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On Conventions, Institutions, Power, and Uncertainty – Some Cursory Remarks

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Abstract: »Über Konventionen, Institutionen, Macht und Unsicherheit – einige kursorische Bemerkungen«. There is no catch all theory in social sciences. The strength of convention theory does not consist in establishing the priority of conventions in the first place, but in providing more powerful analytical tools in view of social interaction and development by bringing both of them into play, with their respective influence as being part of the analysis itself for any given situation. There is no definite explanation for the very existence of conventions but at best some historical reconstruction of the processes in which specific conventions and conventional categories developed. The focus of empirical and historical analysis must be on the interplay between conventions being brought into play by actors and the institutional structures and the constellations of power that are influenced by but cannot be reduced on the impact of conventions.

Keywords: conventions, institutions, uncertainty, bounded rationality.

There is no catch all theory in social sciences. The strength (not only) of a new theoretical concept does not consist in being able to offer a better explanation for everything. It relies (at least also) on being able to specify where it has its strength and where it has not. So for example, the strength of regulationist theorising consisted in being able to analyse the macroeconomic and macro-sociological logic of fordism. It obviously met its limits when requiring to be an integrated macro and meso theory, connecting the analysis of macroeconomic logics and its framing by certain types of politics and social institutions to a specific type of organisation of work, labour, and production. Where referring just to the macro-level of analysis might have resulted in a limited and manageable plurality of different types of fordism, bringing in the level of factory and work organisation finally resulted in having one -ism for any single company or even factory: Toyotism, Uddevalism, Kalmarism. In a similar way convention theory has nothing to win by engaging in a race of the tortoise and the hare with any other theoretical approach, requiring always of having been already there.

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This holds especially for the perspective(s) on conventions and institutions. Insisting on a genetic priority of conventions may be plausible in an ontological perspective. But it does not lead very far with respect to the empirical analysis of historically situated phenomena and developments. If any situation met by social actors is already “equipped”, as Robert Salais and Rainer Diaz-Bone (2011) rightly put it, the equipment at any given moment consists not only in cognitive formats and a repertoire of established conventions and orders of justification but also in institutions, social structures, relations of power, that have to be interpreted and enacted by competent social actors referring to conventional orientations, but cannot and should not be reduced to this conventional interpretation and enactment, neither in an actual nor in a historical perspective.

With respect to the relation between institutions and conventions the explanatory power of the approach of economics of convention (in short EC) emerges in fact on establishing and theorising the conceptual difference between the two categories, as Salais and Diaz-Bone demonstrate (Diaz-Bone and Salais 2011). Where representatives of New Historical Institutionalism (NHI) conceive institutions as special subgroups of conventions; namely “those conventions that, far from being mere conveniences, “take on a rule-like status in social thought and action” (DiMaggio and Powell 1991, 9), the EC-approach insists on making a clear conceptual distinction. However the strength of conventional theory does not consist in establishing the priority of conventions in the first place, but in providing more powerful analytical tools for social interaction and development by bringing both of them into play, with their respective influence as being part of the analysis itself.

1. Institutions, Conventions and Uncertainty

I would not completely agree with the clear-cut distinction, introduced by Salais and Diaz-Bone, between institutions as being “created as instruments for successful coordination” and conventions as being “the way institutions are interpreted and handled in situations” (2011, 18). With respect to institutions for me there is too much instrumentalism and “creationalism” in the definition. Of course there are also institutions that were created in such an instrumental manner, such as the German system of vocational training for example, to which I am going to come back later. But by far not every institution has been created in this manner. And not every institutionalisation, even if it happened in a “creation-mode”, had successful coordination in focus in the first place. Establishing or confirming positions of power or domination or defending existing prerogatives are alternative intentions. This does not mean to deny the importance of institutions for coordination, whether successful or not. But this

coordination function should not be attributed to the creation act but to the effectivity of institutions in real life.

Therefore what I refer to as institutions in general here are complexes of behavioral regularities which by permanent adaption, explicit emphasis as well as through collective and partly public sanctioning have obtained a highly binding character. At this point I am more or less in line with Powell and DiMaggio's concept in referring to a conventional historical background of institutions, stressing the character of rules with collective or public sanctions behind them as the specific difference. My difference to Powell and DiMaggio at this point refers to "mere conventions". Even if transitions between conventions and institutions are somehow fluent, conventions should not be perceived just as some weaker and less binding pre-stage of institutions but – in line with Salais and Diaz-Bone – as a complementary social resource of its own right, enabling individuals (among other things) to deal with institutions in a more or less generally understood manner – and by this standing for the effectivity of institutions in real life. While in other conceptions of institutions – such as those by Berger and Luckmann (1971) or the NHI-approach – institutions appear as collective behavioral regularities which, once they are established, are merely reproduced, in a conventional perspective they come into play as complexes of behavioral regularities which are and have to be followed and adapted.

This re-accentuation is important insofar as there is no following rules or adaption of them, which is not at the same time an interpretation of a given rule with regard to the particular concrete situation. The application of the rule without regard to the situation is neither seen as an expression of social decision-making skills nor as a proof of a successful integration, rather the opposite. As everybody knows: A prescription undoubtedly defines a procedural rule, may be even a legally binding one, and institutionally it is subject to sanctions. And yet following prescriptions literally in the sense of "work-to-rules" is one of the most common ways to lead rules ad absurdum.

As Olivier Favereau states: "A rule is never a ready solution – it is always a heuristic" (1994, 132, translation by JK), i.e. a scheme of interpretation. People use it to structure reality and make it accessible in order to make it cognitively manageable. At the same time it is being reinterpreted and has to stand the test of reality. But this means that the actors need to be sure that other participants, when dealing with a rule, use their scope for interpretation in a sufficiently conforming/consenting way. However, outside these mutual relations there is no fixed point to which one could adhere. Conventions are rules solely secured by mutual attribution of behavior and therefore they are in danger to evaporate in the infinite loops of double contingency: expectations, expectations of expectations etc., leading to a game of mirrors. Conventions enable bounded (not just limited!) rationality under the conditions of fundamental uncertainty, to take up Simons's and Knight's categories (Simon 1949, 1982; Knight 1921).

The founding father of this concept of conventions was not worried at the time. In 1740 the English historian and philosopher David Hume introduced it in his “Treatise on Human Nature”. He used the example of two rowers in one boat in order to characterize a specific form of coordinated action which looks on the surface as if it was based on a silent agreement although such an agreement does not really exist. What is at stake here, is not the “Whether” but the “How” of the co-ordination. For Hume as a decent empiricist the clarification that this sort of thing existed was in itself sufficient.

The attempt to explain the occurrence of conventions in accordance with the principles of individual rationality was undertaken by David Lewis in his groundbreaking work on “Convention” (Lewis 1969). He was not really concerned with sociological or economic questions but rather with the solution of the paradox that language is of a conventional nature whereas nobody can explain how these conventions could come into being without a language already available. However, in order to illustrate the problem he used a number of nice little problems of interaction taken from everyday life. That is also why his work was not without consequence especially for social sciences and economics.

Lewis solved the problem by declaring the conditions of a convention, as summarized here briefly, to be general knowledge within the group concerned. (All prefer to follow a certain rule out of many possible rules. They also expect the others to act the same way and therefore follow it. They would also follow a different rule, if the others did.) Against Lewis’ argument it may be rightly objected that his solution arises from the noble art of dragging oneself out of the swamp by one’s own hair. Because how can individuals solely by way of interaction and reciprocal reflection find out that something represents general knowledge – mind you, we are talking about knowledge not convictions.

Obviously situations are potentially ambiguous. And for rules to work and conventions to become effective it has to be clarified in what sort of situation one finds oneself. Only this specification of the context of activity creates the preconditions for conventional actions, i.e. sufficient clarity as to which conventions one can relate to when explaining and legitimizing one’s own actions in a given situation. Orders of justification comprise the double meaning of (rational) explanation and (normative) legitimization, where the difference between norm-guided and interest-led actions can be consistently analysed as a reference to competing orders of justification in one and the same situation.

The clarification of the situation, the understanding to which order of justification one is referring to here and now can only be achieved via a common attribution of meaning and it is therefore of a conventional nature itself. Thus, we are dealing with two levels of conventions: Rules of conduct within unambiguously identified orders of justification (= worlds, contexts of interpretations) and attributions of meaning by which these orders of justification can be identified. Once they are identified, the rational actions of individuals can be

analysed as conventional actions within and as competent navigating between different orders of justification. When asked which orders of justification exist and why, one is – at least to a great deal – thrown back on Hume’s empiricism. Accordingly, Lewis with his analysis of conventions has decisively advanced the sociological theory of action, but regarding his actual problem, the solution of the paradox of a conventional explanation of language without language, he has failed. The very existence of common knowledge can only be observed and analysed, but it cannot be explained. As Wittgenstein puts it: “Philosophy must not interfere in any way with the actual use of language, so it can in the end only describe it. For it cannot justify it either. It leaves anything as it is” (Wittgenstein 2009, 55 [§ 124]). There is no explanation of the very existence of conventions without referring to situations where conventions already existed. In other words: In analysing bounded rationality we stay in the hermeneutical mode.

What we may be able to explain however is the development of specific conventions or conventional categories against the background of existing ones, in a similar way as etymology can explain changes and the emergence of new words in an existing language. Our capacity to do so depends on our ability to trace back conventions to the historically situated constellations and collective interactions in or by which they were put forth. In this perspective conventions themselves are “traces” of former development and by this of configurations of conventions, institutions, relations of power and historical contingency. This necessarily historical reconstruction of specific conventions is demonstrated by Boltanski’s analysis of the emergence of “*les cadres*” and Salais et al.’s analysis of the construction of “*chômage*” [unemployment] as social categories (Boltanski 1982; Salais, Baverez and Reynaud 1986).

2. Institutions Informing Conventions

Making the difference between and/or connecting logical or systematic and historical explanation has been one of the most fundamental problems in debates on Marx’ theory. And debates on this question did often result in scholasticism and exegetics, at best loosely connected to empirical realities. Nevertheless this question is important when we address the problem of the respective priority of conventions and/or institutions. In a logical or systemic perspective it makes sense to see institutions as being based on conventions. In a historical perspective things are much more inconclusive because historical situated people always meet a reality that already is equipped by cognitive formats, conventions, institutions etc.

I want to illustrate this briefly by an important aspect in German labour regulation. Wage schemes in the German system of collective bargaining and contracting in the post war period are predominantly based on a system of

“summary” job evaluation (“*summarische Arbeitsbewertung*”). Wage categories of collective agreements for an industry or are cluster of industries are defined by rather complex, multidimensional descriptions of generic job requirements, and pay scale grouping in any single case is by taking reference to these summary description. Obviously this procedure of applying the generally descriptions on single cases is highly conventional, based on a common understanding among managers, workers and workers representatives etc. Of course there have always been disputes on individual cases, but they did not affect the performance of the classification in general. These systems are rather intransparent in an analytical perspective and have been criticised for this by European jurisdiction. Nevertheless they are sufficiently unambiguous for those practically involved on a conventional basis. However, not everything is just conventional in this conventional basis. For in all these summary pay scale descriptions there is a common structuring principle: the difference between “*ungelernt*” (unskilled), “*angelernt*” (semi-skilled) and “*Facharbeiter*” (skilled worker/craftsman), with additional categories being inserted between these basic levels. And the “*Facharbeiter*” is not (only) a job profile but (in the first place) an institution, coupling a certain level of professional competences to certain, publicly regulated type of apprenticeship. And in more or less all collective agreements the “*Facharbeiter*”-level is the level of reference for all other categories in the pay scheme. It is important to see that this categorisation is by conventions: As pay scale classification refers to the requirements of jobs and not to individual qualifications of persons, it is on what the actors involved expect that a “*Facharbeiter*” is or should be able to do and not on individually certified professional qualification. However this whole system of completely conventional pay scale classifications would simply not exist without the institutionalisation of the German system of vocational training by law in 1897 with the “*Facharbeiter*” being its cornerstone (Thelen 2004, 39-91). In this case previous institutionalisation is the precondition for the development of conventions.

3. Financialisation – Conventions, Institutions and Power

Finally I will quite briefly come back to my own analysis of “Financialisation of Capitalist Economies” (Kädtler 2011). The principal argument is that financialisation should not be analysed as financial actors coming into power as the result of increased financial dependency of other economic actors. Instead it is argued that financialisation is the outcome of a paradigmatic shift in economic rationalities, with financial economics becoming predominant compared to other conventional economic rationalities, which nevertheless stay relevant too. This new balance in economic rationalities gives more power to such actors that are able to refer successfully to financial rationality *and* to establish them-

selves as authorities for the interpretation of ambiguities. So on the one hand financialisation is the result of a new type of conventional economic rationality coming up. This is based on a new object brought into play as point of reference for conventional justification by economists: the new system of financial mathematics with the Black-Scholes-Formula, the Capital Asset Pricing Model (CAPM) etc. as its cornerstones (MacKenzie 2006). On the other hand financialisation is the outcome of historically situated opportunity structure where a lot of different actors were engaged: Stock exchange authorities, providing historical data for the analysis; the institutional structure of US business schools; specifics of the US pension fund system and the position of case law in US pension funds regulation; the growing importance of financial officers as important members of dominant coalitions in companies after the breakdown of the Bretton Woods system etc. This opportunity structure provided a sufficiently broad range of interested actors and situations, where the new type of rationality could be offered or perceived as a solution for respective problems. So when the EC-approach gives us a strong tool for analysing financialisation, it is by focussing on the interplay between conventions being brought into play by actors and the institutional structures and constellations of power that are influenced by but cannot be reduced on the impact of conventions.

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