

Theoretical and Practical Research in Economic Fields

Quarterly

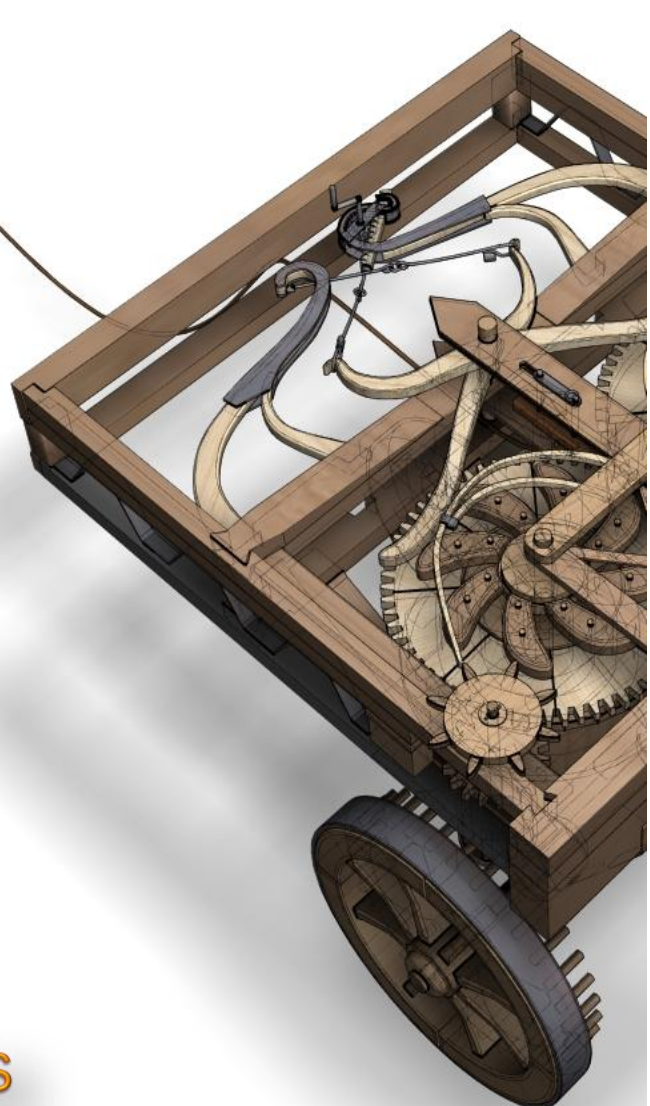
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Exchange, Property Rights and Transaction Cost: An Institutional Analysis

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Abstract: The aim of this paper is to try to highlight that no social system is able to function if it is based only on networks of free contracts stipulated between legally equal contractual parties, and in which each party is supposed to be guided exclusively by its own utilitarian ends. In any developed exchange system, non-contractual components are of fundamental importance. A pure exchange system based solely on contractual relations may not work in practice.

However, even if there are non-contractual elements in a contract, these elements do not totally govern transactions. In a modern market economy, the rational calculation of profit and loss is the focus of analysis, but it is possible to criticise the claims of neoclassical economists to conceive rationality as unlimited in its scope. Thus, it is argued that in modern society the analysis of exchange should be conducted through the examination of the symbiotic relationship existing between contractual and non-contractual elements.

Keywords: transaction costs; property rights; exchange; institutional theory.

JEL Classification: B15, B52, D23, D86.

Introduction

Exchange is not only a mutual transfer of goods, services or money between individuals, but also a transfer of property rights. The concept that transactions affect property rights comes from Commons (1950, 48-49).

This concept of exchange was criticised by Von Mises (1949), who defined it as an attempt to replace a more satisfactory state of affairs with a less satisfactory one, without taking property rights into account. This concept of exchange is so broad as to also include production. The claim that production is an exchange with nature also appears in the neoclassical conception (Hirshleifer 1970). Blau (1964, 93) is also in favour of an extended concept of exchange; in fact, he states that exchange considers human intentional action but involves a theory in which a large number of social activities of a voluntary nature are referred to as acts of exchange. Blau identifies an important distinction between social and economic exchange, defining the latter as an exchange based on a formal contract by which the exact quantities to be exchanged are decided. Blau's economic exchange can be referred to what Simon (1951) describes as the sale agreement. However, Simon goes further and shows that there are other contractual arrangements in the economic scenario that do not fall into this category. Thus, Blau's definition of economic exchange corresponds to a narrow category of transactions; that of social exchange is, in contrast, too broad and without a specific meaning, as Sahlins (1972) states.

Hodgson's (1991, 210-211) orientation is different, as he states that a system of commodity exchange requires a combination of both state and customary institutions. In any developed system of mercantile exchange, there must be a system of laws that defines and protects individual and collective property rights; there must be a body of laws that can regulate contracts, establishing criteria to distinguish voluntary from involuntary transfer of goods and services.

In particular, to fully consider the criteria of consent and agreement and to assume a rational intention for all exchanges is to take an extreme position (Baily 1974). In many cases, it is not easy to detect the presence of

intention and consent. For this purpose, in social life, the use of recognised signs and signals is employed: a yes, a nod of assent with the head. Such signs are embedded in customs and rules and depend on their context. Thus, bringing products to the checkout counter of a supermarket is a signal of intention to buy at the prices displayed; in an auction a nod of assent signals the intention to buy an item, offering the last declared price increased by something. In this case, intention and consent are institutionalised in symbols and customary practices.

Thus, in any developed exchange system the non-contractual components are important, and in this paper, it is argued that no social system is able to function if it is based only on networks of free contracts stipulated between legally equal contractual parties, and in which each party is supposed to be guided exclusively by its own utilitarian ends.

1. Individual Property Rights

The property rights school takes its cue from the work of a number of economists such as, for example, Coase (1960), Demsetz (1967) and Alchian and Demsetz (1972). They argue that government intervention is not an effective way to deal with externalities. In fact, for them the solution lies in respecting a well-defined system of individual property rights. The main argument here concerns the creation of a system of individual costs and benefits. Demsetz (1967) states that an important function of property rights is to regulate incentives in order to achieve greater internalisation of externalities. This represents the application of the classical liberal postulate that the individual is the best judge of his own welfare, thus displacing one of the arguments in favour of state intervention in the economy (Randall 1978).

With the introduction of individual incentives and disincentives (in the form of property rights) in areas where they do not exist, it is thought that the scope of government intervention narrows and individuals are freer to assess costs and benefits on their own behalf and, thus, act accordingly. Naturally, a decrease in direct state intervention coincides with an increase in indirect intervention. By widening the perimeter of influence of formal possession and ownership, the state must continue to intervene, but in a different way, i.e. through the enlargement of procedural activity (Hodgson 1991, 213).

However, as Macpherson (1962) states, considering the extension of property rights as a phenomenon involving increasing state intervention in civil society does not fall within the orientation of classical liberalism or even orthodox economics. Remaining within the liberal tradition does not realise that the extension of well-defined property rights may not represent a means of diminishing state intervention; for by extending formal property relations, the state becomes even more involved in the relations of social life. For example, if there are no strict laws against pollution, every individual faces potential and actual lawsuits.

The assertion that the extension of formal property rights and the enlargement of commodity exchange relations lead to a retreat of the state from social life has been criticised by Polanyi (1944, 140-141). In fact, he brings as an example the development of market relations in Great Britain during the 18th and 19th centuries, where the free market found great help precisely from increased state interventionism. Thus, when it was thought to free the state from unnecessary obligations through its disempowerment, the state itself was entrusted with the new powers, organs and instruments that the affirmation of *laissez-faire* required.

The property rights theorists of the classical liberal tradition affirm the existence of a marked distinction between politics and economics and between the state and civil society. According to them, the state performs the function of guardian of private interests, i.e. it judges only when necessary; it controls civil society but does not confuse itself with it. Civil society is seen as separate from the state, i.e. as the sum of isolated, rational individuals who carry out exchanges and accumulate wealth (Althusser 1971).

Considering civil society as subservient to the state or, on the contrary, entirely separate is open to criticism. As Stepan (1978) has shown, the structural relationship is more complex. Indeed, according to him, the state must be regarded as more than government, since it consists of administrative, legal, bureaucratic and coercive systems, which not only seek to order the relations between civil society and public authority in the polis, but also to structure fundamental relations within civil society.

2. Williamson and the Orthodox Economic Theory

From a theoretical point of view, Williamson (1986) thinks that in order to fill the void created by the exclusion of the state from the analysis, certain guarantees are needed that can support the exchange process. A guarantee is understood to be a series of agreements whereby, for example, both parties to a contract undertake to bear specific, stranded costs. The intention is to strengthen the bond between the two parties and to minimise the possibility of default before termination of a contract. In addition, other arrangements are considered, such as the

agreed arbitration procedure, which facilitates bargaining without recourse to the formal legal apparatus. Therefore, according to Williamson (1984), a system of exchanges and contracts is possible and sustainable even in the absence of the state.

Following the liberal tradition, Williamson (1985) has in mind a 'state of nature' from which state sovereignty is eliminated; therefore, he states that social order and cohesion are conceivable through individuals who behave selfishly. Williamson's models of contractual behaviour involve a selfish version of the neoclassical homo oeconomicus, i.e. an agent who is not altruistic, but opportunistic. Opportunism is identified with the pursuit of one's own interest, which is slyly pursued.

The legitimising function that the legal apparatus performs for exchange activity and other social relations is neglected; however, the basis of agreements is not the rational calculation that individuals make of benefits and costs, it is, instead, provided by a combination of both legislation and formal legitimation and inherited customs and traditions of a less formal nature. Unlike the concept of the rational homo oeconomicus, each individual is surrounded by a series of customs and traditions that reflect the complex relationship between state and society (Morselli 2022).

Organisational arrangements and institutional forms direct action and structure social, political and economic interaction between individuals. Any economic phenomenon can be analysed as a product of the interaction between interdependent units, making it easier to overcome the traditional disciplinary boundaries between the different social sciences. (Boudon 1989, 630).

The notion of property rights and exchange, common to neoclassical economic analysis and legal doctrine, can be declined differently within institutional theory. This theory introduces an element of fundamental importance, namely the idea that every form of social interaction has costs called transaction costs (Vannucci 2004, 89).

3. Non-Contractual Features of Exchange Agreements

A contract, in essence, is the result of the intentions and agreement of two or more individuals. However, can a contract only concern the rational wishes and calculations of the parties involved? Durkheim (1984, 154-155) emphasises the need to introduce non-contractual elements into all social relations, even when markets are developed; a contractual agreement involves factors that cannot be attributed to the intentions or agreements of individuals. Durkheim's thesis (1984, 161) states that in all contracts there is a set of binding rules with respect to which there is no detailed reference by the contractual parties. Some of these rules are legal in nature, therefore, in this context, the contractual parties accept the general rules of the legal system, despite the fact that no agent can be fully aware of all the laws considered. The law binds us to honour obligations for which we have not contracted, since we have not deliberated on them or, in some cases, were not aware of them in advance.

All contracts include an element of uncertainty, since they are subject to various eventualities to which no calculable probability can be assigned. In this regard, it is possible to consider the considerations of two post-Keynesian economists, Williams and Findlay (1986), who argue that since rights and obligations can only be expressed in terms of a set of ex ante valid states of nature, no perfect contract can be written.

In a world where it is not possible to know all possible outcomes, it is undesirable to overcome, through bargaining, all or most of the uncertainty about the future. In the presence of uncertainty, we find ourselves referring to institutional rules and pre-established models of contracting; therefore, the content of a contract between two parties often indicates an explicit or implicit reference to a set of norms, customs and rules, rather than a detailed negotiation on any clause and eventuality (Durkheim 1984, 162).

According to Parsons (1937, 312), those who remain within the classical tradition pay particular attention to the reinforcement of the terms of the contractual agreement, while of an opposite orientation is Durkheim who emphasises the existence of a body of rules that have not been the subject of any agreement between the contractual parties themselves.

It is difficult to find a contract in reality for which uncertainty can be eliminated, and all future circumstances can be foreseen at the outset, so the non-contractual features of exchange agreements are important and functional for any economic system.

4. Information in a Complex Modern Economy

According to Machlup (1962), it is incorrect to regard information as a commodity like any other. For example, when information is sold, any buyer can resell it at a lower price than when it was purchased. Moreover, even if it is sold, it still remains in the possession of the producer or seller, who continues to know its content even after the

sale; therefore, the information does not correspond to the image of a 'normal' good that passes from seller to buyer.

If we consider the demand side we find other problems; as Arrow (1962) states, in the formulation of the demand for information there is a paradox of fundamental importance: for the buyer the value of the information is unknown until he possesses it, but by the time he knows it he would, in fact, have acquired it at zero cost. Consequently, pure contracts governing the exchange of information are generally not feasible. For instance, there will be a certain level of trust that must be placed in the seller as to whether the information is worth its price. The peculiarities of information develop a whole range of restrictions and imperfections; patent registration, for example, is a mechanism by which technical information is protected by legal and institutional constraints.

For Hodgson (1991, 227-228), a common phenomenon is to regard information as a gift. Many sources of information are free, such as, for example, bus timetables and trade catalogues. In the purchase of goods, there is usually a certain amount of free information, offered by the seller about the characteristics; if this information were denied, we would be suspicious about the qualities of the good. Thus, in several cases of contractual relations, elements of free exchange on the information side are emphasised.

Simon (1951) argues that most employment contracts display the characteristic of not specifying in a perfect and complete manner the nature of the tasks to be performed. This gap is filled by an extensive range of conventions and unwritten rules. These do not appear in the formal contract but are essential to facilitate working arrangements over long periods of time. In this respect Dunlop (1958) highlights the function of formal and informal customs and rules in an industrial relations system. Marsden (1986) also confirms that such institutional foundations indicate a necessary condition for the functioning of a free labour market.

In a study on industrial relations by Fox (1974), it is shown that all job descriptions include both specific instructions and certain terms over which the worker exercises discretion.

The idea that the employment contract does not represent a pure intentional exchange is also supported by Akerlof (1982). In fact, he thinks that many labour contracts partly involve a gift relationship. An example of this is the work of Homans (1962) on the widespread phenomenon of workers exceeding the company's production standards without monetary or promotion incentives. Akerlof argues that this example represents a partial gift relationship, since gifts are granted according to socially determined traditions and norms.

5. Trust in Contractual Relations

Arrow (1974) states that trust is an important lubricant in the social system, since having the right degree of trust in the actions of others allows one to avoid many problems.

In his work on the philosophy of money, Frankel (1977) states that individuals and society depend on low-value symbols, myths, beliefs and institutions that function as indicators of trustworthiness or unacceptability.

However, as Luhmann (1979) states, trust is neither demonstrable nor calculable, therefore the granting of trust is not based on any definitive foundation; trust goes beyond the available evidence; it is a compound of knowledge and ignorance.

Hodgson (1991, 231), argues that acts of trust are not only a compound of knowledge and ignorance, but also mental processes that unfold on different levels of consciousness, both conscious deliberation and unconscious customary practices and habits. The types of contexts in which we can place our trust we learn from experience, and when these become familiar, once trust is established, we begin to act out of habit. Hodgson goes on to say that such reflections on the essential function in contractual relations of trust and other components call into question the idea that exchange can be described through utilitarian calculation. The exchange of goods always contains gift components and relies heavily on trust. In part, exchange is always a leap into the void or a 'somersault', to quote an expression from Marx (1976-1979, 200). This means that for a dangerous act to become entirely commonplace, it requires the support of habitual practices and the guidance of a good measure of trust. The point to ponder is that in the context of customary acts of exchange, the rational and utilitarian calculation applies to limited and restricted contexts.

6. The Principle of Contractual Impurity

The principle of impurity consists of the idea that every system contains impurities that are not typical of the system but are nevertheless necessary for it to function (Hodgson 1984).

This statement comes from an analysis of the economic system through Ashby's (1960) law of requisite variety. He asserts that an open system must include a sufficient measure of diversity in order to cope with all potential changes in its environment.

The principle of impurity meets with the principle of dominance, i.e. the principle that socioeconomic systems have a dominant economic structure (Morselli 2021). The notion of an impure contract may fit within this scheme, where the contractual components are dominant, but the non-contractual elements represent features (or impurities) necessary for the contract as a whole. The thesis that all contracts include non-contractual elements can thus be considered an expression of the principle of impurity; whereas the existence of the principle of dominance is manifested in the supremacy, within the contract, of the utilitarian calculus (Ashby 1960).

Fox (1974) points out that the principles of impurity and dominance recommend an approach to the analysis of exchange relations that clearly differs from the separation into the two narrow groups of economic and social exchange found in the sociological literature. Durkheim's harsh criticism seems to call into question the legitimacy of this division, which is, however, met with little criticism from either economics or sociology. Sometimes all exchanges are treated as purely economic, discarding their non-contractual features from analysis, while, on the other hand, the boundaries constructed between disciplines hinder criticism.

If the social or non-contractual elements of exchange are questioned, problems of destabilisation of the system are likely to arise; with similar arguments Schumpeter (1928) argued that this process would lead to the end of capitalism and its replacement by socialism. He added that capitalism by rationalising the human mind creates a vision and lifestyle incompatible with its fundamental social conditions, motivations and institutions.

Schumpeter (1976, 139), like Marx, imagines the end of capitalism, but proposes a different analysis of this process. Whereas for Marx, it is the logic of capital that produces crises, for Schumpeter, it is capitalism's destruction of all traces of previous systems that brings out its contradictions. In destroying the pre-capitalist model of society, capitalism, therefore, demolishes not only the barriers that hinder its progress, but also the scaffolding that prevents its collapse. Consequently, according to Elliot 1980, it is the very success of capitalism in dissolving the traditions and institutions of the past that threatens its own future. This all fits in with Schumpeter's thesis that capitalism shows itself through a process of 'creative destruction'.

Schumpeter's main idea is that capitalism depends on pre-capitalist elements, and this can be made compatible with the principle of impurity examined above. This principle emphasises that there is an internal tension between the different structures of the system, and that some of the non-dominant structures are essential for the entire social formation to remain alive. Schumpeter also states that the capitalist process not only demolishes its own institutional structure but creates the basis for the rise of another. In this context, the problem of socialism arises, as a new institutional structure that derives from the functioning modalities of dynamic competition, based on the introduction of innovations increasingly predisposed to technicalize the entrepreneurial function itself. Finally, Schumpeter also focuses attention on the transformation of the accumulation regime, of the methods of regulation, that is, of the institutions that make an accumulation regime work.

According to Hirschman (1982), only through a dialectical view can the civilising and, at the same time, decaying characteristics of our modern economic system be understood.

7. Economic Property Rights and Institutions

Possession of an economic property right means controlling such a resource, being able to exercise choices concerning goods or services (Cheung 1970; Barzel 1989). For these reasons, the structure of such rights shapes the type of constraints, incentives and opportunities that guide the actions of actors and the dynamics of social interaction.

According to Coleman (1990), the existence of property rights hypothesizes a regulated social interaction, i.e. an institutional context in which the definition of such rights is represented by patterns of behaviour that regulate how resources are accessed and used.

Thus, for Ostrom (1985), institutions are translated into provisions as to what behaviour is required, prohibited, or permitted. An institution, in this respect, is a behavioural pattern supported by consistent expectations about the future actions of other individuals (Crawford, Ostrom 1995). The greater the compatibility of expectations and beliefs, the more individuals' choices fit the rules and reproduce over time the order that assigns property rights over resources.

To each right corresponds the faculty or power to dispose of actions that have as their object the ways of using resources in which individuals show interest. They are able to exercise their rights over resources by consuming them, exchanging them, donating them, destroying them (Weber 1922-1981, 51).

According to Vannucci (2004, 93), property rights have a social nature. The rules of conduct that distribute rights over actions and regulate their exercise in different circumstances are not known, recognised or respected. In fact, each individual has his own subjective image of the distribution of his rights and the rights of others to perform a certain action, based on the cognitive schemata with which he processes information from the social

and natural environment. As Aoki (2001, 12) states, an institutional equilibrium is realised when the synthetic representations that each individual has of the distribution of rights of control are coordinated with each other, resulting in a set of beliefs that generate strategic choices consistent with that structure of rights.

The institutional approach highlights the effects of uncertainty on expectations regarding how property rights are exercised (Morselli 2018). This leads to the indeterminacy of economic property rights; the activities of exchange, consumption or disposition, which represent the reasons for the interest in holding rights to these resources, do not, in fact, apply to the resources as such, but rather to their attributes (North 1990a). In general, all goods and services contain an infinite number of important attributes, with respect to which the available information is incomplete and asymmetrically distributed.

For Barzel (1982), goods have many attributes, the levels of which vary from good to good. The measurement of these levels is too costly to be comprehensive. The difficulty of having complete information with respect to the variability of attributes determines the degree of complexity in delineating property rights. As a result of the high cost of measuring assets comprehensively, there is a potential appropriation of wealth in every exchange.

The lack of information available on the characteristics of resources, together with the imperfection of the cognitive schemata available to interpret it, determines measurement and protection costs, linked to the protection of rights and the guarantee of contract enforcement (Vannucci 2004, 98).

Another relevant problem concerns that of information asymmetries (Akerlof 1970), where one of the parties to a contractual relationship may have more complete information than the other regarding certain qualitative attributes of the object of exchange. Thus, one of the parties finds itself deprived of important information for determining how likely it is that the terms of the exchange are actually convenient or are respected. In fact, rent information is formed that prevents contractual arrangements in which the expected surplus does not cover the value of the transaction costs.

8. Transaction Costs and Social Interdependence

According to Allen (1991), the ability to decide on how to use an economic resource, by exercising a right of control over it, is limited by the existence of transaction costs. These costs do not only concern exchanges as mutual transfer of rights but also reflect the existence of a state of interdependence where each individual can condition the exercise of others' rights to perform actions of disposition of economic resources.

According to Schmid (1987), it is possible to distinguish different negotiating arrangements, understood as recurring ways of exercising the sets of rights available to individuals: administrative relations, which are based on a limited and unidirectional transfer of rights, founded on positions of authority deriving from private contracts; gift relations, in which the unilateral transfer of rights is rooted in custom or in the benevolence of the donor.

If an individual were able to exercise absolute control over his or her own actions in disposing of resources, without any interaction or possibility of interference by other parties, there would be no transaction costs, nor would there be any rules concerning the possible ways in which his or her rights could be exercised. Dealing with economic property rights, transaction costs, norms, and institutional constraints means analysing the following phenomenon: the effects of uncertainty arising from social interdependence (Vannucci 2004, 101).

The existence of imperfectly represented property rights is linked to the presence of transaction costs. The latter are associated with the transfer and protection of property rights; if we assume that for each resource each of these costs is increasing, it follows that property rights are incomplete, since individuals will never find it convenient to exploit the full potential of their 'rights' (Barzel 2002). Thus, transaction costs reflect the existence of frictions within any context of social interdependence, i.e. conflicting interests (North 1997). They differ from the production costs of neoclassical models in that, unlike these, they depend on the organisational or institutional arrangements used.

For Coase (1964), in general terms transaction costs are associated with the creation or change of an institution or organisation, with the use of an institution or organisation. The formation and change of institutions or organisational forms generate the first type of transition cost, whereas the latter emerges from the activities of consumption, exchange, capture and defence of existing property rights within existing organisations or institutions.

Also in authority relations, transaction costs make an implicit exchange between subordinate and hierarchical superior possible. Similarly, power relations represent asymmetrical exchange relationships between individuals possessing different bargaining powers. It is a powerful relationship from which one can benefit more than the other, but in which one is never completely defenceless against the other (Crozier, Friedberg 1977). In this case, transaction costs hinder the emergence of absolute power.

According to Williamson (1996), even in the hypothesis in which the asymmetry of power is accentuated, authority relations leave a domain of choice to the subordinate and thus a basis for negotiation. Information constraints and transaction costs, in fact, prevent the stronger individual from fully exercising his rights over the actions of the less strong. Organisations correspond to various mechanisms to govern and decrease implicit transaction costs in the changing configurations assumed by authority relations.

9. Mechanisms for Protecting Economic Property Rights

An economic property right can be built on a set of formal (laws, contracts) and informal (social norms, customs) constraints. The value of rights depends on the transaction cost structure existing in a society, i.e. on the effectiveness of the protection mechanisms of the corresponding norms of conduct, which regulate the criteria for access to and exclusion from the benefits arising from the use of resources (Alchian, Demsetz 1973; Alchian 1989).

According to North (1993), the guarantee of contractual agreements and norms of conduct can arise from moral codes and internalised constraints, which induce discipline and the formation of compatible expectations.

A contractual relationship may be subject to many forms of guaranteeing rights of control, which are ultimately based on some capacity for self-protection. A logical premise for the existence of any right is the presence of expectations, such as to induce its implicit or explicit acceptance by the social actors interested in its exercise. Recognition may come from the power of the holder to self-guarantee its use even in the presence of a conflict with the claims of others; or from the external guarantee deriving from internalised social constraints or from collective institutions that act as a bank of rights to act, to which each individual assigns a right to control his or her own action, in exchange for an equivalent waiver on the part of other subjects (Becker, Stigler 1974; Besanko, Spulber 1989).

There are different types of protection, which differ from each other in their production and application techniques, in their relative effectiveness as factors in reducing transaction costs and uncertainty in social relations, but also in their ability to elicit an involvement of the spheres of recognition of individual identity and collective belonging (Pejovich 1999).

In this context, the modern state represents an organisation that can be configured as a 'third party' in the provision of protection, thanks to the availability of violence. The use of force to order compliance with contractual agreements ensures the state economies of scale in controlling specific territorial areas, in which exchanges are more frequent Barzel (2000).

The state orders the enforcement of a particular set of claims on resources (physical, human, intellectual) by individual or collective subjects, which forms the architecture of legal property rights. The coercive force of the state does not ensure the existence of perfectly established rights to values allocated through political processes (Bachrach, Baratz 1970). Consequently, there is an increase in the likelihood that legal rights are matched by an effective capacity to deploy the resources over which they extend, which is proportional to the effectiveness and speed of state mechanisms. The state turns out to be more efficient than other protection mechanisms, especially in the context of impersonal exchanges of resources with high measurement costs (Levi 1988).

The governance mechanisms referred to are based on public and private, formal and informal modes of organisation, corresponding to the wide variety of forms of social coordination observable in human history, each marked by specific instruments of protection of individual and collective rights and different transaction cost structures. Constitutions, laws, contractual agreements, churches, governments, corporations, mafia groups, political parties, are just some of the possible examples of the interpersonal rights allocation systems prevalent in specific domains of social exchange (Aoki 2000).

The coexistence of different mechanisms of exchange regulation increases the complexity of the institutional matrix. In some domains, these structures act in a complementary manner, i.e. in economic markets, for example, the effectiveness of state enforcement of sanctions is enhanced by the pull of community constraints, reputation, internalised codes of conduct, and informal rules of trade (Nye 1997).

However, the protection of rights cannot be based solely on the threat of violence in the event of non-compliance. The effectiveness of 'third parties' lies mainly in their complementarity with other regulatory instruments. Thus, as Poggi (1998) states, the ownership of a right is based on provisions relating to the power to control and dispose of the manner in which an economic resource is used, safe from the intrusion of other parties.

The power to control the actions of other individuals may be based on political, economic, and ideological means. The likelihood of exercising one's rights does not end with the ability to endanger one's survival and physical freedom, as there are economic resources consisting of the ability to influence access to and control of material goods whose use is necessary for the satisfaction of individual needs (Klein 1987).

10. The Existence of Transaction Costs in Economics and Politics

In neoclassical economic models, goods are homogeneous and exchanged instantaneously by subjects with perfect knowledge of each of their characteristics. The perfectly competitive market abstracts from any element of rent, assuming an environment in which no individual exercises power in setting contractual terms and time does not change the conditions of interaction. In fact, each individual is able to identify a counterparty without any information cost, choosing from a multiplicity of subjects (buyers or sellers) among whom he can move freely, thanks to a coordination mechanism (price system), which processes the relevant signals in an immediate and impersonal manner. Political institutions do not appear to be important, and there is no need for enforcement mechanisms to regulate agents' choices. Since all relevant information is oriented by the price system, the informing function of the institutional system and property rights, whose allocation is negligible compared to the achievement of an efficient allocation of resources, is of no importance (Vannucci 2004, 115).

However, the elements of rent and power relations reappear as soon as we move away from this idealised context. The presence of transaction costs requires the deployment of resources in activities to measure and monitor the characteristics of goods or services. North (1990b) indicates three exchange models that describe different stages in the development process of modern market economies, imagining possible solutions to the problem of uncertainty: 1) customised exchange, marked by repeated and prolonged bargaining, capable of fostering bonds of trust based on direct acquaintance and cultural relations between the parties. Transaction costs are low, but there are also limited possibilities to benefit from the advantages of specialisation and division of labour, which require a larger scale of social coordination; 2) impersonal exchange, which allows for a broadening of the complexity of contracts and the scale of specialisation of the individuals involved. However, it has high transaction costs due to the difficulties in fulfilling agreements. In order to strengthen exchanges, various contractual and institutional arrangements can be used to make the trust between the parties more solid; 3) impersonal exchange that sanctions the enforcement of contracts. In this context, it is possible to realise a cooperative surplus of complex and large-scale exchanges, a precondition for productivity growth through specialisation.

The above can be applied to the analysis of political exchanges, which take place within two main dimensions: 1) the production of formal rules of conduct and their enforcement through political institutions. The latter help to mitigate collective action problems, in particular the problems of commitment and enforcement of guarantees, which have a negative effect on the exchange, thus enabling different individuals involved in politics to cooperate in order to achieve gains in the exchange (Moe 1990a). In this way, political authority establishes the power to sanction compliance with the rules that govern social interaction in a given territory, setting the manner in which the agents of the state allocate and enforce coercion, as Pierson (2000) states. In this context, political transaction costs are the costs of providing public goods through collective action; 2) contracts through which exchanges of resources and promises involving politically important organisations and actors take place (Furubotn, Richter 2000).

In political relations, the equivalent of property rights, which underlie economic exchanges, is the right to exercise powers derived from public authority, making choices with collectively binding effects. But several factors increase political uncertainty about the extent, stability and binding force of this authority to a greater extent than in market exchanges (Eggertsson 1990).

Dixit (1996) points out that while political processes are affected by transaction costs to a greater extent than in economic relations, the outcomes of these processes contribute to the definition and distribution of transaction costs in society. Thus, the rules of the political game, represented in written or customary norms, play a central role, allowing public individuals to govern their contractual relations, reducing their uncertainty. The institutional mechanisms and governance structures of specific sets of contractual relations can mitigate these costs.

11. Economic Market and Political Market

The different characteristics of the competitive process in the economic and political market reflect the properties of the exchanges conducted in the two spheres. The market process tends to expand the availability of information and knowledge about available alternatives to a greater extent than in political and electoral choices. The direct causal correspondence between decisions in the market and its consequences means that over time the economic agent can anticipate what he will do as a result of his actions. The incomplete information about the basket of rights acquired in the contractual relationship weakens this link between decision and consequence, but does not abolish it altogether, as the same process often ensures a quick correction of erroneous expectations and the adjustment of the cognitive schemata used (Vannucci 2004, 129).

According to Downs (1957), on the other hand, politicians operate in a structure of greater uncertainty, as there is little information available on the options at stake, due to their good public characteristics; decisions are less frequent; interpretative models are imperfect and conditioned by ideologies. For Mueller (1989), even if one assumes the availability of complete information on all possible outcomes of each policy, one cannot predict which of the alternatives will be selected, since this does not depend on an individual decision, but on the outcome of complex procedures involving many individuals. Thus, the causal link between choices and effects is broken, to the detriment of the transparency of the decision-making process and the completeness of the definition of the political property rights at stake.

In modern market systems, the fulfilment and safeguarding of rights can rely on a wide range of instruments of an informal nature (reputation, internalised norms, customs) and institutionalised mechanisms based on the intervention of third parties who settle disputes and apply sanctions, exercising an arbitration function. In contrast, in the political market there are no third parties with the power to coercively guarantee the fulfilment of political contracts and the enforcement of precarious rights over the resources at stake (Moe 1990*b*). In the political context, the weakness of rights, due to the absence of external, impartial and coercively binding protection, increases transaction costs and hinders cooperative agreements.

Contractual relationships are usually characterised by information asymmetries that lead to principal-agent type relationships. For example, we can recall the relationship between shareholders and directors of a company, or between buyer and seller of a used car (Akerlof 1970). Thus, the agent can profit to his own advantage from the information rent to the detriment of the principal's interests. However, different contractual arrangements are possible to limit these disadvantages. Agency theory studies incentive-compatible contracts between principal and agent, and the contractual arrangements that emerge depend not only on technological conditions, but also on the institutional context.

This model also applies to the political marketplace: voters and groups are the principal who can exercise partial control over the actions of public agents. Indeed, the institution of representation is linked to the fact that representatives act as agents of the representatives. They are bearers of the interests of the represented, but at the same time they are responsible for the manner and effectiveness with which they pursue them, thanks to the presence of mechanisms that ensure a certain degree of control over their activities. The termination of the relationship of delegation of powers to elected representatives finds expression in the non-confirmation of the electoral mandate (Leoni 1961). Whereas in economic relations, the delegation of powers to the agent derives from a decision whose contents and limits are expressed in contractual terms.

Conclusions

From the analysis carried out it emerges that the concepts of exchange and property, fundamental to any study of institutions, are still treated in an unsatisfactory manner. One of the questions concerns the extent to which the concepts of exchange and property must be defined in relation to the law and the State. The question of exchange raises doubts about the validity of the utilitarian perspective, revealing the existence of limits also to its application in acts of exchange regulated by the price mechanism.

According to Arrow and Hahn (1971) in any developed exchange system the non-contractual components are of fundamental importance. A pure exchange system based solely on contractual relations may not work in practice.

However, even if there are always non-contractual elements in a contract, they do not totally dominate transactions in a developed capitalist system. Indeed, in a modern market economy, the rational calculation of profit and loss is taken into strong consideration; but the claims of neoclassical economists to conceive rationality as unlimited in its scope; to suggest that all actions come from rational calculation; to ignore the learning processes that underlie the act of reasoning; and to assume that all non-contractual components can be disregarded are open to criticism.

In contrast, in modern society the analysis of exchange should be conducted through the examination of the symbiotic relationship existing between contractual and non-contractual elements.

Considering only the criteria of consent and agreement, and assuming a rational intention for all exchanges, may give rise to problems. In many cases, it is not easy to detect the presence of intention and consent. Therefore, in social life, the use of recognised signs and signals is employed. Such signs are embedded in customs and rules and depend on their context. Therefore, concepts such as intention and consent are not easily managed, but in society we can resort to a complex system of signs and institutionalised rules to ascertain their presence. In this case, intention and consent are institutionalised in symbols and customary practices.

Making a decision is a complex activity influenced by the context in which it occurs; therefore, although the intentional character of exchanges is present, it is also necessary to consider the scenario in which these exchanges take place.

In an institutionalist perspective, economic and political markets can become competitive with the gradual emergence of an institutional matrix that lowers transaction costs, encourages coordination, and rewards compliance with contractual arrangements.

Declaration of Competing Interest

The author declares that he has no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Declaration of Use of Generative AI and AI-assisted Technologies

The authors declare that they have used/not used generative AI and AI-assisted technologies during the preparation of this work.

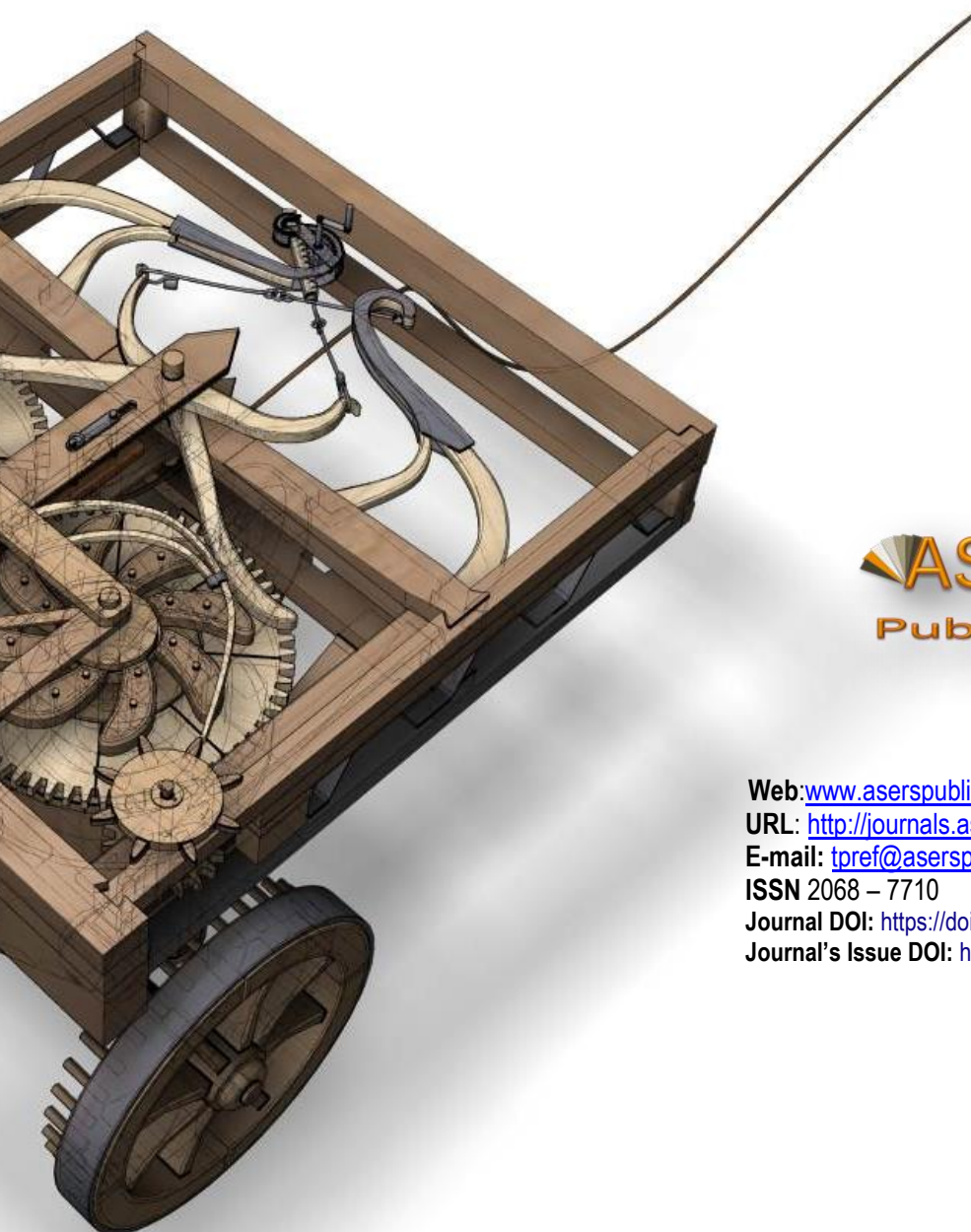
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