Conventions and the Genesis of Institutions

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I. Introduction

Consider the following examples of important changes in economy and society:

❖ On January 4, 1914, Henry Ford announced an extraordinary increase in the regular wage to $5 per day. In so doing, he inadvertently started a chain reaction of wide temporal and spatial extent, the outcome of which was, much later, described as a new period in the development of capitalism, that of mass production-based industrialism;

❖ When, in the early 1980s, Luciano Benetton, aided by his advertising firm decided to carry out a politically-relevant form of advertising ("United Colors of Benetton") he very probably did not dream that this would, in a certain sense, lead to a complete recuperation of the spirit of social movements and "street culture" by the profit-making economy and obliterate the distinction between mainstream culture and cultural rebellion "against" it. In so doing, Benetton may have fundamentally altered the relationships of production, consumption, and popular culture in contemporary capitalist societies.

❖ Black Power activists in the 1960s, coming from so far outside the mainstream and suffering from severe legal and illegal repression, nonetheless asserted a way of seeing the individual in relationship to society which set into motion a redefinition of citizenship -- the relationship between individual identity and group identity -- in the Anglo-American Western nations, when they demanded affirmative group recognition and not merely equal procedural treatment.

❖ Richard Nixon's abandonment of the Bretton Woods international monetary system in 1971 set into motion a chain of events which ultimately led not only to the creation of international money markets and the current international financial system, but also radically transformed the international trade system and production techniques and organization of many important industries. New forms of economic uncertainty and risk were generated by this profound destabilization of the market environment; in response, new forms of governance of firms, production systems, and regional economies subsequently made their appearance.

Social science has many kinds of stories it tells about these transformations. I will argue that many such accounts are not sufficiently realistic: they are weighed down by heavy and unrealistic assumptions about the nature of interests and the rationality of actors and hence about the necessity and functionality of the transformations which come about. More importantly, they underestimate the ways that large-scale transformations of society and economy are sometimes built from the bottom up. Social science tends to be oblivious to these processes, with its deterministic and retrospective look at things, while historians tend to eschew theorizing them.

I will describe a way into institutions and hence the State which has developed recently in Europe, most especially in France, whose central analytical concept is that of the convention in social and economic life (a body of work referred to henceforth in this paper as the SSC, for "social science of conventions"). The SSC holds that institutions, whether those of the state or of the society, whether formal or informal, are at base sets of conventions which coordinate the actions of individuals. From this collective "social labor" of generating coordination, institutions, norms and routines emerge as large-scale regularities in social life, which the SSC calls forms.

This paper will proceed initially by reviewing some of the problems that modern social science has in dealing
with action in general and collective action in particular (section II). Second, we'll describe how conventions emerged as the focus of the new approach, the kinds of problems it takes up, and its principal theoretical concepts, methods, and applications (section III). Third, we can situate this within theories of procedural rationality, criticizing those which are central to much social science (especially economics) and suggesting that the procedures of rational actors are quite different from most extant approaches to these issues (section IV). Fourth, we will touch on the problem of regularity and coherence of conventions, that of building up from conventions to social forms of wider spatio-temporal extent, such as institutions, norms and rules. More broadly, we will consider the relationship of the SSC to social theoretical notion such as culture and power (section V). The foregoing will then be illustrated via a specific analysis of the state as a convention, the different possible conventions of the state and the way that reform of states can be understood from the standpoint of the SSC (section VI). From there, we will comment briefly on the classical question of whether such constructed institutions have to face external tests and whether such tests carry out an ex post selection of which institutions can survive (section VII). By way of conclusion, we will mention some of the principal challenges facing the SSC today, in theoretical terms, and some of the main empirical issues it is currently considering (section VIII).

II. The Problems with Existing Approaches to Action, Collective Action and Institutions

The big three of contemporary social science -- sociology, economics, and political science -- have problems in dealing with action, collective action and institutions. They all accept deep cleavages -- between structure and human agency; between individualism and collectivism; between positive and critical social science; between interest-bound or rational behavior and complexity of motivations; between universality of motivations and embeddedness, contextuality or relationality in motivations; and between rationality, and intentionality and justification -- which make it difficult to deal with collective action and institutions, and in so doing they are fundamentally unrealistic.

Very important work has been done on institutions recently in sociology, notably in economic sociology. It is still fair to say, however, that in contemporary sociological theory, there is a sort of compromise behind which an unsolved theoretical problem lies hidden. Time and again it is repeated that institutions have to be analyzed from a double perspective, as being constructed in human interaction and as pre-existing human beings whose actions they shape. As a general statement, this is surely valid. To remain with it, however, means to consolidate a basic cleavage between theories of interaction and the constitution of sociability on the one hand, and theories of societal development to which individuals are exposed, on the other (one can think here of the work of Anthony Giddens or Hans Joas).

Exceptions to this cleavage include the work by Granovetter and Swedberg on the rediscovery of Polanyi's vision of the economy as an institutionalized process, and Granovetter's publication in 1985 on the embeddedness of economic behavior in networks of interpersonal realtions. Another strand from sociology and anthropology is the actor-network theory of Callon, Law and Latour, who hold that actor networks exert power and hold networks in place through organizations and the translation of embodied texts, machines, objects, and money.

In the recently developed field of "critical social science," the emphasis is on showing how institutions are reflections of power relations, and on showing how representations of institutions that are constructed using the language of positive or analytical social science are themselves part of the construction and reproduction of power relations because they mask power behind such notions as rationality, interest-seeking behavior, and so on. The original inspiration of some of this came from philosophers and linguists who stress the importance of context, the textuality of social life, and the way that discourse creates and not just conveys meaning.

These approaches have the merit of trying to make the social scientist more conscious of the circle of meanings of which her/his own discourse is a part, as well as sensitizing us to the ways that social and economic phenomena are represented by those who have the control over the means of representation: think tanks, academia, media, opinion makers etc. It still suffers, however, from two closely related problems. On the one hand, it reduces almost everything to a game of power, and reduces virtually all notions of knowledge or truth to mere reflections of the interests of the powerful. On the other, and here we come to our problem again, in so doing it reinforces the divide between the critical and the positive by simply rejecting the latter in its concern to elevate the former to a position of prominence and overcome the neglect of the last half century.

In economics and political science, there have been powerful developments in institutional analysis. Two schools which have received great attention are, respectively, the New Institutional Economics (with its roots
in transactions costs economics) and contemporary analytical political economy, which embraces the positive theory of institutions, and spills over into recent analytical economic history. These two schools, for all the very important analytical advances they have made, have certain deep problems. One is of course their underlying model of rationality, which has been much remarked in the critical literature. The other is their starting point. Put simply, both hold that incompleteness is necessarily problematic, whether it be "information," or "property rights," or "codifiability," or any of a host of other aspects of economic life. Incompleteness, it is held, leads to non-market forms of institutionalization, such as firms, political parties, rules, and so on. These institutions are held to be fundamentally incompatible with the atomistic nature of human preferences. The whole analytical enterprise of these two schools follows from the twin notions that incompleteness leads to coordination failures in the market, while non-market forms of coordination are always riddled with temptation for actors to take advantage of others in the absence of the market's disciplining force of exit.

If incompleteness is not inherently so problematic, however, then their conclusions do not follow. And indeed, that is precisely what we shall argue: incompleteness is not always a problem; in social life, it is frequently part of the solution, the starting point for the social labor of coordination through convention.

There are a number of developments in economics -- such as the broadly-defined institutionalism of Hodgson, in which standard notions of rationality and rational choice between preferences do not figure prominently-- which converge with our work on conventions. Hodgson's work, like ours, is inspired by some of the early institutionalist economists, such as Frank Knight, in his emphasis on uncertainty as a fundamental condition, but not as a crippling problem, in economic life. Much of this notion that uncertainty -- incompleteness -- is a foundation for coordination "solutions," i.e. for the work of creating institutions, has been lost. Nonetheless, if one reviews the economic literature, it pops up again from time to time, as in Alchian's work in 1950, Arrow's ongoing reflections on what we do in the presence of changing information and learning, and Loasby's notion that incomplete contracts are the basis for firm learning, a form of successful collective action. I'll return to them later on. Other lines of intellectual inspiration come from the "old" institutionalists such as Veblen, with their notion that norms and institutions are emergent properties of social life, not reducible to any form of determinism, whether static or dynamic. This notion can also be found in recent work in evolutionary economics.

It is to this subject, the production of coordination between agents, in the presence of incompleteness or uncertainty, to which the social science of conventions is devoted, and to which we now turn.

**III. Why do people do what they do? What does it mean to "act"?**

The point of departure for the SSC is in essence a pragmatic turn, in the sense that in order to get beyond classical presuppositions -- such as individualism/atomism versus collectivism/holism; utilitarianism versus normativism; the economic versus the sociological -- the SSC seeks to take concrete behaviors as time- and space-specific social facts rather than as universal social laws. We do not accuse, for example, the notion of the optimizing market or that of a socially-integrated society as being overly formal abstractions and hence unrelated to the real world. Instead, the very existence of such constructions in social reality is evidence of a social reality worthy of being analyzed. But these constructions cannot be taken as positive scientific laws; instead, they are something like different rules of agreement by which real actors attempt to coordinate their actions, and they are justifications given by people for what they do. Social science errs in transforming them into social laws of a scientific nature. As Peter Wagner puts it, in drawing on the work of Thévenot and Boltanski, "the task is to dissolve their disciplinary codifications and recommence the analysis of social action in conceptually more open terms."

**Intellectual History: Elements of a Problem(atic)**

One could argue that any of the social transformations referred to at the beginning of this paper -- the advent of Fordism; the transformation of contemporary culture by the market; the rise of new forms of corporate organization and governance; the transformation of identity and citizenship -- can be traced back to acts (Ford's $5 per day strategy; Nixon's abandonment of the gold standard, etc) which in turn were elements of strategy. To take just one of our examples, most current theories would try to explain why Ford did what he did or why his strategy succeeded. Yet the systematic consequences of Ford's strategy were that new forms of collective action and institutions were generated. The question becomes how such forms of collective action were produced in the wake of the shock caused by Ford's strategic rupture. Existing theories might show that rational workers took the jobs, and that Ford's enterprise ultimately took the market. But these are just shells of an explanation, for ultimately a whole new industrial way of life emerged -- from the shop floor to the showroom, to the household and the landscape, from the skilling/training system to the wage structure, and including the entire cognitive framework by which industrial technology was conceived and improved,
even including aesthetics and symbolic processes. Somehow, all of these new regularities, which go well beyond Ford’s action and direct reactions to it, have to be explained.

The research strategy which motivates the social science of convention is essentially to start "from the bottom up." Who did what? What were the resources and competences of actors who set change into motion? What were the controversies which led to transformation of the existing way of doing things? The SSC emerged out of research on controversies or strategic ruptures which appeared, at the outset, to be individual reactions to changing circumstances, attempts to reinterpret reality and find new ways of coping with it. Some such apparently minor re-evaluations or re-interpretations of "what is to be done" end up having large-scale ramifications or effects on collective patterns of action; their effects seem -- in conventional sociological parlance -- to move "upward" and "downward" in society.

Methodologically, the SSC is motivated by the desire to re-situate, bring back down to the actor, the explanation of what happened, and this means using in the analysis as few categories as possible which have not been introduced by the actors themselves. This notion of a "scarcity of presuppositions" is based on a pronounced skepticism with regard to structuralist and functionalist sociology, as well as to neoclassical economics and its social scientific offshoots, all of which are presupposition-rich in their conceptualizations.

But this does not mean a social science of "face value." Quite the contrary: even when actors describe their own actions in terms of laws (as in the everyday use of the language of the market, or reference to collective identity, or reference to procedural rationality) our theories do not have to accept those descriptions as lawful, nor dismiss them as irrelevant falsehoods. Instead, we need to ask where these descriptions come from and how they affect what people do.

**Reformulating the Theory of Action**

The principal goal of the theoretical program is to reconstruct the notion of human action. At the center of the inquiry is pragmatic activity. Action is motivated principally by the desire to make effective the action one undertakes. This motivation imparts two fundamental characteristics to action.

On one hand is its particularity: actions are inherently associated with objects, circumstances, and persons, whose varied and heterogeneous nature make for complex and particular synergies. This particularity is a central aspect of the SSC, what it calls the *situation* of pragmatic activity. In the work on production systems we report on in our book *Worlds of Production*, Robert Salais and I note that the situation of the actor is fundamentally defined by the product or service s/he is trying to produce. Associated with each output there are relevant tools, persons, institutions (such as markets, governments) and physical environments. The question is how the actors effectively act (produce a given kind of product) given the constraints and possibilities of the particular kind of situation attached to that pragmatic field of activity.

On the other hand, action has a fundamentally collective character: most actions in this world can only be pragmatically effective if what one person does is met with certain kinds of mutually compatible actions by other persons upon whom s/he is dependent. This leads to the observation that because virtually all action is both collective and situational, it is associated with a fundamental kind of uncertainty, in the sense that we can not know precisely what the others upon whom we are dependent will do. This is true even in the presence of rules, norms, traditions; none of them eliminates the fundamentally calculating, strategizing nature of the individual, and hence the possibility that a rule, norm or tradition will not be followed in a given situation. One of the main tasks of research in the SSC is to discover how the actor identifies the situation and the specific forms of uncertainty with which it is associated.

The SSC’s central "equation" thus consists of the following terms: in order to proceed with *action*, which is inherently *collective*, the *uncertainty* which is specific to a given kind of *situation* must be overcome. The actor must be equipped with the means to *interpret* or *understand* the situation in which s/he finds him/herself, in the sense that s/he must be able to *identify* the aspects of the situation in a way which *agrees* with the identification made by other actors upon whom s/he is dependent, so that each of them take actions which are mutually compatible. When this identification process happens so as to allow coordination, it is because *mutual expectations* have been aligned.

For example, if I, as lender of money, decide to put you in foreclosure when you do not pay me on time, this may be met with a mutually compatible act, acquiescence in liquidation, in California: but if I do it in the context of Hong Kong family capital lending, it may be met with outrage followed by censure, in which case I have failed to identify the situation correctly. By contrast, when the participants in a situation identify it in a common way, we can say that interpretations have led to a sort of "agreement" about what is to be done. Such agreement, specific to the pragmatic situation at hand, is required for example between buyers and sellers of a commodity, between input supplier and purchaser, between one worker and another on the shop floor, between manager and worker, between states; without it, collective mutually interdependent activity cannot go forward. Contracts and rules cover a remarkably small proportion of the critical situations in economic, social and political life, or skim on the surface of what really goes on in those they do cover.
This is not an "agreement" in the sense of a formal contract or explicit rule, but rather in the sense of a common context; a set of points of reference which goes beyond the actors as individuals but which they nonetheless build and understand in the course of their actions. These points of reference for evaluating a situation and coordinating with other actors are essentially established by conventions between persons. Nor is this an agreement in the Panglossian sense of something which the parties necessarily consider good or optimal: it is a sort of concrete convergence of their expectations around what they think can be done.

IV. Procedural Rationality is Situated, not Universal in Nature

Conventions emerge both as responses to and as definitions of uncertainty. Conventions resemble "hypotheses" formulated by persons with respect to the relationship between their actions and the actions of those on whom they must depend in order to realize a goal. When interactions are reproduced time and again in similar situations, and when particular courses of action have proved successful, they become incorporated in routines and we then tend to forget their initially hypothetical character. Conventions thus become an intimate part of the history incorporated in behaviors. Notice that the theory accepts as central the tension between action and structure that people live with in the course of social and economic life, and does not see this incompleteness as something for theory to explain away.

The formal notion of convention stems from the work of analytical philosopher David Lewis.

"A regularity, R, in the behavior of members of a population, P, when they act in a recurrent situation, S, is a convention, if and only if, for each example of S, for the members of P:

Each conforms to R;

Each anticipates that all others will conform to R;

Each prefers to conform to R on the condition that others do so. Since S is a problem of coordination, the general conformity to R results in a coordination equilibrium."

Lewis’ definition supposes that each member of a defined population identifies, at least for herself or himself, R as a regularity, as well as the nature of the situations S, their recurrent character, and the relationship between S and R. His definition, which requires some modifications, is nonetheless a good starting point.

Procedural rationality

Nothing that has been said here implies abandonment of the notion that actors are procedurally rational, but it does suggest that the procedures they use are quite different from those assumed to exist by much social science. The standard parable about rationality holds that individual, egotistical action is ubiquitous and dominant; that the consequences of making rational choices generally allow the intentions governing those choices to be realized; hence, that collective action is exceptional, since collective situations generally impede realization of individual goals in one way or another. Collective action is said to be blocked because of such widely present circumstances as divergent or partially-divergent interests (leading to principal-agent problems which, it is assumed can never be worked out); bounded rationality or important transactions costs; differences between probable payoffs to actors or groups (distributional conflicts are assumed to be not amenable to resolution by agreement); and uncertainty about or difficulty in predicting the future. All, in other words, are the specific analytical versions of the incompleteness or uncertainty considered by much social science to be a grave problem for rational actors.

Undoubtedly, these circumstances are widespread and it is to the credit of much analytical political economy and sociology to have been able to understand them. But they are not universal: they are particular conventional outcomes of situations identified by particular groups of actors. Actors have both more and less freedom than this mainstream view of procedural rationality suggests. They have more freedom in the sense that, upstream of action is a moment of interpretation, what we have called identification of the situation, a moment in which the actor puts forth (mostly implicitly) something like a rebuttable hypothesis about the nature of the situation. Much of this, s/he does on the basis of precedent. But such precedents, and hence the hypotheses involved, do not have to treat uncertainty, distributional differences, transactions costs, and so on, in the one single way suggested by the mainstream. That is, what we are now calling the procedure of identifying the situation is a form of "labor" not considered by the standard models because they assume that mere identification of the problem calls forth a single, determinate and optimal solution for a given situation.

Yet, this standard "solution" encompasses only half of the actor's procedure: the other half is upstream, and consists of identifying what other actors are likely to do in view of that circumstance. This, we maintain, is not universal but context-dependent and it does not reduce merely to the nature or quantity of information about the situation which is available. It comes from an interpretative procedure which depends on social life and collective experience (and all the ways of transmitting that experience, including norms, rules, and so on), as
much as it does from deep universal psychology. Norms, to take an important example, must be identified insofar as they apply to particular pragmatic problems and then applied in specific situations, and their application must be justified (whether to ourselves or others). Norms are in important measure specific to the situation in which they are applied and this interaction between the procedure and its situation is critical to how norms affect the course of action.

Indeed, not only does the rationality of procedures include reference to the specific possibility sets for coordination which exist in particular situations (as we noted above in section IV), it also may involve the justifications we furnish for doing something. The relationship of what we do and how we justify it is conventionally constructed. There is no inherent reason to get behind the back of the actor and categorically to distinguish the reasons furnished by people for what they do, from why they really do it. If such justifications are widely shared, they actually become means of coordination through their effect of abating uncertainty. The corollary of this is that certain philosophers and historians have captured as the fundamental incommensurability of traditions: we can compare our behavior with those of others who are within our system of action, according to the conventions we share; but between different systems of justification, there is no fruitful comparison to be made, and the rationality used to get to a conclusion can only be judged with respect to its internal consistency, i.e. as an internal property of the system of which one is a member.

For example, take the standard separation of the economic from the non-economic: this is justified in social science theory via recourse to the supposedly real (universal interest-based calculating behavior) and to the good (liberal individualism). In contrast to this standard view, it is just as likely that such a behavior pattern -- where and if it does exist -- is merely a particular conventional construction of the economic, which is based on a claim of excluding the non-economic by making it conventionally illegitimate. Market behavior thus generalizes itself through a conventional and particularistic construction of expectations that others will not conduct themselves, or can be made not to conduct themselves, according to non-market principles of action. This kind of outcome would be considered by the SSC to be a particular, lived reality, always fragile and incomplete, not the generalized result of any universal laws of action. The actors who participate in it, moreover, have great difficulty doing anything other than considering those who do not follow their convention to be wrong or inferior.

Procedure is deeply caught up with substance, not only in the sense of identifying the problematic dimensions of the individual-actor's relationship to other actors, but also to identifying how these relationships are pragmatically resolved, where the resolution does not necessarily result from the procedures assumed to exist by much western social science. The result is that both the definition of interest and the possibility set for realizing it are context-dependent. To take an example, certain production systems are coordinated by interpersonal relationships; the industrial districts of the Third Italy are the oft-cited cases. The standard account would always say that such relationships work because reciprocity is "policed" by reputation effects, and because both lower transactions costs. But upon reflection, we can see that this is no explanation at all of how such a mode of coordination comes about. It's just an after-the-fact and ad hoc description of some of its qualities and some of its efficiency attributes. The interesting issue is how actors establish such interpersonal conventions in the first place and then institutionalize them through precedent and learning. And here, the standard explanations have no way of not being simply circular: people do it because it efficient and because they fear doing otherwise, but they fear doing otherwise because other people do it.

Loasby's theory of the firm, Alchian's demonstration that uncertainty poses no significant problem either to the attainment of positive profits nor to selection, but where decisionmakers are not omniscient, nor is the system, are other examples of this reasoning applied to economics, as does recent work in evolutionary economics.

V. Conventions, Institutions, Culture, Power

The word "convention" is commonly understood to suggest at one and the same time: a rule which is taken for granted and to which everybody submits without reflection; the result of an agreement, such as a contract; or, a founding moment, such as a Constitutional Convention. Convention thus refers to the simultaneous presence of three dimensions: the rules of spontaneous individual action; constructing agreements between persons; and institutions in situations of collective action. Each of these three has a different spatio-temporal extent, and they overlap in complex ways at any given moment or situation. Identifying them is one of the major tasks of empirical research within the SSC paradigm.

The SSC shares with more orthodox views in both sociology and economics that social action requires some form of communication and understanding between human beings (this would be the market for economics, for example). But it departs quite radically from other explanations of the social order in that it does not presuppose such an order and instead turns the production of agreement and coordination into the key
issue. There are three main consequences of such a revision of the objective:

First, it means that the main analytical task -- as is noted above -- is to specify under which conditions, for what issues, and in what intensity, such a need for agreement and coordination exists. Walkers in a park need an agreement, but it is qualitatively different from and probably less intense than, say, that between buyers and sellers of certain kinds of commodities, between citizens in political decisionmaking, or between the parents over the raising of a child. The point is that society is not an encompassing social order in the traditional sense, but rather an assemblage of multiply produced agreements, as well as persistent disputes, of highly varying spatio-temporal extents and contents. Social life is organized, but is also pervaded by uncertainty and incompleteness.

Second, such coordination is not reached simply by the application of pre-existing or unequivocal rules. Instead, there is ongoing social labor involved in interpreting and identifying situations, mutually adapting interpretations, and determining modes of coordination. In this sense, a key question for social science becomes the competences or capacities that agents bring to a situation.

Third, and perhaps most important, this means that there is a critical quality (in the sense of "crisis" or radical openness) to each situation, defined by its uncertainty. The result of a process of coordination cannot be derived from the nature of the situation, nor from the social positions of the persons involved. We cannot even derive the nature of the controversy of interpretation and identification. What is to be expected is a plurality of criteria and approaches to determine what the situation is and a process of selecting the appropriate criteria for response. This definitional work is part of the attainment of coordination. There is no therefore no optimal result to be deduced by social scientists from an objectivizing description of the situation. In addition, for any given kind of social or economic coordination problem, a plurality of frameworks of action and coordination is possible; we call these frameworks of action, which are in essence, groups of conventions developed to coordinate pragmatic action in a particular situation, "worlds." Our book is about worlds of production, the basic frameworks of action used in producing in contemporary economies.

The SSC, therefore, has two principal ways of approaching social research. The first is analytical: the variability of requirements for coordination, i.e. the analytical dissection of the situation, including its objective dimensions, the interpretative activity of people involved, and the plurality of results. The second is historical, genealogical, thick description, mostly investigations of critical moments or controversies, where old conventions broke down or where conflict was resolved via the formation of new, temporarily stable worlds of coordination.

**Equivalence: or, the genesis of institutions**

If we stopped here, one could be reminded of studies in symbolic interactionism or even ethnomethodology with their inability to move beyond the particular or idiographic. It could be objected that social life looks plural and diverse only as long as the more extended and solid constraints of human action by stable or more efficient institutional forms (including power and culture) are not brought into view. Specificities are interesting, you might say, only if we do not even bother to search for potentially general features; without this, all we are doing is insisting on a kind of voluntarist view of the world, which is hardly original.

But actually the main project of the SSC is to inquire into the emergence of *ensembles* of conventions that have wide spatio-temporal extent. We can call attention to three means by which actors identify situations in order to coordinate with other actors. (A) In some cases, the identification of a situation and the persons and objects involved in it is done via a familiar gesture, i.e. through interpersonal familiarity; (B) in still others, it involves a communicable judgement, presupposing some understanding of what is common; (C) finally, some situations are coordinated via a generalizable judgement, i.e. through conventions that make a certain judgement about the situation widely available, without specific instance-to-instance communication about it. Each of these, obviously, involves a different spatio-temporal extent. The last one is especially important, however, in that it involves drawing analogies between very different situations, objects and actions, a kind of ongoing social labor of creating "equivalences" between situations -- a kind of abstraction -- on the part of the actor.

Research carried out within the SSC paradigm, for example, argues that what economists call "occupational-wage structures" are highly conventional and historical in origin, and only secondarily shaped by market clearing processes of wage determination. This is an argument which has been made in other terms by a number of prominent economic sociologists. But the SSC goes a bit further than they have. Wage structures are said to express the value that the market puts on skills, giving rise to the wage hierarchy. The problem is that "skill" is a highly abstract notion, covering extremely heterogeneous categories of real work. In order to call, for example, the work of the electrician and that of the car mechanic "skilled," one has to find some kind of abstract equivalence of the two. The market does not give us these abstract equivalences through the law of supply and demand. Nor can the frequently-cited notion of the schooling required to carry out a kind of job. Indeed, diplomas are precisely what the SSC calls a form (in this case an institutional form) which are created, like money, to represent two concretely very different skills as containing similar quantities of this...
common currency (schooling), which is then translated into another currency, that of money. Once we begin to look at the wage and salary structure this way, we see that behind it is a conventionally-constructed system of equivalences between heterogenous things, and that the market is then the result of the trading -- supplying and demanding --of these equivalences, not the other way around. Studying such equivalences makes it possible for us to move from studies of specific interactions to social and economic regularities of wide spatio-temporal extent.

This work of creating equivalences is ongoing, and it is impossible to eliminate doubts about the adequacy of the equivalence. This skepticism about the stability of institutions resembles that which can be found in the pessimism of the new political economy. Unlike the NPE, however, existing structures of rationality or interest are not seen as inherently impeding institution formation: equivalences may be found among them. Moreover, the SSC rejects any notion of the unity or cohesion of a group solely as the product of a substantive pre-definable similarity between its members and an objectively shared interest. Instead, our attention centers on the immense social labor which is necessary to unite disparate beings around the same system of representation, to constitute the reality of such a heterogeneous ensemble, and to embody it in actions, persons and objects. So coordination cannot be reduced to the mere functional maintenance of an order. Once in place, of course, institutions of a certain coherence may allow us to use notions such as normality or even rationality, but without any of the baggage which these terms usually carry. Normality is the ability to deal with uncertainty about the future, and rationality becomes the coherence of an adjustment to a situation, and has nothing inherently to do with separation of procedure from substance, nor with separation of motivations from procedures.

There are some aspects of the SSC's institutional analysis which cover the same ground as that of much contemporary institutionalism. Six such points of contact can be cited: (1) emphasis on institutions as networks; (2) the chief content of networks is practices, transmitted via and interpreted through conventions; (3) it is the intermediate forms of governance -- coordination in "small" action situations -- which are most important; (4) the dynamic of most interest is how actors learn convention, and how they modify convention through crises, conflicts and the establishment of new precedents for action; (5) the evaluation of structure turns on the notion of relationship between groups of conventions around pragmatic action situations, and how "bigger" institutions bring those pragmatic fields together under one roof; (6) networks of actors and their conventions and practices tend to have path dependencies. But the stress on interpretation and radical uncertainty are fundamentally from formal network analysis in sociology.

**Culture versus convention**

If we accept the definition of culture as a set of transitive, informal rules or guidelines for action, which have a coordinative effect and are applied in specific kinds of situations, the question arises as to how the notion of culture relates to that of convention. The rules that constitute a culture are those which no longer have a hypothetical character. They go so far back in time (or are so generalized over space) that the equivalences they represent can no longer be excavated, no longer rendered specific to a situation nor incomplete or tendential. Hence, the conventions which constitute culture often work at the level of metaphor or generalized custom. They do affect interpretation and justification. But when it comes to the kinds of action situations we are considering here, culture has to be re-concretized in the form of conventions whose hypothetical character is nearer to the action to be taken than is culture, because culture's relationship to the situation at hand is too metaphorical or too general to resolve the uncertainty at hand. In this sense, and most of the contemporary literature on culture is in agreement with this point, culture does not have a determining effect on the formation of convention, and so the problem of coordination cannot be successfully resolved by the mere reference to culture. Both are necessary.

**Power and convention**

The emphasis on how "agreement" is produced in the SSC does not imply equality of the parties or inexistence of power relations. The standard categories for analyzing power, however, have persistent and deep problems. Why do people sometimes submit to the powerful and at other times revolt? Why does the control over resources -- economic, physical, means of violence -- sometimes enable the powerful to get their way and at other times not? Why do sanctions sometimes work and at other times not work? These are the classical questions posed in the theoretical debates over power. Because the standard bases of power work sometimes and then do not work at others, they fail as the bases of a satisfactory theory of power. Intermediate explanatory factors must be found. Certain others are invoked as candidates, especially ideology and hegemony. But it is just as strange to call upon psychological processes to determine the effectivity of the material, as it is to reduce the mental to the material. And the question of how they relate, or what it is that they do when they take the form that we label "power" is simply begged.

I would argue that for the SSC, power is essentially the asymmetric ability to affect the construction of equivalences. This approach extends the SSC's emphasis on uncertainty, incompleteness, interpretation, and spatial and temporal unevenness. It does not answer all of our questions about the origins of power, but
suggests that the variables cited in the power literature, both mental and material, have or do not have their
effectivity with respect to this labor of constructing equivalences. In this way, once again, the standard
categories are both lightened of the theoretical burdens they have shown themselves unable to bear. They
are no longer determinants, nor are they mere "factors" in a multi-factoral soup of potential bases of power,
but resources which can be used in the construction of conventions of power as a form of social
coordination.

VI. Formal Institutions: The State

Formal institutions have a special status in all this, in that they try to stabilize certain equivalences between
persons and things. These are what the SSC calls forms. One major research question here has been that of
statistical procedures and classifications, which are designed to reduce uncertainty about how to identify.
States, firms, etc actually invest in these forms in an effort to stabilize them. Salais’ work on unemployment,
for example, traces the work of construction of this category between its first usage around 1890, and its
generalization around 1930, showing how it became a key action-guiding indicator for economic and social
policy.

Perhaps the key formal institution is the state.

The Specificity of State Institutions

The state, like other institutions, is essentially a convention between persons, but unlike other institutions, in
western democracies all state conventions are based on representations of the "common good" for their
societies. Whereas nonstate institutions and conventions may be constructed by actors in pursuit of their
particular common interests, that is, as efforts to resolve particular problems of coordination, the state is
formally assigned the role of creating the conditions that maximize the possibility of attaining a general
common good. One problem here is that there are so many possible definitions of the common good in a
democracy; hence, the social labor of creating equivalences.

Conventions of the state are widely mobilized, like other conventions, in situations of economic action. That
is, the effects of state presence on the economy are not straightforward; they are mediated by the
conventions of the state around which actors organize their expectations of both the state and other actors.
Such conventions, in turn, shape what the state is actually able to do in pursuit of the economic common
good. By going into a certain amount of detail on the example of the state, we can illustrate much of what
has been said above in theoretical terms.

The Various Conventions of the State: External, Absent, Situated

In western societies, we can observe three general conventions of the state. In some societies, each person
expects the state to intervene in the economy from a position outside and above the situation of action this
is the convention of the "external state" which is particularly strong in France. In other societies, each person
expects the state to be absent from situations of economic action, and for individuals to work out
coordination between themselves this convention of the "absent state" is particularly marked in the United
States. A third possibility is that the persons involved in economic action (including representatives of the
state) operate on the premise that the state participates in economic coordination but as an equal, neither
superior nor absent. We call this the convention of the "situated state," adapting slightly the concept from
contemporary political philosophy, which terms this the "subsidiary state."

Example #1: The Objective Common Good of the External State

In France, postwar economic planning in particular and economic interventionism in general have been
rooted in a widespread expectation that the state will insert itself from outside and above society to supply
elements of coordination assumed to be essential to meeting common goals of national independence and
full employment. The state is not defined in opposition to the popular will, as in AngloAmerican Liberalism,
but as the embodiment of it. This convention between actors allows the state to intervene in the economy,
applying monetary, fiscal, budgetary, industrial, and employment and training policies intended to maximize
the common good.

Our purpose is not to judge the veracity of this idea of the state as external to economy and society, but to
emphasize the powerful real effects this notion can have when it operates as a convention between persons.
According to this convention, the state is the flux that allows the solder to hold; it covers the gaps and
eliminates failures in the coordination of economic activity. Each person thus is aware of, and anticipates
gaps in coordination (for example, a shortage of necessary resources) or failures (for example, to meet
commitments); and each person thus expects that the state representatives authorized to intervene in the
particular situation at hand will take corrective or complementary action. Most importantly, each person
defines his or her action on the basis of this premise and thus holds back to some extent from fulfilling
commitments to action or mobilizing resources. As a result, the convention becomes part of a self-fulfilling
In sum, in the convention of the external state, each person acts in his or her best interests, counting on the interesting for the questions they pose for the state at the municipal level. The general common good, then, is defined as the result of maximizing the interests of particular persons. External (interventionist) action is criticized by those within this framework on the grounds of its supposed effects: by hindering market action, it blocks actors from realizing their individual potential and hence works against the common good. The convention holds that the state, and all forms of nonmarket coordination, are inherently worse than the market because they inhibit human agency and limit the supposed diversity of choices individuals could make in the absence of a state.

This argument is blind to its central paradox: a direct effect of the convention is that for the state to be really absent from each situation of action, the state itself must enforce this particular conception of the common good. The state thus becomes what it claims not to be, an activist in the name of continually "effacing" barriers to the market. This is the standard to which even state programs which are not directly concerned with the market, or which are even designed to correct market failures, are often held.

In the external and absent "Anglo-American" state, then, each person expects the state to impede collective action, save that which follows market principles; this pushes actors to expect that other actors will conduct themselves according to market principles. Actors then deploy strategies to protect themselves from the "moral hazards" of the market (cheating, opportunism, universal self-interest) while profiting from its transitory opportunities. This is the universe described by, and normatively defended in, the theories of contemporary institutionalism. But the universal way to define the state's role is not in terms of state versus markets, but in terms of this as a particular convention of the state and of economic efficiency.

Example #2: "States versus Markets"

The convention of the absent state takes the form of opposing the "state" to the "market." In the United States, for example, the common good is defined, first and foremost, as a structure of opportunities which maximizes for each person the chance to pursue his or her particular interests; this is assumed to act as a powerful incentive which leads to the greatest possible economic growth and full employment, and thereby allows people (according to their different and unequal efforts and talents, of course) to enjoy upward social and economic mobility. The general common good, then, is defined as the result of maximizing the interests of particular persons. External (interventionist) action is criticized by those within this framework on the grounds of its supposed effects: by hindering market action, it blocks actors from realizing their individual potential and hence works against the common good. The convention holds that the state, and all forms of nonmarket coordination, are inherently worse than the market because they inhibit human agency and limit the supposed diversity of choices individuals could make in the absence of a state.

No such states currently exist, but perhaps they are the direction that certain kinds of governance experiments are currently taking. One of these is the European Union, which is based on a delicate compromise between trans-national rules and group specificities. The other is experiments in multi-cultural group compromise at the municipal level in certain American cities, and in some Anglo-American political philosophy. We should be clear that much so-called "multiculturalism" at the societal or national level in the United States is essentially taking the form of a super-Liberalism where group injuries and group claims are grafted onto individual procedural rights. In contrast to it, certain versions of municipal politics seem to be experimenting with the possibility of group recognition within a framework of territorial cooperation (something like a municipal version of the European Union!). There are many problems with these municipal experiments, of course, including the tendency for corruption and particularism to be privileged. But they are interesting for the questions they pose for the state at the municipal level.

In sum, in the convention of the external state, each person acts in his or her best interests, counting on the
state to fill in coordination gaps; in the convention of the absent state, each person looks to the state to remove any public presence from the situation and to block the formation of any type of collective action that does not obey principles of the market. In the situated state, the state is a present, involved actor, but as one that is kept somewhat in abeyance and acts as a last resort.

**The Problem of State Reform**

There is a strong implication of this analysis for any attempt to reform state institutions. What we have described here is essentially an endless circularity between convention and institutions. Institutions have a strong effect, by generating regularity and precedent, in the formation of conventions that people employ to cope with pervasive uncertainty. But by the same token, formal organized institutions can only function successfully if the rules, procedures, incentives and sanctions they establish are integrated into the conventions that guide people’s behavior.

Reform projects, or institution-building projects in general, have somehow to cut into this circularity. They cannot parachute from above, as in the “external” conception of the state so favored by, for example, most international institutions (e.g. IMF) in dealing with nation-states. Most of those projects are, in any case, based on a kind of minimalism with respect to states, consisting of economic Liberalism and basic rules about procedural transparency (based on the so-called Western model of doing private business). Reform projects need to cut into circularity in a “situated” way, using devices that can create precedents and build confidence that are appropriate not only to a given ending point, but more importantly, with reference to the situation of the actors and their existing conventions and expectations. To put it in a single phrase: state reform is about building new precedents that would lead to new conventions; to do this, they need to involve the actors, which requires talk among the actors so that they might ultimately build confidence in new patterns of mutual interaction, which is the prerequisite of new sets of mutual expectations which are, in effect, convention.

Thus, there will be many different state reform projects, not one optimum result or one correct procedure. Surely they will all share certain results which are common to democracy, such as transparency and fairness, and which are necessary to capitalism, such as resource mobility, but beyond that, it would be a grave mistake to believe that external or absent states can bring most societies forward where they want to go. Situatedness may sound like a vague and complicated recipe, and convention-building a very soft goal, and they are, but they are probably the only practical choices.

**VII. Coherence and Tests**

At this point, one of the classical questions returns. If, on the one hand, there is no single optimal result of creating equivalences and generalized judgements about situations -- that is, if conventions are not simply shills for exogenously-determined optima -- and, on the other hand, if they are not totally arbitrary, then what are the margins of the possible?

Every type of action has tests to which it is submitted; but these tests are not dictated by a universal rationality. The coherence of an action refers to the degree to which assumptions and expectations are valid, with respect to the relevant spaces, times and persons, i.e. the situation of pragmatic endeavor at hand. The value of a good description should not be underestimated as a method here.

In addition, complete applicability of institutional rules is often too easily assumed, for social spaces which are much too broadly defined. Thus, we often get such notions as "the nation-state," "competition on the world market," and so on, taken for granted and their determining effects on action assumed a priori. In economic production, for example, there is such a high level of concrete diversity of situations, even within a single sector of the economy (due to product differentiation and all that goes along with it), that the notion of optimal "best practice" loses its usefulness. To put it in the terminology of the SSC, a multiplicity of real worlds of production exists, and all of them meet the test of competition and profitability.

On the other hand, this does not mean that anything goes. On the basis of thick inventories of practices, we can systematically analyze the forms and conditions of possibility at any given moment, the range of viable possibilities to shape uncertainty, create normality, and still meet tests. This is what Salais and I call possible worlds of production for each kind of product. But such possible worlds can be combined, adapted and transformed into real worlds in ways that we cannot deduce from theory, from the past, and even from the present, precisely because of their incompleteness. Hence, thick description and the use of both inductive and deductive reasoning are indispensable.

Justification and norms must re-enter the stage here. Justification can be derived neither from an original position (as in Rawls) or from a simple plurality of possible spheres (as in Walzer); evaluation of the performance of a set of actions occurs in actual situations through the persons involved. This notion goes against the grain of most economics, for it suggests that the single criterion of efficiency, and its reduction to
optimal allocation of producers' and consumers' resources, is just one convention among others (and a purely theoretical one, likely even in the most capitalistic of societies to be combined with other conventions in real life). And this brings norms back into the discussion, because they are incorporated by actors in the "objective" tests of institutional performance which they construct via convention.

VIII. Where to go from here? Priorities for future work

There are many pressing tasks on the agenda of the social science of conventions which could shed more light on the genesis, performance and possible reform of institutions. Some of these have to do with fundamentals. Others are applied, and we can cite a few areas of interest:

(1) State reform and theories of democratic regulation: new procedural approaches to democracy which do not accept public choice theory's definition of the problem of relationship of individual-procedure-collectivity, but do not reject the importance of proceduralism, philosophically or as a social fact; this work touches on the problem more commonly known as the "governance of complexity;"

(2) In economics, work on incomplete contracts and industrial organization, and especially the competence-based theory of the firm, where incompleteness is viewed as a necessity, resolved in many potential ways;

(3) New approaches to risk, especially in the context of a confrontation between welfare states, citizenship rights, and an increasingly diverse citizenry (in the sense of needs and demands), and less foreseeable economic environment (thus resources). A particular area where risk and governance questions come together is that of regional economic regulation by convention and new relationships between different territorial and functional levels of governmental institutions.

Conclusion: Lightening the Burden of "Institutions"

In the way it is redefined by the SSC the concept of institution is lightened of its old theoretical burdens. It still refers to social practices involving a certain spatio-temporal regularity. It is the lived tension between certainty and uncertainty and the continuous reconstruction of equivalences among conventions, the activity of ongoing abstraction, which makes institutions what they are. Out of this, many new possibilities emerge for overcoming the tendency to swing from determinism to voluntarism, from oversocialized to overly atomized agents, that has made it so difficult to make sense of the rise and transformation of institutions.

Appendix: The New Institutional Economics, The New Institutional Analysis

The New Institutional Economics proposes a strong solution to the problem of economic institutions, holding that for a given set of economic objects (technologies, equipment, products) there is a deterministic relationship to efficient form of economic organization, which it terms "governance structures." It argues that objects -- assets -- are heterogeneous and have intrinsic attributes which generate high levels of transactions costs and these act as signals to decisionmakers. Hence the appellation "transactions costs economics."

The fundamental problem by which the NIE gets into institutions is the choice between organizing capitalist activity in the firm rather than in the market, via administrative hierarchy rather than a decentralized transactional system, via make versus buy. This becomes a kind of master metaphor for the analysis of institutions in general.

There are two dimensions to the institutional problem here. On the one hand, the physical-technical nature of assets, which determine the kinds of information which one can share with, or hide from, the other parties to a transaction, as well as the possibilities for appropriating the benefits from possessing them. Assets which involve a high level of transparent and codifiable information can be obtained easily via markets (one main form of institution in capitalism), while those which involve complex, or easily-hidden information encourage us to produce them for ourselves, because we cannot transact with full knowledge of what our interlocutors know or what they might do with what they know.. Likewise, assets where our investments permit us to keep the full return may be acquired on markets, whereas those which involve externalities are likely to be produced in-house. Complex combinations of all this generate institutional choices of firm or institution, on one hand, market or decentralized exchange, on the other, and the intermediate category of relational contracting or transacting. These are its different "governance structures."

It is important to realize that the theory makes very strong claims about its explanatory power: Williamson writes that "transactions costs are economized by assigning transactions, which differ in their attributes, to governance structures, i.e. the adaptive capacities and associated costs of which differ, in a discriminating way." In other words, institutional arrangements are driven by the qualities of assets, which drive transactions costs.

The major advances made by the NIE are two. (1) It has a much more realistic depiction of economic life as involving an enormous complexity and heterogeneity of physical and informational characteristics, creating different sorts of action dilemmas for economic agents, than does orthodox theory, which abstracts away
The NIA is not only interest-based, but also largely framed in terms of rational choice. Thus, fundamentally it exercises powerful arsenal of micro-analytical tools derived from economics, applied in particular via game theoretic framework. And it has done this with the immensely successful empirical results: the first two are empirically locked into the study of continuity, and the latter result: temporal interdependencies make the attainment of optima from a starting point extremely unlikely.

First, what one hand gives, the other takes away: while the NIE gives us complex assets and governance, it remains securely within a notion of social life inspired by neoclassical economics: economic agents are individual maximizers, and they are both procedurally and substantively rational. They add, subtract, divide assets as they need to. Their decisions are reversible. The problem here is that, curiously, the theory does not deal with such issues as time and interdependency of decisions in any realistic way: it can be shown, for example, that when we introduce time, there is no longer a discriminating relationship between transactions costs and governance, because interdependencies over time make it impossible for actors to combine, recombine, and divide assets willy-nilly. The theory lets itself be pulled along by its commitment to find a way to explain how institutions are an expression of essentially neoclassical optimizing. Williamson's response to these criticisms, most of which are backed up by solid modelling, is that the problem is produced iteratively, over many rounds of interaction -- the "first order economizing problem" is following by a "second order refinement." But this is not in any way satisfactory, because evolutionary models show exactly the opposite result: temporal interdependencies make the attainment of optima from a starting point extremely unlikely.

The second main problem has to do with the NIE's view of human motivations. It is one thing to aver that agents are procedurally rational. NIE goes much, much further. In essence, it claims that the problem with heterogeneous assets -- notably those for which information is not transparent or for which there are potential externalities or spillovers of benefits -- is that people are universally inclined to cheat. This is what the NIE calls the existence of "moral hazard." Moral hazards flow from certain situations of action defined by assets, and governance structures are essentially the results of a procedural rationality by which agents protect themselves from the potential opportunism of others, as defined by the assets each one needs. Now, there is no denying that this is a powerful insight into the organization of modern capitalism. It has, for this reason, been labelled the "New Hobbesianism," and the "economics of suspicion."

Even if actors were simply interest-seeking, maximizing and opportunist, markets alone would not generate efficient institutional arrangements, because in real time there is no single efficient solution. Beyond this, however, the NIE does not do justice to what we know about how real economic governance structures work, i.e. that the nature and degree of opportunism is as much the result of these systems as a cause, and that it varies widely, even for a given asset-information structure. The response to all this is to claim that NIE deals with institutional "arrangements" not wider institutional "environments." But this separation of adjustment from he generation of contexts merely returns us to the theoretical cleavages we need to avoid: in the end, the NIE refuses to deal with the genesis of institutions.

What I am calling the New Institutional Analysis -- mostly the new political economy in political science -- has in recent years devoted a great deal of attention to two closely related problems: the generation of institutional environments (rules, collective behavior, practices) and their effects on economic performance. Centrally, collective action is seen to be analytically problematic, in that it seems to exist frequently, but also seems to fail frequently.

The NIA is of interest precisely because it emerged from the ashes of a variety of social scientific projects to explain institutions and development: modernization theory; old-fashioned functionalism; marxist political theory; and so on, all of which have largely failed because they emphasize a variety of forms of the collective to the detriment of individual rationality. None has a plausible micro-theory, and as a result, all have had unsatisfactory empirical results: the first two are empirically locked into the study of continuity, and the latter into that of breakdown, where reality is characterized by mixtures of them.

In this context, the NIA emerged as an interesting combination of insights from political science, economics, and law. It purports to rescue the interest-based theory, and the individual rationality-based theory of institutions by showing that the observed diversity of relations between individual choices and collective outcomes is due to a series of micro-coordination problems. Thus, macrohistorical and structural approaches are replaced with methodological individualism; and internalized norms, ideologies and collective-self interest are replaced by a focus on how actors pursue their interests. And it has done this with the immensely powerful arsenal of micro-analytical tools derived from economics, applied in particular via game theoretic exercises.

The NIA is not only interest-based, but also largely framed in terms of rational choice. Thus, fundamentally it...
asserts that (1) individual egotistical action can give rise to social organization of maximum benefit to all individual members of society when markets operate freely; (2) the consequences of making rational choices generally allow the intentions governing those choices to be realized; and (3) collective action is a form of social behavior found only in exceptional circumstances, as it is rational for the self-interested individual to opt out of collective actions.

The NIA centers on four common conditions which, if present, block collective action: (1) divergent or partially divergent interests of the parties; (2) bounded rationality or information, important transactions costs, or hierarchical structures; (3) differences between payoffs to coalitions, groups, and individuals (distributional problems); and (4) uncertainty about or difficulty in predicting the future.

Putting these assumptions to work in these different circumstances, the NIA shows that collective action has three main characteristics: (1) it is difficult to establish coordination; this is known as the problem of concertation among agents; (2) it is difficult to sustain coordination; this is the problem of the instability of coalitions, and the problem of principal-agent relations; and finally, (3) it is difficult to undo existing forms of institutions, even when they are not efficient; this is the problem of institutional sclerosis.

All these unfavorable real outcomes, which block the potential efficiencies of actors’ rational or boundedly rational choices, point to the need to avoid inappropriate institutional environments. To deal with this, unsurprisingly, most of the NIA (but not all!) devotes its attention to institutional "solutions" which involve efficiency-based contracts and perfection of property rights.

There are a number of major branches of the NIA which we do not have time to review here in any detail, which involve permutations of the initial assumptions:

- Mancur Olson's work on free rider behavior, where he holds that uncooperative or prisoner's dilemma behavior is the norm in social life, where the assumption is that transactions costs between agents are always high, so that coordination is complicated and monitoring is extremely costly. The problem is that there are lots of circumstances where monitoring is efficient, transactions costs low, and solidarity is high;

- public choice theory's contractual world (a world where transactions costs are low so that individuals come together and separate fluidly, something like the constant elasticity of substitution of inputs in a standard neoclassical production function, but where the inputs are agents’ interactions); institutions are just ephemeral spot markets for agents. The problem is that all kinds of issues: numbers, reversibility; identities; externalities and spillovers and synergies; recursive effects; and principal-agent problems, are ignored).

- Principal-agent theory: interest groups and formal institutions (agents) function to bundle and represent the interests of their members (principals). Following Kenneth Arrow's social choice work on the paradoxes of majority rule, and adding in the problems associated with high transactions costs, it can be seen that the bundling of interests is very problematic. Here, at least, individuals have some interest in collective action! Small groups are most likely to overcome the P-A problem because the bundling is cleaner. Problem is that the outcomes of P-A analysis are extremely sensitive to small variations in the assumptions, causing the models to swing from solidarity to impossibility of collective action. And P-A models are totally insensitive to recursively formed group identity, the practical goals of collective activity, or the role of independent reflection and action.

- Historical perspectives: the economic history of Douglass North and his school, which hold that institutions-- except for one single institution, that of perfectible property rights -- are about rent-seeking and inevitably lead to sclerosis unless we have an ongoing mechanism to break them down. Of course, there is considerable evidence for this proposition, but also for its contrary: where solidarity makes possible certain kinds of long-term collective actions which have steeply rising payoffs, and where rent-seeking is countered by spillover effects and synergies and low-transactions costs which come out of accepted forms of collective action.

Thus, both the NIE and the NIA represent major advances for social science because of their attention to uncertainty and the diversity of situations in which actors find themselves. But both have positive assumptions and normative ambitions which limit their explanatory power. Their points of departure make for these outcomes. Both view the idea of resolving problems of human failure through collective action exclusively in terms of institutions that limit actors’ ability to take advantage of their necessary interdependencies as social beings: that is, both are essentially about justifying only those institutions that are the market or that mimic the market. This is valuable in that they call our attention to the need to be hard-headed and realistic about how procedural rationality often leads to mutually damaging self-interested behavior (e.g. prisoners'dilemmas). But at least half of social life is simply cut out of their field of vision, that part which depends on the existence of non-spot-market style coordination between persons in the construction of social life.