

The economics of social order: contrasting Durkheim and Buchanan¹

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The economics of social order: contrasting Durkheim and Buchanan. The paper examines the viewpoints of James Buchanan and Emile Durkheim on the question whether the maintenance of social order can be understood as resulting from contractual exchange of rational individuals. It is argued that neither Buchanan's normative individualism requires considering the maintenance of social order as an outcome of an exchange process, nor Durkheim's notion of moral integration requires embracing methodological holism. On this basis, the paper proposes an individualist understanding of social order as collective self-sufficiency rather than exchange. The broader implication of this argument is that institutions must be generally viewed as based on variable combinations of self-sufficiency and exchange as alternative mechanisms of gratifying human wants. Sociológia 2007, Vol. 39 (No. 6: 522-534)

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1. Introduction

The functioning of most contemporary societies is highly complex and involves significant interdependency of individuals constituting them. This is particularly characteristic of advanced market economies based on highly intricate systems of the division of labour and specialization. High complexity and interdependence naturally call for ensuring social order, which is enabled by the existence of institutions in which the social reality is embedded. Institutions are generally defined as 'rules of human interaction that constrain possibly opportunistic and erratic individual behaviour, thereby making human behaviour more predictable and thus facilitating the division of labour and wealth creation'. (Kasper – Streit 1998: 30) The role of institutions in guaranteeing social order is recognized as twofold. First, they enhance the knowledge of individuals concerning the circumstances of their life; even more importantly, they help ensure that different individuals have similar mental models facilitating their mutual understanding. Second, institutions serve to align conflicting interests and thus ensure overcoming of social dilemmas. (Homann – Suchanek 2000)

The concept of institution is extremely multilayered and multifaceted. While institutions can be classified in a variety of ways, a principal distinction relates to the origin of institutions, and specifically, whether they naturally evolve within a

group in the light of experience or are designed externally and imposed on society from above. Based on this criterion, Kasper and Streit (1998) classify institutions into internal and external, respectively. According to their approach, internal institutions are represented by conventions (e.g. rules of grammar), internalized rules (e.g. morality) and customs and good manners; while external institutions encompass external rules of conduct (as set out e.g. in the civil, commercial and criminal codes), purpose-specific directives (such as contained in statute law), and procedural rules (embodied in administrative law). In their entirety, these types of institutions underpin social order which is necessary for the sustained functioning of civilized societies.

However, research into the origin of rules has been confronted with a paradox relating to the role of human intentionality in rule formation. On the one hand, since rules have been recognized to be a crucial prerequisite for enjoying the benefits of civilization, it appears logical to suppose that rules can be, or should be, a product of human intentional design. On the other hand, Hayek (1973) and Lachmann (1973), among others, have convincingly demonstrated that many rules emerge in an evolutionary and spontaneous manner without being consciously designed by individuals following them. In the literature, the debate between the advocates of these two conflicting viewpoints was framed by the question whether rule formation can be conceived as an outcome of contractual exchange embodying voluntary and intentional activity. It is this question that this paper is primarily devoted to.

It is possible to identify two opposite viewpoints on the question whether rules emerge from contractual exchange. One viewpoint, emphatically advocated by Emile Durkheim (1984), is that these rules represent the 'non-contractual elements' that necessarily inhere in every contract; the opposite proposition, no less emphatically defended by James Buchanan, is that the rules 'emerge contractually from the rational utility-maximization of individuals'. (2000a: 96) This paper will aim at developing a new understanding of the contractual status of rules by reconciling and synthesizing these two diametrically opposed viewpoints. The primary focus will be on external institutions in the above sense, as these are represented by rules consciously laid down in the legislative documents. However, the analysis of the contractual status of external institutions is supposed to be equally applicable to the internal ones, as the main question of this paper is not whether the process of rule formation can be described as intentional but rather whether it can be described as resulting from contractual exchange. These questions must be thus recognized as different, even if thoroughly interrelated.

To be sure, the basic source of this dramatic difference in understanding social rules by Buchanan and Durkheim arguably lies in their differing deeper philosophical preconceptions concerning the logical primacy of individual and

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society over each other. While Buchanan explicitly designates himself as an individualist (2000a: 11), the work of Durkheim has been described as 'an avowed revolt against the individualistic-utilitarian positivism that, finding its prototypes in the systems of Hobbes and Locke, characterized so much of English social thought'. (Merton 1994: 18) This paper, however, will not seek to contribute to the extensive literature examining the philosophical foundations of methodological individualism and collectivism. Rather, it will steer a middle course between the conflicting views of Buchanan and Durkheim from an individualist perspective. Specifically, it will be argued that, even being an individualist, one cannot stretch the meaning of the contractual exchange relationship to setting the socio-economic rules without encountering certain difficulties of a logical character.

Indeed, the Buchanan's exchange paradigm in explaining the origin of the socio-economic rules has already been criticized even by those who share his basic individualist orientation. (Voigt 1999; Wohlgemuth 1995) The thrust of these criticisms is that the concept of political exchange is difficult to reconcile with the institutional understanding of exchange as a process involving mutual ceding of property rights. Not only are property rights not meaningfully exchanged in the political exchange, but also individuals participating in it cannot even be described as getting what they originally wished. (Wohlgemuth 1995) Yet, while revealing the relevant difficulties of applying the exchange paradigm to an excessively broad range of issues, these criticisms ultimately failed to offer a constructive alternative way of understanding the socio-economic rules. One may indeed ask: if political exchange is not a genuine exchange, what is it then? Given that Buchanan used the exchange paradigm as a counterweight to methodological collectivism, then rejecting both methodological collectivism and the exchange paradigm leaves a glaring gap in any explanation of the origin of the social order: if individual is the basic unit of action and political exchange has only a limited relevance in explaining this order, what paradigm can adequately substitute the exchange paradigm?

This paper's approach to address this question will be to explore the logical implications of the concept of exchange, particularly by conceptualizing a situation that may be described as 'non-exchange', within the boundaries of the individualist philosophical orientation. To this end, the paper will proceed by consecutively discussing the views of Durkheim and Buchanan on the contractual status of the socio-economic rules in more detail. Next, it will identify the logical inconsistencies involved in the purely contractual rationalization of the social order. On this basis, it will propose an individualist way of understanding the 'non-exchange' situation underlying the operation of the socio-economic rules embodying the necessary institutional framework of a market economy.

2. Emile Durkheim: Rules are non-contractual

Emile Durkheim worked at a time when social complexity, in the form of the deepening division of labour and progressing industrialization in his contemporary France, was dramatically increasing. This increase in complexity entailed, according to Durkheim, a shift in the nature of social solidarity, from mechanic one to organic one, with the latter referring to interdependence of specialized and heterogeneous units. Organic solidarity, however, calls for a well-developed institutional framework whose formation could not keep pace with the advance of industrialization. The resulting 'social anomie', i.e., lack of moral integration, in his contemporary society led Durkheim to recognize the primacy of the social over the individual, particularly expressed in the existence of 'social facts' confronting individuals. Durkheim thus sought to legitimize sociology as a science dealing with 'social facts', and particularly, with the fact of morality which is crucial for enabling social integration. According to him, sociology must view individuality as morally and institutionally embedded and constituted by institutional framework of society, and most importantly, by institutions of morality.

Given this conceptual background, it is not surprising that Durkheim rejected the individualist philosophy underpinning both classical economics and contractarian political philosophy. Individualist philosophy, according to him, does not recognize that social order importantly depends on moral integration enabled by the appropriate institutional framework. Lack of this integration caused the moral crisis in the form of disintegration of traditional social relationships, or 'social anomie', that Durkheim richly documented in his critical writings. Therefore, he had to be sceptical about the ability of the market exchange mechanism to aggregate the rational egoistic behaviours of individuals into a harmonious social order. Indeed, the major concern for Durkheim throughout his monumental work "The Division of Labour in Society" is to explain why 'a complex society with extensive market relations and a high degree of competition can stay together and not disintegrate in the war of each against all'. (Hodgson 1988: 156) In this work, Durkheim established that the negative effects of competition can be tempered by the progressing division of labour presupposing that individuals in different social niches go their own ways while exchanging resources with each other. (See Turner 1998) However, the division of labour must be backed by moral integration of society.

Durkheim maintained that the normal (as opposed to pathological) operation of the market mechanism is enabled by the contractual regulation of market exchange. This regulation is based on the normative significance of the rights of the individual, contract law, and mores. (Beckert 2002: 90) Hence, even though the contracts are 'initially a voluntary matter, once begun, they are subject to

society as the omnipresent and controlling “third party””. (Merton 1994: 20) The role of society, however, extends beyond the mere supervision and enforcement of execution of contracts, once they have been concluded, to determining which contractual obligations are just and hence worthy of being enforced. (Ibid) In this sense, Durkheim proposed that ‘in a contract, not everything is contractual’. (1984: 158)

Of particular interest are the specific reasons that make individual exchange relationships incomplete and hence requiring contractual regulation exercised by society. Beckert (2002: 86) identifies two such reasons. First, contracts are necessarily incomplete in the sense that they do not cover every possible contingency that may affect their execution. Long before the modern concept of transaction cost has been introduced into the social science discourse, Durkheim insightfully remarked that if ‘we each time had to launch ourselves afresh into these conflicts and negotiations necessary to establish clearly all the conditions of the agreement, for the present and the future, our actions would be paralyzed’. (1984: 161) According to Durkheim, the potentially adverse effect of unforeseen contingencies on contract execution is tempered by the ability of the socio-economic rules to constrain ‘us to respect obligations for which we have not contracted, in the precise meaning of the term, since we have not deliberated upon them or, on occasions, even been aware of them beforehand’. (1984: 161)

The second reason for incompleteness of individual exchange relationships, according to Beckert (2002: 86) is that exchange, by itself, does not create a sufficiently strong social bond for ensuring the cohesion in society. Beckert supports this proposition with the following quotation from Durkheim: ‘in the fact of the exchange, the various agents involved remain apart from one another and once the operation is over, each one finds himself again resuming his ‘self’ in its entirety. The different consciousnesses are only superficially in touch: they neither interpenetrate nor do they cleave closely to one another’. (1984: 152, quoted in Beckert 2002: 86)

While the Durkheimian theory of the contractual regulation of market exchange has been criticized for downplaying the role of individuals and exaggerating the regulatory effect of society (Rueschemeyer 1982), it is undoubtedly correct in recognizing that ‘for all contracts there exists a set of binding rules to which there is no explicit reference by the parties involved’. (Hodgson 1988: 158) This is a point that, in itself, is not inconsistent with the contractarian rationalization of the social order, as no contractarian would deny that all individual contracts are embedded in the institutional framework of society. Rather, the disagreement between the Durkheimian and individualist-contractarian viewpoints concerns the question whether the institutional framework itself, or the pre-existing rules which are not explicitly referred to by

parties to specific contracts, could be an outcome of a pre-existing contract. As Durkheim believes in the inherent limitations of market exchange due to the above discussed reasons, his theory clearly cannot accept this possibility, in a stark contrast to the contractarian constitutional political economy of Buchanan. Yet, as the following discussion will show, this difference of opinion is not fully warranted by the difference among the philosophical preconceptions of methodological collectivism and individualism, embraced respectively by Durkheim and Buchanan.

3. James Buchanan: Rules are contractual

James Buchanan’s views on the nature of social order gave rise to a branch of economic theory known as constitutional economics. This is a research program that ‘directs inquiry to the working properties of rules, and institutions within which individuals interact, and the processes through which these rules and institutions are chosen or come into being’. (Buchanan 1999: 377) Constitutional economic differs from standard economics in its emphasis on the choice among constraints, rather than choice within constraints, and differs from constitutional politics by considering social interaction as cooperative rather than conflictual. (Ibid) Buchanan is a firm advocate of methodological individualism requiring to explain social behaviour in terms of individual actions and motivations; moreover, his vision of society is based on the rational choice approach conceiving individuals as making rational choices with a view to improving their own well-being.

A key idea of constitutional economics is that social interaction may often take the form of social dilemmas presupposing that rational individual behaviours, when aggregated at a group level, generate outcomes that are not positively valued by individuals exercising these behaviours. Overcoming social dilemmas is possible by a consensual agreement upon common rules structuring social interaction. Rules may be consciously designed in such a way that negative outcomes do not emerge; hence, social order is potentially subject to intentional improvements by rational individuals. Given this conceptual background, Buchanan naturally sees constitutional economics as underpinned by precisely those theoretical strands that Durkheim explicitly rejected: liberal classical economics of Adam Smith and contractarian political philosophy. While the latter establishes the belief that individuals are capable of rationally choosing the institutional framework they wish to be subject to, the former identifies the institutional framework that is capable of being positively evaluated by each concerned individual. The ultimate (and somewhat normative) message of constitutional economics is that rational utility-maximizing individuals must choose competitive market economy as their preferred institutional framework.

In an interesting similarity to the Durkheimian recognition of incompleteness of individual exchange relationships, Buchanan too argued that these relationships are based on a logically prior agreement on a structure of individual property rights and could hardly come into existence without this agreement having been reached beforehand. (2000a: 28-29) As Buchanan believed this agreement on rights to be only a 'possibly shaky foundation' for individual exchange relationships (*ibid*), he was searching for the positive and normative arguments that could enable this foundation to become more sound and legitimate. This pursuit has led him to recognize that the choice behaviour of individuals occurs not only within the framework of given constraints as assumed by the orthodox neoclassical economics but may actually extend to the choice of constraints themselves.

How, then, can the contractual 'choice among rules' enable the mutual agreement on individual property rights and thus underlie the complex body of socio-economic rules constituting the social order? Buchanan has extensively dealt with this question, among other works, in 'The Limits of Liberty'. His argument is that, when individual property rights have not yet been agreed on, each person would use 'resources to defend against and to attack other persons. Each person would be better off if some of these resources could somehow be turned to the direct production of goods. The most basic contractual agreement among persons should, therefore, be the mutual acceptance of some disarmament. The mutual gains should be apparent to all parties'. (2000a: 76) Thus the possibility of the contractual origin of social order ultimately rests on the mutual gains from mutual disarmament.

Why does Buchanan designate the agreement on individual property rights, or the 'initial contract', as an exchange relationship? Again, he is quite explicit on this point: this agreement represents 'bilateral behavioural exchange. Individual A agrees to give up some share of his own defence-predation effort in exchange for a related behavioural change on the part of individual B'. (2000a: 77) More generally, Buchanan argued that 'individuals choose to impose constraints or limits on their own behaviour primarily, if not exclusively, as part of an exchange in which the restrictions on their own actions are sacrificed in return for the benefits that are anticipated from the reciprocally extended restrictions on the actions of others with whom they interact'. (1999: 380) Hence, any socio-economic rule on which individuals might agree can thus be interpreted as the object of an exchange relationship which, in this case, would be labelled 'political exchange'.

As Buchanan himself acknowledges, his motivation to explain social order in the framework of the exchange paradigm derives from his individualist philosophical outlook requiring 'the location of value exclusively in the individual

human being'. (2000b: 25) Buchanan embraced this outlook as a reaction against the attempts of political scientists to evaluate political activities according to some externally given (i.e., non-individualistic) criteria of 'common good', or like-minded attempts by welfare economists to evaluate the operation of markets by externally given criteria of 'efficiency' or 'welfare maximization'. Yet, in his justified critique of the relevance of the non-individualistic transcendental criteria for evaluating individual behaviours, Buchanan appears to be throwing out the baby with the bath water. Specifically, locating the value exclusively in individuals does not logically necessitate conceptualizing all forms of social interaction as exchange behaviour, as this ignores the fundamental fact that human needs can be satisfied in two basic ways – through exchange and through self-sufficient activity. (See Demsetz 1997: 7) Accentuating the voluntary nature of exchange logically requires allowing for the possibility of individuals choosing *not* to enter exchange, but rather preferring to gratify their preferences by own self-sufficient activity. Although the decision to remain self-sufficient is no less individual than the one to enter into exchange, the exchange paradigm fails to take it into consideration.

As a result, Buchanan's conceptualization of exchange closely approaches that of von Mises who regarded the concepts of action and exchange as being effectively synonymous (even though Buchanan was critical of von Mises's praxeology. (See Buchanan 2001: 32-34)) Von Mises wrote: 'Action is an attempt to substitute a more satisfactory state of affairs for a less satisfactory one. We call such a wilfully induced alteration an exchange. A less desirable condition is bartered for a more desirable'. (1996: 97) Moreover, von Mises even invoked the concept of 'autistic exchange' occurring when 'the action is performed by an individual without any reference to cooperation with other individuals'. (*Ibid*: 194) Autistic exchange is exemplified e.g. by an isolated hunter killing an animal for his own consumption and thereby exchanging 'leisure and a cartridge for food'. (*Ibid*) Clearly, if the exchange concept is used as a general description of human action, it becomes not only unoperational but also largely devoid of any constructive meaning. (See also Hodgson 1988: 148)

At the same time, a more precise circumscription of the exchange concept within the boundaries of the individualist perspective will arguably constitute a step toward this perspective's partial reconciliation with the existence of Durkheimian 'non-contractual elements' in market exchange relationships. As these elements exemplify the limitation of the ability of market exchange to ensure the maintenance of socio-economic rules, the existence of rules must represent an outcome of human action of the 'non-exchange' type, i.e., self-sufficient activity. This proposition, however, requires clarification of the difference between the concepts of self-sufficiency and exchange, and, most

importantly, identification of the theoretical value of explaining socio-economic rules in terms of self-sufficiency. These are the questions to which the following section will turn.

4. Toward an extended individualist perspective

The proposed possibility to extend the individualist understanding of socio-economic rules is based on reconsidering the exchange paradigm of constitutional economics from the perspective of the theory of the division of labour. This theory defines the division of labour as a shift of productive activities from households to for-profit firms (Locay 1990) and consists of two principal propositions. One is that the division of labour improves productivity due to the existence of gains from specialization; the other is that the division of labour is limited by a number of factors, such as the extent of the market (Smith 1981), transaction cost (Becker – Murphy 1992; Yang – Borland 1991), and availability of knowledge. (Becker – Murphy 1992) These constraints on the division of labour draw the boundary between those human wants (preferences) that can be gratified by relying on the division of labour, and those that cannot. Crucially, this theory does not claim that the latter wants must remain ungratified; rather, it sees the mechanism of their gratification not in the division of labour and exchange, but in self-sufficiency which is understood as production for one's own consumption. (e.g. Demsetz 1997: 7) This theory thus suggests that there exist two basic and complementary mechanisms of gratification of human wants, exchange and self-sufficiency, only one of which is taken into account by the exchange paradigm of constitutional economics.

Although the meaning of self-sufficiency is often reduced to that of individual autarky, the theory of the division of labour does not warrant this interpretation. By defining the process of the division of labour as the transfer of productive activities from households to for-profit firms, this theory designates as self-sufficiency any instance of households engaging in productive activities that could be otherwise transferred (delegated) to for-profit firms. The state of self-sufficiency must therefore include not only individual autarky, but also any collective organizations which enable their members to produce goods and services for their own consumption. To the extent that they produce for their own consumption, economic entities, both collective and individual, practice self-sufficiency, and are in this sense situated outside of the division of labour. Thus the basic difference between exchange and self-sufficiency consists of the extent to which an economic agent participates in the production of an object he needs (i.e., has a preference for). This classification implies that the case of maintaining social order (i.e., following socio-economic rules) is most usefully described as collective self-sufficiency, because the desired service – maintenance of order – is

acquired through participation of each individual in the production of social order by means of following rules.

While Buchanan recognizes that political exchange 'will not, of course, take precisely the same form as the simple exchange of ... privately partitionable and privately consumable goods' (2000b: 30), his discussion of the differences between these exchange types does not go beyond saying that the former exchange will result in the agreement on a set of rules providing an institutional framework for the realization of the latter exchange. What he does not appear to appreciate is that the exchange of privately partitionable and privately consumable goods does not require *each* exchange participant to take part in their production (or any other form of preparation for consumption), while political exchange does require each exchange participant to contribute to the maintenance of social order through individual rule-following. At the same time, the above-mentioned distinction between self-sufficiency and exchange implies that the very concept of exchange is defined by the possibility of relieving economic agents of the need to expend own efforts for producing those products and services that they get through exchange.

This is not, of course, to deny that there still remains a sense in which political exchange can be meaningfully characterized as exchange; namely, Buchanan was fully correct in observing that the agreement on rules involves an exchange of behavioural restrictions. But the fact that behavioural restrictions are being exchanged must be kept strictly separate from the other fact that these restrictions relate to the same activity of rule-following. Indeed, the normal exchange of privately partitionable and privately consumable goods too involves an exchange of behavioural restrictions, in the sense that, by entering into a specific exchange relationship, economic agents sacrifice their freedom to use the resources involved in this relationship in alternative exchange relationships or acts of own consumption, in addition to imposing on themselves the obvious obligation to abide by the terms of the agreement. Yet the self-imposition of the latter behavioural restrictions does not make each participant of exchange to take part in the process of production of the desired products and services. In contrast, political exchange, as mentioned above, is precisely about each exchange participant contributing to the production of social order in the same way as any other exchange participant, which is the defining characteristic of self-sufficiency. Thus, while political exchange does involve the exchange of behavioural restrictions, it would not have been logically possible without the self-sufficient activity of rule-following by all exchange participants.

Once it is accepted that the Buchanan's political exchange represents a form of collective self-sufficiency, it is legitimate to ask what is gained by incorporating the latter concept into the understanding of the origin of the socio-economic rules.

The main new insight thereby gained appears to be the recognition that all socio-economic institutions may be meaningfully characterized as involving a reliance on a combination of exchange and self-sufficiency, and hence exhibiting a variable capacity to relieve some economic agents from having to personally participate in the production of products and services that enter these agents' utility functions. While the account of this capacity is missing from the exchange paradigm, this capacity represents an important dimension allowing to impart at least a certain logical structure on the rich diversity of socio-economic institutions. Indeed, by explaining the operation of all socio-economic institutions through gains-from-trade emerging from voluntary exchange, the exchange paradigm cannot account for the fact that these institutions are very diverse and often substantially different from each other. In contrast, interpreting institutions as involving a certain combination of exchange and self-sufficiency may make at least some contribution to explaining their diversity. Specifically, this interpretation must involve not only identifying the way in which gains-from-trade emerging from voluntary exchange enable the operation of an institution, but also analyzing whether the impediments in this exchange limit the exchange's capacity to gratify human preferences, thus leading to the reliance on self-sufficiency in the sense of preventing economic agents from fully delegating the production of the required products, desired by them, to other economic actors.

To give an example, it has been established above the social order cannot be bought and sold through the regular market transactions involving clear separation between production and consumption, but rather requires rule-following by every member of society. Hence, the institutions guaranteeing social order, such as the state, must be characterized as embodying collective self-sufficiency in the production of social order. The institution of the state may be thus figuratively described as a cooperative of rule-followers, since its members (citizens), by adhering to rules, thereby produce social order on the mutual self-help basis. This example can be generalized by indicating that overcoming any social dilemma requires rule-following by a number of individuals, which is, in fact, collective self-sufficiency. Since rule-following underlies the existence of institutions, both external and internal, institutions may be generally seen as involving important elements of collective self-sufficiency (which, however, need not be generally dominating over exchange). From this perspective, the institution of the marketplace may be seen as involving both exchange (goods and services are exchanged for money and vice versa) and self-sufficiency (all market participants abide by the rules of respecting private property rights and thus maintain the existence of the marketplace on the mutual self-help basis).

5. Conclusions and research implications

The main argument of this paper is that the exchange-based conceptualization of socio-economic rules is more helpful in asserting the position of normative individualism than in explaining the way the social order is actually being maintained. Specifically, the exchange paradigm is hard to reconcile with the fact that the maintenance of social order requires individual rule-following by each member of the concerned community, because the definitional characteristic of exchange is the possibility for some economic agents not to take personal part in the production of the goods and services that they get through exchange. That economic agents sometimes cannot satisfy their needs through pure exchange, i.e., without having to take at least a certain part in the corresponding production process, reaffirms that the satisfaction of human needs takes two mutually exclusive and complementary forms: exchange and self-sufficiency. In emphasizing the former form to the exclusion of the latter, the exchange paradigm explains socio-economic rules as devices for realization of gains from exchange and thereby overlooks the fact that the rules exist precisely because the process of exchange, in the above mentioned sense, cannot satisfy human preferences for the maintenance of social order. The broader implication of this argument is that institutions involving a significant reliance on self-sufficiency are a necessary complement to institutions based on exchange, as exemplified in various third sector organizations complementing the operation of a for-profit economy or in the body of socio-economic rules complementing the operation of the market for the regular market of privately partitionable and privately consumable goods.

Recognizing the close intertwining between exchange and self-sufficiency in the operation of real-world institutions suggests a new research agenda concerned with the systematic classification of conditions disabling the satisfaction of human needs through pure exchange, i.e., without forcing economic agents to participate in the production of the goods and services they get the exchange. While being importantly prefigured by the theories of market failures and the constraints on the social division of labour, this agenda calls for a systematic analysis the manifold institutional consequences of the limitations of the ability of exchange to satisfy human needs. Some of these consequences, as argued in this paper, relate to the maintenance of the socio-economic rules, but there must exist many others. It remains the task of further research to develop a comprehensive logical scheme of factors disabling the appropriate satisfaction of human needs through exchange, and then use this scheme to account for the diversity of institutions in a market economy.

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