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To Move Institutional Analysis in the Right Direction

Olivier Favereau interviewed by Rainer Diaz-Bone

Olivier Favereau is professor of economics at the University of Paris X-Nanterre. He is one of the founders of the French institutionalist approach of the “économie des conventions” (economics of convention, in short EC). This pragmatic approach has developed in the last decades as a major part of the new French social sciences which have become also an important international approach in economic sociology. Olivier Favereau has published many foundational publications. He co-edited “Conventions and structures in economic organization” (together with Emmanuel Lazega, 2002), “L’activité marchande sans le marché?” (together with Armand Hatchuel and Franck Aggeri, 2010) and he is the editor of “Les avocats, entre ordre professionnel et ordre marchand” (2010). In 2011 he published the article “New institutional economics versus economics of conventions” in the issue 13(1) of this newsletter.

You are one of the founders of the economics of conventions. Could you describe the way you got engaged into this socio-economic movement?

The apparent beginning was the working group during 18 months, which lead us to the special issue of “Revue économique” (March 1989), called “the economics of conventions”. We were six, all trained in economics, but some leaning to sociology (François Eymard-Duvermay, Laurent Thévenot) or philosophy (Jean-Pierre Dupuy, partly myself). I met my co-authors in 1984 either through a colloquium at INSEE, or through seminars at the Ecole polytechnique, both of which were attempts to combine rigorous economic thinking with other social sciences, in order to grasp the role of rules and institutions. During the years 1983/6, giving a copy of my own thesis (written in a rather lonely mood) was a very efficient means to make acquaintance with all these guys – and indeed to get new permanent friends!

So your question becomes: how did my thesis (in macro-economic theory, since the subject was “the level of unemployment in a growing economy”) drive me towards what will be this part of the socio-economic movement called “the economics of conventions”?

A first answer was simply my naive discontent (from a realist point of view) with the modeling of the labour market, as a demand/supply apparatus. That simply does not function like that. We need organizations, institutions, rules, etc…

The specific status of conventions needs a second answer. I have always been Keynesian – and convinced that some of the deepest Keynesian ideas have not yet been exploited: that was the case of the notion of “convention” to deal with radical uncertainty, forbidding numerical probabilities. But economists need formal models. Therefore, I was searching for non-probabilistic models of uncertainty. Then I began to study modal logics, especially the modern semantics of possible worlds. And I discovered that one of its founders, the American analytical philosopher, David Lewis, has also written a small book called “Convention: a philosophical study”, in 1969, using game theory. So there seems to be a substantial connection between coordination, rules and the way human beings tackle uncertainty – and that clearly requires the joint work of several social sciences.

EC has been established in France since the 1980ies. Today EC is the core of new French economic sociology, it’s a new socio-economic approach and an accepted – although heterodox – economists approach in France and it worked out a new pragmatic institutionalism.

How did EC succeed in France – institutionally and cognitively (in the way it has positioned itself against other approaches)?

What you call the “success” of EC calls for a careful and rather prudent diagnosis.

As for economics, EC was immediately (and rightly) perceived as a forthright criticism of mainstream: first for its radical change of the most basic assumptions (interpretive, rather than only computational, rationality; coordination, by means of rules and norms, rather than through the sole
role of prices); second, by its non-imperialist connection with other social sciences. So the reaction of orthodox economists was not really friendly (mainstream is logically averse to pluralism): either scornful indifference, or recourse to standard game theory to deal with conventions, along Lewis’ formal lines – but without his philosophical background, and indeed his own dissatisfaction with his 1969 definition of convention (which lead him to a new one, integrating collective representations but unfortunately neglected by most commentators).

As for sociology, the reaction was of course quite different. In a sense, EC could be considered as one new branch of sociology, therefore competing with the established ones (e.g. Bourdieu’s school). Inversely, within the emerging field of economic sociology, EC could not but appear as a partner, driving the cart in the same direction – if not with the ordinary wheels. The cooperation with economists was both a help (at last, there exist some economists ready to work on a par with sociologists) and an impediment (the entry into economic sociology was a rebuttal of standard economics, not a natural extension of sociological analysis).

Finally, management researchers were unexpectedly the social scientists who greeted EC in the most straightforward way, simply as a new set of analytical tools, available for deconstructing coordination problems inside organizations and especially business firms, and enabling researchers, as well as practitioners, to have a new look at collective learning.

Harrison White is one of the main representatives of new economic sociology. In 1981 he initiated this movement in the US with his article “Where do markets come from?” (White 1981). In 2000 there has been a meeting between representatives of EC and Harrison White in Paris. I guess the result is the publication of two books (“Conventions and structures in economic organization”, 2002 edited by Olivier Favereau and Emmanuel Lazega and “Markets from networks” in 2002 written by Harrison White). Could you explain how this meeting was organized and how do you evaluate this exchange between EC and Harrison White? Which outcomes are most important to you?

I was lucky enough to read White’s 1981 paper before the end of my thesis, at a time when I had realistic models of financial markets (with Keynes) and labour markets (with Piore and the American institutionalists), but not of goods markets. So White’s model of competing business firms in a space of quality/prices ratios was a providential gift, stressing firms rather than markets.

But the essential step of the encounter between White and EC came with the bold hypothesis of François Eymard-Duverney, translating Boltanski’s and Thévenot’s “cities” (Boltanski/Thévenot 2006) into “quality-conventions” (domestic, merchant, industrial, etc.). When we had a talk on White’s model, he noticed that the types of quality associated with each of the areas of viable markets (as exemplified by technical features of production and consumption) were coherent with his own typology of quality conventions. Then with a third man, Olivier Biencourt, who made his thesis on the mathematics of White’s model, we closely scrutinized the connection and concluded that it was not an artefact (Favereau/Biencourt/Eymard-Duverney 2002). Indeed, our 2002 chapter gave us an opportunity to better understand both White’s sociology of markets and the logic of conventions, in a central part of capitalist economies.

The last step of the encounter would be to make it completely clear why a theory of action as White’s structural one could be such an analytical partner with a style of economics, proceeding from methodological individualism (but in a Weberian understanding epistemology). My tentative answer would be two-fold: first, a judgment on quality belongs to the class of normative judgments (that brings White near EC); second, the collective representation of a structure is an element of the structure (and that brings EC near White).

In the 1980ies you introduced the concept of collective cognitive dispositif as a collective representation in organizations and markets (Favereau 1986, 1989a, 1989b). This way EC opened towards cognitive sciences – years before it was done in mainstream economic institutionalism (as Douglas North did in the 1990ies). Could you sketch your motivation to criticize established notions of contract, rule or rationality by inventing and using this concept in institutional analysis? And – looking back – what are the main insights about cognition and collective cognitive dispositives, EC has gained since then?

I introduced the notion of dispositif cognitif collectif to offer an alternative view of rules. For the orthodox economic theory, rules are formalized either as pure constraints or as rational choices (contracts or quasi-contracts). In both cases, they are “in the head” of economic agents, they are part of the individual representation of the world (with a complete description of the possible future states
of nature). This is correlated with a severe misunderstanding of the nature of rules.

- “dispositive” or “device”, as Foucault has shown, means that rules are indeed a complex set of entities, a mix of representations, statements, material objects, power relationships, etc...

- “collective” means that rules at least implicitly define (the satisfactory functioning of) a collectivity, to which the rule-follower (or rule-breaker) belongs. Therefore, it is nonsense to speak about rules in a strictly individualistic and positivistic ontology (a rule is a normative entity). Here we are influenced of course by Wittgenstein’s second philosophy.

- “cognitive” means that rules are inversely a means to explore the type of collectivity to which we belong, its internal working, what can be achieved, individually and collectively, by participating to its functioning. “Cognition” here implies both reflexivity (we quite generally have a critical look at the relevance of the rules we are following) and, at a higher level, interpretation (application is neither a mechanical nor a computational operation). These two properties play an essential role in the success or failure of what management researchers, such as Argyris and Schön, call “organizational learning”.

The three main insights to be drawn from that reading of rules are (i) the full acknowledgement of the facts that economic agents are consciously and actively interested in coordination, and that they do not act within a collective entity without building mental models of it; (ii) (as a consequence of (i)) the epistemological necessity of admitting a third sphere of reality – intersubjective – beside the objective (the material world) and the subjective (preferences, expectations, etc...) ones, as many philosophers have admitted, from Karl Popper to Charles Taylor or Vincent Descombes; (iii) (as a consequence of (ii)) the analysis of the major economic crises (1929, 2008), as breakdowns of the prevailing regime of intersubjectivity and normativity (Boltanski/Chiapello 2007).

Classical economic sociology integrated the analysis of law as important rules. In modern economic sociology this is rarely done. EC did and you edited a report about lawyers (Les avocats, entre ordre professionnel et ordre marchand, Paris 2010). How does EC approach law and what are main contributions of EC to the analysis of law?

If EC, which stresses the coordinating power of rules, is a coherent programme of research, it must develop a specific approach to legal rules (more generally law), since they are such an important subset of the generic category “rule”. Obviously “law and economics” has been quite an active field of research for the last decades, and it is convenient to contrast the conventionalist approach to law with the mainstream one (with its two sides, one founded on optimizing formal microeconomics and the other using a discrete comparative methodology – the “transaction-cost” paradigm). For a neutral observer, “law and economics” is at best an attempt to bring back questions of law within the standard economic model, using only rational agents (calculative rationality: e.g. cost-benefit analysis) and some sort of equilibrium (Nash or supply/demand).

Those traditional tools may be useful to cast complementary light on some minor points implying law but how could they say anything relevant through assumptions on the function and the nature of law so much at variance with what philosophy of law has been exploring for years and years?

EC calls for the opposite of the so-called “economic analysis of law”: a law-like analysis of economics. In our economic models, we must leave space for the functioning of legal rules, but in a way which is respectful of what is law for ... lawyers. For instance, law consists in deontic sentences, which need to be interpreted. That means that homo economicus is not only a computer, he is speaking, and that changes a lot in the methodological equipment of the economist (much less for the sociologist). One obvious element is that “efficiency” is not the sole normative value, according to which the quality of law has to be appreciated. To say the least, “equity” or “justice” should also be mentioned. So law is essentially a means of solving conflicts of values (individual interest being one of these values), in a democratic society. In this particular sense, it’s indeed a technology of coordination.

The specificity of that technology is that decisions to solve these kinds of conflicts have to be explicitly argued, along very determinate lines (our preferred references here would be Hart, Dworkin, and Latour). We do not follow the cynical sociology of law provided by Bourdieau: it’s not so easy to offer good justifications, but we are perfectly aware of the bad “conventions” of judgment that may influence the interpretations of the judges. I am currently working on the strange assumption behind “shareholder value”: the shareholders are supposed to be the owners of the corporation. For any serious lawyer, it’s plainly wrong.
in corporate law. The shareholders own their shares, and that gives them some powers, but no “property rights” on the assets of the firm. So, you see, the fact that conventions have some normative features does not make it impossible to have “bad” conventions. We owe this fundamental point to three young scholars, Philippe Batifolier, Guillemette de Larquier, and Ariane Ghirardello.

Our work on advocates is a corollary of our EC approach to law. Law should not be considered as a commodity like any other: with Lucien Karpik, we concluded it’s too important to be dealt with by markets and too complex to be dealt with by states. Its link with the common good (more than its nature of public good) explains the recourse in democratic societies to that very special historical construction: a professional order.

You mentioned the levels of market and state. Early EC was criticized for being a micro level approach (not prepared to the analysis of economic and other social phenomena at the macro level) and also for ignoring power in the institutional analysis. How do you respond to these criticisms today?

It is true that we initially privileged the micro-level, maybe because we thought that our colleagues and friends of “regulation theory” were already very active at the macro-level but precisely our intuition was that they did not have the micro-economics for their macro-economics. The world recession opened by the subprime crisis has changed the landscape, because it makes us remind, on one hand, of the 1929 great depression, and, on the other hand, of the fact that, after all, the first conventionalist economist is ... Keynes. As André Orléan and I have noticed from the beginning (and even before, through our theses), Keynes introduced a powerful concept of “convention” in the chapter 12 of his “General theory of employment, interest and money” and it gives nothing less than the key to the understanding of persistent mass unemployment, as in the years 1929/39! Mass unemployment is a macro-economic phenomenon, to be explained by a macro-economic dysfunctioning, condensed in the connection between the “real” sector of the economy (firms, jobs, output ...) and the financial sector. The latter is too greedy in its demand of return from the former in order to lend him money. The heart of the economic problem, for Keynes, is simply that we do not know what the future will be. Needless to say that it is in complete contradiction with the deepest tenets of mainstream economics. Therefore, there is no such thing as a “fundamental value” for financial assets and the interest rate is purely “conventional”. Sometimes very “bad” conventions are pervading the minds of economic agents. And nothing is more difficult to move than a convention – partly because a majority is not aware of it (there is an inherent tendency to “naturalize” conventions). Here begins to appear the extreme importance of “ideas” and of the possibility of public debate and public criticism. The problem of social science and especially of economics is that economists are not made of a different stuff than the economic agents. So there may be also very bad conventions among economists – Keynes, in order to qualify mainstream economics, coined the term “orthodox”, i.e. a religious term. He was right: all this is about defining what deserves to be considered as “reality” (God’s privilege!). I am close, here, to the last books of Luc Boltanski.

Finally, for Keynes, a state of crisis is due to a pair of bad conventions: the first expressing an excessive power of the financial sector, the second expressing an excessive power of some normative ideas on how the economics should work (free markets, minimal State, predominance of financial evaluations, exaltation of selfish material rationality, depreciation of public interest, etc.).

I have introduced the notion of “power”, which was the last part of your question, but through a special entrance. With Keynes, I stressed the role of a macro-system (financial sector, of which a major element is the financial market) and, above all, the role of “ideas”, i.e. the cognitive framework, used by dominant groups to “institute” reality and to exploit it to their benefit, consciously or unconsciously. That does not mean we ignore the more common sense of power, which is the right to give orders – indeed we are the only economists to adopt the judicial model of labour contract (an authority relationship), after the pioneer paper of Herbert Simon (1951). The message is rather that we should not forget the necessary extension of the notion of “power” to the “power of evaluation”, which is the real mark of the powerful people or groups. It is the present field of research of François Eymard-Duverney.

In 2006 François Eymard-Duverney edited a two volume collection of papers which were elaborations of the big conference titled „Conventions et institutions: approfondissements théoriques et contributions au début politique” (2003) about EC (Eymard-Duverney 2006a, 2006b).2 Conferences and the following publications played an important role for the development of EC – since the first meeting “Les outils de gestion” in 1984 (Salais/Thévenot 1986). In 2009 there was another conference titled “Conventions: L’intersubjectif et le
normatif” which you directed. Could you summarize the most important topics and results from your point of view?

These two meetings were of a very different character. The 2003 conference, in the arch of La Défense (a paradigm of architectural modernity), was a very big international meeting, which organized systematic discussions with well-known representatives of the other trends of institutionalism and of economic sociology (Richard Swedberg and Harrison White, for instance). It was also planned to survey all the empirical applications of the conventionalist research program. The 2009 meeting belongs to the mythic series of “Cerisy colloquia”. They take place in a medieval castle, in a remote part of Normandy and their logic is opposite to that of standard academic conferences. It gathers during five or six days not more than some dozens of researchers, invited by the organizers, because they deem that some field of inquiry or some question is on the point of being ripe, and that the interaction between the researchers may hopefully produce a positive collective result. An unusually long time is devoted to each talk – and to the discussion following it.

After having said that, I am afraid you will probably be disappointed by my summary of the results of that “Cerisy colloquium” on “Conventions: Intersubjectivity and Normativity”. With this abstract title, we wanted to reaffirm conventions as a theoretical tool to study what the subprime crisis has started to reveal in the capitalist world: a major dysfunctioning in the architecture of ideas and norms which support the working of the economy.

Five of the six authors of the 1989 issue of Revue économique were present – but I prepared the program with young colleagues, and the first achievement of that week in Cerisy was that we all (old or young) discovered a new generation, fully involved in “conventionalist” researches, with a common spirit, highly critical of the mainstream economics, and not at all discouraged by its prevalence.

The main result, I think, is the importance of that form of power which consists in fixing values and especially criteria of value. Many empirical studies (on labour, finance, macroeconomic policy, health, law, corporate governance, culture, statistics, European economics, consumption, etc.) showed first that efficiency as much as equity require a plurality of criteria of evaluation, second that we have been submitted for the last thirty years to the dominance of only one, always quantitative and as often as possible financial: we have to subvert that regime of intersubjectivity and normativity sometimes called “neo-liberalism”. So the book in preparation – collecting the papers of the colloquium – will be entitled “Les conventions de l’économie en crise”, which has a double meaning: the crisis of the economic conventions & the economic conventions during the crisis.

For round about a quarter of a century EC has developed in France and today its founders are internationally recognized. You mentioned the young colleagues and the “new generation”. From outside of France one can have the impression of a “second generation” too – although it is not well recognized outside of France. What is your perspective of this second generation in regard of its research focus(es) and its contributions to the development of EC as a scientific movement?

What is common to the first and the second generation is, I think, the shared principle that re-integrating the three dimensions, strictly differentiated by mainstream economics (coordination, rationality, values), is the good way to renew social science research, especially of course in economics. Indeed it is now applied to new fields by our young colleagues: law & economics [F. Bessis, C. Bessy, C. Chaserant, S. Harnay], psychological economics [R. Koumakhyv], corporate social responsibility [S. Montagné, N. Postel, A. Rebérioux, R. Sobel], typology of business models [O. Biencourt, G. de Larquier], ecology [G. Plumecq], professional traditions and occupations [P. Batifollier, F. Bessis, C. Bessy, B. Martin, D. Urrutiaqurer], sociology of uses and consumption [E. Kessous, K. Mellet], role of the intermediaries on the labour or goods markets [G. de Larquier, E. Marchal, D. Remillon, G. Rieucor], ubiquity and ambiguity of ethics in economic life [P. Batifoulier, A. Ghirardello, J. Latsis], urban economics [A. Lematichard], political theory [A. Loute], European policies [G. Raveaud], health and family policies [P. Batifoulier, J. P. Domin, O. Thévenon, the pioneer role being played by M. Gadreau], etc.– just to give a short non-exhaustive sample of the “young generation”.

However, in spite of its informativeness, my list has a major weakness. It does not give a clear idea of what drives my younger colleagues, through the empirical and theoretical works whose variety should be by now obvious.

My impression is that the new generation is as much critical as ours but not in the same way. They are less interested by the theoretical fight against mainstream economics (partly because it may be more dispersed now, and there-
fore more difficult to grasp) and more interested by the connection with the other trends of institutionalist social science. Quite an impressive sign of this move may have been given by the foundation of a new professional association: “Association Française d’Economie Politique”. Within two years it has gained more than 400 members. Its head is André Orléan (a conventionalist!), and its spirit is not so much heterodoxy as pluralism. I think most of my younger colleagues belong (like me) to that new association. That apparent convergence does not mean the second generation has renounced its own specificity. Rather it implies that we have to develop a positive alternative to mainstream economics, of which EC will be a central piece, but with still too many black holes – the other trends of heterodox economics have opened the way, and we have a lot to learn (if not to borrow) from their accomplishments.

One element, already introduced in my review of Cerisy 2009, gives the impetus: human beings live in a world where there is a plurality of values or better, of valuation powers.

First, promoting and protecting this variety of criteria is a decisive step to criticize the capitalist system, at a time when we have lost faith in a possible global revolution. That may seem disappointing, but we must be aware of the implication: capitalism should be studied as such, at least in some part of the theory. A provocative shorthand for that program would be to elaborate a conventionalist re-reading of Marx and Polanyi.

Second, it gives us a hint toward a new research program about the correspondence between micro and macro-levels: rules (including conventions) are of course the essential mediation, but not in the structuralist fashion. Here the specificity of EC is strongly posited. Human beings are not ants, they are somehow actors in the process of going from micro to macro, and vice-versa, because they are able to change rules, through collective action and individual deviations. Looking for the micro-economic foundations of macro-economics (or the opposite) should not any longer be separated from the question of social change and economic dynamics.

Third, stressing the variety of valuation practices explains why the new generation is so much interested in empirical work, which requires discovering new quantitative tools and qualitative protocols, coherent with EC’s basic assumptions on rationality, coordination and values.

Fourth, that overall program (at least as I see it, after many discussions with P. Batifollier, F. Bessis, N. Postel and many others) may seem unreasonably ambitious. But one thing was constantly stressed: the point is not to look for a radically new theory, but to move a theoretical language in the right direction. And changing a language is something which can only be done gradually, pragmatically, and collectively.

Endnotes

1This interview continues the series of interviews in this newsletter with founders of this French approach. See the interviews with Laurent Thévenot (2004) and Robert Salais (2008).

2Conventions and institutions: Theoretical foundations and contributions to the political debate”, 11th to 13th of December, Colloquium at the Institute International de la Défense at Paris. 31st to 8th of September 2009, Colloquium at Cerisy.

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