Spreading the Word: Transaction Cost Economics in the Conversation of Economics

By Huascar Pessali and Ramón Fernández

Abstract. Transaction cost economics is a key topic in many conversations in business and economics related disciplines, much as a result of Oliver Williamson's intellectual crusade. By claiming a "distinct worldview," he develops arguments of association and differentiation to established worldviews, like traditional microeconomics, earlier institutionalism, Austrian and radical economics, and also within the new institutional economics itself, in order to advance his theory. His resourcefulness defies straight argumentative decisions, catering to different audiences whilst trying to break new ground. Surely Williamson has not pleased everyone, but his discourse is greatly responsible for placing TCE in the everyday parlance of economics.

Introduction

In the last decades, the fields of business and economics related disciplines have grown and created a colossal amount of texts. Still, there is only so much time for one to read and consider what to absorb into one's intellectual portfolio. Klamer and van Dalen (2002: 290) have noted that "the sheer abundance of texts to be read will render the chance of being noticed at all minimal." That has not been the case of transaction cost economics (TCE). TCE has become a key topic in business studies and economics, much as a result of Oliver Williamson's crusade.

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Williamson has become one of the most cited scholars in the social sciences (see Pessali 2006) and has been awarded the Sveriges Riksbank Prize in Economic Sciences—the "Nobel" Prize in Economics—in 2009. This is evidence that his arguments have been widely heard. As our daily practices show, an essential part of academic life revolves around exchanging arguments, be it in oral or written form. It is through these exchanges that we learn, review ideas, build and test hypotheses, develop new theses, and so on. Many scholars have suggested that this process can be studied as a conversation (Klamer 1984; McCloskey 1985; Nelson, Megill, and McCloskey 1987; Samuels 1990).

To take part in the conversation of business studies and economics, for instance, authors need to show what brings them close to and what separates them from certain established views. This is particularly relevant for authors claiming to swerve from a dominant tradition (Klamer 2007), and even more to those striving to reach out to different discourse communities both inside and outside a discipline (Goldschmidt and Szmrecsanyi 2007). On this regard, in his pioneering book *Markets and Hierarchies* (1975, hereafter MH), Williamson claimed to offer "a distinctive worldview" (1975: xii). To recognize what is distinctive, we usually draw on a comparison with what is familiar. Indeed, Williamson has made many references to different groups of scholars associated with different worldviews in order to advance his ideas.

As Deirdre McCloskey (1999) suggests, being attentive to one's implied readers is paramount to being read. Flipping through a text, readers with different worldviews look for shared ideas, notions, premises, arguments, objects, references, models, and techniques. In their turn, authors are usually aware that presenting certain ideas or premises will bring their approach closer to this group of thinkers or away from that other group. In MH (p. 1), Williamson claims that his views belong to a *new* institutional economics. How he relates to other established worldviews is thus no ordinary matter. The claims made about what is new, different, or complementary in relation to particular groups of scholars are bound to affect the conversational feedback from his intended audiences and are a relevant rhetorical ingredient in the unfolding of his project.[1]

Such conversational markers are our object of study here. We explore the appeals made in Williamson's texts to different groups of scholars with a bearing on the subject of economic organization—a subject that involves business studies, economics, law, and sociology (to quote only a few) to which Williamson has repeatedly claimed to relate. We then discuss the rhetorical possibilities of his discourse towards those audiences.

According to Williamson, the quintessence of his intellectual efforts can be found in his trilogy: MH (1975), *The Economic Institutions of Capitalism* (1985; hereafter EIC), and *The Mechanisms of Governance* (1996; hereafter MG) (see MG: 18). His trilogy on TCE will be thus our main, though not exclusive, source for analysis. In what follows, one section will be dedicated to each one of the books, trying to follow the conversations in chronological order.

Markets and Hierarchies: In the Beginning There Were Many Invitations

Williamson (1995: 118) separates his work into three periods: "before 1970, during which time I was working mainly within an orthodox setup; the decade of the 1970s, which was a transition interval, and after 1980, by which time my shift into transaction cost economics was complete." When MH was published, Williamson was in a "transition interval," leading him away from the orthodox setup. He then decided to create a new label for the setup in which he was working from the very beginning of his book (MH: 1); he named it as the New Institutional Economics (NIE), investing thereafter his intellectual capital on its development. The present-day reader may think from NIE's current reputation that this was an easy move to make. But things looked different in the early 1970s. There was great diversity among the scholars he gathered within NIE, and this fact could have jeopardized his attempt. Among the 11 authors he cited therein (MH: 1, fn1), perhaps only a couple of them would be listed in NIE ranks today.

Williamson wanted to stress, however, that this new institutional economics was still in the making. The first chapter of MH is thus called "*Toward* a New Institutional Economics" (emphasis added). In its first sentence he claimed that (MH: 1) "aspects of mainline microtheory" have had "a bearing" on NIE. What aspects are those with regard to TCE after all?

Received Microtheory Invited

In MH, Williamson starts by suggesting that he intends to go beyond, but not to clash with, received economic microtheory:

> whereas received microtheory generally regards the organization of economic activity between firms and markets as a datum, the study of markets and hierarchies expressly attempts to assess the efficiency properties of alternative contracting modes. . . . while conventional analysis is largely preoccupied with the investigation of final product markets, the study of markets and hierarchies entails, additionally, an intensive examination of labor market, intermediate product market, and capital market related transactions. (MH: xi)

First, he claims that TCE studies what received microtheory takes "as a datum." In that case, received economic microtheory remains untouched. For instance, once a contracting mode is said to suit a given transactional context, the "received microtheory" of prices can work out a specific model that deals with its own particular questions. Second, TCE investigates other markets in addition to the ones considered by conventional analysis. It could be said that conventional analysis neglects the study of other relevant markets, or that it treats them improperly as final product markets. The attitude, however, is part of Williamson's transition interval—to go beyond what is established without creating unnecessary friction.

Williamson then says that "the modelling apparatus of received microtheory is insufficiently microanalytic to deal with many of the transactional phenomena of interest" (MH: xi). This idea was also being discussed at that time by other important economists, like Harvey Leibenstein (1966, 1976) and Herbert Simon (1973, 1976). Williamson, however, does not refer to received microtheory as being wrong or inadequate as a whole. He explains this by calling on the conclusion of "various studies" within NIE that share some common threads, among which is "an evolving consensus that received microtheory, as useful and powerful as it is for many purposes, operates at too high a level of abstraction to permit many important microeconomic phenomena to be addressed in an uncontrived way" (MH: 1). It seems necessary to reduce the level of abstraction in order to address "many important microeconomic phenomena," but the abstractions of received theory ("useful and powerful" for other "many purposes") need not be opposed. His views on received microtheory are summarized as follows:

> rather than regard the microanalytic study of markets and hierarchies as being in essential conflict with received microtheory, I am inclined to consider these as complements. . . . The phenomena of interest, often, are ones on which conventional microtheory is silent. Accordingly, standard modes of economic analysis that deal with related issues at a higher level of aggregation need not be abandoned—although, to be sure, eclecticism results in occasional strain. (MH: xi)

TCE and received microtheory can be seen as complementary. The former often deals with issues not dealt with by the latter (see MH: 11). The possibility of "occasional strain" between them is envisaged but clear signals of rupture are absent, which seems to be another transitional trait.

Earlier Institutionalists Invited

Williamson also tries to call the attention of earlier institutionalists. This group of scholars has been identified with an "old institutional economics" (OIE) after Williamson named a "new" one. Many OIE scholars claim that the links between TCE and OIE are flimsy, to say the least (Knoedler 1995). OIE scholars like Yngve Ramstad (1996: 413), however, recognize that "scholars rooted in the 'old' institutional economics have watched with great interest . . . as the 'new' institutional economics has taken root within the economics profession and gained legitimacy."

In the mid-1970s, the withering of OIE in the mainstream of academic and policy circles had long taken place (Rutherford 2000; Yonay 1998). Labeling the emerging approach as "new institutional economics," thus invoking a school that for most economics was sterile and dead, seemed counterintuitive on many grounds. References to the word "institutional," for instance, were entirely avoidable.

Perhaps this was an attempt to argue that TCE was to succeed where others had failed—that is, the study of institutions. But why choose the term "institutional" economics when intellectual frictions could have been avoided with terms like transactional, transaction cost, or organizational economics. The new institutional economist Claude Ménard (2001: 86), for instance, says that "transaction cost economics" is "another name for New Institutional Economics."

Yet, there may be a valid answer from a rhetorical point of view. Although saying years later that the only thing he shares with OIE is "an abiding respect for institutions" (1990: 63), Williamson does not seem willing to dismiss the potential audience of OIE scholars. If TCE surpasses the earlier conflict between OIE and neoclassical economics, then scholars on both fields have an option to escape their limitations. But considering the earlier animosity, showing sympathy to OIE could make mainstream economists uncomfortable. Aware of the risk, Williamson states that his approach is different from theirs in "at least three ways":

> First, I am able to draw on an extensive market failure literature that was unavailable forty years ago. . . . Second, rather than regard the microanalytic study of markets and hierarchies as being in essential conflict with received microtheory, I am inclined to consider these as complements. . . . Third . . . I draw on the rather unique intellectual atmosphere that prevailed at the "Carnegie School" during the early 1960's. (MH: xi–xii)

Williamson says first that he can draw on the market failure literature. OIE could have benefited from that literature too, but did not—and this is presented as a serious flaw. The second difference to OIE, discussed above, is that he sees TCE and received theory not as conflicting but as complementary.

The third difference is that he could draw on the atmosphere of the early 1960s at "Carnegie School." At that time, Carnegie had James March, Richard Cyert, and Herbert Simon challenging the mainstream with a kind of behavioral economics. The place, however, had a reputation with orthodoxy, housing well-known figures of neoclassical persuasion like Allan Meltzer, Merton Miller, and Franco Modigliani. Williamson cites Simon (MH: 7) as an influence coming not from economics but from organization theory. Mainstream economists hear yet again that TCE and received microtheory can co-exist peacefully.

Williamson (MH: 1) suggests that "a sense that the study of 'transactions', which concerned the institutionalists in the profession some forty years ago, is really a core matter and deserves renewed attention" is a common thread in various NIE studies. He adds, though (MH: 1): "Unlike the earlier institutionalists, however, the current group is inclined to be eclectic." The key word in this sentence is "eclectic." It is applied to NIE favorably, implicitly ascribing an opposite quality to OIE, as in dogmatic. This contrast emerges almost instantly with the suggestion that eclecticism is a desirable attribute (Perelman and Olbrechts-Tyteca 1969: 420). In any case, Williamson hedges his claim by saying that new institutionalists are "inclined" to eclecticism.

Williamson also refers to John R. Commons, one of the founding fathers of OIE, who established the notion of transactions as an analytical unit to understand the means by which conflicts can be mitigated and mutual gains brought about. The first reference to Commons appears in the Preface:

> students and followers of John R. Commons will recognize that I subscribe to his dictum that the transaction is the ultimate unit of microeconomic analysis. This position has never enjoyed widespread acceptance, even during Commons's period of maximum influence—which has waned considerably. Whether I have made a more compelling case is uncertain. (MH: xi)

The reference seems avoidable here. Williamson says he subscribes to Commons's dictum, not to his theory of transactions or worldview, the influence of which "has waned considerably." This recalls the image of a one-way bridge inviting "students and followers" of Commons to cross it to TCE territory. They can move from a field that "has never enjoyed widespread acceptance" to a fresh domain, where a "more compelling case" may have been made. Something yet to be tested is preferable to something already found to be unconvincing (see Williamson 1993: 109). In addition to that, by citing Commons and not the whole lot of OIE founding figures, Williamson might have tried to benefit from the differences among them (see Hodgson 2003).

Williamson (MH: 3) then presents Commons as an antecedent on his institutional economics, sharing his concerns with transactions, collective action, and futurity. These concerns, however, were available from other well-known sources. Consider the notion of transaction costs (at least in this morphemic coinage): it had roots outside OIE and evolved in monetary economics without reference to Commons or other institutionalists (Klaes 2000).[2] As for collective action, Mancur Olson—who is cited in MH—could have been the authority on whom to rely. As for uncertainty and many aspects of what Commons regarded as futurity, Frank Knight—also cited in MH—was also a well-known reference. As for the matter of institutional or organizational adaptation, Chester Barnard—cited in MH—was an authoritative figure.

These authors, of course, are neither perfect substitutes nor the only alternative in each case, but they provide close alternatives to claiming reliance on Commons's ideas. In the end, even if the claimed links to Commons were not properly substantiated, scholars of OIE would feel sufficiently provoked to read Williamson after repeated suggestions of some identification.

Austrian Economists Invited

Williamson presents Friedrich Hayek as an intellectual antecedent, calling attention to four of his main concerns: bounded rationality, idiosyncratic knowledge, economic adaptation in a changing market environment, and what may be considered as Hayek's most relevant conclusion that "the 'marvel' of the economic system is that prices serve as sufficient statistics, thereby economizing on bounded rationality" (MH: 5). Up to this point, Hayek's followers in the Austrian School would feel interested and comfortable. But the following paragraph gives them no comfort as a key divergence is stressed (MH: 5): "Given bounded rationality, uncertainty, and idiosyncratic knowledge, I argue that prices often do not qualify as sufficient statistics and that a substitution of internal organization (hierarchy) for market-mediated exchange often occurs on this account." Williamson opposes Hayek's arguments as a whole and especially his main conclusion. His insights are not followed further; on the contrary, the emphasis is on disagreements.

Let us compare the limitations Williamson finds in Hayek to the ones he finds in Ronald Coase's insights. Accordingly, Coase's limitations are: "the underlying factors that explain how and why these economies are realized are not worked out" (MH: 4), and the discussion of internal organizations and markets "is even less complete" (MH: 4). As a result, "a more complete theory of firms and markets than Coase was able to forge" needs to be developed (MH: 4). Coase is described as a pioneer who was on the right track, but did not develop the theory as much as needed: he identified and put together some pieces of the puzzle, but did not finish the task. Hayek, however, as shown above, is portrayed as someone who identified some pieces of the puzzle but assembled them in the wrong way.

Williamson's strategy towards the Austrian audience resembles his one-way bridge approach towards OIE scholars. Whilst not identifying himself as a member of the tradition, he claims to have used pieces of their ideas and overcome their earlier problems, thus producing a better theory.

Market-Failure Fellows Invited

Williamson presents the post-war market failure literature as one of his antecedents. He draws some differences between the "earlier firm and market literature" and "the structure-conduct-performance paradigm" (SCPP). The "earlier firm and market literature" is associated with the names of Kenneth Arrow, Paul Samuelson, Leonid Hurwicz, George Akerlof, and James Meade. Williamson then compiles his differences

> (1) I am much more concerned than are prior treatments with tracing out the ramifications of bounded rationality; (2) I expressly introduce the notion of opportunism . . . ; and (3) I emphasize that it is not uncertainty or small numbers, individually or together, that occasion market failure. (MH: 7)

Williamson here stresses differences not of kind but of degree—he is *more* concerned, he *emphasizes*, and he is *explicit* about an important notion. As Perelman and Olbrechts-Tyteca (1969: 344) point out, differences seen to be of degree tend to bring the objects closer to one another or, at least, to avoid the objects being seen as "separated by an impassable boundary."

Only Joe Bain and Richard Caves receive mention with regard to SCPP. Williamson identifies it with the "received microtheory model of the firm" (MH: 251) and describes its research attributes as follows

(MH: 7): "A goal of profit maximization is ordinarily imputed to the firm, internal organization is largely neglected, and the outer environment is described in terms of market structure measures. . . . The distribution of transactions between firm and market is mainly taken as a datum." It would be controversial to say that the SCPP held such uniform identity by that time, as Grether (1970) and Scherer (1970) attested. Be that as it may, notice that Williamson uses stronger words: he says that in SCPP "internal organization is largely neglected" (MH: 8). Moreover, "to study the conduct and performance of quasimarket and nonmarket organizations . . . the conventional paradigm has been of limited utility" (MH: 8). The differences here are not of degree. They raise serious problems for SCPP, for it *neglects* serious issues and is of *limited utility* to two-thirds of the institutional range of interest to economic organization.

Let us suggest an inversion of the original statements. The first would read that the market failure literature "neglected the ramifications of bounded rationality and opportunistic behaviour." The other would read that Williamson is "much more concerned with internal organization" than SCPP. Put this way, the reader could be left with a slightly different impression of what the differences between those approaches are for Williamson.

In trying to reason about such strong words, it may help recalling that SCPP usually leads to the conclusion that large firms seek increasing market power, thus reducing economic welfare. Differently, TCE sees large vertically integrated firms as resulting mostly from the pursuit of economic efficiency. As the earlier market failure literature was not particularly concerned with the limits of the firm, there was no reason to confront it with TCE's argument of transactional efficiency in economic organization.

Are All Invited Close Friends?

Lastly, Perelman and Olbrechts-Tyteca's (1969) distinction between breaking links and dissociating can sum up many of the points made so far. In breaking links, ideas can be separated and the original sources can "remain as they were in their original state" (1969: 413). In other words, it is possible to break associations and leave each theory unscathed. Differently, dissociations allow one "to remove an incompatibility arising out of the confrontation of one proposition with others" (1969: 413). As a result, "on the theoretical level, it leads to a solution that will also be valid for the future, because, by remodelling our conception of reality, it prevents the reappearance of the same incompatibility" (1969: 413).

Regarding OIE, the Austrian School and SCPP, Williamson seems to promote a breaking of links. With the first group, affinity comes through the name of the ("institutional") schools and Commons's notion of transaction, but (lack of) eclecticism is a watershed to divide them. With the second group, theoretical notions are shared but contrary conclusions are reached. With the third group, affinity is suggested by their study of the consequences of complex organizations, but conclusions are opposite.

As for the mainstream, Williamson shows the limits of a theory that for him and for part of his audience is worth preserving, but that contains incompatibilities. He stresses, for instance, that one of its key problems is the incomplete development of some questions (it is an "insufficiently microanalytic approach"). In this case, a dissociation of notions seems pertinent. Received microtheory says, for instance, that surviving firms maximize profits and that rational people are selfish maximizers. It can be understood that these are clashing propositions. How can a firm maximize profits if its members seek their own individual goals? TCE comes up with the notion of opportunism: firms consider the prospect of opportunistic behavior and try to curb it by, for example, operating with standardized technologies (MH: 68) or creating internal labor markets (MH: 77). TCE includes both potentially opportunistic people and the firms' response to the problem. In doing so, Williamson remodels the reality in which we see the efficient operation of the firm and removes the incompatibilities in the theoretical schemes of received microtheory.

The Economic Institutions of Capitalism: Operationalizing a Broader Appeal

Since Williamson had already made systematic claims of identification and differences with other schools of economics in MH and later articles, remarks of that nature are scarce in EIC. John Commons, for instance, is mentioned as an important antecedent, but his relationship with the earlier institutionalists is left to the reader's evaluation. This seems to carry over the strategy depicted in MH towards OIE, for earlier institutionalists would have had the time to catch up with TCE. There are, however, scattered but engaging references to received microtheory, to Hayek, and other established views that deserve some attention.

Received Microtheory Addressed

Williamson says now that TCE is "akin to orthodoxy in its insistence that economizing is central to economic organization" (EIC: xii). In what follows, however, he states: "There are nevertheless real differences between a neoclassical production cost and the proposed governance cost orientation" (EIC: xii). Again, TCE and neoclassical theory can have real differences and yet not clash.

This sense of complementarity is upheld with a concession. According to Perelman and Olbrechts-Tyteca (1969: 488): "By restricting his claims, by giving up certain theses or arguments, a speaker can strengthen his position and make it easier to defend, while at the same time he exhibits his sense of fair play and his objectivity." Williamson (EIC: 42–43) concedes the use of marginal reasoning (as typical of neoclassical economics) while trying to recall the attention of economists to comparative reasoning: "Although marginal analysis is sometimes employed, implementing transaction cost economics mainly involves a comparative institutional assessment of discrete institutional alternatives." In effect, some authors substitute a marginalist-friendly term—transaction costs minimization—for the main first order phenomenon treated by TCE—transaction cost economizing (see Joskow 1985; Bowles and Gintis 1993; Groenewegen 1996).

There are occasions, however, in which Williamson refers to their differences more vigorously. On one of them, he says that TCE languished for 30 years after the 1930s "mainly because neoclassical economics was such a formidable rival" (EIC: 2). They might have been rivals because they competed for scholars' attention or, perhaps, because they were at odds with one another. The enthusiastic reception of MH, allied to other accomplishments of NIE, might have made it easier to be bolder on the point.[3]

Williamson's harder blows on orthodoxy, however, come not through his own words but through quotes and ideas of other authors as arguments of authority. Three cases in point follow.

First, Williamson strongly criticizes mainstream economics as he discusses Alfred Chandler's contribution to organization theory in his 1962 book *Strategy and Structure*. He says (EIC: 11): "The mistaken notion that economic efficiency was substantially independent of internal organization was no longer tenable after the book appeared." In the second case, he relies on Michael Polanyi (EIC: 11): "Michael Polanyi's treatment of personal knowledge disclosed that to characterize the firm exclusively in technological terms was bankrupt."

The third case is perhaps his strongest reprimand, using Vernon Smith's criticism of neoclassical theory (EIC: 7): "Discontent with exclusive reliance on neoclassical price theory was nevertheless building. Vernon Smith thus boldly declared . . . that orthodoxy was dead and predicted that a new microtheory would arise." Williamson is probably referring to the following passage in Smith (1974: 321): "I believe that the microeconomic theory of the pre-1960's is a dead end." Stating that "orthodoxy was dead" sounds more dramatic, and using "boldly declared" adds to a heroic atmosphere. At this point, the idea of complementarity loses grip for TCE could not be complementary to a dead theory. This, however, is a harsh criticism coming from another economist. Even warning the reader that orthodoxy provokes strong reactions, Williamson himself should not go that far.

Austrian Economists Addressed

In the Prologue of EIC, Williamson argued again that Hayek had the right concerns, but not the right conclusions. Interestingly, the couple of concerns taken on from Hayek are highly critical of neoclassical economics:

> Hayek resisted the main tradition in his insistence that "the economic problem of society is mainly one of rapid adaptation to changes in particular circumstances of time and place" (1945, p. 524).
>
> If complexity is deep in the nature of things economic, then that ought to be acknowledged rather than suppressed (Hayek, 1967, chap. 2). An

> equilibrium approach to economics is thus only preliminary to the study of the main issues (Hayek, 1945: 530). (EIC: 8)

This reads fine for Austrian economists, and yet again, reads as an argument of authority against the mainstream.

In EIC, Williamson described the behavioral traits of "contractual man." They constituted an alternative metonym—when attributes of a thing or person are substituted for the thing or person meant—to the traditional "economic man" (Pessali 2009). In MH, he had recognized the insight of an alternative to substantive rationality as a piece of the puzzle that Hayek had got right. In EIC, he added a new perspective:

> Although transaction cost economizing is surely an important contributor to the viability of the institutions with which Austrian economics is concerned . . . the research agenda of organic rationality and transaction cost economics are currently rather different. They are nevertheless complementary; each can expect to benefit from the insights of the other. (EIC: 47)

Williamson now stresses how TCE and Austrian economics, from the same starting point, have arrived at different worldviews. But there is always the prospect that they can complement each other and Austrian scholars should not cross TCE off their list of interests.

Radical Economists Addressed

Williamson's third reference draws on the distinctions he makes between TCE and radical approaches to economic organization based on power determinants. In Chapter 9, he presents the power analyses of Stephen Marglin (1974) on the transition from the putting-out to the factory system, followed by his own transaction cost version of the event.

Williamson starts with a point that sets both of them apart from neoclassical economics (EIC: 209): "the familiar neoclassical production function framework . . . is simply inimical to the proposition that organization form matters. Marglin recognizes this and appears to concede that hierarchical organization yields economies of other kinds." The identification rests on the "economizing" argument to which radical economists may not object. They agree that the factory system reduces costs but probably disagree on the relevant criteria to assess efficiency. Not only transaction or production cost reductions matter, for they probably come at the cost of increasing power asymmetry between workers and capitalists in favor of the latter, by turning the work harder, more unpleasant, or dehumanizing. At this early stage, however, such a friction is avoided.

The argument leads to section "5. Power versus efficiency," a title that stresses the friction avoided earlier. After quoting Marx, Williamson analyzes the demise of putting-out, concluding that "the changes are driven by efficiency; a pernicious scheme to divide and conquer is not needed to reach those results" (EIC: 232). He adds "a pernicious scheme" as a metonym for Marglin's approach, to which he opposes "efficiency." This reminds one of a periphrasis, a rhetorical figure used "to impose or to suggest a choice, to increase the impression of presence, or to bring about communion with the audience" (Perelman and Olbrechts-Tyteca 1969: 173). Here, the two first effects seem to operate. First, it reveals Williamson's choice of meaning for the notion of power. Second, his choice increases the presence of those elements stressed ("pernicious scheme") among the many that could be invoked by the notion of power.

The transformation of the American steel industry at the turn to the 20th century is analyzed next. Williamson contrasts the power-based explanation offered by Katherine Stone (1974) with a view based on transaction cost savings, concluding that:

> were it not that the Amalgamated Association [the skilled workers' union] had prohibited efficiency gains and impaired efficiency incentives, Carnegie's challenge to the union is plausibly interpreted as a contest for raw power—its purpose being to redistribute income away from workers in favor of capital. Given, however, the large efficiency gains that Stone reports, the efficiency hypothesis (or a combined efficiency-power hypothesis) cannot be rejected. (EIC: 235–236)

Williamson admits that Stone's version accounts for the efficiency gains accrued in that event. At the same time, however, Stone's argument that increased efficiency changed the previous balance of income distribution in favor of capital owners is ignored. He complains that Stone does not provide a detailed alternative to organizing production with less power asymmetry and the same efficiency (EIC: 236). But he does not offer a detailed refutation of the hypothesis of increased power asymmetry either. It would be necessary to develop an operational notion of power to do so, which would give the idea too much value and, perhaps, lead to a slippery slope. His saying that "a combined power-efficiency hypothesis" cannot be rejected looks like a concession to deal with the situation, inviting readers open to complement their power-based views to have a closer look at TCE.

Williamson's final assessment of the debate is that "there is merit in all explanations that add to our understanding of complex phenomena" (EIC: 237). Open criticism of radical economists seems a coherent product of his intellectual origins and his closest fellows arguably welcome it. His conciliatory remarks, however, still suggest an attempt to widen his audience.

Other Groups Addressed

There are two other relevant instances of identification and differentiation in EIC. The first concerns the field of industrial organization. In MH, Williamson refers to SCPP and to the market failure literature. In EIC, he divides the field between a "monopoly" and an "efficiency branch"—the latter being the one to which TCE belongs (EIC: 23). Around the "monopoly branch" he gathers four approaches: leverage theory, the theory of price discrimination, the barriers to entry literature, and the strategic behavior approach. According to him, the first three "work within the neoclassical framework, where the firm is regarded as a production function" (EIC: 26). Only the last approach is free from this critique: "Much of the strategic behavior literature, by contrast, is more closely associated with the governance structure conception of the enterprise" (EIC: 26). TCE ends up separated from received microtheory.

The second instance concerns Williamson's attempts to oppose TCE to theories of economic organization that rely mainly on technological determinants—the view of the firm as a production function. In this case, all the firm's actions, including its internal organization, are determined by the (exogenous) technology available. Williamson contests this view on various occasions (see EIC: 26, 87, 366 for a sample). His alternative to technological determinism, first outlined in Williamson (1980), triggered a heated debate in the *Journal of*

Economic Behavior and Organization (see Jones 1982, 1983; Williamson 1983a, 1983b), in which divergences are taken to further details.

The Mechanisms of Governance: Refining the Conversation

When MG comes out, Williamson is already one of the most cited authors in economics (Pessali 2006). MG is a collection of previously published papers in which he works on more specific issues and seems less concerned with relating TCE to other established views (MG:19). The conversation, nevertheless, continues and the selected papers have references mainly to received microtheory, OIE, radical economics, and now to differences within NIE.

Received Microtheory Reformed

In the Prologue (MG: 3), Williamson argues once more that TCE has contacting points with both orthodox and OIE tradition, but it belongs to neither of them. The reader is informed that OIE committed two serious mistakes: it was hostile to orthodoxy and tried to apply a sociological approach to a theme economical in nature (economic organization). Bypassing the old mistakes, TCE relies on economical, not sociological, reasoning and does not quarrel with orthodoxy. Even so, Williamson quotes Vernon Smith saying that orthodoxy is a project with an "institution-free core" and, thus, a "needlessly self-limiting exercise" (MG: 3). Little confidence is shown on the capacity of orthodoxy to keep pace with TCE.

In the Preface, Williamson gives more details of his differences towards orthodoxy:

> Transaction cost economics differs from orthodoxy—or at least a stereotypical, perhaps even a straw-man, version of orthodoxy—in numerous ways. Straw man or not, the attributes that I ascribe to orthodoxy will be recognized as those that appear in most microeconomic textbooks (although that is beginning to change). (MG: 6)

By referring to a "straw-man" version of orthodoxy, Williamson narrows the range of his differences and avoids an extensive collision. And he suggests that more sophisticated views, closer to TCE, are entering textbooks and becoming part of a new received microtheory.

Radical Economics Relegated

Radical economists may notice the occasion in which Williamson brings in the issue of power. He mentions Samuel Bowles and Herbert Gintis among other authors that use some variant of the notion. To quote (MG: 238–9):

> The concept of power is very diffuse. Unable to define power, some specialists report that they know it when they see it. That has led others to conclude that power is a "disappointing concept".
> Amongst the ways in which the term power is used are the following: the power of capital over labor . . . strategic power . . . special interest power over the political process . . . and resource dependency. Although all are relevant to economic organization, the last is distinctive to organization theory. I examine it.

Different from what happened in EIC, no concession is offered. Williamson is not persuaded that efforts to operationalize the notion of power have made progress. In contrast, he claims that TCE has succeeded in becoming operational (MG: 19–20).

Williamson concedes the importance of many ways in which the idea of power has been considered, but dismisses all except one—resource dependency. He then argues for the inadequacy of that idea and in favor of TCE, a framework that dispenses with the notion of power. The resource dependency notion of power is examined, based on its being "distinctive to organization theory," which implies that other uses of the term have no relevance to it. On occasions, however, Williamson says that TCE examines the issue of economic organization, organization theory being a source of insight (MG: 26). But the other uses of the term power are said to be "relevant to economic organization," as in the quote above. This isolation thus seems unwarranted and problematic. But by carrying it out, Williamson seems to show a reduced enthusiasm for this specific conversation now.

New Institutional Economics Divides

There are at least two new rhetorical situations in MG in which clear divisions are put forward. The first instance reflects Williamson's belief in the institutional vigor of NIE: "I think of the New Institutional Economics (NIE), of which transaction cost economics (TCE) is a part, as young people's economics" (MG: ix). A key word in this sentence is "young," as it calls for an opposite, "old." From his point of view, TCE is apt to conquer the souls of new generations. The contrast implies that other views, even the "formidable rival" of orthodoxy, are old fashioned and declining in prestige.

The argument involves a temporal image of TCE. In MH, TCE was worth considering for its roots in underrated contributions of the past. Now, in MG, the merits of TCE dwell in suiting those who build the economics of the future. That, however, should not repel more mature audiences. After all, some of them are the people who helped TCE make a start. They still teach the young, set up course syllabi, referee articles, and confer research grants. Their role is then acknowledged: "I do not mean to suggest that established scholars are not, have not been, and will not continue to be, vital to the exercise" (MG: ix).

Williamson, however, continues in developing a rhetoric of division towards fellow NIE scholars. The second instance, thus, is that internal differences deserve attention now. The point is not that the alleged differences did not exist or could not be seen before, but that Williamson had not mentioned them earlier and decided to do so in MG.

Williamson emphasises that NIE has two branches: one deals with the institutional environment, the other with institutional governance and individual behavior. In Williamson (1993), these different levels are equal in importance and said to operate interrelatedly. The status of the latter level, however, is increased in two ways. First, he argues that the concern with institutions of governance stands in NIE's original principle of being "more microanalytic" than received microtheory (MG: 4–5). Second, he appeals to the reader's sense of values:

> The immense difficulties of changing the institutional environment in order to promote economizing outcomes in the aggregate helps explain North's conclusion that "economic history is overwhelmingly a story of economies that failed" (1991, p. 98). By contrast, the transaction cost economics story contemplates success. (MG: 5)

Associating TCE with success and North's approach with failure is almost effortless. The idea of studying successful cases looks more rewarding. The argument, however, can be innocuous to those familiar with North's work. Economic history, although studying economies that failed, has to account for something that "induces increasing productivity" (North 1991: 98), which sounds like a positive pursuit. In addition, TCE has also been applied to study firms, networks, and industries that failed, usually trying to account for a transaction cost economizing solution to their problems (Joskow 1997; Glachant and Finon 1998; Shirley 2002; Yvrande-Billon and Ménard 2005). Apparently, Williamson wants to stress not affinities but his differences towards North's approach—something North (1991) seems to reciprocate.

Williamson creates three pairs of contrasting qualities: "young" and "established" ("old," "mature"), "success," and "failure," and "more microanalytical" and "less microanalytical." This is a variation on philosophical pairs, a rhetorical technique studied by Perelman and Olbrechts-Tyteca (1969). As they explain, the point is to create an argument that makes "good use of the dissociations already admitted by the audience, sometimes to introduce dissociations created ad-hoc" (1969: 427). As with "new" and "old" institutionalism, Williamson links TCE to the favorable half of the pair.

Those philosophical pairs can increase the persuasive power of the arguments, eluding judgment of value and compelling the reader to accept the ones being offered (Perelman and Olbrechts-Tyteca 1969: 323). In the staging of TCE as "young people's economics," a "new" and "more microanalytical" approach that contemplates "success," there are value judgments that the audience is expected to share. Students of business related areas, for instance, may appreciate the idea of dealing with successful cases, and a "more microanalytical" theory sounds naturally apt to economists, especially to those who have been listening for years that macroanalysis needs microfoundations.

In taking stock of NIE developments, Williamson (2000: 595) states that "we need to sort the sheep from the goats."[4] This is as much a signal of differentiation as it is a potential trigger for changes. From there, at least two scenarios can be envisaged. In one of them, NIE is strongly established and internal trimming can assure its healthy growth. Williamson also notes that "institutional economics is being incorporated within orthodoxy," and thus "new opportunities and challenges await" (2000: 596). This outlines the other scenario, where further fragmentation of NIE can be expected. There is a sense that economic organization is under renovation and each branch has to fight for survival. Williamson's decision to emphasize internal divisions of NIE can help trigger reactions, the consequences of which remain to be seen.

Conclusion

Audiences look for identification with an author, trying to situate his or her standings in relation to existing perspectives that are known to them. Many authors, in anticipation, state their positions to established views they reckon relevant (or they think their audiences reckon relevant). Williamson is a case in point and this article offers an analysis of how he has situated TCE among different perspectives in economics and promoted identification and differences.

He situates TCE within a new approach, which demands an immediate discussion of how the "new" relates to what is already established. In MH, he seems concerned to establish identification and differences with regard to mainstream economics, OIE, the Austrian School, and to the industrial organization literature. In EIC, the discussion about TCE and OIE is dropped. Differences from mainstream economics receive greater emphasis with the help of references to other authors, and new references are directed to radical economics. In MG, there are more scattered references to those previous groups, but something new stands out—an effort to highlight the dissonances within NIE.

Williamson's resourcefulness is shown through the many argumentative techniques he uses to establish identification and differentiation with different branches of economics. The rhetorical choices made seem to defy conventional decisions, showing attentiveness to the feedback received from various audiences and pointing to a strategy of creating something new. Not everyone can be pleased, for sure, but Williamson has persuaded many to take TCE seriously.

Notes

1. Williamson's work has been under methodological analysis in different ways. Noorderhaven (1995) used a deconstructivist approach to pinpoint internal conflicts in TCE, while Mäki (2004) studied Williamson's theoretical choices in terms of isolating explaining and explained variables. This article leans on a more rhetorical analysis in which communication with peers is the relevant background.

2. See Rutherford (1994), Ramstad (1996), Pessali and Fernández (1999), and Kaufman (2003) on Commons's and Williamson's views on transactions.

3. See Pessali and Fernández (2008) for a citation analysis of Williamson's trilogy as suggestive of the wide reception of his early work on transaction costs.

4. In EIC, for instance, the formal work of Hart, Grossman, and Moore was praised; in his 2000 *JEL* article, their work is strongly criticized.

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