METHODOLOGICAL FEATURES OF MODERN INSTITUTIONAL ECONOMICS

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ABSTRACT
This paper reviews stages in evolution of economics and premises for institutional economics as a new trend in development of social sciences during scientific-technical revolution. Strengths and weaknesses of “mainstream” neoclassical theory are adequately treated. Modern institutionalism is not opposed to neoclassical economics, but is considered as its natural extension, an independent research program that undergoes development.

JEL CLASSIFICATION & KEYWORDS
- B410 Economics - Neoclassic Trend in Economic Theory
- Classical Institutionism
- New Institutional Economics
- Institutions
- Institutional Alternatives.

INTRODUCTION
Formation and development of economic theory is a complex creative process. It concentrates knowledge of society about the surrounding world and aspiration of creative personality for self-fulfilment. In the course of cognition, the researcher forms a concept that is understood and supported by his disciples and followers. This is the way to give rise to most scientific trends and research programs. The original concept has developed for a long time by using in analytic work an increasingly broader spectrum of factors.

In parallel to this approach, it is possible to put into practice another way of search for the truth, differing from the well-tested route. Along with the customary methodology new classical economics, some researchers apply an interdisciplinary approach to economic analysis. Availability of two or more research ways is fully justified. They do not always and not in all respects contradict each other, but are often mutually complementary. Here, an important role is played by those authors who can find and justify in their papers a synthesis of different theoretical schools.

Prerequisites for institutional analysis in economic research
The process of development of economic science as a whole, and some of its theoretical directions and research programs, proceeds inconsistently and reflects specific features in individual stages of formation of world economy and national systems of economy. An important role in the search for truth is played by mutual critical analysis of conflicting research programs that generate numerous descriptions, explanations of the same phenomena, and are based on the related forecasts, while determining the evolution of different methods of interpretation of data received. The method of interpretation of such data is determined by using a set of notions and hypotheses and, of course, by the state of the object of research. These can be exemplified by various interpretations of the content of price, costs, firm, corporation, market, state, money, contract, interest, capital, etc.

We will review the main theoretical traditions existing in modern economic theory without laying any claim to full classification of such traditions. New classical, traditional institutionalism and new institutional theory will be taken as being basic lines.

The new classical school, which currently occupies strong positions in economic science, was based on development of the concepts of English classical political economy. [1,2,3] Most papers published in recent years develop three basic lines of the so called “mainstream.” We will review basic stages in generation of new classical theory. This is necessary for objective evaluation of the content of institutional line and justification of its methodology for use in this study. In addition, each stage of development of economic theory provided methods and rationales for an extent to which the state can be involved in development of economy and individual economies. We are also interested in this aspect.

The origin of economics as an independent sphere of knowledge is related to the emergence of political economy during formation of capitalism. Researchers initially focused on the sphere of circulation. Development of the world trade enhanced the role of merchant class. An exponent of this class interests was the first school emerged in political economy — the XVI-XVIII mercantilism. The starting point in the history of this line was “Treatise on Political Economy” by Antoine de Montchrestien. Further development of this school is related to A. Serra, T. Mun, and S. Portrey.

The emergence of classical political economy was prepared by development of capitalism. The first representatives of this line were William Petty (1623 — 1687) in England and Pierre de Boisguilbert (1646 — 1714) in France. An attempt was made within this line to reduce cost to labor, which constituted a decisive step towards labor theory of value, that is, the search for the source of capitalist welfare shifted towards production. But production, and hence capitalism, have not developed uniformly in various countries, which affected the content of economics. For example, agriculture remained the leading industry in France. For this reason the representatives of French classical political economy — physiocrats (F. Quesnay, A. Turgot, etc.) attempted to find the source of capital gain in agriculture, and regarded “the net capital gain” as the gift of nature. The leader of the Physiocrats F. Quesnay (1694 — 1774) provided the foundations for the theory of reproduction of capital of society by constructing the first macroeconomic model. It was based on movement of an aggregate social product between productive and nonproductive classes.

Expansion of manufactory and formation of mechanized production implied creation of an adequate material and technical basis for capitalism. Classics of political economy attempted to discover the source of capitalist welfare in the production sphere.
Adam Smith (1723 — 1790) found out conditions for production and wealth accumulation. His concept is based on the idea of "nongogalitarian equality." Each individual is unique, he has natural (or acquired) abilities. These individual differences become socially significant because of exchange and trade activity. Their one-sidedness and limitation turn into their merit, because specialization increases productivity of labor. Exchange encourages, through cost minimization, people to become "deep specialists in a narrow field." Individuals become full members of society who are necessary to each other owing to their specialization. As a result of this, exchange plays a dual role: "connects" individuals to civilization and develops their needs, encouraging all-round development of an individual. In "The Wealth of Nations" (1776) A. Smith attached primary importance to division of labor as the key factor in increasing productive forces. Manufactory labor, as he noted, splits up the unique labor process into minute operations, considerably simplifying them. This is the essence of social progress, which connects the specific to the totality, the labor of one individual to labor of another. According to A. Smith, the labor in general, existing within social division of labour, is the source of material wealth in capitalism.

Further development of economic science is related to David Ricardo (1772 — 1823). He concentrates his attention on distribution rather than production, which affects definition of the subject of political economy. David Ricardo’s merit is that he attempted to construct a system of categories for political economy on the basis of labor theory of value. But he failed to strictly maintain the monistic principle. In part, it was because he provided a dual principle of definition of the cost by labor and scarcity, and in another — by labor of one person and labor in general. According to A. Smith, the labor in general, existing within social division of labour, is the source of material wealth in capitalism.

A special contribution to political economy of wealth, in our view, was made by S. de Sismondi (1773 — 1842), whose studies concentrated not only on increase in wealth, but also on its comparative growth, as related to population dynamics, size of its consumption. Free competition encouraged, in his opinion, not only development of bourgeois individualism, feeling of personal freedom, responsibility and initiative, but also infects society with utilitarianism.

Thus, unlike mercantilists, classics of political economy were looking for the source of capitalistic wealth in production. But even the best representatives of classical political economy focused not on the social process of production itself, but primarily on its external result — capitalistic wealth.

Economic crises of overproduction and aggravation of the class struggle opened the way to studies on internal contradictions of capitalism. The first theories of feudal and petty-bourgeois socialism offer their prescriptions for resolution of a conflict between personality and bourgeois social environment. Characteristic features of the majority of such theories are elements of romanticism and utopianism (S. de Sismondi, P. J. Proudhon, at alia.) An attempt to study capitalistic wealth from the perspective of proletariat was first made by socialists (T. Hodgskin, W. Thompson, at alia) and then more coherently by Karl Marx and F. Engels as part of the theory of dual nature of labor and surplus value.

Revolutionary solutions in the methodology of research, however, gave rise to Karl Marx’s theory (1818-1883) and Marxism school. By using achievements of the German classical philosophy, Karl Marx was the first to effectively apply the method of materialistic dialectics to analysis of social and economic phenomena. This allowed him not only to subject previous political economy to criticism, but also to pose a task to review the system of categories and laws of capitalistic method of production from the perspective of working class.

Political economy is regarded as a science, which studies production relations of sequentially alternating social structures.

In the late XIX prerequisites are generated for a change of general paradigm in economic science. Capitalism firmly establishes itself in developed countries. Development of general principles of political economy is replaced by studies on economic practice, and qualitative analysis is superseded by quantitative analysis. Economists increasingly often seek to optimize scarce resources by extensively applying for this purpose the theory of limit values, differential and integral calculus. New trends are also reflected in the name of the science itself. The notion of "political economy" is superseded by the notion of "economics," which is interpreted to mean an analytic science of how people use scarce resources (such as land, labor, capital, and entrepreneurial abilities) for production of various goods and services, their allocation and exchange between members of society for consumption. In XX, by political economy in the West is meant not the economic science as a whole, but the analysis of economic policy as an independent branch of economic science.

The emergence of a new term is related to the name of one of the founders of new classical line — English economist Alfred Marshall (1842 — 1924), whose analytical focus shifted from value theory to price theory. The pricing mechanism is regarded as a relation between demand and supply. Demand theory was based by A. Marshall on marginalism — the teaching of marginal utility developed in the works by W. Jevons, C. Menger, E. Böhm-Bawerk, F. Wieser, and L. Walras; supply theory is based on the concept of factors of production supplemented later with J.B. Clark’s theory of marginal productivity. While classics of political economy were striving to disclose objective regularities, A. Marshall proceeded from subjective estimates of business entities determining “the freedom of choice.”

Theory of marginalism is known for static construction and actually abstracted from monopoly activity. After the Great Depression (1929 — 1933) you could no longer ignore the influence of monopolies on pricing. J. Schumpeter (1883 — 1950) was the first to try to overcome these disadvantages by attempting in the early XX to dynamically model deve-
opment of capitalism and by striving to show the effect produced by innovative process on changes in the profit of enterprise, capital, and interest. The mechanism of monopolistic pricing and problems involved in imperfect competition are further studied in the works by E. Chamberlin “The Theory of Monopolistic Competition” and J. Robinson “The Economics of Imperfect Competition.”

But a real revolution in economic theory was brought about by J.M. Keynes’s activity (1883 — 1946) and his work “The General Theory of Employment, Interest and Money.” His name is connected to the emergence of a new trend in the Western economic thought — Keynesianism, which focused on problems of macroeconomic analysis. This approach not only facilitated deeper reflection of objective reality in economic theory, but also hanged, to a large extent, a normative aspect on a positive aspect. Keynes rejected some principal postulates of new classical teaching; in particular, he refused to consider market as an ideal self-regulated mechanism. According to Keynes, market may not meet “effective demand” and hence it must be stimulated by the State through monetary and budgetary policy. This policy should encourage private investment, and growth of consumption expenditures, and so stimulate the highest growth of national income. Practical orientation of Keynes theory had a broad-based appeal in postwar years. Keynesian prescriptions turned into an ideological program of mixed economy and welfare state theory.

Since the early 50s, neo-Keynesians R. Harrod, E. Domar, and E. Hansen, actively developed problems of economic dynamics and growth factors, striving to find an optimal relationship between employment and inflation. P.A. Samuelson’s concept of “neoclassical synthesis” aims to do this by organically combining methods of market and state regulation. Post-Keynesians J. Robinson, P. Sraffa, N. Kaldor, at alias, made an attempt in the 60s — 70s to supplement Keynesian theory with D. Ricardo’s ideas. They advocated more equalitarian income distribution, limitation of market competition, and effective anti-inflation measures.

The 70s, however, were the period of disappointment at Keynesian theory. The proposed prescriptions turned out to be not sufficiently efficient to stop simultaneous increase in inflation, decrease in production and increase in unemployment. The Keynesian paradigm could not supersede the neoclassical paradigm. An attempt to combine both paradigms to form neoclassical synthesis failed for lack of integrity. Furthermore, in the 70s — 80s, new trends in neoclassical theory, such as monetarism, new classical economics, institutional economics are pressing Keynesian theory.

Monetarists were the first to attack. Monetarism, like classical liberalism as a whole, examines market as a self-regulated system and opposes excessive state interference in the economy. They concentrated on monetary aggregates in circulation, treated as a determining factor or determinant in development of economy. The focus of their attack was on economic policy: inflation, employment, etc. Pre-suppositions for this attack were formulated by M. Friedman. While Keynesians concentrated on effective demand, their critics placed emphasis on supply of goods and services. In the 70s, a special trend — supply-side economics emerged among authors such as noted economists A. Laffer, J. Gilder, M. Evans, and M. Feldstein. According to these economists, for recovery in economy, it is necessary to support lower taxes and exemption to corporations. Government deficit reduction will, under these conditions, stimulate recovery in economy.

Representatives of new stream in new classical economics, such as J. Muth, R. Lucas, T. Sargent, N. Wallace, and R. Barro, tried to construct a more integral theory by putting analysis of macroproblems on an integrated microeconomic basis. They concentrated on economic agents, who can quickly adjust themselves to variable economic conditions by rationally using information received — rational expectations theory. Since an individual can adequately adapt to the changing world, state interference in the economy is no longer necessary.

In upholding neoclassical principles of analysis, advocates of rational expectations theory breathe new life into and ideal market model, abstracting from phenomena such as: imperfect competition and state sector, unemployment and inflation, crises and recession-induced policy, etc. In addition, new classics underestimate time factor that is necessary for data gathering and processing, and various entities’ opportunities to receive information. This gave rise to new attacks on the side of representatives of alternative theories and research programs. Economic literature offers several reasons under which new classical theory can no longer fully meet the demands placed on it by economists, who made efforts to understand real occurrences in modern economic practice.

Analysts noted that new classical theory is based on constraints and preconditions, which to an increasingly lesser extent capture reality, use models that are not adequate to economic practice. The spread of neoclassical theory revealed its limitations in interpretation of individual behavior and interaction between individuals at various levels, and forecast reliability. This was expressed in an increasing dissatisfaction with findings and scepticism about possibilities of this theory in solving practical problems. [4,5,6,7,8,9,10]

One demonstration of this limitation was inability to make a timely forecast and explain the phenomenon of “The Great Depression” (the 20s — 30s), which was due, inter alia, to a specific attitude towards economic agents’ rational behavior and equilibrium. That is why, along with the emergence of “Keynesianism” in the second third of the twentieth century, we observe an increase in the interest in institutional methods of analysis. [11]

To understand provisions of alternative lines and identify possible points of contact and discrepancy, we will briefly discuss basic preconditions for new classical line in economic theory. The underlying preconditions of mainstream have been adequately treated in numerous works by foreign and domestic analysts. This allowed us to omit them and only mention the established principles. Belonging to the mainstream, as studies show, is not simply the characteristic of a scientific movement, but a category of history and theory of science, which describes a certain period in its development and shows up in some properties. In economics, “neoclassical model” has mainstream properties.

Following the methodology of science proposed by Imre Lakatos, we will divide basic preconditions of neoclassical theory into “hard core” and “protective belt.” [12] How these preconditions meet modern requirements of practice to economic science? We may answer this question after examining alternatives. In general, “hard core” and “protective belt” of neoclassics can be stated as basic provisions given in Table 1.

Division of elements of the structure of research program into “hard core” and “protective belt” allows identification of its units in economic theory. If not only “hard core,” but also “protective belt” remain unchanged, the program is an
orthodox program. The program is thought to be modified, when its “protective belt” components change. If changes affect “hard core” components, a new research program arises.

Table 1: Methodological premises for neoclassical trend in economic science

<table>
<thead>
<tr>
<th>“hard core”</th>
<th>“protective belt”</th>
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<tbody>
<tr>
<td>Axiom of rational choice and perception of an individual’s behavior as maximizing utility and profit.</td>
<td>Possibility of individual behavior, which is observed, stability of preferences, and traceability of actions.</td>
</tr>
<tr>
<td>An individual’s stable preferences not exposed to external factors.</td>
<td>Minimum interdependence of participants in transactions under perfect competition, establishment of equilibrium in local markets and general equilibrium by using a price mechanism.</td>
</tr>
<tr>
<td>Minimum interdependence of participants in transactions under perfect competition, establishment of equilibrium in local markets and general equilibrium by using a price mechanism.</td>
<td>Availability and fullness of market information is contained in prices. Possession of this information at the time when a choice is made allows participants in exchange to make transactions in accordance with their interests.</td>
</tr>
<tr>
<td>Invariance and clear definition of property rights.</td>
<td>Satisfaction of individual needs through exchange, which occurs without delay, in terms of initial distribution of goods.</td>
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<tr>
<td>Private ownership of resources is an absolute premise for market exchange.</td>
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Source: Author

Since the first half of the nineteenth century, some analysts have strived to find other ways of economic analysis. In economics, a set of ideas has been generated to mean a radical break from basic postulates of orthodox theory. It was an institutional trend in economic, which initially was called “American institutionalism” [13]. Scientifically, institutionalism shows up:

Firstly, in dissatisfaction with general neoclassical approach to economy, where a universality methodology based on abstract and extremely rational assumptions prevails.

Secondly, in the striving for integration of economic knowledge with other social sciences. Such interdisciplinary research extends opportunities for theoretical description of economic systems.

Thirdly, in the desire to overcome underestimation of the effect of historical factors in development of economic processes and rely on the study of real forms of economic life in their concrete empirical and national specific certainty.

Fourthly, in the recognition of necessity of capitalism transformation through governmental active social control over business.

History shows that principal departures from the mainstream of classical theory have their strengths and weaknesses. On the one hand, scientific debates enrich the classical version of analysis, allowing it to imbibe new views. This is encouraged by understanding of an increasing complexity of economic life. On the other hand, alternative trends develop unevenly. They experience both peaks and slumps in their development. The previous analysis shows that it is typical of evolution of any trend in economic theory, including institutional economics.

Evolution of institutional trend in economic theory

The origins of institutional trend can be found in the ideas of the German historical school. The new historical school, as represented by F. Liszt, K. Knies, B. Hildebrandt, W. Roscher, G. Schmoller, W. Sombart, W. Sombart, and M. Weber, attacked economists (Marxists, marginalists, at alias) for excessive concentration on bare abstractions, advocating the necessity of empirical studies, as based on rich historical material. Representatives of the historical school defined national (political) economy as a science of everyday business life of people, which reduces for them to the earning and use of the means of livelihood or subsistence.

Traditional institutionalism, emerging in the USA in the late XIX, took final shape as an independent line in the 20s — 30s of the twentieth century. Its founder is considered to be T. Veblen (1857—1929), who attacked in his works the concept of rationality and the related principle of maximization underlying the analysis of economic agents’ behavior. At the same time, it is necessary to take into account the fact that economists, who were at the origins of neoclassical research tradition, also recognized the influence of institutions on economic agents’ behavior and, hence, the process of exchange. We may take as an example A. Marshall’s “Principles of Economics,” which shows complexity, magnitude and riskiness of inclusion of institutions in economic systems. With an increase in the degree of abstraction and formalization, increasingly less attention was paid to institutional aspects of behavior and distribution of resources.

Further development of institutionalism is historically connected with J.R. Commons, W.C. Mitchell, J.K. Galbraith, and G. Myrdal, who extensively used in their analysis the notion of “institutions” to mean corporations, trade unions, state, as well as psychological, ethical, legal, technical and other social phenomena. A special feature of this line is a weak continuity of T. Veblen’s ideas reflected in the works of late institutionalists, which was due to specifics of institutional approach as such. True, this thesis does not apply to modern traditional institutionalists, who try to consider problems at the interface with evolutionary theory.

These economists’ studies have an independent content and stand apart in economics. But they are united by opposition to principles of neoclassical analysis and interdisciplinary nature. In this respect we have no grounds to speak of continuity of ideas at the level of creation of a special research program. This could be possible during cardinal revision of the entire research program in economic theory, i.e. during revision of the content of not only “protective belt,” but also that of its “hard core.” By that time traditional institutionalism would not be able to offer such research program, though efforts were made in this respect. [14]

Before the scientific and technological revolution, this line had no perceptible effect in the West. Outburst of its popularity in the 70s — 80s is connected with the concepts of “postindustrial” and “information-oriented” society, and theories of convergence of various social and economic systems.

Institutional analysis allows a more objective appraisal of reality. It proceeds from the fact that the modern society is not the crown of perfection: individuals are generally irrational, and economy is far from being in the state of equilibrium. From their perspective, the neoclassical concept obviously idealizes reality performing an apologetic function
rather than a cognitive function. Actual reality is much more complicated and goes beyond marginal premises of analysis. An object of research should be not “the economic man,” but the all-round developed personality. You may only understand it and correctly evaluate trends in society through interdisciplinary analysis, which must include, apart from economics, social psychology, sociology, law, political science, and other liberal arts.

To meet the challenge of traditional institutionalism, the representatives of neoclassical “economics,” the mainstream of modern economic science, developed new institutional studies on the foundations of tradition of social institutions analysis laid by the Austrian school. In this case, institutions were reviewed from the perspective of methodological individualism. This circumstance encouraged development of the line in economic theory, which aimed to modify the research programs rather than radically reconsider them. The modified program was referred to as the new institutional theory. The emergence of this theory is normally related to R. Coase. The key ideas of this line were adequately set forth in his articles “Theory of the Firm” and “The Problem of Social Cost.” In essence, the role of R. Coase was described by D. North: “Coase showed that neoclassical model, which provides a foundation for most western scientists’ economic theories, holds only under extremely rigid assumption that transaction costs are zero; if, however, transaction costs are positive, we need to take into account the effects of institutions.” [15]

It took several decades for economists to pay attention to possibilities embedded in the approach proposed by R. Coase. The work was initiated to form the research program on “New institutional line” in economic theory. Questions were posed in respect of conditions and results of emergence of various institutions, effects of systems of rules and forms of economic organization on economic agents’ behavior and allocation of resources, foundations for diversity in the forms of economic activity organization within institutional environment, answers were given to such questions, and some of them were tested. Acceptance of the efficiency of such studies was signaled, specifically, by the award of Nobel Prise in economics to R. Coase in 1991 and D. North in 1993, active use by representatives of other lines in economic theory of new tools. In addition, we may also speak of application of new tools of new institutional economics to such domains as political science, sociology, and law.

To grasp the point of modification of the neoclassical research program and depth of this modification, we need to clarify general features of and differences in the vision of principal theoretical problems, on the basis of which the patterns of human behavior and interaction arise. The first part of the problem is important because neoclassical economics is essentially the theory of individual choice. Special features of the theory of choice depend on the concept of rationality being used.

According to the neoclassical approach, economic agents’ rationality is complete and independent, which is equivalent to considering an economic agent as a sequenced collection of stable preferences. [16,17,18,19] That is why an economic action in this model is essentially to harmonize preferences with constraints to form a set of prices for goods and services. At the level of interaction between economic agents the concept of rational (optimal) choice proves to be an element of equilibrium theory, which is also regarded as the starting point of analysis of economic system, determined at the level of an individual market of goods, services or resources or a set of markets. Changes in equilibrium are analyzed by the comparative statics method. These elements constitute the “hard core” of neoclassical theory.

Identification of the “hard core” of neoclassical research program and principles of new institutional theory shows that bounded rationality can be viewed as a special case of full rationality.

If neoclassical theory is taken to be the starting point, “new neoclassical economics” is modification of the neoclassical research program, and traditional institutionalism, which is in opposition according to such principles as methodological individualism, rationality, economic equilibrium, is a new research program.

The current state of new institutional theory implies no rejection of basic principles of methodological individualism as the way to explain social phenomena. Recall that methodological individualism involves explanation of collective values on the basis of individuals’ activity. Complexity of the content of this principle showed up in various versions of its treatment and ambiguity in definition of boundaries within neoclassical and new institutional theory.

These versions differ in the object and degree of modification of “neoclassical hard core.” In this connection, other names of this line are often used as a synonym, such as: new political economy, economics of the rights of property, new economic history, transaction costs economics, economic sociology, etc. Differences arising in the context of new institutional economics are at times substantial, which precludes the use of the above names as synonyms. At the same time, almost all researchers, who develop or use analytical tools characteristic of a new institutional approach, implement several underlying principles of research: methodological individualism, utility maximization, economic agents’ bounded rationality and their opportunistic behavior. That is why, in our opinion, we may speak of modification of the neoclassical research program only.

The principles stated above refer to construction of the individual behavior model, that is, they make decisions in accordance with the principle of methodological individualism. The state, society, firm or trade union cannot be viewed as collective formations, whose behavior is similar to individual behavior, although it is explained on the basis of individual behavior. In this respect, we can see how close is new institutional economics to new Austrian line in economic theory, specifically, in the context of an approach to analysis of economic agents’ behavior. The idea of creation of praxiology as a general a priori theory of act of man emerged in the framework of new Austrian line. Studies show that “behavior” of the firm in the market can only be explained in terms of objective functions and limitations encountered by economic agents who constitute the firm, have an effect on decision making and ensure implementation of such decisions. This characteristic of new institutional economics allows us to speak of nano-economic approach.

Methodological individualism allows us to overcome the “utility — gains” dichotomy and consider the behavior of firms in terms of maximization of utility of managers, who really control any firm, like the State — in terms of maximization of utility of officials, politicians or groups having homogenous economic interests. At the same time, utility maximization is possible when the extreme-value problem is specified, that is, when the objective function is defined as an ordered set of preferences and, in addition, all the
elements of the set of constraints are known. When representatives of alternative lines attacked neoclassical theory, they concentrated, in general, on the assumption that individuals are striving for wealth, hence the notion of “economic man,” but not on the degree of knowledge these individuals have. It is here that, in our opinion, the most complex problems and promising directions of research reside.

New institutional theory relaxes constraints on the notion of “rationality of economic agents’ behavior” by making them more realistic. This shows up in the use of the notion of “bounded rationality” instead of the notion of “full rationality.” As a result, an individual’s task is to find a satisfactory version of solution in accordance with a specific level of aspiration. An important point of the bounded rationality is not only incompleteness or imperfection of information, but also impossibility of its complete processing, interpretation for all settings of choice.

CONCLUSION

The result of incompleteness or imperfection of information and knowledge arising from limitation of attention, intellect, imperfection of commutation, on the one hand, and problems of motivation during decision making, on the other hand, is not only the bounded rationality, but also the opportunistic behavior because of existence of contradictions in economic interests. This shows up in adherence to one’s own interests, which has nothing to do with morals. [20, 21] Bounded rationality and opportunism make nontrivial the problem of development, conclusion and observation of terms and conditions of contracts with economic agents, identification of comparative advantages of various types of contracts for structurization of transactions having special characteristics (such as: transaction frequency, level of uncertainty, specificity of resources). Special emphasis is placed on this issue in transaction costs economics and contract economics, which is regarded at times as the concept of executive behavior management.

Why the emergence of a new institutional trend in economic research was possible and necessary? There are a variety of reasons. On the one hand, neoclassical theory increasingly often was exposed to difficulties in explaining economic life phenomena both at microeconomic and macroeconomic level. At the same time, the institutional line has not yet formulated its research program, because the problem of creation of an agreed set of hypotheses, which could unite researchers, was unsolved. One of the causes of such result, perhaps, was “literariness,” according to M.Allais, of institutional theories: “A general disadvantage of numerous ‘literary’ theories is that they use fuzzy and indeterminate concepts, whose meaning constantly changes in the course of reasoning at various authors. Their disadvantages are: lack of rigor in analysis; abundant use of metaphysical expressions, which, without denoting anything in specific, can at the same time denote anything and thus defend from criticism using emotionally tinted expressions, which can bring popularity to their authors but still are no good for exact reasoning.” [22]

That is why, apart from bright individual personalities such as notable economists T.Veblen, W.Mitchell, J.Commons, G. Myrdal, and J.K. Galbraith, this trend failed to achieve something significant and compete with neoclassical theory over the entire range of problems studied.

The results of comparative analysis of the methodology of neoclassical and modern institutional economics are given in Table 2.

Thus, on the one hand, new institutional economics is continuation of the neoclassical approach, that is traditional for microeconomics, because it does not affect its “hard core” to an extent that we could speak of the emergence of an essentially new research program. This conclusion was made on the assumption that the utility maximization premise is transformed, in our opinion, into an idea of minimization of the amount of transaction and transformation costs, i.e., it modifies principles of methodological individualism and economic equilibrium. On the other hand, the principles stated here allow us to speak of a new institutional theory as an independent research program, which undergoes formation.

Table 2: Comparison of the methodology of neoclassical and institutional trends in economics

<table>
<thead>
<tr>
<th>Basic premises of neoclassical trend</th>
<th>Institutional additions to principles of neoclassical theory</th>
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<tbody>
<tr>
<td>Individual stable preferences that are not exposed to external factors.</td>
<td>Choice of institutions as the principle object of research.</td>
</tr>
<tr>
<td>Axiom of rational choice and perception of individual behavior as maximizing utility and gain.</td>
<td>Perception of individual economic behavior as result of stable stereotypes of activity and standards of behavior, customs and habits.</td>
</tr>
<tr>
<td>Minimum interdependence of participants in transactions under perfect competition, establishment of equilibrium in local markets and general equilibrium through a price mechanism.</td>
<td>Acceptance of intermittent nature of economic system equilibrium, that is, representation of social and economic development trajectory as a succession of periods of institutional continuity, crises and fundamental institutional changes.</td>
</tr>
<tr>
<td>Invariance and clear definition of property rights.</td>
<td>Concentration on social attitudes, culture, and socium in formation of an individual, his interests, inclinations, ways of vision of economic activity in progressive development of social sphere and economy.</td>
</tr>
<tr>
<td>Private resource ownership is an absolute premise for market exchange.</td>
<td>Concentration on interactions and conflicts between individuals and state, without reducing economic agents’ behavior to purely entrepreneurial activity.</td>
</tr>
<tr>
<td>Available and complete information about market is contained in prices. Possession of this information at the time when a choice is made allows participants in exchange to make transactions in accordance with their interests.</td>
<td>Perception of technology as the primary force of social and economic development, that is, an endogenous force developing under specific laws of institutional changes.</td>
</tr>
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Source: Author

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Thus, while the problem of neoclassical trend was to create theory without institutions, traditional institutionalism was trying to explain institutions without theory. The strongest and most persuasive part of the approach used by traditional institutionalists, was and still is criticism of predominant neoclassical economics. But it should be noted that it is with the help of traditional institutionalism that economics took, in the middle of the twentieth century, a critical view of evaluation of its foundations, which manifested in attempts to incorporate into its structure new concepts, such as theory of property rights, transaction costs, etc.

1. As opposed to neoclassical theory, for the new institutional theory, as for traditional institutionalism, institutions play an important role in explaining economic agents’ behavior, as well as allocation of resources.

2. Within the scope of new institutional economics, institutions are reviewed in terms of their influence on decisions made by economic agents.

3. As opposed to neoclassics, institutions are reviewed not only as technological formations (firm, households, etc.), but also as structures that are ordering an interaction between individuals. [23]

4. Institutional alternatives are compared to each other, not only to an ideal state of affairs, as in neoclassical theory. In comparing institutional alternatives, transaction costs economics becomes a criterion of efficiency. [24]

5. A wider approach to defining the setting of choice within new institutional trend as compared to neoclassical theory allows the relaxation of rigid constraints on the method of comparative statistics.

6. New institutional theory aims to relax rigid assumptions of neoclassical theory in respect of human behavior and simultaneously unification of the economic approach implementing the principle of methodological individualism, which provides grounds for consideration of a new institutional theory as a generalized neoclassical approach.

REFERENCES
