivism as the basic mode of explanation-analysis together with power concepts in the task of building the most accurate image of the emergence and change of informal institutions (that is, habits and social norms as behavioral rules for individuals), means paying special attention to the power influences individuals receive because of the position they take in the overall institutional structure, both their positions in the existing formal institutions³³ and the sources of power they are, and their position concerning the habits and social norms that prevail among the members of the several organizations they belong to. Individuals' values, goals and preferences appear in these institutionalist contributions greatly moulded by these power influences emerging from the institutional structure, and so are the behavioral rules or social norms individuals follow when acting in their daily activities: shopping in the supermarket, deciding how to use their leisure time, eating at an embassy reception, or attending a funeral, to mention just but a few examples. In the image contained in institutionalist contributions, the adoption and change of these behavioral rules or social norms do not occur as a result of a deliberate and voluntary decision taken by each individual, who calculates (with bounded or unbounded rationality) which norms are more profitable for him, but a result of the power influences individuals receive in their never ending evolutionary process of learning. When an individual moves to a different institutional setting, he progressively gets influenced by the new behavioral rules or social norms that prevail in his new location, norms that replace the older ones when they become incompatible. Of course, a specification of the process of the power influences and the operating mechanisms that lead to this result is needed in order to complete the holistic argument. Mechanisms such as those highly abstract ones used by W.M. Dugger (1980a), (1988), and Hickerson, S.R. (1982) that we have just mentioned in note 32 must be explicitly incorporated into the image-theory in order to make the holistic explanations logically consistent³⁴.

It must also have been noticed that I have not made any reference in the above comments to individuals exercising power influences. This is not by chance, but a result of my concentration here on strict holistic contributions such as those mentioned where we find statements so abstract as this one: "A corporate culture is a set of shared beliefs and values inculcated in the corporations employees. The corporate culture reinforces and reshapes the employee's general desire to do well into a compulsion to get ahead through loyalty to the corporation and through hard work for the corporation"³⁵. Or such as this one: "The following framework will place great emphasis upon the institutional structure and the individuals it produces. Only after grasping the relation between institutional structure and individuality can power itself be analyzed.(...) American economy contains six clusters of institutions (...). Each of the non-economic clusters is linked to

the dominant economic institution, the corporation, in a kind of means-end continuum"³⁶. The problems I pointed out in section 3 and note 14 when considering the holist mode of explanation are also relevant here. At the end of the next section I shall come back to this issue to leave a new question open.

VI. THE DIFFERENT IMAGES OF CHANGE CONCERNING FORMAL INSTITUTIONS-LEGAL RULES

What can I say now on the images of change contained in those contributions that deal with formal institutions?. First of all, I need to explicitly point out what this term usually refers to, though we have already mentioned it in previous sections. As in every classification, there is here a blurred frontier dividing informal and formal institutions, but for our purpose we can introductorily say that if informal institutions are those elemental behavioral rules individuals share and follow because they keep them in their minds (voluntarily adopted or unreflectively imposed, depending on the image built), formal institutions are those sets of general and more complex legal rules (which usually are externally materialized in written documents) by means of which a group of people gets their interrelations and their team activities organized. These written-legal sets of rules include procedures, requirements, norms, principles, criteria, time limits, obligations, sanctions, and also explicit purposes and values. Although sometimes the terms "formal institution" and "organization" are indistinguishably used, in analyzing institutional change, our explanatory precision is enhanced if we conceptually differentiate between them³⁷. In this sense, we can say that the formal institutions consist of the set of legal rules that every organization must have to exist. The rules contained in a political constitution, the rules that characterize the Spanish Central Bank, and the rules of an economists' association are all examples of formal institutions that allow an organization of individuals to be formed. The University of Valencia may be also labeled as a formal institution when referring to the set of rules contained in the "University of Valencia Statute" together with some other regulation measures adopted by the consecutive government bodies in which more specific rules and procedures are settled. These formal institutions-set of legal rules, allow a group of people to form (or to be part of) a team, association or organization in order to interrelate to each other or to do things all together (in an organized and specialized assignment of tasks) which could not be done without such rules and the organization they create. But these formal rules also constrain behavior and, then, reduce discretionality, as is the case in informal institutions-social norms, otherwise the coordination might not be effective³⁸.

Of course, individuals belonging to one or more of these organizations are not only subject to these formal-legal rules but also to other elemental behavioral rules or social norms that prevail among the members of each organization. We are here conceptually differentiating between formal and informal institutions, but it must be clearly stated, to prevent any misinterpretation of these concepts and comments, that people's interrelations through organizations are usually subject to both formal and informal institutions, formal-legal rules and informal-social norms. It is also possible and frequently observed that a person is affected by several sets of legal rules and social norms pertaining to a similar level, such as those of his tennis club and those of the association of parents existing in his children's school. And it is also evident that everyone is subject to institutions that are part of a more inclusive institution, such as the set of rules (formal and informal) of our family, the set of rules (formal and informal) of our resident's association, the set of rules (formal and informal) of our municipality, etc..

Once this conceptual clarification has been made, I want to emphasize that in analysing-explaining the change which takes place in formal institutions, institutionalists and new institutionalists differ even more than they do when building the most accurate image concerning the emergence and change of informal institutions they can. It must be said, however, as already mentioned in note 24, that among the new institutionalist analyses of institutions there are many which simply consist of exercises in comparative statics and, because of that, will not be considered here.

Among the new institutionalist-transaction cost economists who sometimes deal with change in formal institutions, O.E. Williamson is one of the most prominent figures, if not the most. Because of the influence of his pioneer work *Markets and Hierarchies* on the transactions cost movement, as well as some others of his contributions³⁹, the new institutionalists have put special attention on analysing-explaining the emergence and change of the set of legal rules (including organizational forms) which characterize the organizations we call firms or corporations, assuming that they operate under the more inclusive competitive market rules, and leaving out of consideration all other formal institutions such as those of the polity which, as we know, are also subject to change and greatly affect the phenomena under investigation⁴⁰. It must be said also here that Williamson's contributions also disregard the many informal institutions that affect the phenomena under investigation such as those ranging from the general social norms of the country to the

specific social norms existing among the members of a corporation. He himself has acknowledged that in his contributions there has been no room for social norms or cultural aspects and that this should be remedied. In O.E. Williamson [1984a, p. 69] he states: "this economizing mode of analysis pays little heed to the dignitarian side of organization. Whether that can be remedied within the context of the transaction cost framework or requires that the issue be viewed through an altogether different set of lenses remains to be seen". Methodological individualism, bounded rationality, opportunism, and transaction costs concepts are the central blocks of the image of change concerning organizational forms and other formal rules of the firm he elaborates, that is, the image of vertical integration and enlargement, of franchising, of introducing M-form principles of organization, etc..

However, what is more important for us here is that voluntariness is an always present characteristic implicitly or explicitly attributed to the transactions and changes under consideration, that is, to the changes in formal-legal rules that occur in corporations as organizations of many individuals.

These changes not only are usually conceptualized as a result of voluntary transactions but also as a result of a process leading to a reduction in transaction costs. The image so elaborated of these changes can be then valued or assessed as an image that shows Pareto-efficient changes. That is, reducing transaction costs is efficient because it is assumed to be a voluntary process of change. That is what O.E., Williamson and others usually do⁴¹, though some others such as D. North (1990) are moving away from this "efficiency view", as we have already mentioned in section 2 and note 7. Using voluntary concepts for building the most accurate image of change in formal institutions, as well as using concepts showing power influences, means to inevitably paint-impregnate with some very subtle colours-values the image or explanatory theory that is being built. But to evaluate these changes as efficient changes is a different intellectual task that needs an explicit value criterion upon which to make the judgment or assessment. O.E. Williamson usually does both things when building his image of the transaction cost economizing characteristics of the evolving modern corporation. He builds his contributions upon an implicit voluntary conceptualization, and he explicitly attributes an efficiency quality or value to both the transaction cost economizing characteristics of the corporation when compared to market arrangements and to the transaction cost economizing changes in formal rules of the corporation which are showed in those contributions. All these images, even if every reference to efficiency qualities was eliminated⁴², are radically different from the images of the working of modern corporations and their evolution or change built by institutionalists because in the first case we see changes resulting from voluntary transactions between free individuals in an attempt to economize transaction costs while in the second case we see changes that come about as a result of the power of the corporation to adapt to new circumstances. In holist institutionalist contributions, that power appears stemming from the overall institutional structure of the society and the changes do not usually make all affected agents better off, but only those who are in a position of control of the corporation⁴³.

It must be said, nevertheless, that neither the institutionalists nor the new institutionalists have restricted themselves to exclusively investigate these changes in the organizational rules of the corporation. Many other changes taking place in formal institutions-legal rules are analyzed, as is the case of the general legal rules that characterize the political system of constitutional democracies, or the specific laws and regulation norms which determine the types of markets that prevail in every society, for example. But, since the answer to our initial question has been sufficiently illustrated, we need not go on. Remember that the purpose of this paper is not to make a survey on institutionalist contributions nor on new institutionalist ones, but to argue that we cannot retain the image of institutional change contained in a theory when we replace a methodological foundation upon which it has been elaborated by a different and alternative one. When two theories are built upon two mutually exclusive foundations, whatever the rest of them may be, they will also contain mutually exclusive images of reality. This is the case of institutionalist and transaction cost-new institutionalist contributions that attempt to explain the process of institutional change. The power conceptualization and the voluntary conceptualization are these two mutually exclusive methodological foundations. Voluntariness is defined by the new institutionalists as the absence of power influences. For institutionalists, power influences mean the absence of voluntariness. All this has already been argued here with wearisome insistence, and examples of changes in formal and informal institutions from both camps have been investigated and compared.

However, we cannot finish this paper without coming back to the comments we made at the end of the initial introduction. There I said that, since some limitations were going to be and have been mentioned in the paper concerning the holist method, a partially new question would be finally posed in order to signal areas of complementary research. This question is: what kind of image of institutional change could we build

through an analysis that were based upon an individualist method of explanation such as the institutional individualism of J. Agassi (1975) and upon concepts showing power influences?. Following the most elemental norm of coherence concerning what I have been arguing here, the straightforward answer must be that we would not be able to retain the same images here investigated. But I am confident that new insights might be offered this way on those phenomena we generally call institutional changes. To deep into this answer is something that transcends the realm assigned to this paper, however⁴⁴.

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NOTES

1 Some examples may be found in Dugger, W. M. (1977), (1975), (1981), Hodgson, G. (1988), Tarascio, V. (1971), Tarascio, V. & Caldwell, B. (1979), Neale, W.C. (1982), and Galbraith, J.K.. A review of this literature may be found in Toboso, F. (1985).

2 The image of science respectively elaborated by these authors may be found in Kuhn, T. S. (1962) and Lakatos, I. (1978). It must be reminded that while Kuhn intended to build an image based on actual practices of scientists, Lakatos did not necessarily.

3 This renewed effort has been greatly stimulated since the foundation of the Association for Evolutionary Economics and the Journal of Economic Issues in the sixties. It has been advanced further, despite the tension and the conflict generated, by the foundation of the Association for Institutional Thought and the Journal of Institutional Thought in the seventies. And it has recently been supported by the foundation of the European Association for Evolutionary Political Economy in 1988. Recent papers dealing with several events in the history of the institutionalist school are Bush, P. D. (1991), Klein, P. A. (1990), and Ranson, B. (1981).

4 One of the latter papers published in the Journal of Economic Issues that comes to a different conclusion from this one I am going to express here is Lind, H. (1993). Although it poses a very interesting question, the papers is seriously flawed because of the procedures followed in order to answer it.

5 Arguments in favour of methodological pluralism and problem-dependent methodology may be found in Boland, L. A. (1982), part IV, and Caldwell, B. (1984), chapter 13.

6 On this last comment see Tool, M. R. (1977), (1979), (1988), Hickerson, S. R. (1987). See also the related debate appearing in Mayhew, A. (1987), Hayden, F. G. (1989), Tool, M. R. (1990) and Sheehan, M. F. & Tilman, R. (1992).

7 See Basu, R., Jones, E., and Schlicht, e. (1987), and Binger, B.R. and Hoffman, E. (1989) for some illuminating presentation of the problems originated by the introduction of such a "normative view" or normative assessment into what it is intended to be an explanatory analysis. Some new institutionalist scholars such as the Nobel laureate Douglas C. North have recently moved away from the "efficiency view" in explaining the process of institutional change. See for example North, D.C. (1990). We will say something more on this latter on.

8 Significant methodological debates among the institutionalists may be found in Bush, P. D. (1991), Ramstad, Y. (1989), Gruchy, A. (1989), (1990), Whalen, O. (1989), Tool, M. R. (1987), and Samuels, W. J. (1988), (1989). For methodological debates among the new institutionalists see the special issues of the Journal of Institutional and Theoretical Economics dedicated once in a year to the international seminar series on the "New Institutional Economics".

9 Two different foundations from the two selected here which play a central role in many institutionalist contributions about institutional change are the so-called instrumental value principle and the instrumental-ceremonial dichotomy. Examples may be found in Busch, P. D. (1987), (1989), Tool, M. R. (1986), Waller, W. T. (1988) and Hickerson, S. R. (1987). The transaction cost conceptualization and the efficiency criterion mentioned above are two examples of the same concerning many new institutionalist contributions.

10 On this big debate see the collections of papers published in Krimmerman, E. (1969), Brodbeck, M. (1968), O'Neill, J. (1973), and Lakatos, I. & Musgrave, A. (1968).

11 Recently published examples of this position may be found in Hodgson, G. (1988), (1986), (1985), Field, A. (1984), (1979), Bush, P. D. (1981), and Dugger, W. M. (1979).

12 In coming sections we will make a conceptual differentiation between organizations and institutions which is not necessary for our purpose now. As elementary examples of this greatly passive membership, think about the formal associations you entered into when they had already been long established, even if you may be more active in promoting institutional changes than the median member.

13 For a deeper examination of the methodological collectivist mode of analysis concerning institutionalist contributions see Ramstad, Y. (1986), Wilber Ch. K. Harrison R. S. (1978), Petr. J. L. (1984), and Langlois, R. (1989). See also Danto, A. C. (1965), Agassi, J. (1958), (1975), Hempel, C. G. (1968), and Harsanyi, J. C. (1969), and Cohen, G.A. (1982).

14 Even some institutionalists such as G. Hodgson (1989), (1986), and (1993) suggests the replacement of the "crude holism" by a more individualist method such as the institutional individualism of J. Agassi (1975). For a critical examination of the holist method of analysis see J. Elster (1982).

15 On this assertion see Bartlett, R. (1989), chapter 1.

16 Examples of these analyses of market processes using power concepts may be found in Dugger, W. M. (1980), Samuels, W. J. (1972), Galbraith, J. K. (1972), (1978), Hickerson, S. R. (1982), Samuels, W. J. (1979), Tool, M. R. & Samuels, W. J. (1989), and Tomas-Carpi, J. A. (1992).

17 For further information about the antecedents see Scott, K. E. (1984), Heijdra, B. J. (1988), Williamson, O. E. (1990), (1985a), and Eggertsson, T. (1990).

18 Ch. Rowley, V. Vanberg, B. S. Frey are some of those participants. Further information about the methodological foundations of public choice theory may be found in Toboso, F. (1990), (1991), (1992), (1993), and (1994). Some misinterpretations may be originated by the fact that both movements share some areas of concern and some methodological foundations, and also by the ambiguous and sometimes contradictory declarations published from the initial debates. While Furubotn, E. [1984, p. 3] refers to J. M. Buchanan and the public choice literature as something totally compatible to what new institutional economics should be when applied to constitutional choices, this same author, in his editorial preface of 1989 [Furubotn, E. 1989, p. 3] explicitly rejects de Pareto efficiency criterion J. M. Buchanan uses in dealing with constitutional reform. More recently, referring to his own version of the new institutional economics, North, D. C. [1990, p. 140] has explicitly told against the public choice approach and the tools of the game theory, while in North, D. C. [1986, p. 235] he ambiguously stated: "The new institutional economics that I have briefly described in the foregoing section builds on the literature of transaction costs, property rights and public choice, and it requires integration of this three bodies of literature". It is no doubt that personal ideas also evolve and change. We will say more on this latter on.

19 As an example, compare the statement by Furubotn, E. [1984, p. 3] identifying the methodological foundations of the new institutional economics with the "traditional foundation stones of neoclassical theory- viz., methodological individualism and the self-interest principle", and the statement by Williamson, O. E. [1984b, p. 197] in the same volume of JITE: "bounded rationality is the cognitive assumption on which transaction cost economics relies". Instead of helping, Eggertsson, T. [1990, p. 10] makes things worse off with his criticised differentiation between "neo" and "new" institutional economics.

20 Declarations of the importance of these foundations may be found in Williamson, O. E. (1984b), (1985a), (1990), Langlois, R. N. (1986a), and Furubotn, E. (1990). Among the new institutional economists, the economic historian and Nobel prize winner 1993 D. C. North represents the position more clearly differentiated, particularly in his last publications North, D. C. (1993), (1991), (1990), and (1988), and because of that he is the one who fits the worst in the simplified view sketched here. In section 6 we will refer to D.C. North again.

21 On the bounded rationality assumption see Simon, H. A. (1979), (1978), Langlois, R. N. (1986a), (1990), Setten, R. (1990), Hart, O. (1990), Schlicht, E. (1990), and Lindenberg, S. (1990).

22 On this point see Hutchison, T. W. (1984), Coase, R. H. (1984), North, D. C. (1990), and of course Coase, R. H. (1937).

23 As examples of these new images of some market processes, see the contributions by Williamson, D. E. (1975), (1985b), and Nelson, R. & Winter, S. (1982).

24 Some others distinguishing characteristics that we do not consider in this paper relates to their attempt to incorporate institutional factors into their general economic theories and their emphasis in making comparative-statics analyses of the consequences of institutions. On this, see Anderson, O.W. & Breng, K. (1992).

25 Sometimes this demarcation is accompanied with both unrespectful and unfair pejorative comments such as those of R. H. Coase [1984, p. 230]: "American institutionalism is a dreary subject. (...) All it had was a stance of hostility to the standard economic theory. It certainly led to nothing. G. Gafen in the discussion

suggested that the modern successor to the American Institutionalists was Galbraith and perhaps this is comment enough. (...) Without a theory they had nothing to pass on except a mass of descriptive material waiting for a theory, or a fire".

26 Statements in this sense may be found in Coase, R. H. (1984), Langlois, R. N. (1986a), Hutchison, T. W. (1984), and Williamson, O. E. (1984b), (1985a). O. E. Williamson Likes to make ambiguous references to J. R. Commons to fall down immediately after into the habitual stereotypes, as in Williamson, O. E. (1985a), p. 187 or Williamson O. E. (1990), p. 63.

27 G. Hodgson (1989), (1986), (1985), A. J. Field (1981), (1986), (1979), Langlois, R. (1989), and Rutherford, M. (1989) have partly accomplished these other tasks. In order to concentrate ourselves on the power conceptualization versus the voluntary conceptualization, we do not comment here on these other tasks. In section 3 we made some comments on how the mode of explanation-analysis used by institutionalists affects the image they build, and in section 6 we will come back to these comments just to leave a new question open.

28 A related but differentiated contribution is Nelson, R.R. & Winter, S.G. (1982).

29 Examples of this image and the foundations upon which it has been elaborated may be found in Axelrod, R. (1984) and (1986).

30 As it must be obvious, in this paper we do not pay attention to some other very different contributions that conceptualize some types of behaviour as a result of addition problems, small temptations and other psychological mechanisms such as those pointed out by J. Elster. See for example Elster, J. (1983) and (1989).

31 See Vanberg, V. (1988a).

32 While W.T. Waller (1988) differentiates between routines and ritualized habits, G. Hodgson (1993) does it between routines, habits, and social norms, and W.M. Dugger (1980a) talks about habits, roles and social mechanism such as subreption, contamination, emulation, and mystification.

33 In the next epigraph we will explicitly deep into the content attributed to this term.

34 For a debate on the importance of these mechanisms see Elster, J. (1982), Parijs, Ph.V. (1982), and Dorman, P. (1991).

35 Dugger, W.M. (1988), p. 86.

36 Dugger, W.M. (1980a), p. 898.

37 A similar differentiation may be found in North, D.C. (1990).

38 This dual aspect of institutions is close to what J.R. Commons (1950), p. 21, wanted to stress in his a bit ambiguous definition of an institution as "collective action in control, liberation, and expansion of individual action".

39 Special attention must be given to Williamson, O.E. (1975)'s work mentioned and to Williamson, O.E. (1985b), (1981), (1985a), (1984b), and (1990). See also the collection of paper appearing in Williamson, O. & Winter, S. (1991).

40 Even the 1993 Nobel prize winner and also self-labeled new institutionalist D.C. North (1989, p.240) has been explicit on this point when stating: "The major focus of the literature on institutions and transaction costs has been on institutions as efficient solutions to problems of organization in a competitive framework [Williamson, O.E. (1975), (1985)](...). Valuable as this work has been, it leaves out the most important contribution which institutional analysis can make to economics (...). The formal economic constraints, property rights, are specified and enforced by political institutions and the literature that characterize modern industrial organization takes these as given. What we must do is to explore political institutions as well as economic institutions". Reflecting the existing methodological debate between the new institutionalists, D.C. North states in one of his latter books [North, D.C. (1990), p. 28, note 2] the following: "(...) Other approaches, notably that of Oliver Williamson, will be contrasted with the approach developed here."

41 As some examples see Williamson, O.E. (1975), (1985b) and (1981), and North, D.C. & Thomas, R.P. (1973).

42 Remember that in the latter comments of section 2 we explicitly left out of consideration in this paper those explicit valuations-assessments contained in both institutionalist and new institutionalist contributions. But, for a further and more critical examination of these "efficiency view" explanations than the examination provided in the references of note 7, see Dugger, W.M. (1983), (1990), and Schmid, A.A. [1987, chapter 11].

43 Examples of institutionalist contributions containing these images, methodologically built as mentioned, may be found in the collection of works published in Tool, M.R. & Samuels, W.J. (1989), particularly the papers by Muller, R. (1975), Melody, W.H. (1985), and Miller, A.S. (1972). Usually, the changes are also evaluated using the so-called instrumental value criterion, and proposals for public action or reform are offered in order to achieve what institutionalists consider to be a more effective social control of corporations. On this criterion see Tool, M.R. (1979), Hickerson, S.R. (1987), and Sheehan, M.F. & Tilman, R. (1992).

44 In fact, some institutionalists such as M. Rutherford are particularly interested in showing how the old institutionalists did also build many arguments, discourses and analyses upon individualist methods of explanation. See Rutherford, M. (1983), and (1984). On the other camp, the very particular new institutionalist and Nobel prize winner 1993 Douglass C. North not only has moved away from the "efficiency view" adopted in his previous books as we already mentioned in this paper, but has also made reference in some of his institutional change contributions to the bargaining power of the interested parties. See North D.C. (1990), and (1991).

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