

2) Which “Rationality“? (3)

A Final Story:

Remember the NYT cartoon

„The two hours missing that Saturday night when Frank Hahn saved the world ...“

Core Conceptions II: „Institution“

1) Art. „Institutions“, Walter C. Neale, The Elgar Companion to Institutional and Evolutionary Economics (1)

Definitions given in the literature by famous institutional economists:

- “Regular, patterned behavior of people in a society”
- “*Habits* of thought” (Th. B. Veblen)
- “*Standardized* behavior”
- “*Axiomatic* by habituation”
- “*Prescribed* patterns of correlated behavior”
- “*Collective* action in *control of individual* action” (J. R. Commons)
- “Ideas and norms (beliefs and values) associated with these regularities” ...

Core Conceptions II: „Institution“

3) Art. „Institutions“, Walter C. Neale, The Elgar Companion to Institutional and Evolutionary Economics (2)

- institutions convey „*meaning*“ (beliefs, „mental models“, “worldviews”, “folkviews”) often both *explaining* (~ “instrumental”, “technological”) and *justifying* (~ “ceremonial”) simultaneously
- while the instrumental is often subordinated to (or “*encapsulated*” in) the ceremonial (s. *P. D. Bush* below)
- institutions are *enablers* that “*allow us to act*” reasonably “*and to create*” (becoming *innovative!*) where we otherwise would be strongly uncertain and prevented from acting at all (“*mutual blockage*” or “*lock in*”)

1) Art. “Institutions”, W. Neale (3)

- i.e., institutions provide *liberties* and *opportunities* rather than “restrictions” (as conceived in neoclassicism)
- the sum of interrelated institutions is a „*culture*“
- real „*markets*“ are institutions, i.e. de-central mechanisms based on institutionalized behavior (bidding, accepting, paying etc. rules, e.g. hand-shake at the horse market, *symbolic actions* and hand signals at the stock market are given “meaning”) → *institutionally “embedded”* markets
- going into an strongly *uncertain future* requires referring to past experience: *past experience* → *future expectations* → *present decision and action*
- institutions “inevitably” both instrumental and ceremonial (W. Hamilton, C. A. Ayres, J. F. Foster et al.).

Core Conceptions II: „Institution“

4) What Have We Learned So Far? (1)

- institutions are *rules* (“*standards*”) of the behavior/ thought/decisions/choices of individual agents
- that have been *learned* (in a recurrent, interactive *process*, i.e. from past experience, *past-bound*)
- to solve a current *social (coordination) problem* (the *instrumental* dimension of institutions)
- i.e. institutions as *enablers* under conditions of *direct interdependence* and related “*strong uncertainty*” when “*progressive*” action otherwise would be “*blocked*” or “*locked-in*”)
- and thus are *shared (collectively owned)* by a relevant group (*correlated* behavior)
- they are *informational* and “*expectational*” devices (future!)
- as a metaphor: the set of institutions (in an individual or a group) is its “*gene pool*” (“*routines as genes*”, Nelson/Winter 1982)

Core Conceptions II: „Institution“

4) What Have We Learned So Far? (2)

- while we do *not* behave (hyper-)rational (be not too clever)
- but rather have the rules “*habitualized*” (they are “*semi-conscious*”, “*tacit*”, as long as expectations are met, rules not broken, no surprise, otherwise will be reconsidered by “*rational*” *deliberation*)
- the *rule* may be “condensed” into a *norm*, *belief*, and *value* (while still being *problem-solving*, i.e. *instrumental*)
- but may also lose connection to the problem to be solved and thus switch over to *power- and status-preservation*, and *identity/belonging* provision (*ceremonial* dimension of the institution)
- in all, it “controls” individual(ist) action in favor of “collective” „correlated“, „coordinated“ or “cooperative” behavior.