
Informal Institutions: Political Action and the Social and Historical Contextualization of the “homo oeconomicus”

Markus Göbel and Tobias Thomas***Abstract**

Political reforms can be understood as the reconfiguration of formal institutions. The rational choice of formal institutions is the core topic of the New Institutional Economics research program. While bounded rationality is a core assumption of the New Institutional Economics and the reason for suboptimal behavior there, additional reference is made to the individual aspiration to intrapersonal consistency and interpersonal conformity here. These sources of a systematic deviation from the standard model of the *homo oeconomicus* result in systematic “weaknesses” of perception and deviations of behavior. This contribution connects shared mental models as informal institutions in the sense of North with well-established social psychological approaches and thereby leads to an integrative reflection of the insights in a stringent model framework.

* Dr. Markus Göbel (Markus.Goebel@hsu-hh.de) and Tobias Thomas (Tobias.Thomas@hsu-hh.de) are research fellows, respectively at the Institute for Organization Theory and at the Institute of Public Finance, Helmut-Schmidt University, Hamburg.

1. Introduction¹

A complaint often heard among economists is that important economic problems of our time have been solved in theory, but that these solutions are taken into account neither in political practice nor in public opinion. Expert opinions and specialist publications are thus often left unread on officials' desks. The positioning of economics as a practical science is clearly questioned by the broad irrelevance of its policy recommendations. This de facto political deficit is the starting-point of the following analysis.

Proclaiming the relevance of institutions for actors' behaviors, new institutional economic approaches often focus the design of formal institutions. (Buchanan 1975; Williamson 1985). This perspective has been broadened by North (1990), who considers informal institutions such as social norms. Although they play a prominent role in other economic research fields such as consumption theory (Nir 2004), social norms are less expected to open the black box of empirical reform behavior, which is suboptimal in terms of economics.

Therefore, from an institutional economic point of view and in the tradition of North, it is expedient to focus on the social psychological foundations of informal institutions (Buchanan 1994). Furthermore, the connection between rational individual behavior and institutions should be highlighted without reducing institutions to constraints (Denzau and North 1994).

While in classical economics the *homo oeconomicus* is omniscient and decides independently, Simon (1957) established a model in which behavior is bounded regarding both reception and processing of information. "Economists who include bounds on rationality in their models have excellent *success* in describing economic behavior beyond the coverage of standard theory" (Conlisk 1996: 692). Considering non-psychological and individual psychological approaches of bounded rationality, we focus on the social and historical contextualization of individuals². Thereby, it is obvious that the model generated here is

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² For an excellent overview of Psychology and Economics see RABIN [1998].

of particular value if the actor is socially embedded and behavior differs over time.

From a psychological point of view Janis (1982) found that groupthink as a result of the social contextualization of individuals plays an important role in the political sphere and may lead to fatal consequences with respect to foreign-policy decisions. In a similar manner the interplay between rational behavior and the institutional contextualization of individuals is analyzed from an economic perspective here. For the purpose of this contribution the rational calculation of individuals is expanded to include relevant social psychological cost-benefit categories within the economic framework. Using this integrative approach, important restraints on political reforms are identified and starting-points for political practice are generated. Furthermore, this analysis may offer an explanation for the broad irrelevance of scientific advice in the context of choice and reconfiguration of institutions.

2. Institutions: Concepts changing with the times

One of the first economists to deal with institutional problems explicitly and theoretically was Carl Menger. He distinguishes between pragmatically and organically created institutions. "Law, language, the state, money, the markets, all the social organisms in their various forms of existence and with their constant changing are, to a large extent, the unreflected result of social development" (Menger 1969 [1883]: 164). Menger puts these "social organisms created in an 'organic' way" (ibid.) in contrast to rationally designed institutions. While the latter do not pose any real theoretical challenge, the scientific study of the organic genesis of institutions as "unintended results of individual aspirations" (Menger 1969 [1883]: 271) is of central importance to Menger.

Much like Menger, Thorsten B. Veblen also chose an evolutive approach to explain the emergence of institutions. According to Veblen, an institution is "of nature of a usage which has become axiomatic and indispensable by habituation and general acceptance" (Veblen 1990 [1909]: 239). Accordingly, institutions are internally "settled habits of thought common to the generality of men" (ibid.). Technical routines, mental forms of perception and social rituals, which have culturally established themselves as external institutions because they facilitate action, consolidate themselves in their day-to-day contact with the material envi-

ronment and its practical necessities. Consequently, institutions are norms of behavior that are suitable for solving practical problems. Through their internalization, they have an action-guiding and a cognition-guiding effect.³ Institutions generate their own logic of thinking and acting. This spreads to the entire culture and thus determines social development (Veblen 1953 [1899]).

With his focus on institutions as "habits of thought", Veblen referred to their implicit character, which defies rational design. On the other hand, economic institutionalism mostly emphasized the human ability to rationally choose between institutional alternatives. For example, Commons (1931: 648) – a contemporary of Veblen – defines institutions as "collective action in control, liberation and expansion of individual action. Its forms are unorganized custom and organized going concerns." The relevance of institutions is based on their capability of providing individual autonomy by collective restrictions. As collectivistic norms, the "working rules" are able to ease scarcity-induced social conflicts of interest and to transform them into relationships of cooperation or reasonable forms of competition. As Commons put it (Commons 1931: 87): "Transaction is the ultimate unit of economic investigation."

Formulating advice as to the favorable design of parameters is something that links economic institutionalism to the present times. In this context, such an interest in cognition also determines the choice of conceptual categories. In Commons's writings, for example, institutions are therefore not cognitively anchored; routines and working methods can be designed institutionally by codified rules, and collective actions are per se reasonable. This understanding of institutions is also found in Oliver E. Williamson's transaction cost approach. The bounded rationality and opportunistic behavior of the actors are what makes transaction relationships fragile. In order to protect the actors' transaction-specific investments from one-sided exploitation, special contractual arrangements and safeguards are necessary. Appropriate "governance structures" (Williamson 1991: 281), as institutional arrangements which range from market to hierarchy, guarantee the stability and flexibility of barter relationships and thus the reduction of transaction costs.

³ This becomes clear in Veblen's concept of 'thinking habit', in which the cognitive aspect of practical institutions manifests itself.

While in Veblen's and even Common's writings, mentality and custom were of institutional relevance, they were subsumed, in Williamson's diction, under the woolly term "transaction atmosphere". In James M. Buchanan's writings (1991), the economic understanding of institutions is limited to the rational – in terms of public policy – establishment of constitutional rules. What is in the focus of interest is the endogenization of the problem of norm creation into economic theory. According to Buchanan (1975), limiting norms in principle only permit a consensus among profit-maximizing individuals if, on the one hand, the actions of the participants are regulated in such a way that the generated overall result leads to an advantage for the individuals. On the other hand, norm-stabilizing security mechanisms must exist so that every person involved can rely on the other person's conforming to the rules. These are the elements of a process that is to ensure the normative legitimation, economic efficiency and social stability of constitutional decisions. Williamson and Buchanan do share a design-oriented idea of institutions, but their legitimation approaches differ. While the former generates positive design knowledge from the relation between types of transaction costs and forms of contracts, the latter focuses on the legitimation of a process for the genesis of norms.

This restricted understanding of institution is widened again by North (1991: 97). "Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)." In this interpretation, institutions constitute restrictions of individual actions, which reduce uncertainty and thus render complex, anonymous barter processes and cooperation profits feasible. Within an institutional order, North (1990) differentiates between codified, formal institutions (e.g., laws, regulations) and uncodified, informal institutions (customs, traditions, etc.). As with North, rational actors or organizations act within an environment, in which they – due to their limited information processing capacity – use constructed models for the perception of reality.

Economic performance and development are then tied to such institutional orders which permit the subjective models of perception to be patterned more realistically by way of learning. If these subjective mental models are shared because of the common cultural background and experience of individuals, one can

speak of shared mental models in accordance with Denzau and North (1994). The latter are classified as informal institutions in our context.

With North, it seems that we come full circle.⁴ It is not least because of the common background of problems, i.e. the long-term relation of institutional and economic development, that the Veblensian understanding of institutions gains in importance. Because they are part of the actors' action situations, both the formal institutions and the cultural models of perception as institutions of the informal type are constitutive factors of a solution to the challenging problem of how to establish efficient orders.

3. Informal institutions and human behavior

New Institutional Economics often restricts its interest to the rational choice of formal institutions. This limited understanding of institutions was widened by North (1990), who differentiates between codified, formal institutions and un-codified, informal institutions.

Actors will prefer the option from which they hope to obtain the greatest possible net utility. If the optimal option is, at first glance, out of the institutional framework, the expected gain in utility will be seen in more relative terms, as the actor also takes into account the costs that arise if the institutional boundary is crossed. If it is crossed, sanctions will be imposed and costs arise for the individual. Often, the crossing of institutional boundaries carries with it the stigma of the eccentric, antisocial or criminal. As a result, in almost all cases the option chosen will remain within the institutional framework.⁵ Thus, institutions mostly constitute a good approximation with regard to the variety of possible alternative options; with regard to the selection of the concrete alternative option, the primacy of individual rationalism prevails. The fact that human action does not always engender optimal results does not necessarily lead to the conclusion that

⁴ This view corresponds with that of Groenewegen/Kerstholt/Nagelkerke (1995: 473), which states that "...both concepts of old, neo-, and new institutionalism should have a place. The work of Douglass North shows the importance of both approaches."

⁵ In a few cases, human behavior also occurs beyond the institutional framework, which then causes astonishment or dismay in other people. However, the decision in favor of such behavior is also rational if the alternative option with the highest net utility is beyond the institutional framework – e.g. if personal ideas of morality diverge from institutionalized ones, and if an institutionally conforming behavior caused extremely high costs due to cognitive dissonance (see below).

this is attributable to irrationalities. "People do mistake mainly because they have incomplete information, but this does not negate the assumption of rational behaviour." (Tullock/McKenzie 1985: 10). If rational maximization calculation is based on incomplete or distorted information, the resulting solution will be suboptimal despite of a functioning rationality mechanism (Simon 1957).

Because of their limited information processing capacity actors use constructed models for the perception of reality. The perceived world is a mental model-based projection of the true world, whereas the true world corresponds to the "resisting reality" in the sense of Popper (1973: 68). The latter is a result of a biological-evolutionary process. Whether this mental model-based projection converges with the true world in the evolutionary process of generating knowledge or not, cannot be evaluated from a human perspective (Stegmüller 1984). However, this is not necessary anyway as long as these models are sufficient for the continuity of the human species by having proved to be viable.

Streit, Mummert and Kiwit (1997: 688) point out that institutions "being a part of the cultural environment they also influence the individual's perception of information: It is assumed that the human mind creates cognitive models interpreting the environment. These cognitive models act like filters and influence the perception of information."

If these subjective mental models are shared because of the common cultural background and experience of individuals, one can speak of shared mental models which are informal institutions in accordance with Denzau and North (1994). In this way, shared mental models affect human behavior: "In the social dimension, human behavior is related to intersubjectively shared and value-infused knowledge about 'the way things are and the way things should be'. Such knowledge is part of social structures and processes. In the cognitive dimension, human behavior is related to the value-infused knowledge of collectives of individuals" (Stein 1997: 730).

Because they are part of actors' action situations, both formal institutions and cultural models of perception as institutions of the informal type are constituting factors of a solution to the challenging problem of how to establish efficient orders.

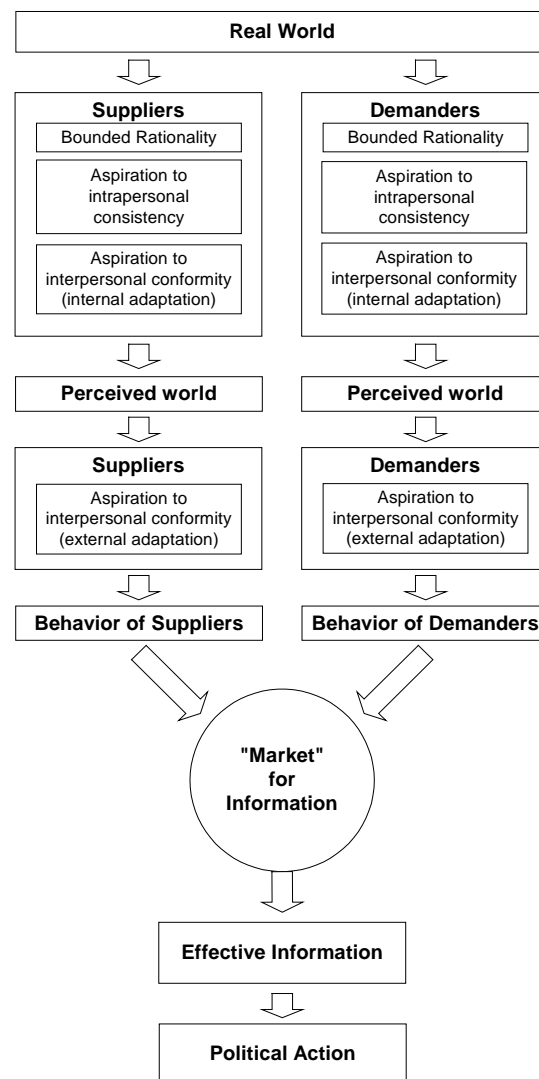
4. On the existence of structural information deficits

Reforms, such as the change of a pension insurance system, are nothing else than a purpose-oriented change of a formal institutional framework. However, experience shows that both the range and frequency of reform usually deviate from what would be the optimum from a classical economic perspective. Institutions are not adapted to environmental conditions, nor are actors seriously interested in further developing these institutions. Therefore, the status quo may be referred to as a stable and suboptimal equilibrium.⁶

It is not the aim of this contribution to offer an alternative to the economic standard model. In this respect the core assumption of an intended rationality still holds. The aim of this contribution is to expand the economic model of human behavior to include the social and historical contextualization of individuals and thereby develop a model based on a broader cultural theoretical foundation. This may lead to a better explanation of political phenomena, which can only be viewed as the emergence of human irrationality from an orthodox economic perspective. The capability of the economic standard model of human behavior as well as its adaptation to the political economy is limited and further theoretical development is required. Even representatives of political economy agree. For example, Kirsch and Mackscheidt (1985) introduce a psychological expansion of the political economy approach. However, they thereby loose the theoretical link to the economic standard model of human behavior. In contrast to this, the economic standard model is an integral component of the approach presented here.

For this purpose, in a first step, a model of the "market" for information will be presented, within the scope of which a structural information deficit is derived. Starting from the economic standard model of human behavior, *homo oeconomicus* a step-by-step extension of the concept seems appropriate. However, the primacy of the utility-maximizing intention of human behavior will be maintained. As a result, the range and frequency of reforms are not optimal in terms of benefits.

⁶ For example, reforms are often no reforms in the proper sense. Despite the resulting suboptimality changes are mostly marginal, rather than radical.



The "market" for information

4.1. The "market" for information

On the "market" for information, suppliers and demanders of information meet each other. The term "market" is not entirely accurate, because not all market characteristics are found in this case. What is meant is the interaction between of suppliers and demanders of information. The focus on suppliers and demanders of information is well-established since Stigler (1961). In our example of the reform of the social security system, suppliers of information may be political advi-

sors and politicians may be demanders of information⁷. In favor of a greater generality we waived a concrete presentation of the actors below. Suppliers will offer information until the utility of an additional marginal unit of information is commensurate with the marginal costs. Likewise, demanders seek to obtain information in accordance with the cost-utility calculation.⁸ Actors on "information markets" design their supply and demand according to rational calculation.

However, Kahneman and Tversky (1979) as well as Simon et al. (1957/1982) have shown that in reality, human behavior clearly deviates from the behavior forecasted in the economic standard model. But the conclusion that individuals do not calculate cost and utility of an action⁹ is not necessarily true. In order to come to a suboptimal result, it suffices that perceived cost and utility deviate from true cost and utility. If this is the case, the calculation process itself may well be rational – the result is still suboptimal.

In fact, actors use perceived cost and utility rather than true cost and utility as input factors for their rational calculation. But perceived and true cost and utility diverge in a systematic manner. The reception, processing and evaluation of information take place within institutionalized models of perception. Shared mental models determine, as non-formal institutions, the perceived information on which individual rational calculation is based. The institutional character of these models of perception thus shows that the divergence between perceived information and true information is institutional-systematic, rather than individual-chaotic (Denzau and Nortz 1994: 3f.).

Because perceived information systematically deviates from true information, the equilibrium on the "market" for information differs from what would be the optimum. The degree of information available to those involved may be referred to as effective information, because it stimulates a reaction and thus induces action. On the "market" for information, the shorter side of the market prevails, which means that information which is offered but for which there is no demand

⁷ In the political context the example of communication between politicians and citizens is only one of many alternatives. Another point of interest is definitely the communication between experts such as political advisors and politicians.

⁸ The representation of the economic calculation shows that both a supply of all information and a demand of all information will not occur under realistic assumptions with respect to the cost and utility functions.

⁹ Whether it takes place consciously or unconsciously does not matter here.

remains ineffective, and vice versa. If the state of effective information is suboptimal, the resulting range of action of the reform activity will also be suboptimal. The equilibrium on the "market" for information is stable and can thus also be described as structural and at the same time suboptimal. It is a structural information deficit.

4.2. Reasons for systematic weakness of perception and deviation of behavior

Human behavior – and thus also reform behavior – deviates from the behavior forecasted within the scope of the *homo oeconomicus* model. This deviation of behavior is the topic of this contribution. Even the Bounded Rationality concept by Simon (1957) can explain the factual resistance to reforms only to some degree. Well-established social psychological approaches, which already found consideration in economic models (Akerlof 1982; Bernheim 1994), explain how perception and behavior are influenced by own attitudes and by the social environment. The model of cognitive consistency explains how people tend to reduce inconsistency between attitudes and cognitions. The model of conformity shows how social environments influence behavior by group pressure or adoption of norms (Hogg/Vaughan 2002). However, this deviation of behavior is not individual-chaotic, but at least in part follows a systematic pattern, which will be presented sequentially in the following.¹⁰

4.2.1. Searching for information – models of bounded rationality

In neoclassical Utopia, there is the assumption of complete information, which implies that, firstly, all information is available everywhere and at all times and, secondly, that actors have the capability of processing it with infinite speed.

Reality, however, shows a different picture: Individuals are confronted with restrictions of their rationality with regard to both the reception of information and the processing of information. Simon's Bounded Rationality models (1957; 1982) pay tribute to these restrictions, while maintaining the assumption of intended rationality.

¹⁰ Similarly Sunstein and Vermeule (2003) identify a role-related and a cognitive trap leading to "institutional blindness".

If information is not readily available everywhere and at any given time, that is, if costs are incurred for receiving and processing information, actors will take them into account in their calculations. The optimum in receiving and processing information will be achieved whenever the marginal utility of the information is equal to the marginal costs.

The costs of the reception and processing of information, however, are not the same for all kinds of information. Actors will often seek to obtain information only within their own institutional framework, so that the institutional limit constitutes the restriction of their field of vision, or in other words, of their horizon. Cavalli-Sforza and Feldman (1981) examined the horizontal transmission of informal institutions in the case of language. A negative correlation between the geographical distance and the identity of related glosses has been shown. The latter – because of the relatively open meaning of the related formulation – were especially suitable as an indicator of shared mental models.

It is especially with regard to information from beyond the institutional framework that the assumption of completeness becomes inadequate. Information within the institutional framework is relatively inexpensive and accessible; other actors are prepared to share this information, and the sources of information are known. This is why in many cases there is no processing of extrainstitutional information.

With regard to reforms, the consequences of sequential information processing are aggravated by the time structure of cost and utility. If major parts of the costs of a reform project are incurred at an early stage in the form of planning and implementation costs, the project's utility will often make itself felt only with the passing of time. The higher the individual discount rates of the actors are, the more the utility must surpass the costs in order for a reform project to be carried out at all. This is especially true if the time required for the positive aspects of a reform to take effect will exceed the life span of a human being. Unless they are guided by intergenerational altruism, people will fail to allow for such positive effects in their deliberations.

Possibly, the acquisition and processing of information is not even attempted and individuals behave ignorantly in rational terms, but in accordance with assumptions of economic rationality. The fact that the costs of acquisition and

processing of information can, within a political system, lead to abstention from voting was described by Downs (1957: 207f).

The view of bounded rationality also coincides with Eucken's (1952) view, who assumed that institutions are part of the set of non-economic factors within an economic system, which leads to a narrowing of the view in terms of perspective – a structural deficit of perception.

4.2.2. Searching for consistency – models of intrapersonal consistency

Even if the information beyond the institutional framework is perceived and if sufficient processing capacity is available, it is still not certain whether information processing will be initiated. In many cases, the actor has moved within the institutional framework for a long time already, so she or he has approved or at least passively tolerates it. Established knowledge and new knowledge acquired by processing extrainstitutional information may contradict each other.

According to various approaches in the field of consistency theory, there is a need for harmonization of intrapersonal attitudes, norms and behavior. Based on Heider's balance theory (1946), which proclaims that individuals seek consistency between various elements of cognition, Festinger (1957) describes the initialization of dissonance reduction after crossing a certain threshold. In order to reduce cognitive dissonances, the individual has various options at his or her disposal, which can be classified in three groups: (1) the addition of cognitive elements, (2) the subtraction of cognitions, and (3) the reevaluation of cognitions.

In their contribution, Akerlof and Dickens (1982) examine the welfare effect of cognitive dissonances. It turns out that even when assuming that there is complete information and that microeconomic rationality is calculated, the existence of cognitive dissonances causes the results to deviate from those of the economic standard model.¹¹ In the process, the behavior may well be compatible with economically rational behavior. If intrapersonal dissonances constitute negative factors in the individual's utility function (if, in economic jargon, they are "costs") it

¹¹ Thus, for example, the effect of non-informative publicity and the great popularity of the social security systems can be explained, that is, without breaking with the economic standard model of human behavior: "The explanations do not rely on the assumption

is possible that these costs of an additionally acquired cognition surpass its utility. If the influence of the individual's change of action in consequence of cognition is small (such as the influence of an individual actor in the wide field of politics), the strategy of reducing cognitive dissonances is convenient for the individual – the acquired cognition becomes obsolete.

If newly acquired cognitions contradict established cognitions, cognitive dissonances will arise which, after crossing a threshold, lead to measures being taken to reduce such dissonances. The result of this self-initiated weakness in perception and cognition is a tendency to maintain the status quo. Thus we are dealing with a systematic distortion of perception toward the status quo.¹²

4.2.3. Searching for conformity – models of interpersonal conformity

Conformity¹³ means the concordance of attitudes and behavior of an individual with the norms, values and habits of the reference group. While cognitive dissonance means that there is an inconsistency between, for example, one's own attitudes and actions (intrapersonal dissonance), non-conforming behavior within the institutional framework is referred to as interpersonal dissonance. Conformity can, on the one hand, be fully internalized (internal adaptation). On the other hand, group-conforming behavior can also occur without accepting the group-specific attitudes (external adaptation) if, for example, group pressure is strong enough.¹⁴ The latter form describes the adaptation of behavior as a reaction to the group exerting a direct influence by giving rewards or imposing punishment. In contrast, internalization describes the adaptation of behavior because of indirect influence via the internalization of group-conforming norms and values, that is, informal institutions.

that people are basically misinformed – if they believe something other than the truth, they do so by their own choice." (Akerlof/Dickens 1982: 318)

¹² Even if the comparison with Kahneman's status quo bias (Kahneman/Knetsch/Thaler 1991: 197f.) suggests itself, we are in fact dealing with different phenomena. In Kahneman's writings, status quo preferences are the product of an aversion to risk, which leads to an overrating of possible future losses. Here, status quo bias is related to the aspiration to cognitive consistency.

¹³ Aronson (1992) offers a description of conformity from a social psychological perspective that is very worthwhile reading. Recently, in parts of economic research, conformity plays an important role, too (Bernheim 1994; Corneo/Jeanne (1997); Holländer 1990).

¹⁴ Kelman (1958) offers a more detailed description of degrees of conformity.

The fact that human beings seek to establish harmony is translated into more concrete action by the individual who behaves in a manner conforming to the group. Non-conforming behavior will be sanctioned by the reference group, which means costs to the individual. Whenever conforming behavior as an internal adaptation is based on an internalization of the norms and values as well as on the genesis of a shared model of perception, costs in addition to the sanction costs arise due to cognitive dissonances, as a result of which a dissonance reduction is initiated once a certain threshold has been crossed. In this case, the behavior is not only non-conforming, but also inconsistent. This leads to the effects of self-initialized weaknesses in perception and cognition described above.

This behavior is compatible with the economic model of human behavior if the expected sanctions and cognitive dissonances – in case they are fully internalized norms and values – are included as negative elements, that is, as follow-on costs of non-conforming behavior in the individual's utility function. If the costs of non-conforming behavior surpass the utility, which is especially probable if the impact of the individual's own actions is small, group-conforming behavior will be kept up. Consequently, individual behavior systematically converges towards group-conforming behavior; in the case of internal adaptation, this behavioral bias is based on the internalized and shared model of perception.

5. Reduction of the systematic weakness of perception and the deviation of behavior

The perceived world does not equal the real world one-to-one, but is constructed by means of mental models. Because of the sociality of the models of perception, the deviation of the perceived and thus constructed world is not arbitrary, but partly systematic and thus calculable. This leads to the conclusion that effective measures, such as reform activities, should not only target the real world but also the cross-individual construct of the perceived world.

The "market" for information described above is the starting point for developing approaches designed to reduce the systematic weakness of perception and the deviation of behavior. If on this market a structural information deficit is caused by the behavior of suppliers and demanders, a suboptimal degree of political action – in other words, reform activity – will be the consequence, because of the action-inducing character of the information equilibrium. If one wants the range

and frequency of reforms to approach an optimal degree, this will only succeed if the supplier and demander behavior on the information "market" changes.

5.1. First approach: Searching for information

One approach for influencing the behavior of suppliers and demanders of information consists in their cost-utility calculation in a stricter sense. The supplier and demander behavior on the "market" for information is in accordance with the cost-utility calculation (see above). In order to change this, the utility derived (or expected) by the actors from the respective behavior must be increased and/or its costs reduced. Because on the "market" for information, the shorter side of the market prevails, it might be worthwhile analyzing what the cause of a suboptimal degree of information is. Possible causes may be on the side of suppliers, of demanders, or of suppliers and demanders.

Allowing for the individual's bent for utilitarianism, the supplier's behavior may, in this context, aim to increase the individual's social status as a reformer or man of action in the social environment or in the eyes of the general public. To the initiating actors, a successful reform often constitutes the rare opportunity for making a leap in their careers, or even for going down in history. Costs on the suppliers' side can occur through the production and distribution of communicationally viable information. Also, opportunity costs are to be taken into account for the information on offer, if providing such information is a time-consuming effort. The demanders' behavior is also based on the economic cost-utility calculation. Demanders draw their benefit from information if, on the one hand, they can improve their social status within the social environment, or, on the other hand, if they can draw a direct financial benefit from being informed. It is important to increase this utility, just as it is important to reduce the cost of receiving and processing information.

5.2. Second approach: Searching for consistency

Another approach for overcoming information resistances deals with the actors' striving for consistency. Both the suppliers and demanders of information seek to achieve intrapersonal consistency. However, new information may under certain circumstances contradict consistent cognitions, some of which may have existed for a long time already. If so, cognitive dissonances – which may also be inter-

puted as costs – may occur, and if they exceed a certain threshold, measures for reducing them will be initiated.

If for years a politician, being a supplier of information, pursues a certain policy, advocating a reform project that conflicts with this previous policy would contradict his quest for consistency. This problem also arises on the demand side if an innovative reform policy is to be received. In both cases, linking the communication of reform measures with existing consistent cognitions of citizens and politicians may be an approach for solving this problem. If cognitive dissonances occur, it may be a feasible approach to facilitate the most favorable reduction of cognitive dissonances possible – for example, by providing further information or assisting with the reassessment of information. Referring to successful reform projects in other countries or in one's own history is an effective option.

Finally, we should point out the possibility of enhancing utility as regards the individual's striving for consistency. If there have already been cognitive dissonances prior to the information offer – if, for example, the withholding of reform options contradicts the politicians' own knowledge, or if the citizens lack information that would allow them to consistently close a cognitive gap – new information can also increase the level of consistency.

5.3. Third approach: Searching for conformity

The last approach for selectively influencing the market behavior is the individuals' striving for interpersonal conformity. Citizens and politicians are socially contextualized and aspire to group-conforming behavior within their respective reference groups. In the case of external adaptation, this behavior is based on the fear of sanctions, while in the case of internal adaptation, it is based on fully internalized attitudes, norms and values.

This leads to the conclusion that, in order to avoid non-conformity, communicative measures should approach the entire respective group of reference, rather than a succession of individual members. For this purpose, a reform may, under certain circumstances, be widely established through the media as a real and positively connoted policy alternative. In this context, the simultaneous and well-dosed information of the whole group of reference predominantly is not a result of a deliberate communication strategy, but motivated by the fear of social sanction. While conforming behavior is the consequence of fully internalized atti-

tudes, norms and values - in other words, the consequence of internal adaptation - non-conforming behavior not only results in sanctions being imposed by the reference group but, in addition, cognitive dissonances will occur. If this is the case, the points of the approach stated in 4.2 must also be taken into account.

6. Conclusion

In accordance with North, institutions can be differentiated into formal institutions such as laws and informal institutions such as norms and shared mental models (Denzau/North 1994). As a matter of fact institutions limit the options of rationally acting individuals. Their perception is socially constructed by means of shared mental models as informal institutions.

Because of the sociality of cognitive models, individual behavior systematically deviates from the economic standard model of human behavior, the *homo oeconomicus*. This deviating behavior can at least in part be attributed to a systematic weakness of perception, which is, on the one hand, caused by the restriction of rationality in the sense of Simon and, on the other hand, by striving for intrapersonal consistency. In addition to the perception-induced behavior bias, behavior deviates because of the aspiration to interpersonal conformity. Without doubt no human being remains unaffected by these systematic deviations. In the political context this holds with respect to politicians and citizens as well as to experts such as political advisors.

Retaining the assumption of intended rationality, three cost categories have been focused on: information costs, cost of non-conforming behavior and cost of cognitive dissonance. This allowed us to explain numerous behavioral patterns which have borne the stigma of anomalies in the neoclassical context. On one hand, this modus operandi is associated with a trivialization of complex psychological and social psychological issues, but on the other hand it leads to the integrative consideration of insights of different scientific disciplines in a stringent model framework. Finally, our contribution demonstrates a connection between shared mental models in the sense of North's institutional economics and well-established social psychological approaches.

So it is not the aim of this contribution to offer an alternative to the economic standard model. In this respect the core assumption of an intended rationality still holds. The aim of this contribution is to expand the economic model of hu-

man behavior to include the social and historical contextualization of individuals and thereby develop a model based on a broader cultural theoretical foundation. This may lead to a better explanation of political phenomena, which can only be viewed as the emergence of human irrationality from an orthodox economic perspective.

Besides our theoretical approach here, empirical evidence of social psychological effects already exists in other economic research fields such as financial research. For example, Goetzmann and Peles (1997) analyze the impact of cognitive dissonance on mutual fund purchase decisions. The contribution by Goetzmann and Peles follows the tradition of well-established financial market research, in which actors' behaviors is already analyzed with regard to psychological and social-psychological aspects. This has led to the emergence of behavioral finance. Hence, the empirical evidence of both, cognitive dissonances and group conformity, is well-analyzed for financial markets, too. Furthermore, the model approach could be developed to formalization, as Bernheim (1994) and Corneo and Jeanne (1997) have shown with reference to conformity.

This deviating behavior also emerges with the reconfiguration of formal institutions such as reforms. In our model framework reform activities are induced by effective information. The latter results from the behavior of suppliers and demanders on the "market" for information. As a result of the described weaknesses of perception and behavior, the market behavior of the actors deviates from the optimum. The state of effective information and the resulting range of action of the reform activity will also be suboptimal. If one wishes the reform activity to approach an optimal degree, it is advisable to focus on the identified weaknesses of perception and behavior. The broad irrelevance of scientific policy advice mentioned at the beginning is last but not least based on the broad non-consideration of the cost categories in the classical economic approach presented above. The consideration of these categories might be beneficial to the relevance of economic policy advice.

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