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The rhetoric of Oliver Williamson's transaction cost economics

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Abstract: Bounded rationality, opportunism, the primacy of markets and the action of economizing are building blocks of Oliver Williamson's Transaction Cost Economics (TCE). As in all intellectual exchanges, Williamson has used a range of argumentative devices to set up and negotiate his basic notions and assumptions with economists. Rhetorical analysis is applied here to study his argumentation in a certain institutional context within economics. Negotiations with the mainstream, with the competence view of the firm and within the New Institutional Economics, for instance, have had an impact on the construction of TCE and are given attention here. Difficult decisions have been made in order to forge ahead with TCE, including whether to uphold some notions (e.g. opportunism) at the cost of leaving others behind (e.g. economics of atmosphere). Rhetorical transactions like this have shaped TCE and its recognition in economics and related areas.

1. Introduction

Transaction Cost Economics studies the uncertain world of incomplete contracts, inhabited by 'contractual men' – potentially opportunist people with bounded rationality. 'Contractual men' carry out economic transactions that hold specific features regarding asset specificity, uncertainty, and frequency. Alternative forms of governance (e.g. firms, markets, or some form of relational contracting) will gather information, curb opportunism, assign and enforce property rights, and adjust to unanticipated events at different transaction costs. 'Contractual men', driven by competition, will make their make-or-buy decision in favour of the least costly of the governance forms (Williamson, 1975).

Bounded rationality, opportunism, the primacy of markets and the action of economizing are building blocks of TCE, as formulated in the pioneering work of Oliver Williamson. Building on those elements, TCE has become a new orthodoxy among contemporary theories of the firm (Groenewegen and Vromen, 1996). Williamson's impact on the recent flourishing in economic organization is

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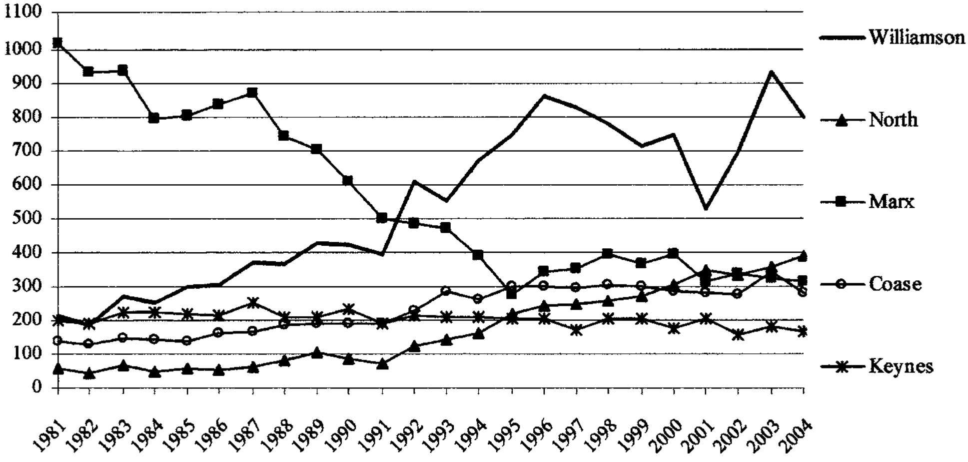
Figure 1. Citations to some prominent economists
Source: SSCI – ISI; hard copy and electronic versions.



recognized by scholars in the field and beyond and clearly illustrated by citations to his works (Figure 1).

To explore the elements that render a theory worthy of attention and recognition, modern studies of science use tools from sociology, psychology, economics, and other areas. They underline the social aspects and institutions of scientific enterprise, including language. Language, mainly as expressed in written communication, is a key part of both the recognition process and its analysis. This has led many of those studying the developments of science and the works of scientists to revisit rhetoric.

The works of modern rhetoricians like Kenneth Burke (1950), Wayne Booth (1961), and Chaïm Perelman and Lucie Olbrechts-Tyteca (1969) have spurred a rhetorical turn in the study of sciences, including economics.[1] Moved by this rhetorical thrust, this article studies the narrative of TCE. More precisely, it focuses on Williamson's range of argumentative devices used to negotiate his basic notions and assumptions within economics. In the background lies rhetoric's concern with *invention*. Invention involves 'identifying the central question which lies at the heart of the issues being addressed and marshalling the most persuasive arguments to answer it' (Billig, 1996: 86). McCloskey (1990: 66) stresses that such a process is interactive – invention, thus, is about considering 'which arguments one is compelled by the conversation to take seriously'. As such, rhetorical analysis helps increase our awareness of the institutional elements – e.g. predominant beliefs and ensuing demands within certain groups – shaping the production of knowledge.

1 See Klamer (1984), Klamer *et al.* (1988), Samuels (1990), Henderson *et al.* (1993), Arida (1983), McCloskey (1998), Bianchi and Salviano (1999), and Gala (2003).

At this point, a caveat should be conveyed. In discussing the nature of Williamson's arguments, there is no attempt to praise or criticize his work in the usual sense of attacking or defending claims or assumptions – although critics and sympathizers can arguably identify with some of the points made. Such an exercise demands a more comprehensive study of the debates involved (i.e. a rhetorical analysis of TCE's critics and supporters) that is not pursued here.

That said, the key elements of TCE studied here are: (a) the assumption that 'in the beginning there were markets', the concepts of (b) bounded rationality, and (c) opportunism, (d) the 'transaction cost economizing' motto, and (e) the emphasis on the governance of contractual relations. The incorporation of these items and the connections made to existing views help call the attention and gain the adherence of particular audiences – sometimes at the expense of others. This calls for an examination of Williamson's narrative and the possible effects of his argumentative constructions in the evolution of TCE, filling a gap left by rhetoricians and institutionalists.

2. What does a rhetorical analysis involve?

Aristotle (1984: 24) defined rhetoric as 'the faculty of observing in any given case the available means of persuasion'. Uskali Mäki (1995: 1303) describes it as 'the use of arguments to persuade one's audience (and the study thereof)'. The rhetorician William Keith (1997) compares rhetorical analysis to reverse engineering. One tries to figure out how a certain device has been produced in order to understand how it works. It is not possible to know exactly how the object has been designed, but plausible conjectures about the original engineering (rhetorical) strategy can be elaborated.[2] It is impossible to know exactly how a text has been made, but exploring the possibilities of its construction can improve our understanding of it.

Rhetoric as a disciplined study of argumentation is not to be conflated with the derogatory usage of the term in everyday language. In a rhetorical analysis, as McCloskey (1990: 56) states:

> the point is not to expose the rhetoric and then condemn it for being rhetoric. Rhetoric is unavoidable ... A collection of random facts and assorted bits of logic does not add up to an argument; but as soon as a writer advocates a model or a story in which the facts and the logic are to fit he has begun to argue. If one is to argue in favor of this or that story there is no way of being non-rhetorical.

2 A strategy is defined as a selection of priorities in uncertain circumstances (Nelson, 2003).

Rhetoric, thus, is not seen as the study of how weak or unfounded propositions are assembled into an attractive though empty or misleading argument (McCloskey, 2000), although it can be used to unveil such cases. Language, like any other institution or human artifact, can be used for bad purposes – what Booth (2004) calls 'rhetrickery'. That is one possibility. The use of language to build an argument with the honest intent of showing the relevance of a point is another, and the one considered here.

Rhetoric is not seen either as a study of literary style while ignoring substance. It tends to see style and substance working together (Lanham, 1974; McCloskey, 1994). As a result, the strength of an argument is not to be found in the embellishment of language or in its standing on an absolute measure of truth (McCloskey, 1998). It is found in its potential to satisfy the demands of an identifiable group of scholars seriously engaged in the conversation about a theme, or a discourse community. Rhetoric recognizes that the institutions of a discourse community craft rhetorical situations – incentives, demands, and constraints that mould argumentation.[3] A rhetorical analysis, thus, strives not to establish the validity of a discourse on logical or empirical grounds, but to explore how arguments based on those grounds (and many others) can affect certain audiences and help produce knowledge.

The article explores the links between arguments Williamson has felt compelled to take seriously and whom he wishes to take his arguments seriously.[4] There are crucial moments in which he formulates concepts, premises, and propositions, negotiating ideas and situating TCE within the conversations in economics. According to George Shackle (1967: 294), the innovative scholar needs to 'overturn the intellectual dwelling-places of hundreds of people'. It is thus important for scholars offering a new perspective to relate it in some way to the beliefs held by the audiences with whom they want to communicate. Scholars cannot go about this without argumentation. Paraphrasing Williamson, these attempts to move across intellectually distinctive interfaces are called here 'rhetorical transactions'.

Perelman and Olbrechts-Tyteca's (1969) *The New Rhetoric: A Treatise on Argumentation* provides a comprehensive catalogue of rhetorical practices and is useful for the task of exploring Williamson's rhetorical transactions. Some of the practices discussed by Perelman and Olbrecht-Tyteca's are identified in his narrative as he sets up, defends, and reworks the foundations of TCE, and then considered in terms of their potential to relate to and satisfy the demands of different audiences in economics.

3 Rhetoric and sociological studies of science overlap constantly (McCloskey, 1994).

4 The issue of agency or intentionality in rhetorical studies is eschewed here. On this matter, the reader is referred to Leff (1997). Suffice it to note that Klamer's (forthcoming) tacit rule of participation in modern economics is an implicit assumption. It stresses that scholars who want to be taken seriously need to relate their own work to the work of people with whom they want to communicate.

3. 'In the beginning there were markets'

In *Markets and Hierarchies* (MH–Williamson, 1975) the basic TCE framework is presented with the initial assumption that 'in the beginning there were markets' (p. 20). This key stance deserves prompt justification:

> I assume, for expositional convenience, that 'in the beginning there were markets.' This choice of initial conditions results in what may appear to be a preoccupation with market failure. In fact, however, organizational failure is a symmetrical term meant to apply to market and nonmarket organizations alike. . . . were the initial conditions to have been reversed, so that 'in the beginning there was central planning', the analysis would appear instead to be preoccupied with internal organizational failures. In either case, the same organizational failures framework would be employed. (pp. 20–21)

This argument seems to rely heavily on a rhetoric of symmetry. Symmetry is a common demand in economics, helping to grant good will from the reader (McCloskey, 1998). A comparative analysis of markets and hierarchies suggests balanced treatment of both entities. A transaction cost story can have a symmetrical start in different ways. One way is to use an historical example in which both markets and hierarchies run a specific transaction until one of them becomes dominant. A further way is to assume such a situation. Williamson, however, chooses an asymmetric state that lays emphasis on markets. He introduces the idea of organizational failures in an attempt to reclaim symmetry (and historical and theoretical neutrality): market and organizational failures are two sides of the same coin.

But symmetry cannot be easily re-established in such a situation, even if justified by expositional purposes. Elaborating on one case institutes a paradigmatic set of circumstances to which the argument applies. The reader is left with the job of working out the other case.

The degree to which audiences are familiar with each of the 'failures' may reinforce asymmetry. On the one hand, the term 'market failure' has been employed in economics since at least L. L. Price (1891) and identifies a trendy branch of post-war economics. On the other hand, the term 'organizational failure' is Williamson's creation.[5] In this case, he sticks with what is familiar and takes ever-existing markets (that occasionally fail) as the inbuilt background. This seems to be a secure starting point in a path of lower resistance with economists. The alternatives would be either to use the new term organizational failures as the natural parameter or to have no fixed parameter. Both would demand more energy from Williamson and his readers and could be seen as a more radical departure from the existing literature.

5 A search in the JSTOR database for the term 'market failure' up to 1975 produced 101 hits in economics journals. The term 'organiz(z)ational failure' had one hit only, precisely Williamson (1971).

Williamson's attempt to reclaim symmetry is compromised by the eminence given to the study of market failures. As a rhetorical move, this should improve the chances of TCE being heard by a relevant audience of economists. Mainstream economists and those related to the market failure literature might feel comfortable with the assumption of markets in the beginning. As TCE gained the limelight, however, more historically oriented economists and other social scientists started calling to account the historical and logical properties of the assumption.[6] Williamson addressed the issue again only in *The Mechanisms of Governance* (MG–Williamson, 1996). The primacy of studying markets and market failure was justified as follows:

> although hierarchies have the appearance of being more complex governance structures than markets are, that can be disputed. As Friedrich Hayek observed, 'The price system is just one of those formations which man has learned to use . . . after he stumbled upon it *without understanding it*' . . . . If the 'natural' way to manage transactions is through authority (hierarchy) then the presumption that 'in the beginning there were markets' must be reversed. Authority is something with which we have direct experience . . . and *think that we understand*. By comparison, markets are where the subtleties reside. (p. 13; emphases added)

It appears that the assumption can be reversed, but in argumentative terms this is a similar case to the one in MH. An argument that shows deference to symmetry ends up appealing to an accepted asymmetry. First, the argument works out the epistemic similarity between markets (we learned to use them without understanding them) and hierarchies (which we think we understand). Williamson argues next that, if hierarchy is the natural state of economic organization, then markets need attention (for they are 'where subtleties reside'). Once more, mainstream economists can easily identify with this task. At the same time, the new category of organizational failure seems to work as a hedge with audiences in business studies, sociology, and other branches of the economics of organization.

4. Bounded rationality

Williamson (1999a) recollects that in the early stages of TCE the matter of rationality was dealt with extreme care. To quote:

> Although I made numerous references to incomplete contracts; costs of information; the need for adaptive, sequential decision making; the absence of clairvoyance; and the like, I did not make express reference to bounded rationality in my 1971 article, there being other and better occasions to wave a red flag before a bull. Things have changed a good deal since, and economics is much the better for it. (ibid.: 34fn1)

6 See for instance Hodgson (1988).

In narrow terms, the 'bull' seems to be the editorial board and the referees of the *American Economic Review*. In broad terms, the 'bull' can stand for the varied communities of economists. The mainstream of the profession invested heavily in the idea of a totalizing rationality and Williamson was aware that confronting the tradition would not serve the purpose of advancing TCE.

In Williamson (1973), bounded rationality was listed as a key factor affecting economic organization. The notion, however, was not connected to its creator Herbert Simon. At that moment, citing Simon would probably hinder the sympathy of mainstream economists.[7] Williamson looked for authoritative support that could retain their interest, citing the idea of computational limitations used by Roy Radner in an article published in *Econometrica*.

In MH, the discussion of bounded rationality took up five pages and started with Simon's definition. Indeed, Simon's defence and definition of the notion were used repeatedly and favourably. This could arouse a positive reaction from social scientists sympathetic to behavioural causes, but an opposite reaction from more mechanistic-inclined economists, including those in the mainstream.

In those five pages, Williamson connects bounded rationality to uncertainty and complexity (MH: 22): 'Bounds on rationality are interesting . . . only to the extent that the limits of rationality are reached – which is to say, under conditions of uncertainty and/or complexity.' Next, he merges complexity and uncertainty: 'the distinction between deterministic complexity and uncertainty is inessential' (p. 23). He then avoids the perilous debate about risk versus uncertainty: 'the distinction between risk and uncertainty is not one with which I will be concerned – if indeed it is a truly useful one to employ in any context whatsoever' (p. 23fn6). This gets close to making the terms identical. Rationality reaches its limits where uncertainty and complexity start (even though little agreement exists on how such limits can be established); complexity and uncertainty are undifferentiated as are risk and uncertainty. One can read this as decision making under risk – a reading of particular interest to mainstream economists.[8]

This treatment of the notion gives room to different results depending on the reader's background. The relations can be seen as either more or less strict and be applied accordingly. The notion of bounded rationality is marked by a multiplicity of meanings (Sent, 1998).[9] It has been applied in economics to both

7 Foss (2003) discusses Simon's rhetorical problems with the notion of bounded rationality in economics.

8 In discussing complexity, Williamson cited Simon, von Neumann and Morgenstern. This might suggest a link to the field of complexity studies and a way to formalizing TCE. Indeed, game theorists have used alternatives to rational players (e.g. Turing machines and neural network algorithms) and students of path dependence have discussed TCE's notion of remediability (Liebowitz and Margolis, 2000). TCE, however, is yet to be absorbed into game theory and simulation models (Kreps, 1999; Ménard, 2001).

9 Conceptual looseness might not be necessarily adverse to the development of a research programme (Klaes, 2004).

develop models of constrained optimization and to criticize them. Such wide possibilities appeal unevenly to different ranks of economists, and Williamson is alert to this condition (EIC–Williamson, 1985: 45):

> Economists object to it because limits on rationality are mistakenly interpreted in nonrationality or irrationality terms . . . Other social scientists demur because reference to intended rationality makes too great a concession to the economists' maximizing mode of inquiry. The upshot is that bounded rationality invites attack from both sides.

He argues, however, that the notion holds the essence of both positions: 'both parts of the definition should be respected. An economizing orientation is elicited by the intended rationality part of the definition, while the study of institutions is encouraged by conceding that cognitive competence is limited' (ibid.).

Williamson offers a different position and works on a yardstick that brings him closer to economists. He suggests a feasible range of positions: from the traditional maximizing (or 'strong') rationality at one end, to the 'organic' (or 'weak') rationality adopted by evolutionary theorists at the other, with bounded rationality standing in the middle as a 'semistrong form' (EIC: 44). Economists working with broad definitions of bounded rationality may give the new idea some attention. It is not clear, however, whether this new rationality plan may appeal to mainstream economists and other social scientists working at opposing ends.

Simon's bounded rationality has a twin notion, satisficing. As economists tend to think of themselves as guardians of rationality, holding the twin notions can be seen as dealing with nonrational behaviour. This issue has been of real concern to Williamson.

In 1999 he seemed to believe that economics was more receptive to bounded rationality. His impression, however, did not seem to be widely shared. Simon (1979) himself admitted that bounded rationality had a limited impact on economics. Nobel laureate Reinhard Selten (1998) recognized two decades later that things had not changed much. To make matters more complicated, objection to bounded rationality can be found even within NIE. 'I do not think that bounded rationality is necessary for a theory of organizations', says Oliver Hart (1990: 700–701). Alternative assumptions that do not lead to the unambiguous results of optimization techniques will not be embraced easily, a difficulty Williamson has always been aware of (EIC: 46fn6).

If Williamson is mistaken about how much economics has changed on the matter of rationality, then TCE may need to adapt. The options (and their costs) seem obvious. One is to take on hyperrationality and maximizing behaviour; the other, to take on bounded rationality *cum* satisficing. As seen by many peers, Williamson's position leads to a dilemma.[10] Hodgson illustrates the case (1993:

10 Simon (1957) argued his case for satisficing in terms of a dilemma against maximising behaviour.

86): 'Williamson has a choice. He can either accept or reject the assumption that transaction cost minimization is . . . performed by a deliberative agent. However, if he accepts this assumption he cannot simultaneously embrace the concept of bounded rationality.'

Williamson, however, rejects such a framing. To analyse his response, consider Perelman and Olbrechts-Tyteca's (1969) three main approaches to avoiding incompatibilities. The first is the *logical* approach, 'in which the primary concern is to resolve beforehand all the difficulties and problems which can arise . . . by applying the rules, laws, and norms one is accepting' (p. 197). The second is the approach of the *practical* person, 'who resolves problems only as they arise, who rethinks his concepts and rules in terms of real situations and of the decisions required for action' (p. 198). The third is the *diplomatic* approach (idem), in which procedures are created 'for postponing the moment of decision until a more convenient time'.

Williamson has used a mix of the practical and the diplomatic routes to avoid the suggested incompatibility. He tries to pull away from Simon's ideas and the link between bounded rationality and satisficing (and irrationality). He says, for instance (MG: 9–10): 'a yawning abyss between economics and the other social sciences has begun to close . . . as economists have gotten beyond the idea that bounded rationality implies "satisficing" . . . and have begun to relate instead to the idea that bounded rationality implies incomplete contracting'.[11]

At the same time, the rationality claim is reinforced. While keeping his stake at the 'semistrong' form of rationality, Williamson seems to bring it closer to the 'strong form' by means of rhetorical *concessions* (MG: 8–9; original footnote also quoted):

> Semistrong form analysis joins bounded rationality with farsighted contracting . . . [TCE] concedes that comprehensive contracting is not a feasible option (by reason of bounded rationality), yet it maintains that many economic agents have the capacities both to learn and to look ahead, perceive hazards, and factor these back into the contractual relation . . . .[5]
>
> 5 . . . That orthodoxy has been so successful . . . is in no small measure because farsighted contracting is an extraordinary powerful analytic concept.

A key attribute of bounded rationality to which Williamson (1989) subscribed – human limits in foresight – is challenged by the orthodox idea of far-sighted contracting. This takes place on the higher merits of far-sighted contracting being 'an extraordinary powerful analytic concept'.

Williamson eventually provides a more direct statement on this issue:

> Methodological controversies between satisficing and maximizing are ones that I have usually avoided. Partly this is because I can see merits on both sides, but

11 See also Williamson (1993a: 459fn7).

> mainly it is because methodological controversies are rarely dispositive and are sometimes disparaging. Once you have stated your approach and I have stated mine, it is better if we both get on with our research. (MG: 352)

Incompatibilities between maximizing and satisficing as behavioural assumptions were well known when Williamson took bounded rationality on board. For some time, he used a diplomatic approach to avoid the clash. As TCE gained the limelight, however, peer pressure increased for the adoption of a more established position. Adding to this context, mainstream economics seemed resolute to resist Simon's behavioural challenge. These factors seem to have pushed further towards a change to the practical approach. Thus, 15 years after incorporating bounded rationality, Williamson decided the best way to proceed was to move away from Simon's conceptual package.

5. Opportunism

Williamson discussed the idea of opportunism in 1971 and in 1973 he ranked it as a key human factor in TCE, together with bounded rationality and 'atmosphere'. Opportunism was defined as 'an effort to realize individual gains through a lack of candor or honesty in transactions' (1973: 317).

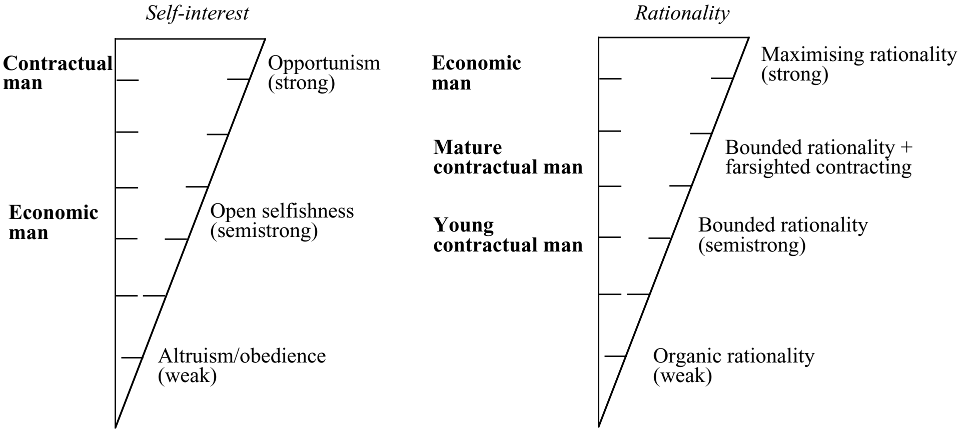
The adoption of these human attributes has been justified through the *argument of ridicule*: a contradictory state of affairs is temporarily accepted only to infer that its consequences are incompatible with what is accepted on other grounds (Perelman and Olbrechts-Tyteca, 1969). A world without those human attributes is suggested (Williamson, 1973: 317): 'But for the existence of one or more of the . . . three factors, there would appear to be little reason to supplant market organization with some form of nonmarket organization.' In their absence, the world would consist only of markets – an absurd condition for most reasonable audiences in the social sciences. The argument of ridicule is refined with regard to opportunism in EIC: 'Plainly, were it not for opportunism, all behavior could be rule governed' (p. 48).

The assumption of self-interest, which is in itself a strong bond with the core of economics, is coupled with the 'small numbers condition' (MH: 27). This relates to lack of competition, a situation usually seen as problematic in economics. Opportunism then combines two ideas attractive to many economists.

In TCE, opportunism and bounded rationality devise the metonym of 'contractual man'. In a metonym, a subject or category is described by one or a set of its features. Metonyms of economic agents, however, have to face the mighty economic man (Klamer, 1987). Williamson tries to mitigate the confrontation through the creation of a quantitative hierarchy, in contrast with the usual and more hostile qualitative hierarchy set up by alternative approaches.

Williamson's 'contractual man' works both as a means of differentiation and of identification. In the first case, a new metonym can have the benefit of doubt with critics of economic man and gain some initial sympathy. In the second case, 'contractual man' can provide methodological identification with economic man.

Figure 2. A difference of degree: contractual man meets economic man



Economic man is defined by his rationality and motivation, and so is 'contractual man'. This is where the quantitative hierarchy operates. A new metonym may appeal to critics of economic man, whilst potentially repelling its sympathizers. Williamson works on the differences between 'contractual' and economic man not in terms of intrinsic nature, but of gradation within the same set of features. Perelman and Olbrechts-Tyteca (1969: 346) say that, 'By transformation of a difference of nature into a difference of degree, things that might appear to stem from incommensurable orders are brought into proximity with one another.'

Williamson suggests a scale of relevant forms of self-interest (EIC: 47): 'The strongest form . . . is opportunism. The semistrong form is simple self-interest seeking. Obedience is the weak . . . form.' Economists need not change their scale – they just need to move along the one they already use.

Inside the quantitative hierarchy, there is a dual hierarchy of values being used. Williamson says (EIC: 391): 'As compared with orthodoxy, the human agents of transaction cost economics are both less and more calculative. They are less calculative in the capacity to receive, store, retrieve, and process information. They are more calculative in that they are given to opportunism.' Two scales measure economic man: rationality and self-interest. 'Contractual man' is made shorter in rationality and taller in self-interest. The relevant aspect is that the same scales can measure both (Figure 2).

Williamson (EIC: 64–67) denies generalized opportunism, qualifying it as a latent pre-disposition of some people, the foreknowledge of which is hard to obtain. A general condition gives place to occasional particulars. But generalization comes back, for his key argument favours general prevention against the condition. To support this move, Williamson refers to religious credos (1998: 31): 'although it is unnecessary to assume that all human agents are identically opportunistic, much less continuously opportunistic, it is truly

Box 1. 'Contractual man' invites

(a1) EIC (p. 405): 'Both lawyers and organization theory specialists are more sensitive to dignitary values . . . than are most economists. Although dignity is uncommonly difficult to operationally, the importance of deepening our knowledge of economic organization in dignitary respects is enormous.'

(a2) EIC (p. 406): 'operationalizing trust has proved inordinately difficult. A noncalculative orientation may help unpack the issues. Organization theorists would appear to be well suited to the task.'

Augmenting 'contractual man' with dignity and trust should appeal to lawyers and organization theorists.

(b1) Williamson (1988: 174): 'The social context in which transactions are embedded – the customs, mores, habits, and so on – have a bearing, and therefore need to be taken into account.'

(b2) Williamson (in Swedberg 1990: 127): 'What you find . . . in transaction cost economics is a parsimonious description [of human nature]. But I think that there exist many other attributes as well . . .. So they need to be identified and factored in. And I would invite myself, my students, and others to do that.'

Socializing 'contractual man' is a challenge to the whole audience of social scientists, though perhaps less attractive to the hard-core economist.

utopian to presume unfailing stewardship. Even the saints are known to be fallible; and most of us are better described as mere mortals.'

Metonyms are always subject to the reservation that the selected parts are insufficient, irrelevant or wrongly ascribed to represent the whole. 'Contractual man' has been repeatedly charged on these grounds.[12] Accordingly, critics usually try to advance metonyms centred on, for example, trust, loyalty, docility, and altruism as alternatives.

'Contractual man' is occasionally augmented with factors such as dignity, reputation, and 'quasimoral involvements' (MH; EIC; 1991; more on this below). Williamson more than once recognizes the need to develop other important traits of human nature and interaction. His initial allusion to atmosphere (1973, MH), for instance, invites other social scientists to consider opportunism while working on complementary features (Box 1 shows other cases in point).

This approach involves *amplitude of argumentation*. According to Perelman and Olbrechts-Tyteca (1969: 474), 'In a rigorous demonstration, only the links essential to the development of the proof need be shown, but none of these can be omitted. In argumentation, on the other hand, there is no absolute limit to the accumulation of arguments.' One advantage the accumulation of arguments can offer is the possibility to address a diversity of audiences. In addition to bounded rationality and opportunism, atmosphere can gather elements of lesser relevance to the author and engage other audiences to contribute to the debate.

12 See for instance Granovetter (1985).

If rationality and self-motivation are magnets to economists, atmosphere gives room for factors to which other social scientists can more easily relate.

But amplitude of argumentation can create problems like redundancy or incompatibility, leading certain arguments to be abandoned. Perelman and Olbrechts-Tyteca (1969: 483) note that 'Arguments may be given up on account of other elements of the discourse, but also because of opinions professed by the audience.'

Atmosphere entails human features – reciprocity, dignity, trust, and loyalty – that arguably compensate for opportunism. They, however, do not make for the contractual calculativeness claimed in TCE; hence the danger of incompatible arguments. Pressure to sort out an incompatibility may lead one rather to give up the source of amplitude.

Some critics have seen the centrality of opportunism as a barrier to further elaboration on atmosphere or related notions.[13] Williamson has dealt with this problem through what resembles *preterition*. Perelman and Olbrechts-Tyteca (1969: 486) refer to preterition as 'the pretended sacrifice of an argument. The argument is briefly outlined while the speaker is announcing that he will not use it.' Atmosphere was prominent in MH but, as Williamson claims (Swedberg, 1990), no headway has been made on the issue. He says he cannot do everything himself, especially considering that the elements involved are too difficult to be made operational.

Atmosphere has become more of a burden than a help, reminding one that there may be an opportunity cost in augmentation or appealing to different audiences (McCloskey, 1998). Although yielding to some of the demands of that debate (Williamson, 1993a, 1999b), Williamson chose to defend the centrality of opportunism and to challenge potential elements of the 'economics of atmosphere'. Preterition, however, has made TCE a hybrid form appealing partially to opposing ends.

6. Transaction costs economizing

TCE's motto says that organizational forms should be chosen in accordance with their ability to handle a set of transactional problems. The action of dealing with problems has many facets: what tools to use, what skills are needed, who is going to do what, and so on. Williamson focuses on a common facet, to say, the costs of transacting. The difference in transaction costs between potential organizational forms will be the main determinant of their selection.

Cost is a category familiar to economists and other social scientists, carrying a negative gist of a sacrifice, of something to be avoided, or reduced. Rephrased, TCE's motto says that the organizational choice depends on the expected ability to reduce transaction costs. Economists and professionals involved in business

13 See for instance Nooteboom (2002).

and administration studies and practices are audiences inclined to accept this line of *pragmatic* argument. According to Perelman and Olbrechts-Tyteca (1969: 266), the pragmatic argument 'permits the evaluation of an act or an event in terms of its favorable or unfavorable consequence'. It 'is of direct importance for action. No justification is necessary for it to be accepted by common sense. The opposite point of view, on the contrary, requires argumentation every time it is defended' (p. 267). Opposition to TCE's motto needs to tackle the question of why an organizational form that reduces transaction costs would *not* be chosen. This is usually done through a contrasting pragmatic argument – i.e., that an organizational form produces better results in a different aspect (where transaction costs may or may not be reduced).

A lengthy exchange of pragmatic arguments, however, can be knotty. It may lead to 'the obligation to take into consideration a great number of consequences, good or bad' (Perelman and Olbrechts-Tyteca, 1969: 269). With a greater number of aspects to consider, it may result that each will fit particular cases better. This will strengthen the case for plurality, co-existence, or complementarity of theories. Indeed, this has been a feature of the debates between TCE and competence theories of the firm (Groenewegen and Vromen, 1996).

The action attached to the term 'transaction cost', representing what governance forms do, has also generated a terminological haze. At least three different verbs play a role in this discussion: *to attenuate*, *to economize*, and *to minimize*.

In 1971 Williamson said that internal organization could *attenuate* transaction costs. In 1973, the action was about *achieving* transactional economies. Two years later he said that the firm 'serves to *economize* on transaction costs' (MH: 4; emphasis added). The verb *to economize* has since been used continually.[14] Some authors, however, use the verb *to minimize* to express the main action implied in TCE.[15] Other social scientists may not see much difference, but economists are certainly more sensitive to it. Through its use of mathematics, economics has created a close bond with the verb *to optimize* and its counterparts *to maximize* and *to minimize*. Sidney Winter (1993) noted that this choice of language easily conflates any semantic purpose with those of the mathematics of optimization and neoclassical assumptions. This conflation seems to be at the root of the controversy about the use of bounded rationality in TCE, as seen above.

On occasion Williamson gave his readers some degree of freedom by saying (1981: 574): '[TCE] relies on economizing arguments (which disciplines the analysis and appeals to maximizers) but substitutes comparative institutional for optimizing procedures (which is more in the spirit of satisficing).' Winter,

14 *To economise* is used repeatedly with reference to bounded rationality. The verb *to attenuate* is applied to opportunism, and *to reduce* to uncertainty.

15 See for instance Joskow (1985).

however, remarked (1993: 189): 'few if any advocates of transaction cost . . . have sworn to abstain entirely from optimization calculations'.

In an exchange in the *Journal of Economic Perspectives*, Samuel Bowles and Herbert Gintis suggested that TCE upheld a transaction cost *minimization* logic. Williamson replied (1993b: 107; original emphasis): 'That is too strong. I hold only that the institutions emerging from the competitive process will be *comparatively* efficient; and I eschew reference to minimizing and maximizing.' After explaining what is meant by choices that are comparatively efficient, he concluded (ibid.): 'If that be maximizing or minimizing, so be it; but a radical transformation in optimization has occurred in the process.'

In EIC the organizational choice is explained as follows:

> The organizational imperative . . . is this: Organize transactions so as to economize on bounded rationality while simultaneously safeguarding them against the hazards of opportunism. Such a statement supports *a different and larger conception of the economic problem than does the imperative: 'Maximize profits!'* (p. 32; emphasis added)

The last sentence is a combination of rhetorical resources. Much of its power resides in the comparatives *different* and *larger*. A *locus of quality* stamps the argument that the imperatives of TCE and mainstream economics are different. Williamson tries to persuade the reader of the originality and uniqueness of TCE in relation to mainstream practice. A dissociative force seems to prevail.

The word *larger* creates what Perelman and Olbrechts-Tyteca (1969) call a *hierarchy of imperatives*. TCE's imperative comes first in a hierarchy of size. The *larger* metaphor works as far as audiences hold particular values. Lakoff and Johnson (1981), for instance, have noted that the idea 'bigger is better' is deeply ingrained in western societies. The idea of a *larger* conception of the economic problem can also be seen under Arida's (1983) *argument of subsumption*: the new imperative encompasses the traditional one without necessarily changing or clashing with it.

While *different* supports uniqueness, *larger* makes the imperatives more susceptible to comparison. Their combination avoids the incompatibilities that may be claimed between 'maximizing profits' and 'economizing on transaction costs'. The same applies to Williamson's reply to Bowles and Gintis.

7. Governance of contractual relations

Economizing has triggered yet another debate. Williamson has argued that economizing on transaction costs is the main drive in the decision about an efficient governance form. An *ex-ante* comparison between alternatives is carried out and a governance form chosen. Williamson (1991) has developed a contractual framework in which adaptations to unforeseen circumstances are taken into consideration.

Since the 1980s, building on the reverberations of Nelson and Winter's *An Evolutionary Theory of Economic Change*, many authors have worked upon knowledge-related notions like routines, capabilities, and competences to develop alternative views of the firm. It did not take long for them to make contact with TCE in a critical way. As they saw it, economizing on transaction costs was a comparative static approach to a decision that had a dynamic of learning and innovation at its core. The debate evolved mainly around a dichotomous locus of argumentation (Dosi and Marengo, 1994; Langlois and Foss, 1999; Noteboom, 2004). The capabilities approach focused on the sphere of competences (the thrust of production and innovation), while TCE focused on the realm of governance (the thrust of exchange and incentives).

The parties have defended their priorities mainly through arguments of order and gradation (Perelman and Olbrechts-Tyteca, 1969). Competence authors want to focus on production, considering that it precedes exchange. TCE moves back the focus, considering that a decision about the organizational form capable of carrying out production with lower transaction costs precedes production. Competence authors then go further back and claim that the most important factor on that decision is how to organize the right competences and that organizing transactions is itself a capability. Williamson then argues that the most important competence is to be able to economize on transaction costs. This argument of order, in which competences are one among other asset specificities to be considered (the human capital kind), has been integrated to TCE's motto (see Box 2).

Box 2. The evolution of competence in TCE: TCE deals with. . .

(a) 'the assignment of economic activity to firm and market in such a way as to economize on transaction costs.' Williamson (1975: 21)

Year zero: No signs of competence on the landscape of TCE.

(b) 'Obligational contracting (bilateral structures, where the autonomy of the parties is maintained) [which can be] supplanted by the more comprehensive *adaptive capability* afforded by administration.' Williamson (1979: 253)

Year four: some rudimentary organizational competence gains life on TCE.

(c) 'assigning transactions (which differ in their attributes) to governance structures (*the adaptive capacities* and associated costs of which differ) in a discriminating way.' Williamson (1985: 18)

Year ten: organizational competence survives in its TCE niche.

(d) 'the costs and *competences* of alternative modes of organization for managing transactions[.]' Williamson (1987: 810)

Year twelve: competence seems to have become stronger in the TCE environment.

(e) 'the discriminating alignment hypothesis, according to which transactions, which differ in their attributes, are aligned with governance structures, which differ in their cost and *competence*, so as to effect an economizing result.' Williamson (1999b: 1090–91)

Competence survives the '5 to 10 years' selection test (suggested in EIC) in the TCE environment.

This exchange of *tu quoques* and a conference in 1995 (which resulted in the publication of Groenewegen and Vromen, 1996a) were Williamson's most significant engagements with the competence group. The competence literature grew over the late 1990s and its authors kept exploring their differences with TCE, provoking a reply from Williamson (1999b).

On a section headed 'Learning', Williamson accepts that TCE has made provision to only a few areas in which learning has a bearing. But because the decision on the organizational form that economizes on transaction costs should come first, he argues that the learning component that matters to that decision has been worked out – the remediableness criterion (p. 1105). And on a section headed 'Dynamic transaction costs', he claims that his notion of 'fundamental transformation' gives TCE the dynamic touch its critics have refused to recognize (p. 1100).

The main rhetorical feature of Williamson's article, however, is the application of the rule of justice. In this line of argumentation, two entities seen to be identical in some fundamental trait deserve to be treated in the same way (Perelman, 1982). Williamson says (1999b: 1093): 'Every stream of research . . . has strengths and weaknesses and stands to benefit from good critics and from taking stock. The competence perspective is no exception, yet competence research has been curiously exempted from sustained critique.'

His case for reciprocity of treatment tries to move the burden of defence to the competence side (Walton, 1989). The problem, as Williamson draws it, is that the competence view also needs further development – in fact, even more than TCE (1999b: 1094):

> Thirty five years expired between Coase's 1937 article and efforts to operationalize transaction costs in the early 1970s. Dating the origins of competence is arbitrary, but one candidate is Richardson's 1972 article in which 'capabilities' are introduced. If a 35-year gestation interval is added to 1972, the birth year for competence, after which operationalization will progress rapidly, will be 2007.

Perelman (1982: 102) identifies this argument as a 'double hierarchy that is purely quantitative', which is 'based on a statistical correlation, as in a line of reasoning that infers from the fact that one man is taller than another to the fact that his limbs are longer'. TCE has made its operationalization breakthrough after a certain gestation period. Competence approaches are embryonic in comparison. They need to develop and go through the birth pains of operationalization and empirical testing. Only then it would be in a legitimate position to question an older incumbent. Williamson says more than once, however, that he sees many possibilities of complementarity between the two views. His diplomatic approach throws the problems back to the opponents' side. It also suggests that they can co-exist in an environment where TCE is better geared up.

8. Concluding remarks

Recognition in economics involves taking in the professional context, relating your framework to the ones already established, negotiating your stakes as you build them, and being sensitive to what is important to your peers. As Thomas Leonard (2002: 159–160) has put it, 'We need our fellow scientists, in part for their output, and in part for their support.'

The battle of the words in economics is serious business. Rhetorical analysis offers apt tools to analyse argumentative moves. Williamson's rhetorical transactions show the importance of relating some of the theoretical pillars of Transaction Cost Economics to existing views. The construction, use, and negotiation of key notions and assumptions, as much as of the relationship established between them, have been paramount to the recognition of TCE.

Many thorny decisions had to be made in the process – some seemingly in favour of closer identification, while others creating or furthering the distance between TCE and certain established views. Williamson's breach with the mainstream of economics stands out as a delicate issue. On occasions, argumentative bridges have been unable to overcome all resistance from critics and sympathizers. Tensions within the New Institutional Economics have also conjured up difficult negotiations, as the case of bounded rationality illustrates. The dissent with Herbert Simon on that notion has proved to be yet another laborious development. On their turn, the differences with the competence view of the firm have not been negotiated with the same impetus. Williamson seems to suggest that the competence approach still needs to sort out its own problems before a more fruitful conversation can take place.

Some decisions involved whether to uphold a notion (e.g. opportunism) at the cost of leaving another behind (e.g. economics of atmosphere). Sometimes critics saw a dilemma in TCE and demanded a less forbearing position, as with the case of maximizing versus satisficing. Williamson, although apparently sure of his choice, favours appealing to both. And this proved to be only one among many of his unorthodox rhetorical transactions. Whether his rhetorical structures have economized on intellectual frictions and whether this is an efficient strategy are for the reader to decide.

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