THINKING AT THE INTERDISCIPLINARY FRONTIER. AN INSTITUTIONAL ANALYSIS

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Abstract: *By this study, I investigate the main achievements of the institutional analysis, a thinking stream with a considerable impact on the Economic Sciences as well as on Sociology and other social sciences. A main stress is put on the analysis of the concepts "transaction cost" and "institution", starting with the works of well-known authors such as Ronald Coase, Oliver Williamson and Douglass North. A series of applications of the institutional analysis in the Sociology of Organizations and in Economic Sociology is also presented.*

1.1. Economic Imperialism vs. Sociologic Imperialism

During the last decade, the sociologists and the economists have proven an increasing interest for the substantial and methodological issues, which was assumed the intellectual field of the other discipline. The ecology of the population, developed by sociologists (Hannan and Friedmann 1977, Aldrich 1979), is a perspective similar to economic models; the theory of human capital, developed by Gary Becker, deals with issues that have been studied for a long time by sociological studies on status, stratification and family. Similarly, the sociologist dealt with topics such as property and control (Perrow, 1981 and 1986) and started to study the economic researches on the theory of the agent, stimuli and transaction costs (Jensen and Meckling, 1976; Williamson, 1975; Williamson and Ouchi, 1981). The sociologist James Coleman was invited to speak at the meeting of the American Economists' Association in 1984. Harrison White wrote about the sociology of the economic markets and Herbert Simon (a psychologist) was awarded the Nobel Prize for Economy[72].

These intellectual events prove the deeper and deeper inter-penetration of the two branches of science. On the other hand, we have to notice that the conflict potential at the border between Sociology and Economy is greater than the usual one at other discipline borders and that the interest intermingling of the Economy and Sociology is materialized more in sterile tensions than in productive collaboration. Some explanations can be that among all the social sciences, these two have the greatest claims, but also the greatest opportunities of expansion to new fields. The '80s witnessed the full expression of the potentiality and of the pretensions, too. Mattei Dogan and Robert Phare claim these two disciplines as being "*the most imperialistic of the social sciences…The economists are like a well-schooled, well-organized Mongol horde that tries to conquer the aboriginal population. As for the sociologists, they are like Germanic migrations: un-organized mass purposelessly wandering through the entire continent, messing some capital cities before moving on again, settling short-term kingdoms.*"[73]

The first economists worked in an intellectual environment in which the two disciplines were not clearly marked. They regarded the economic issues as a part of a social context, a context brought into discussion through some explanatory factors as many times as required in the development of the analysis. The works of Adam Smith, Karl Marx and J.S. Mill are representative for the opening to other disciplines and the wish for incorporating points of view and approaches from neighboring fields into the economic research. Mill was the first to word the idea that "*an economist who is just an economist isn't worth of too much*"[74], an idea taken again later on by other great economists.

On the other hand, for Auguste Comte, the Economic Science is just a useless enterprise based on metaphysical suppositions and ruled by scholastic disputes. According to his point of view, the Political Economy was to be replaced by Sociology, "*the queen of all sciences*". One can find here the starting point of the worsening of the relationships between the promoters of the two disciplines. The economists' reaction to Comte's point of view was very harsh. Marshall and J.M. Keynes systematically demolished Comte's argument, showing that the only things that remained were "*the futile pretensions of the Sociology*". The best defense being the attack, J.M. Keynes wrote "*Comte blames the Political Economy of being sterile in results; but what are the results of Sociology, as queen of sciences, treating social life as a whole?*" (J.M.Keynes, 1955).

There were economists and sociologists like Weber Schumpeter and Pareto who tried to block the tendencies of breaking off of the two disciplines, but it was obvious by in the '30s – '40s that, in spite of the above mentioned efforts, Economy and Sociology became estranged one from the other. The economists and the sociologists knew less and less one about the other while the mutual hostility was increasing. This increase was exceeded only by the increase in mutual ignorance.

The '50s witness an almost complete breaking off of the relationships between Economy and Sociology. In fact, this means that "the economists tried to analyze economical issues leaving the social forces aside and the sociologists tried to analyze the social problems leaving the economic forces aside."[75] In the meantime, the centre of the social sciences moved from Europe to the United States, but the hostility already existing in the American universities tended to make worse the breaking off.

The economic imperialism became more and more obvious with the works of Gary Becker (*The Economy of Discrimination*) and A. Downs (*The Economic Theory of Democracy*) at the end of the '50s. The number of works increase and at the end of the '80es the traditional extra-economy field included not only Sociology, but also Law, History, Education, Political Sciences and the Theory of Organizations.

This unprecedented spread of the economic perspective was mainly due to the lack of dialogue between economists and sociologists, but also to the sensation of superiority showed by the economists. There could be also the acceptance of the paretian criterion of delimitation according to which Economy is the science of rational action and Sociology the science that studies non-rational actions. Paul Samuelson set this criterion at the basis of his manual (the most used manual of the century) and thus it was understood as an evidence for many economists less aware of the epistemological and methodological dimensions of their own discipline. The logical consequence of defining Economy as the science of rational action is that the economic method and theory may be used in any social space where a rational action exists. By this, the "economic imperialists" push to the ultimate limits the Paretian hidden implicit program in formulating the criterion of delimitation.[76]

Beginning with the mid '70s, the economists' tendencies of expansion are counteracted by the sociologists, who do over again the movement but inverted. It is obviously not a pure defense reaction. The diversity of the sociological approaches is so great, but it is very hard to identify clearly the internal and external factors behind this evolution compared to the state of the economic imperialism.

There are two directions of attack. The first of them, "the new Economic Sociology", may be characterized as a holistic and institutional attempt to pass the Paretian criterion of delimitation. It claims a criticism of the way the orthodox economic theory treats the formation and manifestation of the preferences and also the way in which this theory approaches the topic of the norms and values in the social context. The functional and institutional analysis taken from the schools with tradition in this field offered a strong support for this criticism. The subjects of this "new Economic Sociology" are extremely diverse and we have also a great amount of methodological and theoretical perspectives.

"The Sociology of rational choice" is the name of the second tendency. James Coleman, the emblematic representative of this movement, starts from the idea that "Economy is much too important to be left for the economists" and reformulates the whole theoretical basis of the Social Sciences starting from the study of the rational behavior. Coleman goes beyond the economic perspective, based also on the study of the same behavior. For Coleman, Economy is a branch of Sociology, a branch based on the theory of behavioral rationality that integrates the concepts of control, interest, power and norm, concepts that have not been the subject of economical researches. The explanation is at a macro level, but its basis is at a micro level. That is why the relationship "social actor – system" and some reformulation of the methodological individualism are usual themes of this new tendency.

The economic as well as the sociologic imperialism are reactions of inadequacy and of rejection to the way the disciplinary frontier was designed and consolidated. That is why the occurrence of the term "imperialism" in the names of these two tendencies hasn't to confuse anybody. The fact that the economic imperialism and the sociologic imperialism draw nearer one to the other, as preoccupation as well as way of approach, decreasing the distance and the mutual hostility created by the Economy and Sociology between them, seems to predict a spectacular reframing of the disciplinary frontiers in the context of the Social Sciences in the near future.[77]

1.2. An Institutional Analysis. A Field of Disciplinary Convergence

For the last decades, a common preoccupation in the work of the researchers in Economic and Social Sciences is the institutional analysis. This is one of the most profound and interesting tendencies of the moment in Social Sciences, a field of convergence for Economy, Political Sciences and Sociology. Nowadays, the idea of institutional analysis or institutionalism is a common place in literature and in public discourse as well.[78]

The institutionalism is a distinct approach in the study of economical, political and social phenomena. Nevertheless, it is easier to agree on what the institutional analysis is not than on what it is.[79] There are some reasons for this ambiguity: the authors who had written about institutions were less preoccupied about their definition. Institutionalism has different meanings in each of these disciplines and even in one discipline, the theory of organizations, the institutionalists differ in the stress they put on macro and micro aspects, on the cognitive and normative elements of the institutions, on the importance given to the interests and relational nets in the creation and spread of the institutions.

The study of the institutions means a real rebirth in the Economic and Social Sciences. This development is a reaction against the behaviorist revolution that interpreted the political and economical collective behavior as an aggregation of the individual choices. The behaviorists saw the institutions being epiphenomenal, just the sum of individual properties. However, neglecting the social contexts and the durability of the social institutions has high costs, especially in a world in which the social, political and economical institutions have become bigger and more complex in the collective life.[80]

The rebirth of the interest for institutions comes from an older tradition of the Political Economy associated with the works of Veblen, Mitchell and Commons, preoccupied by the mechanisms of the social and economical actions and also with the efforts of some functionalist sociologists like Parsons and Selznick to point out the interconnections between Politics, Economy and society. Their ideas fell into disgrace not because they were wrong in some questions but because their answers were either very descriptive or historical or too abstract.

The effort of the contemporary approaches of the institutional analysis to unify these traditions with the modern development in the theory and method is not a mere return to the roots, but more an attempt to give new answers to some old questions about the way the social choices are outlined, mediated and directed through institutional arrangements.

A different tendency of the institutional analysis appears in fields like Macro Sociology, Social History and Cultural Studies, fields in which the behaviorism never have had a real impact. Here the institutions were seen as building elements of the political and social life. New areas such as anthropology, history and European social theory are new challenges for functionalism as well as for individualism, highlighting the social construction of the significance and the symbolic change of the concept of agent.

In its studies about organizations, the institutional theory gave answers to empirical anomalies, to the fact that what we see is inconsistent with the way contemporary theories demand us to speak.[81] March and Olsen said that the studies on political and organizational change reach to some findings that are hard to be explained by the theory of the rational actor or by the functionalist approach.

Considering that the institutional approaches have their roots in different fields, it is hard to expect them to be convergent in a common set of suppositions and purposes. There are in fact several forms of institutionalisms (in Economical Sciences, Organizational Theory, Political Sciences, History and Sociology), unified by the same skepticism about the atomist approach of the social processes and by the same belief that institutional arrangements matter.

1.3. The old and the new economic institutionalism

From many points of view, the old institutional economy is more related intellectually to the new institutional steps made by the sociologists and anthropologists than the new institutional economy.

The new institutional economy is more indebted to the critiques of the old institutional economy than to the previous homonyms.[82] The first arguments on the themes of institutionalism appeared in Germany and Austria at the end of the 19th century and were the consequences of the famous Methodenstreit: a debate on the scientific method in Social Sciences. Having its roots also in the Romanticism and in the ideology of Kant and Hegel, a group of economists challenged the conventional dogma that the economical theories can be reduced to a mere set of universal rules. This historical school, directed by Gustav Schmoller, insisted on the idea that the economical processes operated within a social frame that was also shaped by cultural and historical forces. Schmoller and his colleagues asked the economical theories to avoid the simplistic hypotheses about the economical man and to adopt more realistic models of human behavior.[83]

The main advocate of the classical approach in this debate was Carl Menger, an economist from Vienna, who insisted on the usefulness of the simplifying assumptions and on the value of developing some economical principles that were in the same time abstract and everlasting. Instead of denying the importance of some larger institutional society forces, Menger argued that the institutions were themselves social phenomena in need of theoretical explanation. That is why Langlois (1986) said that Menger had more rights than any of the first institutionalists to claim himself the patron saint of the new institutional theories.[84]

Many of the ideas of the historical schools were embraced and then developed by the American institutionalist economists, part of which had studied in Germany. At the middle of the 19th century, there was a research team that was practically ignored; but at the turning of the 19th and 20th centuries, three institutional economists became very influential: Thorstein Veblen, John Commons and Westley Mitchell.

Most of the economists consider that the main problems of the economy are the resource allocation, the income assessment, the production and prices, the wealth distribution in society.

On the contrary, the institutionalists consider that the organization and control of the economy are the main problems in the theoretical field as well as in the practical political economy. Therefore, the force of the power relationships is bigger than the competition mechanisms regulating the economical proportions. The institutionalists consider that the market consists of a number of institutions coordinating the economic activity. More than that, the relationships between the market institutions and other social institutions (law, custom, behavior) are approached in an institutional manner.

One can formulate the essence of the institutionalism as follows: the mechanisms of the market but the entire organizational structure of the society allocate the resources and distribute the incomes. [85]

As the entire society is strongly influenced by the lawful order, the institutionalists consider the role of the governmental structures that define the legal frame and make it functional as an essential part of the analysis of the economical problems.

The main content of the institutionalism is found in eight fundamental ideas as follows:

1. Economy has to be studied as a whole instead of examining small pieces of it as separate entities isolated one by the other.
2. This school emphasizes the role of the institutions in the economical life, considering that institutions and not objective laws rule it.
3. One has to use the evolutionist (Darwinist) approach in the economic analysis because the society and its institutions are in a ceaseless change.
4. The institutionalists rejected the dominant idea of the normal economic balance.
5. Instead of social harmony, inferred by the most forerunners and contemporary researchers in their theories, the institutionalists admitted that there are serious conflicts of interests within the capitalist society.
6. The institutionalists supported the democratic and liberal reformations in order to ensure a more balanced distribution of the wealth and income.
7. The institutionalism declared in favor of the top-down approach of the economic activity more than in that of the bottom-up one.
8. The institutionalists rejected the psychology of pleasure-pain promoted by the Austrian school.86

The starting point of the new economical institutionalism is the article entitled *The Nature of the Firm*, published by **Ronald Coase** in 1937 in the journal *Economica*. At that time, Coase was only 20 and he knew little economy, as he said.[87] This article was crucial for Coase in winning the Nobel Prize for Economy in 1991 and it may be described as an analytical exercise starting from the conventional theory of the price and trying to bring in a certain degree of realism. *The Nature of the Firm* hadn't been read so much until 1970, when they realized that it was not only a new approach to the firm, but to the entire economical analysis. It was appreciated especially the fact that Coase's approach fitted the efforts of applying the economical model to the non-economical phenomena – what the economists called economical imperialism. Starting with this, the interest for Coase's article was huge. The above-mentioned article arouse from the author's discontent towards the way the orthodox economy had approached the social reality. It was meant to attack a basic problem to a better understanding of this reality, scandalously neglected, that of the firm or the economical organization. Coase argued that "*in the modern economical theory, the firm is just an organization that turns the inputs into outputs. Why firms appear, which the factors that induce their number are or what does them to fulfill their activities, these aren't easy topics of interest for the economists. The firm is a character in the shade in the economic theory. This lack of interest is extraordinary, being the fact that most of the people in the Western society are employed at firms, that the greatest part of the production is given by the firms and that the efficiency of the entire economic system depends to a great extent on what happens inside these economic molecules.*"[88]

The purpose of the article is to explain the existence and functioning of the firm and to show what the factors that determine the spectrum of activities of the firm are. With this purpose, Ronald Coase offered the opportunity of a great transformation in the body of the Economical Science and in the meantime undermined the fragile and recently strengthened interdisciplinary frontier between this and Sociology at that time. The purpose of describing and clarifying the nature and the functioning of an organization otherwise supposed to exist and accepted without any inquiry was based on a concept that, at that time, was strictly an economic one: that of cost.

Ronald Coase brought a specific concept entitled in his article *the cost of using price mechanisms* or *the cost of developing a transaction through the market exchange* and which became later on known as *transactional costs*.[89] Nowadays, the transactional cost is basic in some researches in the field of Economy and Sociology. Speaking about the transactional costs, Coase said that "*the main reason for being profitable to found a firm is the existence of the cost of using the price mechanism. The most obvious cost of organizing the production through the price mechanism is to discover the relevant prices. This cost may be lowered but not eliminated by training specialists to sell this information. The cost of negotiating and finalizing a separate contract for each exchange transaction from the market must be also considered. A certain technique is invented to minimize these contract costs on some markets. However, they are not eliminated. It's true that these agreements aren't eliminated by the existence of a firm, but they are considerably decreased.*"[90]

It is supposed in the orthodox economic theory that the economic agents who are interested have a complete knowledge of all the relevant prices, but this is far from being true. In fact, the efforts of finding out which are these prices cost and the economic agents consider these costs in the very moment they decide the courses of actions. In addition, the negotiation of each contract which settles a transaction costs, too, as well as the perfecting and finalization of the transaction once the negotiation phase is passed. All these real, at all negligible costs miss in the image of the economic order offered by the orthodox economy. The costs are higher when separate contracts are designed for each transaction when needed. That's why there is a tendency to replace a series of contracts by one single contract, each time this is possible. The entrepreneur is no more obliged to support the costs of each transaction as it will happen if the cooperation is directly and exclusively done through the price mechanism. In other words, he should sign contracts for each element in part that is necessary for his production process and which is in the possession of somebody else. Instead of them, he will sign a single comprehensive contract.[91]

Hwever, the costs which are implied by the use of the market mechanisms are not only those above presented. The number of them is as large as the diversity of their nature and origin. Moreover, the problem of trying to eliminate them or reduce them through the market activity arises for all these costs. This is the case, for instance, of the costs imposed by the intervention of the political authority (the state), who will tax some transactions, and thus they will become more expensive compared to the situation in which the same transactions take place within the firm. The result is that a new firm will appear and a firm that will set all the transactions that are taxed under its shelter or that an already existing firm will grow until it will incorporate these transactions in its organizational system.

Therefore, the use of the market mechanisms costs and forming an organization and allowing an authority (the entrepreneur) to manage the resources make these costs to be avoided at a greater extent. "*These are the reasons*", Coase thinks, "*why such organizations like the firms exist within complex economies, where the distribution of the resources is supposed to be organized according to the price mechanisms. Consequently, a firm is that system of relationships that appears when the resources are managed by an entrepreneur.*" [92]

The main factor that leads to this system of relationships is the existence of these costs related somehow to the transactions made on the market. Shortly, the transaction costs. The relationship between the market order and the organizational order is structured around the transaction costs, the starting point being, above all, the analysis of these costs.

Coase's perspective offered a new direction in the economical science. As Coase said (1972), his article was very frequently cited, but rarely used until the '70s, when Oliver Williamson put it in circulation again, developed it, adding some conditions and comments. Coase invented the idea of cost of transaction and Oliver Williamson spread this concept and made it well known in economy and other social sciences. It happened in a series of books and articles published in the '70s and '80s, the most important being *Market and Hierarchies* (1975). The basic idea of this book is that the markets and the firms are alternative methods of coordinating the production (according to the author's terminology, they are *governing structures*). In the '70s, when Williamson's first book appeared, the theory of organizations had been developed as a distinct field. Williamson felt that the economists made a great mistake when they estranged from the study of the organization and let it develop as a separate discipline. The author himself said: "*the organization of the market is the field of economists. The internal organization belongs to the specialists in the theory of the organization.*" [93]

Although the main source of inspiration for the analysis of the costs of transaction is Coase's works, Williamson left his mark on this concept. He defined it as follows: "*the ex ante costs of drawing up, negotiating and strengthening an agreement and especially the ex post costs of a wrong adjustment and addition, which appear when something is wrong in the execution of the contract as a consequence of the errors, omissions and unexpected situations; the cost of leading the economic system.*"[94] These costs, says Williamson, have to be distinguished by the costs of production, a category of costs managed by the neoclassical analysis. The costs of transaction are the equivalent of the friction in physical systems. Unfortunately, if the physicists succeeded in detecting and measuring the friction, the economists admitted that the friction is important, but they failed to reach the adequate language to describe it.[95] Until the certain conditions of the costs of transaction were formulated, the possibilities of the non-standardized ways of organization – clients and field restrictions, franchises, vertical integration and others – were less appreciated. Instead of them, most economists gave explanations based on the idea of monopoly when facing non-standardized contract practices. The research agenda was influenced at a great extent by the idea of monopolistic predispositions. The vision upon the firm as a production function prevailed in this case.[96]

If Coase considered two governing structures, the markets and the firms, Williamson added, under the pressure of criticism, the third one, a hybrid or an autonomous form of organization based on long-term relationships stipulated by a contract. It is very important that Williamson tried to make some of Coase's ideas operational and to say that in the same circumstances the market more than the firm is more probable to be used.

The general answer to this question is that the firm will be used when the transactions are frequent, when uncertainty exists, when special investments are needed (the so-called specificity of the good). In other words, the market will be used when no specificity of the good is involved, when the transactions are simple or when they take place only once.

Back to the idea of costs of transaction, we have to mention that Oliver Williamson asserts that, in fact, the costs of transaction grow as a function with two conjugate conditions: when the individual reason, cognitively limited, is confronted with a greater complexity and uncertainty and when the individual opportunism – the disposition of some actors to lie and cheat – is combined with the absence of exchange partners. In such conditions, it is very likely that the exchanges will move from the market to an organizational frame or, if the exchanges are already done in an organization, some sophisticated techniques of control will be likely to appear. Williamson extends Coase's arguments and goes beyond the mere comparison market vs. firm, taking into account a great variety of leading systems, from markets to hybrid organizational forms, such as those arisen from alliance or granting agreements or to hierarchic structures, such as the joint firms or multi-division companies.[97]

The neo-institutional economic conception of Williamson insists more on the topic of the comparative efficiency used by the alternative generic leading forms – markets, hybrids, hierarchies – to decrease the costs of transaction and less on the several macro-institutional effects related to the origins and the effects of the institutional rules of the game: habits, laws, policies, the last ones being left for the historians of economy and for sociologists.

Although Williamson, unlike the first institutionalists of the economical sciences, extends the conventional economic theory to taking seriously the effects of the changes in institutional contexts or the structures of leading upon the economic behavior, he firmly remains in the tradition of the neo-classical economy in his view about the economic behavior. Hodgson underlines that Williamson's view is built in atomistic and individualistic terms because the main terms of his conception is something given, namely the opportunistic individual. He doesn't consider the possibility that the selection functions are shaped according to circumstances such as the structure and the culture of the firm or that this phenomenon is significant in the analysis and understanding of such institutions.[98]

In contrast with Williamson, other economists, for instance Douglass North, elaborated some approaches that include assumptions that are more similar to those of the institutionalists of the Economic Sciences of the beginning of the 20th century. North is focused on a higher level of analysis and he studies the origins of the cultural, political and legal frames and also their effects upon the economic forms and processes. As a historian of the Economy, he insists more on the development and the change than on the comparison of the states of balance. Moreover, although in his analysis on the economic systems he deals with the costs of transaction to explain the differences when the actors choose the mechanisms of leading, he feels inclined to treat them more like variables depending on the influences of some larger institutional frames than independent variables.[99]

According to North's point of view, the key of the transaction costs is the information costs, which means the costs of measuring the valuable characteristics of the changing objects and also the supervision and imposing of the agreements. These costs of measuring and imposing are the source of the social, political and economic institutions.[100]

North says that a process of exchange that implies some costs of transaction imposes significant changes in the economic theory and has various implications in the economic performance.

Just to have an idea about the importance of the costs of transition, North cites a 1986 paper in which he is a co-author (Wallis and North, 1986). This paper highlights that after measuring the costs of transaction of the market (e.g. the costs associated with banking, insurance, finance, wholesale and retail commerce operations; or regarding the occupations associated with the legal profession or accountancy) in the economy of the United States, they realized that more than 45% of the national income meant transactions and that this percentage increased with 25% in the 20th century. Therefore, the economic resources meant to transactions are significant and increasing. Because the costs of transaction mean a part of the costs of production, the re-formulation of the traditional relationship of production needs to be reconsidered. The entire cost of production consists of the invested field resources, the labor and the capital resources implied in the transforming of the physical characteristics of a good and also in the transaction – defining and imposing the rights of property on goods (the right of use, the right of exclusion and the right of change).

He concludes that, if the costs of production mean the sum of the costs of transforming and those of transaction, then a new analytical frame for the micro-economic theory is needed.[101]

In his paper "*Institutions, Institutional Change and Economic Performance*" (1990; 2003 in Romanian translation), North suggests that the institutions may be defined as rules and the organizations may be seen as players of some games based on these rules. He considers that all the individuals impose themselves constraints in order to structure the human relationships, in every society, from the primitive ones to the most advanced ones. Given the limited information and a limited power of calculation, the constraints decrease the costs of the interaction compared to those in a world without institutions.

In the modern Western world, says North, we think about life and economy being ruled by official laws and rights of property. Despite this, the formal rules, even in the most advanced economies, are just a little part of the sum of constraints which defines the choices; a thorough analysis suggests the omnipresence of some informal constraints. In our everyday interaction with the others, in our families, in the relationship with the society or in business, the leading structure is overwhelmingly characterized by conduct and behavior codes or conventions. Their basis is the formal rules, which rarely are the obvious and immediate source of the choices made in the everyday interaction. The formal rules are the political rules (and legal ones), the economic ones and also the agreements (contracts). North considers that the formal rules can increase the efficiency of the informal constraints. They restrict the costs of information, of monitoring or forced constraints and so they made the informal constraints to be possible solutions for a more complex change.[102]

Douglass North draws some important conclusions on the institutions and the costs of transaction. The first conclusion is the following: the institutional constraints, which define the set of the individuals' opportunities, are a complex of formal and informal constraints. These make up a network of connections, which, in varied combinations, defines the set of choices in various contexts. Therefore, it is easy to understand why the institutions are stable and why they set different limits within which the choices are made.

The costs of transactions are the most noticeable dimension of the institutional frame at the basis of the constraints in exchanges. They consist of those costs that are on the market and can be measured, but also of costs difficult to measure, including the time needed to get the information, waiting one's turn, the bribe, but also the loss due to the faulty monitoring of the agreements. These costs are difficult to be measured and they make difficult to perform a precise assessment of the costs of transaction in a certain institution.

Nevertheless, the most important conclusion is that the institutional frame plays the major role in the performance of an economy. The market, says North, is a mixture of institutions; some of them increase the efficiency, others decrease it. Even so, he says, if we face the institutional frame of the advanced countries to that of the Third World or that of the past of the recently developed industrial countries, it becomes obvious that this institutional frame is the key to a relative success of the economy, in modern times and for a long time. [103]

1.4. The institutional analysis in Sociology

The New Institutionalism in Sociology is strongly related to the view of the organizational analysis arisen from the papers of Meyer and Rowan (1977), extended by Zucker (1977), Di Maggio and Powell (1983), Scott and Meyer (1983) and other theorists of the legitimistic school of Stanford.

The New Institutional Economical Sociology takes over some ideas of the institutional research program, but it mainly refers to the tradition of the sociological research which examines the contextual rationality drawn by habits, networks, norms, cultural beliefs and institutional arrangements. The advancement of the institutional theory may be seen, according to Richard Scott, as a continuation and extension of the intellectual revolution begun at the middle of the '60s in the 20th century, a revolution that introduced the concepts of the open systems in the study of the organizations.[104] The theory of the open systems changed the existing approaches, insisting on the importance of the larger context or the environment that constrains, shapes, penetrates and renews the organizations. First, the technological environment was admitted – with the task-related resources and information, because the organization had been initially imagined as an essential element of the production system which turned the information into production.

Later on, at the middle of the '70s, the researchers began to admit the significant effects on the organizing process, together with some more extensive social and cultural forces, i.e. the institutional environment. It was considered that the organizations were more than some production systems as they are in the same time social and cultural systems.[105] The institutional theory brought about some provoking questions related to the world of organizations:

- Why are the organizations of the same type, for instance the schools and the hospitals, even placed at a long distance one from another, so similar one to another?
- There are institutions of several types for thousands of years. What type of institution is associated to the development of the organizations?
- How shall we see the behavior in the organizational frame? Does it really reflect the national interests and the conscious choice or is it mainly shaped by conventions, routines and skills?
- How does it come that sometimes there was a behavior deviation of the participants to the organizational process from the formal rules and avowed purposes of the organizations?
- Why do they use so many resources and energy to maintain the formal rules, if they are mainly ignored?
- How and why do laws, rules and other types of legal and normative systems appear? Do individuals voluntarily build systems of rules which then limitate their behavior?

- Which is the origin of the interests? Are they part of the human nature or are they a cultural construct?
- Why do some specific structures and practices spread in an organizational field in some ways that are unpredictable for the specific features of the organizations that adopt them?
- How do the differences between the cultural beliefs shape the nature and the way of acting of the organizations?
- Why do people and organizations conform to institutions? Because they are rewarded if doing like that, because they are convinced that they have a moral obligation to do like that or because they can't even imagine another type of behavior?
- What are the processes that get the institutions closer to the organizations? What means or agents convey the institutional messages to the organizations and how are the institutions affected by the actions and reactions of the organizations?
- If the institutions act in order to promote the stability and order, then how does the change occur? If the institutions control and define the individual, how may he hope to change the system in which he is caught?[106]

In contrast with the Sociology of organizations that stresses the institutional mechanisms that are outside the organizations, the new institutional economical sociology analyzes the manner in which the interpersonal relations of the markets and firms interact with the formal institutional arrangements.

The new Economical Sociology views the institutions not only as formal and informal constraints which form the stimuli (like Douglass Borth defined them in 1990) or institutional elements like beliefs, norms, organizations and communities of the social system (Avner Greif, 1998), *but mainly it implies actors, either individuals or organizations, having real interests in precise institutional structures. An institution is defined as a system of interrelated formal and informal elements – habits, shared beliefs, norms and rules – which rule the social relationships within which the actors follow and set the limits of the legitimacy of the interests.* In this view, the institutions are social structures which offer a conduct for the collective action, facilitating and organizing the actors' interests and strengthening the relation leader-employee. This means that the institutional change means not only shaping the formal rules, but vitally requires the re-arrangement of the interests according to the norms and power.

The purpose of this paradigm in the Economic Sociology is to specify and explain the social mechanisms that induce the relationships between the informal social organization of the cohesive groups and the formal rules of the institutional structures observed and strengthened by organizations and states. The new economical institutionalism contributed to the explanation of the appearance and maintenance of the formal institutional arrangements that contributed to the drawing of the economic behavior. Anyway, as Douglass North admits, the economic sciences ignored the informal constraints of the conventions and behavior norms. The economists put questions to test the social dimensions of the economic life that reach the limits of the economic analysis of the institutions.[107] Their questions deal with the way the informal social organization and the formal rules mix to outline the performance of the organizations and of the economy. The new advancements in applying the theory of the games have made the economists to include lately the informal institutional elements in the models of economic performances. The sociologists of the economic life cannot have all the answers, so the transdisciplinary research aims to explain the capacity of the social institutions to facilitate, rule and motivate the economic behavior.[108]

I will now present the findings of a research developed within the framework of the new institutional economic sociology. The core task of the research is to specify and explain the nature of the relationships between elements at different levels of the causal model that explains the way in which informal social organizations interact with complex institutional structures.

In their article entitled "*Bureaucracy and Growth: a Cross-National Analysis of the Effects of Weberian State Structures on Economic Growth*", **Peter Evans** and **James Rauch** (1999) studied the effects of the Weberian state structure on economic growth in the middle-economies.[109] The study is the result of a qualitative and compared research made in 35 countries with middle-economy between 1970 and 1990. The set of data was collected through the assessment of the bureaucratic structures made by experts in these 35 countries. Evans and Rauch argue that the main feature of the institutional framework of an upper-economy state opposed to a rapacious state is the presence of an almost well developed bureaucratic form of public administration. As Weber argues in his theory of bureaucracy, implementing the recruitment according to merits offers predictable careers and set the basis of the long-term commitment in the bureaucratic service.

In the Meiji era, in Japan, as well as in the Chinese economy of the last two decades, the development of a modern bureaucratic capacity was essential for the capacity of the government to watch and strengthen the rules oriented towards promoting the economic development. At an individual action level, the bureaucratic elites share norms and purposes outlined by some meritocratic rules of recruitment and promotion, which decrease the attractiveness of the corruption. The Weberian model gives an alternative to the rapacious state presented by Schleifer and Vishny (1994), where the politicians steadily try to influence the firms in order to pursue their own political purposes, which may be impossible to relate to the economic growth. In the Weberian model, the bureaucrats are different from the politicians; they intend long-term careers ruled by meritocratic rules of recruitment and promotion. The norms, the shared belief in the meritocratic service and the development of the national purposes not only decrease the temptation of corruption, but also lead to an increase in competence and credibility of the commitment to the civil service dedicated to public benefit. The result is a higher capacity of the state, which motivates the reformist leaders to grow the economy rather than ravage it.

A study inspired by the book of Peter Evans, "*Embedded Economy*" (1995), is "*Post-Socialist Trajectories*", written by **David Stark** and **Laszlo Bruszt**. The study, a real institutional analysis of the transition of the Eastern-European countries to capitalism, took over from Peter Evans the concepts of embedded autonomy and developmental associations, core concepts of the new-state vision. According to Stark and Bruszt, these concepts highlight the intermediate role of the forms of social organization between state and society (especially the non-political, non-governmental, professional, cultural, business ones). The redefinition and recombination of the elements of the new societies cannot be let on the political organizations. The hegemony tendencies of the political networks (old contents recombined in new forms) are opposed to the social networks (most of them recently built up), which are very active in different fields. The other social networks, together with the networks of the political and administrative elites (e.g. the business networks in economy) may be a fundamental source of economic restructuring. The social networks are involved in the reform processes and this fact creates an extended social control or what Stark and Bruszt called *extended responsibility of the governors*. The political system created after 1990 is too restricted and too hegemonic to solve the very complicated social equation of the transition.[110]

This theoretical model applied to the concrete cases of the Czech Republic, Hungary and Eastern Germany underlines some of the authors' arguments and points out important details. The groups of intellectuals concerned about the external politics influenced the actions of the Hungarian Government right after the 1990 elections. The privatization policy of the Czech government takes into consideration the financial interests of the banks, while the industrial organization on corporate basis in the Eastern Germany ensures a direct involvement of the Western German corporations in the privatization and re-endows the Eastern German economy. According to Stark and Bruszt, in the Czech Republic, for instance, the consensus on the steps of transition was due to a three-party agreement between the government, the political parliament and the social parliament (civil society). Therefore, the government was kept within a responsibility framework. The political part cannot be controlled through a large social network created by the free association of the citizens, at least the time the state and the market are not enough consolidated.

Using this research method, focused on what is not seen, the so complicated and different social networks, the researchers perceived better the transition process in the Eastern Europe, beyond its surface. [111]

A multi-causal model provides the analytical frame for understanding the rebirth of the market economy in China, Eastern Europe and the former Soviet Union.[112] When the Western economists traveled to these parts of the world to counsel the reformer politicians, their advice stressed the big-bang type of approach to the market economy, planning the formal changes of the rights of property and of the markets. They supposed that the formal rules – Constitution, Civil Law and other administrative laws – would lead to a successful modern capitalist economy. These efforts of the capitalism as a project lost the reality of the power and interests of the communist ruins. On the contrary, the reform applied in China permitted the actors to make their choices by some trial-error mechanisms that balanced the speed of reform. This revolutionary approach of the transition to the market introduced the most dynamic economy. The institutional change in China was made top-down and not inversely; the interests and the power of the new organizational forms were ranged, the rights of private property and market institutions evolving in an economy in which a change from the central state control to the self-regulated market occurred. The changes of the formal rules governing the rising market economy tended to follow the ex post changes of the informal practices in business and took into consideration more the real interests of the political and economical actors. Like in the former Soviet Union, the efforts of reforming the state enterprises in China by changing the formal rules proved to be inefficient because of the ex ante changes of the formal rules that often rule the interests and the conflict sources of legitimacy of the party structures in state enterprises.

The model of the ideological decline and of the ideological commitment based on the theory of games, suggested by Nee and Lian, tries to explain the de-institutionalization of the communist party starting from the centralized planning in the economies in transition. The technological and military discrepancy grown during the Cold War between the advanced market economies and the socialist states hurried the efforts of the communist elites for reform for decreasing the discrepancy through innovations that include the growing support of the market mechanism in the institutional framework of the central planning. However, at the individual level of the bureaucrats and party politicians, the development of the economic and politic markets lead to a growing tendency to opportunism and violation of the rules, which generated tensions within the party member groups, the social dynamics leading to the ideological decline and the political commitment of the communist party. It demonstrated that the opportunism and the violation of the rules among the party members, initially low, could increase up to a level of critical mass. The reformer leaders of the party tried to present the problem in campaigns of punishing the violation of the rules. The decline of the commitment gradually reached a critical point, hastening the collapse of the communist party as an efficient leading organization. In counterpart, this prepared the de-institutionalization of the party and the change of the political institutions, including the political revolution, in the state socialism reform.

The model based on the theory of games explains the decline of performance in the organization by explaining the embeded nature of the ideological commitment of the party members and specifying the social dynamics that produces the shifting from the commitment to rules and purposes of the party to opportunism and desertion from the duty of honor towards the party. [113]

The new institutional economic Sociology is in the centre of a continuum between the suppositions of the economists about the limited rationality and the cultural orientation of the Sociology of organizations. It differs from economy in the more complex approach of the rational choice in which rationality is considered contextual, often influenced by the shared beliefs and norms that watch and strengthen the mechanisms occurred in the social relationships within the networks and cohesive groups. The rational action in the economic life is facilitated, motivated and ruled by shared beliefs, social relationships, norms and institutions – a view that come in conflict with the suppositions of the neoclassical economy on the atomized utility maximizing *homo oeconomicus*.

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