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Re-Reading the New Institutional Economics in Market-State Dilemma

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Abstract

After Old Institutional economics lost its dominance after the 2nd World War, it entered a new revival period; the beginning of this period was marked with Oliver Williamson's (1975) use of "New Institutional Economics" (NIE) as a new term in his studies. New Institutional Economics analyzes institutions that influence and determine human life deeply such as government, law, markets and family, by combining different disciplines such as legal science, economics, political sciences, sociology etc. But despite these inter-disciplinary attempts, New Institutional Economics has never been a mainstream that follows Old Institutional Economics in terms of epistemology or politics. On the other hand, the only common feature between New Institutional Economics and Old Institutional Economics is the complete opposition to the established economics which is also named neo-classical economics. Besides all of these, discussions on the market mechanism and role of state have been the topics of dispute in almost all of different economics schools of thought. This is the same in New Institutional Economics. In this study, based on the basic features that distinguish New Institutional Economics from Old Institutional Economics, we will firstly attempt to discuss ideological structure of New Institutional Economics; while doing this, we will analyze which ideological logic of basic assumptions, suggested by New Institutional Economics from the procedural individualism and limited rationalism assumptions to the process of market mechanism, distinguish it from Old Institutional Economics and we will analyze the assumptions that are claimed to be close to the assumptions of established economics. In this way, we will analyze New Institutional Economics on the basis of the question of "will it be able to present a different point of view to market mechanism-state relation?" by presenting market mechanism-state relation in New Institutional Economics, which exists similarly in all school of thought. So, we will attempt to analyze if New Institutional Economics, which reflects a different thought system, can present a new perspective to the market-state dilemma. As a result, by presenting the features of general economic structure of New Institutional Economics, which is sometimes claimed to come close to neo-classical economics, existence of solutions that can shed light on current basic economic problems will be analyzed.

Keywords: Old Institutional Economics, New Institutional Economics, Veblen, market, government, Neo-liberalism, capitalism, state

JEL classification: B15, B25, B52

1. INTRODUCTION

It is possible to say that there are two approaches in economics. Political view(s) which opposes to government intervention and political view(s) which is in favor of government intervention. Both approaches have serious philosophic views in the background. No approach put forward its assumptions without grounding them on a philosophic basis. Generally, the thought that opposes to market intervention depends on the belief that "market" will find solution to every kind of economical problem. On the contrary, the other one state that present economic problems are resulted from "market" and government intervention is necessary for solution. It is obvious that basic economics alternate between the views determined by these two options.

The situation that determines supporting government intervention or supporting market, depends either on the ideology that determines the point of view or the course of economic conjuncture. It can be shortly said that tendency to "market" worshipping increased during economic expansion, while "government intervention" comes to help during economic contraction.

Besides that, there can be different views even in an economic school that defends a basic view. Namely, while one view defends government intervention, another view that rises within this view can defend market. The best example for this situation is New Institutional Economics that rose from Old Institutional Economics School.

We will attempt to analyze the view, causes and solution suggestions that the New Institutional Economics brought on "market-government dilemma" by explaining the points that New Institutional Economics differs from Old Institutional Economics. While doing this, especially Oliver Williamson's concept of transaction cost will set light to us. On the other hand, the view that is brought to "market" by one of the unique assistants of capitalist order "neo-liberal" policies, and its distance from government intervention will be analyzed shortly. Thus, "market-government dilemma" will be reviewed once more.

If the difficult stage of political conjuncture is taken into consideration as much as world economic conjuncture, alternative options that will be set by the New Institutional Economics will be able to present different viewpoints.

2. ADVENTURE FROM OLD INSTUTIONAL ECONOMICS TO THE NEW INSTITTUTIONAL ECONOMICS

New Institutional economics viewpoint is different from Old Institutional economics viewpoint. So, firstly analyzing some significant points such as what is Institutional economic, how it was born, what are its basic assumptions etc. will show us an overview about market-government dilemma and assumptions New Institutional economics about the dilemma.

The most basic historical event that should be known about the emergence of Old Institutional economics is the role of interrelated economic, political, cultural etc. factors at the beginning of the 20^{th} century. Problems that modern economics accumulated internally since its birth in 18^{th} century started to cause serious social explosions. When we generally look at the reasons of this, it can be seen that some events that occurred in USA triggered the process.

> "American economy experienced a very fast development between Civil War and 1st World War. The biggest and strongest economy of the world rose in this country. But this immense economic power wasn't reflected equally on all of the parts of society. Moreover, it deepened the difference among income groups. Especially living conditions of working class were much under expectations […] Tax load were mostly on the shoulders of workers, usury was becoming a very common institution. […]" (Savaş, 2007: 645, 646).

In a problematic period, when class problems, which were created by historical conditions, rose, a new movement of economics that completely opposed to the basic assumptions of established economics was born in the USA: Old Institutional Economics.

The fact that OIE was dominant in USA universities during the 1st World War, is not striking because of the situations mentioned above; because it is not a surprise that it was in a time period during which interclass conflicts had become increasingly sharpened. OIE, which developed with a non-Marxist economics approach, with the power to criticize the established economics, brought the concept of "Institution" to the basis of interclass conflict.

"Today, the term "new institutional economics" is in widespread use and is associated with a vast literature. Clearly, the temporal adjective in the adopted title of this broad set of postwar theories and approaches has been in-tended to demarcate the "new institutional economics" from the "old" institu-tional economics of Thorstein Veblen, John Commons, and Wesley Mitchell. This earlier institutionalism had actually been dominant in economics departments in American universities just after the First World War.1." (Hodgson, 1998a: 166).

It shouldn't be forgotten that Old Institutional Economics is a movement that fundamentally opposes to the established economics. So, it completely refuses the assumptions of established economics. This is why, a different definition of Old Institutional Economics should be made:

> "Old Institutional Economics accepts that market is not a natural formation, it is rather an institutional formation. It refuses degrading economy to market. If market is not natural, if it comprises a broader field than market, its definition will expand and change. It will stop being science wannabe economics, and will become political economy again. This is why, Old Institutional Economics is in fact an institutional political economy." (Özveren, 2007: 18).

The first assumption that is opposed by Old Institutional Economics is the structure of Neo-classic economics which degrades economy to market; because it comprises a line of assumptions such as there can be a great number of individuals and companies, there can be the freedom of entering the market and pulling out of the market etc. But the basis of the doctrine of economics that started to be formed in 18th century was laid on the "capital" stock. This stock's gaining continuity necessitates adapting itself hegemonically. This is why; degrading economy to market is presented as the sole key concept that will ensure this renewal. But in Old Institutional Economics that accepts "determined" rather than "determiner", market becomes a concept that is determined by the system.

> "Institutionalist viewpoint defines institutions as man-made rules and limitations that shape interaction among people. Institutions enables daily life have a structure, decreases uncertainty and guides personal interaction. It places the institutions of economic systems in which we live in the center. Institutions are the "rules of the game" in the world of ours, filled with uncertainties and lack of information; they help people form their expectancies about what other people will do/how will they make decisions. The concept of institution is the common point between Old Institutionalists and New Institutionalists." (Şenalp, 2007: 47).

So, it is possible to say that the first point that shows a similarity between Old Institutional economics and New Institutional economics is the viewpoint about the concept of "institution".

> "Old Institutional economics is an opposition economics. (Samuels, 1998). These oppositions can be grouped under three main headings. The first group criticizes existing economic system. Criticisms are mostly made by the ones who emphasize the living spaces other than academic world, such as cities. The second group is academicians who deal with the dilemmas of established economics. They are diversified in the group; the ones who are content with emphasizing numerical works and make them more realistic and the ones who emphasize more technique and the significance of the factor of being interdisciplinary and wish for a science that becomes more social. The third group directly defies established economics. The ones in this group not only criticize this economics, but also attempt to create an alternative option." (Yılmaz, 2007a: 95).

The reason why OIE has an interdisciplinary feature is that, it placed the concept of "Institution" in its center. The concept of "Institution" which reflects habits and established point of view shows the reason why the income formation among classes continues in this way. The dominance of the class which has the economic power-ruling class, over the class whose members has to continue their life by working-ruled class, has been formed with the sharpening of the difference between ruling/ruled since the beginning of established economics.

> "The core ideas of institutionalism concern institutions, habits, rules, and their evolution. However, institutional-ists do not attempt to build a single, general model on the basis of those ideas. Instead, these ideas facilitate a strong impetus toward specific and his-torically located approaches to analysis. […] The institutionalist approach moves from general ideas concerning human agency, institutions, and the evolution-ary nature of economic processes to specific ideas and theories, related to specific economic institutions or types of economy. Accordingly, there are mul-tiple levels, and types, of analysis. Nevertheless, the different levels must be linked together. A crucial point here is that the concepts of habit and of an in-stitution (both defined in Section III) help to provide the link

> between the specific and the general. In contrast, neoclassical economics moves from an universal theoretical framework concerning rational choice and behavior, and moves directly to theories of price, economic welfare, and so on.4 However, institutional econom-ics does not presume that its habit-based conception of human agency it-self provides enough to move toward operational theory or analysis. Additional elements are required. In particular, an institutionalist would stress the need to show how specific groups of common habits are embedded in, and reinforced by, specific social institutions. In this manner, institutionalism moves from the abstract to the con-crete. Instead of standard theoretical models of given, rational individuals, institutionalism builds upon psycho-logical, anthropological, sociological, and other research into how people be-have. Indeed, if institutionalism had a general theory, it would be a general theory indicating how to develop spe-cific and varied analyses of specific phenomena." (Hodgson, 1998a: 168, 169).

In this case, there is a group of thinkers who can be called as the establishers of Old Institutional economics. Firstly, it should be known that although they have the same basis in terms of thinking, these people have some different viewpoints in terms of application/practice. We should say that thoughts of Thorstein Veblen, who is the main establisher of Old Institutional economics, who contributed many original ideas to Old Institutional economics and who was the main opponent of established economics, will be emphasized a little more. We can classify the thinkers who can be called as the establisher generation of Old Institutional economics and their main thoughts as:

Thorstein Veblen: "According to Veblen, established economics is teleological and it should be altered by an evolutionary economics. While machine technology develops in 19th century, it imposes cultural development and a science that is "grounded". Progress of machine technology affects scientific thinking through habits of thought. Proliferation of productive structure ensures the hegemony of thought habits that are proper for its structure. In this way, human beings learn to think like the operating of technologic process. Modern science is the product of this way of thinking." (Yılmaz, 2007a: 93-142). On the other hand, it can be said that, Veblen is the eponym of the concept of "neo-classical". The term neo-classical was first coined by the institutionalist critic of orthodoxy, Thorstein Veblen, in 1900 (Veblen, 1961: 171). Veblen used this term to emphasize that Marshall and his followers were merely a new breed of classics that differed from their ancestors only marginally as far as fundamental orientation was concerned." (Özveren, 1998: 471). "Veblen recognised three main schools of economic thought that were historically subsequent to die classical and Marxian schools: (i) die neoclassical school, dominated by Alfred Marshall in Britain and John Bates Clark in America; (ii) die Austrian school, including Eugene Bohm-Bawerk and Carl Menger; and (iii) die German historical school of Gustav Schmoller and odiers. Of die German historical school, […]" (Hodgson, 1998b: 424).

Although OIE is originated from USA, its establisher Thorstein Veblen is Norwegian and benefited from various resources in terms of academics. This fact enabled him think multidimensional about significant topics such as the reasons of interclass conflicts and effects that affect capitalist process etc.

John R. Commons: “The goal of Commons is to adapt the present economic system, to humane values as much as possible. This is why; he looked for solutions to practical problems in the world out of academic life, based on application. Unlike established economists, he wasn’t interested in universal rules and deductive analysis. The biggest goal of his was to act a functional science. […] Choosing among research methods depends completely on behaviors, interests, abilities and benefit of scientists. According to Commons, scientists should run after absolute reality, they should run after pragmatic reality.” (Yılmaz, 2007a: 93-142).

Wesley C. Mitchell: “According to Mitchell, economic reality went through some significant changes in time. This is why, deductive established economics is insufficient in understanding what is going on. It discriminates industrial economy and monetary economy. Industrial economy coincides with production and technology. Monetary economy deals with costs, prices, financial investments and profits. As Mitchell gave such a big importance to economic fluctuation, he tended towards the field of numerical economics and made significant contributions to this field. In this way, he both paved the way for quantitative researches, and pioneered the creation of a convenient fund of knowledge of economic policy.” (Yılmaz, 2007a: 93-142).

Besides these three problems, he created a concept that probably reflects the nature of “established economics” the best: *conspicuous consumption*.

As can be seen, even the very first supporters of Individual economics have some differences of opinion, which reflects the pluralistic structure in the field. The most significant benefit of this is the different viewpoint it brings about market-government dilemma. The masterpiece of Veblen, named *The Theory of the Leisure Class*, is very important for understanding the nature of established economics. Veblen seeks answers to these three main questions: “1) what is the nature of economic men? 2) How did economic men built a social structure that includes a leisure class? 3) What is the economic meaning of leisure alone?” The concept of “Conspicuous consumption” is significant in enlightening the established economics-market logic. According to Veblen: “In conspicuous consumption, benefit of a product or service doesn’t depend on the qualification of it; it is based on the delight in showing off to others by reflecting high purchasing power. A possession gives a social position to its owner, which is a good example of the definition above. In this consumption type, expensiveness of goods is valuable, not its quality...” (Şenalp, 2007: 55, 56).

Each kind of consumption is not “conspicuous consumption”; but the market’s attitude supports wakening of consumer society. Before researching why it has such an attitude, we should remember what the concept of “consumer society” stands for.

> “It is the greed of consumption, with the passion for products and brands that will be used and thrown away, become old-fashioned, a new version will be released, with the understanding that new product is the well product, which is created by fashion and advertisement world which started when developed industrial countries’ reached economic welfare which increased mass production and life standard besides the increase in material necessity of consumption. […] Consumption reflects individual’s preference and individualization through its feature of determining social relation, identity and meanings; this necessitated

> analyzing urban consumer and society who derives all of its consumption from market, as a part of the concept of popular culture. […]" (Emiroğlu, Danışoğlu, Berberoğlu, 2006: 902).

There lies the feeling of being a member of an upper class under the assumption that markets that are supported by neo-liberal policies will free people. Because especially in product markets –for instance selling cell phones- consumer has the passion for buying a cell-phone that is much above his/her purchasing power and he will buy that cell phone –which can be defined as an example of Veblen's conspicuous consumption- with the urge of the feeling of belonging to upper class. In fact, the logic that market economy emphasizes as "free individual" is creating consumers who will enable them increase their profit rate by making "conspicuous consumption".

The most important reason of sacralization of the concept of "market" and seriously opposing to government intervention is ensuring continuity of determination of consumption market actors. Of course these people demand various products and services and markets' sole duty is to meet this demand, but the ones who consume aimlessly, just for buying products and services produce these products.

The point that Veblen opposes as "conspicuous consumption" is the non-ending profit based motivation of market through above mentioned consumption. Human are transformed into beings that represent themselves and their identity through luxurious consumer products. Low income groups that can not buy luxurious consumer products buy less luxurious products, but still tend to buy products that are not really necessary for them.

The discrimination between "Industry"-"Enterprise" is important in order to understand the reason why economics is degraded to merely "market" concept; because the concept of "market" which stands for established economics because of this discrimination and the reason why Old Institutional economics opposes to this can be understood more easily in this way.

> "According to Veblen, industry is a physical concept which is originally close to a productive engineering. Enterprise, on the other hand, oppresses physical production power of industry in line with the goal of profit, decreases capacity use, keeps prices high, disrupts production, in Veblen's words "sabotages" it." (Özveren, 2007: 26).

What Veblen opposes in here is the concept of "management"; because when especially micro economical approaches are taken into consideration, established economics puts forward two concepts. "Individual" and "Enterprise/Firm". Both of these concepts starts from rational move, has complete knowledge that can determine what is best for them; they use the resources they have, such as income or production factors, and they use them so well that they balance supply demand, just like it is expected from them.

It is a fact that Old institutional economics entered a serious period of regression starting from the beginning of 20th century, despite many correct predictions and determinations it made about the science of economics. One of the biggest factors that affected this was the influence of social and political influence of Keynes prescriptions that were proposed for getting out of the Great Depression which started with a process of accumulation in 1920s and broke out in 1929. The second factor can be the rise of "mathematical economics".

Although this period of regression continued for such a long time, Old institutional economics continued until 1970s during when opponent voices to Keynes economics rose. Starting from this time, a new understanding of economics rises that is born from its own shell, but opposes even to Old Institutional economics in some very significant points. Before mentioning this issue, we should remember the close relationship between globalization-market and it should be known that this is the first point that was criticized by New Institutional economics.

While products can travel around the world without any obstacle, workers have significant obstacles because of low salaries; this is the point of globalization that is criticized. Besides that, globalization is tempting as it maximizes customer benefit by producing low-cost and quality products. Despite all these, globalization of only short-term capital increased the difference between center and periphery (Atamtürk, 2007: 75). The concept of globalization that is used for developing market and supported by neo-liberal policies, developed market but caused market blockings by creating obstacles that increased costs and blocked profit rate. So, as mentioned in Veblen's analysis about industry-enterprise, the concept of market uses "globalization" for its benefit, but because of high profit rate expectation and decrease in capacity use, it increases costs and finally creates an obstacle that can be named "sabotage".

In terms of New Institutional economics, "deviation from perfect competition conditions is named market distortions. […] New Institutional economics criticizes established economics–although it is market-centered- because of its assumptions and problems in its methodology and as it prepares government intervention to economy." (Şenalp, 2007: 59). Namely, according to New Institutional economics, there is no defect in the formation of the mechanism of market as an institution and in its functioning. The problem is in the fact that mainstream economics assumptions and problems in its method cause trouble in the market and thus prepares the basis for government intervention.

This period of regression in Old Institutional economics gave place to a new understanding: New Institutional economics.

Although it was firstly mentioned by Ronald Coase, in his article named "*The Nature of the Firm*", the term "New Institutional economics" was firstly used in Oliver Willamson's works (1975) (Şenalp, 2007: 60).

> "New Institutional economics can be defied as an interdisciplinary initiative that pieces different disciplines together such as law, economics, theory of organization, political science, sociology and anthropology and attempts to explain/understand social, cultural, political and economical institutions such as government, law, market, companies and family. New Institutional economics never carried the argument that it will continue institutional identity. Let alone continuing, New Institutional economics situated far away from traditional doctrinarism both in terms of gnoseologically and politics; in addition to this, it is placed against it in many points." (Şenalp, 2007: 59).

As is seen, NIE has the thought of explaining market behaviors by "reducing it into mere market" while on the other hand containing an interdisciplinary structure. At this point, NIE analyzes the basic problems of micro economy "famine" and "conditions of competition"; different from neo-classical economics, with the logic that 'company' is an institution.

> " […] in contrast to the many earlier attempts to overturn or replace neo-classical theory, the new institutional economics builds on, modifies, and extends neoclassical theory to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken. What it retains and builds on is the fundamental assumption of scarcity and hence competition--the basis of the choice theoretic approach that underlies micro-economics. What it abandons is instrumental rationality--the assumption of neoclassical economics that has made it an institution-free theory." (North, 1992: 1).

The method that New Institutional economics uses is the biggest reason why it is situated against Old Institutional economics:

> "New Institutional economics movement attempted to show that in terms of economics, institutions are significant like "companies" and government". In this context, while making an analysis from "individuals" to "institutions" individual is accepted as data. This approach is generally defined as "methodological individualism". New Institutional economics movement differs from Original Institutionalism at this point." (Şenalp, 2007: 61).

Firstly, it should be mentioned that as New Institutional economics didn't continue institutionalist tradition by incorporating many different disciplines, it came closer to established economics. But surely this approach contains significant differences.

The most basic differences between methodological individualism used by New Institutional economics and holistic method used by Old Institutional economics are: In methodological individualism, individual pieces form and determine social unity. Behaviors of individuals cause social events. But in Old Institutional economics, social unity determines individual pieces (Özçelik, 2007: 201, 235).

In Old Institutional economics, society is thought to be a totality and social movements determine and change economic events. New Institutional economics accepts "individual" as data and develops solutions on the basis of "individual", just like established economics, which is completely separated from Old Institutional economics; because for Old Institutional economics, it is impossible to understand a piece without understanding the whole. Economy is a very strong system of powers which are intermingled and have very strong relations with one another. It is obvious that fragility in such a big, intermingled system will be more effective than the fragility of individuals one by one. As individual accepted by New Institutional economics is atomist and isolated and he follows pleasure and benefit, this leads to the logic of identifying economics with "market.

Besides that, although NIE shares the view with neoclassical economics that individuals make reasonable choices, it has a significant difference: While individuals are accepted rational with the assumption of 'full information' in neo classical economics and there is one equilibrium, in NIE, similarly individuals act rationally, but there is more than one equilibrium

> "Individuals make choices on the basis of their mental models. Individuals do learn, and changes in mental models stem from outcomes inconsistent with expectations; but in Frank Hahn's words "there is a continuum of theories that agents can hold and act upon without ever encountering events which lead them to change their theories." (Hahn, 1987, p. 324) In consequence there is not one determinate equilibrium which will obtain; but multiple equilibria can occur." (North, 1998: 2).

New Institutional Economics adopts the assumption of "methodological individualism", which causes problem in perceiving "market" as an institution. Firstly, individualism's definite meaning should be remembered.

> "The thesis that capitalism creates free and rationalist individuals by separating them from social concerns and traditions such as tribe, community or extended family, finds itself in bourgeois philosophy and culture, and corresponds to a sociological evolution that raises and develops capitalism's urbanization-bourgeois life. […] Individualism defends mere market conditions' operability in economic life and defends that the logic of opposing to any kind of government intervention by believing that "social benefit is made of the total of individual benefits"; this view created homo economicus, which is the abstract person of economics, by placing individual on the basis of economic analysis and theories. […] It caused formation of different views in economy schools with the philosophy of individualism and liberalism." (Emiroğlu, Danışoğlu, Berberoğlu, 2006: 98).

Transformation from serfhood to independent workers labor changed the position of individuals from absolute slavery statue to the statue of individual, determined with "agreement". But in fact this transformation didn't free individual in "market" structure determined by market mechanism, it imprisoned him/her in market rules.

"Individualist" logic of established economics only promotes reasonable behavior and accordingly rational behavior by only putting forward individuals. Individuals will participate in market with rational decisions and reasonable demands and producers will make offers with a rational production as they already behave rationally.

New Institutional economics is tied to the solid basis of neo-classical economic, and their viewpoints about "market" is the same, which is a vicious cycle for New Institutional economics; because, the cycle of "methodological individualism" approach of established economics and placing individual in the center of market formation and thus accepting him as the single tool of making profit can not be separated. But the "habits" of market can be determined by starting from the fact that "market itself is an institution". By determining these "habits" and clearing them from the motive of mere profit, giving service on the basis of the thought that institutions exist for serving individuals and forming a theoretical frame for this will enable the New Institutional economics break from this solid basis.

Today, alarm bells are ringing as the market logic, which is shaped by neo-liberal policies and has been transforming into the single tool for exploiting individuals rather than providing benefit. The biggest factor that causes this situation is denying the fact that “market” is an institution, through which social and cultural conditions are determined. With the urge of profit, established economics continuously emphasizes that market is the place where seller-buyer meets, where equilibrium price exists; but this doesn’t only cause abstraction. For instance, mutual interchange and coordination processes between buyer-seller are also abstracted; because both “market” and “buyer-seller” are perceived as concepts that on paper and don’t have functions in real life. The reason of this is that market creates more positive associations than the ideological association that is caused by “capitalism”. While the first thing that appears in our minds is ‘exploitation’ when someone says ‘capitalism’, ‘freeing individuals’ appears in one’s mind when one hears the word ‘market economy’. The meaning of freeing individual is that he has complete information about what he will consume and he makes decision with his freewill. When the situation is stated with these words, ideological emphasis is erased and all unequal conditions are ignored in division of labor, ownership of production tools etc. But if the structural problems that are created by market as an institution wouldn’t be degraded to individualism, they could reach solution more easily.

Although the situation is told like a simple equation in theory, this is not reality. Firstly, do consumers make “personal” decisions “rationally”? Or do they make decisions by being affected from the factors such as fashion, advertisement etc. that puts pressure on consumer behavior? In today’s world, serious effects of these pressure groups on consumption can not be ignored. Secondly, do producers really produce in order to meet the requirements of consumers? Or do they create a virtual consumption motive in order to increase their profit? It seems that a big amount of consumption is demanded with a virtual consumption assumption rather than real necessities.

Surely, at this point we should remember the logic of neoclassical economics that reduces all of the economic phenomena into market. The most important dilemma of reducing into the market, ‘market’ is a part of the game in terms of economic actors. More clearly, market is a “play maker”. But in terms of NIE, it is only one of the “pieces of game, because, for example every kind of institutional effect such as laws, norms etc will determine market as an ‘Institution’.

Of course it is not fair to consider New Institutional economics with what is told above; two significant notions that are created by New Institutional economics and used in economics literature bring serious differences to New Institutional economics-market relation. The first of these is Bounded Rationality: “Established economics is built on the assumption that individuals act on the basis of perfect rational ways for the goal of maximizing their profit. […] In case of uncertainty, decisions will be associated with a limited number of situations that can really come true. In case of a risk, expected values can be calculated and it is possible to appeal to traditional choice and theories. Herbert Simon created a new concept that is used in economics literature by starting from the thought that such uncertainties and risky situations will create some theoretical problems: “Bounded rationality.” […] Individuals are conceptualized as people who make decisions and choices for satisfaction.” (Şenalp, 2007: 62).

Secondly, “transaction costs”, which has a significant place in New Institutional economics, is the “operationalized” version of market-firm discrimination, developed by Ronald Coase. “Why do some companies, which operate besides price mechanism and take the place of it, exist?" Answer of this question is connected to the existence of transaction costs. Aspect of each transaction determines one of these options: Choosing the agreement form in the market or internalization of the related transaction in firm. […] Williamson doesn't only deal with this preference, he also makes carious researches from defining transactions to the results they cause and how they affect intracompany relations." (Yılmaz, 2002a: 71).

Institutional development in organizations is also closely related with the concept of transaction cost. Before analyzing its connection with transaction costs, it is important to mention Coase's article named "The Nature of the Firm", because in this article, the existence of the firm that makes market products namely makes offer, is questioned. A simple question about the function of one of the sides that create supply-demand balance in the concept called market will both bring a clarification to the notion of firm and help us understand the reason why economic viewpoints that emphasize market are not in favor of government intervention.

> "Coase's article called 'The Nature of the Firm' relies on a simple, yet explanatory question: *Why do companies exist if the dominant approach in the theory of economics depends on that coordination in the market will be done by cost mechanism?* 'Apart from firms, price movements direct production which is coordinated by a series of changes in transactions in the market. These market transactions are being eliminated in the firm and instead of the complex market structure depending on the change of transactions, an entrepreneur-coordinator is placed. It is obvious that these are alternative methods for coordinating production.' (Coase 1993, 19). If production was organized with price movements, there would be no need for such an organization. Coase doesn't only put forward the idea that questions the reason why companies exist, but also refers to a conceptual difference between firm and market (Hodgson 1999, 200). […] The first and most obvious cost of organizing production with price mechanism is the cost of obtaining related prices. This cost can be decreased by professionals who sell this information, but it can never be completely removed (Coase 1993, 21). The second cost factor is the costs of negotiation, bargaining and finalizing agreements. In any productive activity, in case of inexistence of companies, producer can only make production by making a series of agreements with each factor. But the existence of firm decreases these series of agreements to one or fewer number. " (Yılmaz, 2002a: 69, 70).

As can be seen, cost of obtaining prices about the cost of organizing product, which is the first cost, is about a firm's choosing the area through which it will make profit. It needs completely clear, simple and realistic information while obtaining information about all of the production factors that it will need while producing X. According to us, the only support that entrepreneurs expect from government in capitalist market economy during this information obtaining process is ensuring transparency as much as possible.

Incorrect/deficient information about a production factor is a cost that a firm can not afford. This is why, New Institutional economics shares the view of established economics that government shouldn't intervene in the rules of market but any kind of liberality that will clear the way of entrepreneurs should be ensured. Secondly, during finalization of negotiations of above mentioned cost factors, similarly, it is thought that government should take part. On the other hand, in contrast to what established economics assumes, it is thought that there should be few number of firms in the company and this is the same in reality; the profit will increase with this and cost will decrease as there will be fewer number of agreements.

The significant contribution of Willamson to Coase's ideas is that he puts the importance of market forward in New Institutional economics' market-government dilemma. Besides that, as can be seen below, the ideology that New Institutional economics supports in terms of power struggles, coincides with established economics' market emphasis. Namely, established economics doesn't emphasize the hegemonic aspect, but this is a known fact. Besides that, New Institutional economics especially emphasizes intracompany relations and displays this power.

In contrast to the understanding of neo classical economics, which sees firm as "black box" and evaluates firm with input-output analysis, transaction cost economics gives a more active role to firm in economy and gives it more operability.

In contrast to the established economics, according to this new definition of firm made by New Institutional economics, firms start to have tendency to act more rationally. Market is not a mechanism that is used without any charges. Namely, as Coase mentioned;

> "In the theory of traditional economics, resource allocation is directly determined by price mechanism and this rule also stands for production factors. This is why, Coase asks: "If production is really arranged by price movements, why do we need organizing?" Coase shares the idea that production can be arranged in the market through price mechanism, but such an organization can not be done with zero cost and some transaction costs should be undertaken. […] According to Coase, the discriminative feature of firms is overcoming price mechanism that dominates market transactions. Raison d'étre of firms is related to the cost of the use of price mechanism. Basically, these costs are resulted from determining valid prices and making different agreements for every single change in the market. As one single agreement is made instead of a series of agreement in a firm, and short-term agreements are replaced by long-term agreements, costs of necessary agreements can seriously decrease when compared to market." (Pirgan Matur, 2007: 289, 290).

To sum up: "Coase described firms and markets as alternative means for doing the very same thing." (Wiliamson, 1998a: 75).

As can be understood from here, "market" is not a zero-cost center in which demand-supply meets. So, it can be said that when we talk about the troubles in a market, it doesn't just mean that they are resulted from supply demand inconsistencies; because even the use of price mechanism can cause troubles in the market.

Of course contributions of New Institutional economics to the literature of Old Institutional economics aren't limited to transaction costs and bounded rationality. These points mentioned by Oliver Williamson show that New Institutional economics is seriously separated from Old Institutional economics and came closer to established economics' concept of market.

Especially concept of transaction costs, stated by New Institutional economics shed a significant light to the concept of "market". With this concept, it is once again revealed that market is a quite necessary concept for capitalism, because in terms of costs, there is a difference between making an agreement according to the style that is accepted by the market and making an agreement according to the internal factors of a firm. While on one hand, in the cost type that is accepted in the market, choices and costs that are imposed by the market are accepted, on the other hand, firms determine and internalize intracompany costs.

> "Transaction costs are classified as *ex ante* and *ex post* costs which are formed by agreements. *Ex ante* transaction costs are designing, negotiating, bargaining and guaranteeing costs. *Ex post* costs are made of elements such as negotiations in order to make corrections when transactions exceed limits determined by the agreement, regulation and execution activities carried out by administration authority referenced to be the solution authority in case of disputes (mostly except courts)." (Yılmaz, 2002b: 162).

We can summarize the reason why there is the market-government dilemma between New Institutional economics and Old Institutional economics: Old Institutional economics sees everything about economics as institution; so, government is an institution just like market, management, individual etc. This is why, problems that are caused by the nature of mainstream economics, but not accepted by them are also institutions. "Government" which is an institution of economic life should intervene in every problematic economic event in which market is not sufficient. Difference between New Institutional economics and Old Institutional economics becomes obvious at this point.

> "Assumptions of established economics that are far from reality can be summarized as: 1) Individuals and firms are rationalist and they behave with the urge of maximization 2) Information is cost-free 3) Demand curves of firms are infinite flexible, input-output are infinite divisible 4) Cost and income indicators show a mathematically linear relation. These assumptions don't accord with reality, and this creates a significant difference between economic theory and concrete economic system. New Institutional economists say that neo-classicists tend to 'change' the concrete realities of the world, namely they want to make them proper for the theory. This is the point that they oppose to neo-classical theory. According to New Institutional economists, as concrete events and facts in the real world aren't in harmony with established economics details such as ensuring effective distribution of resources, equalization of prices with marginal costs, not having exteriority of secondary –best- problems etc., in other words, as they don't meet the demands of theoretical expectations, government intervention in economy was eased." (Şenalp, 2007: 63, 64).

As can be understood from this, in contrast to Institutional economists, New Institutional economists only criticize the points where theory and real world coincides instead of criticizing established economics completely. While Old Institutional economics accepts defends that government intervention is sufficient, New Institutional economists prefers the way followed by established economics about this government intervention. Namely, they prefer “not to have government intervention”. A significant point that should be mentioned in here is that the logic of opposing to government intervention is the existence of ‘a perfectly working market organization’. New Institutional economists defends that when established economics’ acceptance are ended and concepts such as bounded rationality, transaction costs etc, which are stated by them, are taken into consideration, market will be built on solid basis, which will eventually end the necessity of government intervention.

Overconfidence of neoclassical economics in individual preferences transforms into over-relying in “market”. Confiding in individual can be explained with “rational choice theory”.

> “Rational choice theory, the paradigmatic core of neoclassical economics represents one extreme, in which only the ‘individual’ matters. The individual and his/ her rationality are viewed as separated or isolated from the rest of society and social relations. This is an “*under*socialized conception of human action” (Granovetter 1985, 483). At the other extreme is an approach in which only society matters. This is an “oversocialized conception” of action where “actors acquire customs, habits, or norms that are followed mechanically and automatically, irrespective of their bearing on rational choice” (Granovetter 1985, 485).” (Yılmaz, 2007b: 842).

> “The transaction cost economics program that is described herein is the product of two recent and complementary fields of economic research. The first one is the New Institutional Economics; the second one has been described as the ‘new economics of organization.’ A key conceptual move for both was to push beyond the theory of the firm as a production function which is a technological construction into a theory of the firm as a governance structure which is an organizational construction.” (Williamson, 1998b: 23).

The soft belly of neoclassical economics is that there is too much confidence in individual and he/she is blessed with a constant rationalism in established economics. Individual will be able to do what is best for him/her and make rational choices when he/she is isolated from society and environment. There no other alternative. This reasoning is not an acceptable situation for Old Institutional economics, because an individual, who acts in social behaviors that are determined by traditions and habits, can not make decision by ignoring this shell. New Institutional economics, on the other hand, gave a more active role to individual through rules we mentioned above, didn’t ignore the effects of social life, but still accepted government intervention to economy as an intervention to social choices and individual preferences.

To sum up, Old Institutional economics, which is a complete opposition to the nature of established economics, sees market as an institution. It connects the troubles in the market with the belief that established economics’ assumptions are away from reality and it leans towards government intervention for removing the troubles in market. In contrast to this, while the concept of “market” is common, there is a significant difference between New Institutional economics and Old Institutional economics. New Institutional economics states that established economics lays the basis of government intervention by its assumptions.

3. NEO-LIBERAL POLICIES AND MARKET-GOVERNMENT DILEMMA

Theoretical support that lies beneath the established economics' market emphasis, should be searched in the concept of neo-liberalism, because word trade, which has been seriously increasing since 1970s, significantly determined the perception of the concept of "market" today. But it is still "difficult to determine the emergence of neo-liberalism." (Duménil & Lévy, 2008: 20).

Especially when the reasons of big economic crises after 20th century are analyzed in details, it can be possible to understand Veblen's opposition to the concept of economics which is degraded to established economics, namely management which stimulates more urge of profit. It can be said that high amount of collected capital are controlled by an industrial sector or a few big companies and they decrease the use of capacity. It can be easily analyzed that managements determine the costs, not the supply demand law in the market. In addition to these, neo-liberal policies that become prominent in the practices of established economics and have great role in the development and expanding of market, should be understood, because practices of neo-liberal policies are market supporters and they are significant elements that affect its development. In fact, situations that cause troubles in the concept called "market" are actually the mistakes in the interventions that are done with neo-liberal policies.

Positioning of established economics in terms of neo-liberal policies is mostly based on the expectation that people work more in terms of labor demand. This situation is a result of the capitalist "market" logic supported by neo-liberal policies. The biggest indicator of this is summarized below:

> "[…] Capital stock was centered in metropolitan production centers in which life standards of workers increase; but inherent high consumption tendency caused spreading of its results all around the world and developing of world market with the effort of getting rid of the surplus. Local producers in around these areas are faced with global capitalist competition. Global capitalist competition that discloses with the decreases in these producers, caused decrease in small Meta producers' income and collective disappearing of local capitalists; capitalists that repressed costs and increased work pace could survive. But, capital accumulation in metropolitan centers, which was maintained through impoverishment of the rest of the world, caused richness-poverty and overwork-unemployment polarizations." (Clark, 2008: 85).

As can be seen, neo-liberal policy supported mainstream economics logic opposes to "market" interventions with the urge of more profit. It is obvious that the concept of market is mostly born out of necessities stimulated by capital. Even real wage increases can not increase the life standards of individuals; the responsible of this shouldn't be searched in the intervention of government who is responsible for making equal distribution of income to citizens. Capital's urge of working more-making more profit requires government intervention in the state of affairs.

This is exactly what New Institutional economics opposes in established economics in terms of theory-practice inconsistency. It can be said that, New Institutional economics defends that instead of understanding the real world, established economics imagines a world in which it wishes to exist and partly builds it. The share of neo-liberalism's ideological charm in this is too big to be ignored.

> "Neo-liberalism owes its strength to its ideological charm. But it is not merely an ideology; it claims that modern neo-liberal economic theory depends on scientific bases. Modern neo-liberal economics depends on a series of oversimplifying claims about the feature of market and its actors' behaviors; when this feature of modern neo-liberalism is taken into consideration, it can be said that, it is as dogmatic as its predecessor in nineteenth century, […] because neo-liberal model claims to identify the world as it should be, not as it is. The real goal of neo-liberalism is not to develop a model that will correspond to the real world, but to make the real world fit its model." (Clark, 2008: 88).

Old Institutional economics, especially its establisher Veblen emphasizes that an impressive economics is not naturally formed. In this context, markets have the same feature. While Old institutional economics is complete opposition to mainstream economics, New Institutional economics both opposes to mainstream economics and shares a significant concept with it. This concept is "market". If market was formed theologically, as defended by established economics, it could be able to process perfectly and there would be no need for government intervention. But if market is accepted as a formation which is formed by historical conditions and built differently everywhere, government intervention can be accepted as a condition required by these historical conditions.

The logic of "individualism" that is often defended by established economics is in fact far away from the understanding of "individualism" defended by political liberalism. It has transformed into individualism determined by mostly neo-liberal policies. The reason why established economics support this both in terms of theory and practice is that it aims at building a basis for increasing profit rates of businesses by transforming individuals from citizens to consumers.

> "If we adopt a historical view rather than a theological view about the formation of market, we can see that in contrast to neo-liberal viewpoint, this is not a natural event; this is rather a political process including various conflicts. […] Market society and market rules didn't develop naturally, or through a kind of self-creation process. […] As mentioned by Polanyi, 'market is created as a result of the consciously and violently made intervention of government who pushed market organization on society with non-economic goals' (Polanyi, 2001, p. 258). So, 'the real in command' is always politics and when we look under the political word games, we can see that there is nothing as a pure political process." (Munck, 2008: 92).

Shortly, although New Institutional economics puts forward some new assumptions, as neo-liberal policies are intermingled with market, it can not go beyond the emphasis of established economics as "the omnipotent market".

4. CONCLUSION

Starting from 18th century, which is accepted to be the beginning of modern economics, until today, the most frequently discussed issue is: '*Is government intervention in economy is necessary, or is market strong enough to overcome all problems when it is left alone?'* One of the basic issues of discussion including "political economics", which is the initial state of economics, and "economics", which is the pretension of science, is whether or not government intervention is necessary and if so, what should be the level of intervention.

Besides all these discussions, general thought and tendency defends running market rules freely during the expansion of world economy and needing government intervention when world economy constricts.

Under the leadership of Thorstein Veblen, Old institutional economics, which was a complete opposition to established economics at the beginning of 20th century, continued on the argument that economics is a completely institutional construction, institutions are constructions and these institutions are defined by social habits. Although Veblen, Commons and Mitchell, who is the establisher generation, put forward slightly different arguments, the common basis was that, society is made of an institutional whole. Thanks to this thought, Old Institutional economics used to develop with a holistic viewpoint. Instead of the effects of pieces one by one, effect of the whole on pieces was the point of focus. This is why, Old Institutional economics defended the viewpoint that tends to support government intervention.

Old Institutional economics, which regressed with the absolute victory of Keynes economics, emerged again with the concept of "transaction costs" which was firstly described by Ronald Coase and then supported by Oliver Williamson.

Transaction costs chooses the argument of "*If the concept called market is omnipotent, then why do we need firms*?" as the basic question. If each transaction is ensured by a price mechanism, what does a firm do? As a result, it is accepted that each transaction in a market has a cost element and firms are used to decrease these cost elements.

One of the most significant assumptions that are defended by established economics is "individualism" which firstly freed individuals in the age of enlightenment, but then transformed them into workers whose freedom is limited with "agreements" and starting from the end of 20th century, transformed these workers to "free consumers". The most significant supporters of this situation were neo-liberal policies. Although real wages increased under the assumption of freeing everything, longer work hours and more profit expectation supported the market logic defended by established economics.

Neo-classical economics and neo-liberal policies support and protect one another, because continuation and persistence of the device of "market" requires this. While neo-classical economics prepares theoretical basis for economic policies, neo-liberal policies prepares political basis.

The most significant contributions of New Institutional economics, which is completely separated from Old Institutional economics, to market-government dilemma, are concepts such as "transaction costs" and "bounded rationality", which it defends different from established economics. Although these concepts will ensure a different viewpoint to established economics' market emphasis, continuing of neo-liberal policies in their present forms will continue to trigger crises in the market. As a result of this, this will necessitate government intervention.

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