Make and Buy as Institutional Modes: A Formal Approach*

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Abstract:

In the New Institutional Economics there is not an explicit agreement on what must be understood as an institution. It means that the notion of institution is not sufficiently defined, at least not in a formal way. In order to make progress in this matter it is useful to take gain of some philosophical tools. In this regard, John Searle provided in the last decades an ontological account of social reality, which can be regarded as a solid foundation for the formal study of institutions. In this paper, Searle´s contribution is applied to the study of causes and consequences of different (institutional) modes for governing the allocation and coordination of resources in an economy, as accomplished by Oliver Williamson NIE in *Markets and hierarchies: analysis and antitrust implications (a study in the economics of internal organization)* (1975). So, this paper is an attempt to offer a formal reconstruction of the social ontology underlying these economical phenomena.

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1. Introduction

There is great diversity in the social science literature on such basic questions as what is the proper way to conceptualize and analyze the institutions. This is probably because the conceptual difficulties are almost inevitable (Dunning & Pop-Eleches, 2004) In order to establish a constructive interdisciplinary dialogue it is necessary to establish a common conceptual ground to facilitate the discussion. In this sense, it is usual to take any of the definitions of "institution" and from there proceed to work within the framework of economic research. Many times, the definitions and interpretations of the concept of institution are not explicit, as if there were an implicit consensus within economic theory about “the” meaning. The problem is that there does not exist such a consensus on the definition of institution.

Referring to the New Institutional Economics (NIE), while the discipline recognize the contributions of Coase, Williamson and North as its theoretical foundations, there is not an explicit agreement yet neither on the characterization of NIE and traditional institutionalism nor of the concept of institution. In this regard, it is a critical task of the philosophy of science to question, and if possible to answer, which is the ontology, form of existence and NIE reality. The contribution of John Searle on the construction of social reality is a solid foundation for the formal study of institutions, accomplished in his paper "What is an institution?" (2005). However, its applicability to the study of NIE is not clear. This may be because Searle's work has addressed to investigate on ontology, existence and form of institutional reality, without taking into account the NIE specificities[1].

Given the above, this paper will attempt to explore the applicability of the scheme proposed by Searle on Oliver Williamson’s characterization of NIE in *Markets and hierarchies: analysis and antitrust implications (a study in the economics of internal organization)* (1975) in order to propose an answer to the questions referred to ontology, existence and form of institutional reality, taking into account the NIE specificities. More precisely, this paper tries to elucidate the implicit meaning of institution in the particular case of NIE in order to evaluate the possibility to

[1] See J. R. Searle (1995) & (2010)

reconstruct it in terms of the formal and more general Searle's characterization of institution.

It is important to make a comment regarding the goal of this paper, its scope and limitations. While there are large differences between NIE and traditional institutionalism, this paper, ignoring any superficial reference, will focus on the former, leaving aside the discussion of the discrepancies among them.[2]

The paper is organized as follows. In section two (Searle's theory of institutions) a review of Searle´s theory of institutions will be presented. The third section (On the roots of NIE) will be a review about the origins of the NIE theory. In the fourth section (Make and Buy) those two main modes for governing the allocation and coordination of resources in an economy, in which the NIE focuses its attention, will be discussed. The fifth section (Matching Make and Buy with Searle´s logical structure for institutions), will be an attempt to apply the logical structure proposed by Searle to those institutional modes that gained special relevance within the NIE. Finally the last section (Conclusions) is a synthesis of the conclusions arising from the analysis.

2. Searle's theory of institutions

In the last decades John Searle has developed a philosophical account of the structure of social reality, that is, of the fundamental nature and mode of existence of human social institutional reality, its creation and maintenance[3]. The general question to be answered can be stated as follows: *What is the ontology of social reality?* This question has also obvious implications for the ontology of economics as far as economics phenomena are social.

Searle's ideas have their roots in the philosophy of language. The theory of speech acts led him to the idea that language is a basic institutional phenomenon in social life. Generalizing this claim, all social facts are of institutional nature. On this basis, it can be claimed that "economics is largely concerned with institutional facts" (Searle J. R., 2005, p. 1). *Institutional facts* are facts depending on human institutions. (For

[2] See book *"Rationality,Institutions and Economic Methodology"* (1993), where Uskali Mäki, Bo Gustafsson and Christian Knudsen take up, very clearly, the discussion about the differences between the two lines of thought, the debate on the concept of institution and other dilemmas that revolve around institutions within science.
[3] See mainly Searle (1995) and (2010)

example: a football game.) It exists in virtue of *attitudes*, *intentions*, etc. There is a dependence on human beings with any intentional states. This is the case of a *subjective ontology*. This means that the mode of existence of economical entities, like money, commodities, stock markets, etc., is institutional.

In order to justify these claims concerning the institutional character of social facts, Searle follows the methodological tradition of *analytical philosophy*, so he will try to achieve an elucidation of the nature of institutions by analysing statements reporting *institutional facts*. Statements such as “This is a one dollar bill”, “Paulo is graduate student in Economics”, “Bejamin is the father of Charles”, “Mardi Gras is celebrated in New Orleans”, “I rent an appartament”, etc. In his philosophical framework, Searle includes in his approach some sort of realism concerning physical entities; a strong scientific realism, according to which the basic facts of the structure of the universe is given by natural science (physics, chemistry, biology, etc.). Social facts, on the contrary, are “observer dependent phenomena” and in their constitution subjective aspects play a role, so that they presupposed a subjective ontology. Now, the main problem is:

"to explain how there can be an epistemically objective institutional reality of money, government, property, and so on, given that this reality is in part constituted by subjective feelings and attitudes and, thus, has a subjective ontology.” (Searle J. R., 2005, p. 4f)

According to Searle there are four basic notions that are indispensable in order to characterize social reality. The first of these notions is *collective intentionality*. In general, intentionality has to do with the “directedness” of the mind; it is a feature of the mind by which it is directed at objects and states of affairs in the world (that must be objective). Hence, intentionality is subjective and individual[4]. Now, the individual behaviour is just part of the collective action, where the intentions of the individuals are, in an extremely complicate way, related to the *collective intentionality* that constitutes the basis of society[5]. (However, it must be stressed that for Searle collective intentionality is dependent on and derived from individual intentionality[6]). In

[4] Chapter 2 of Searle (2010) provides a detailed account of intentionality.
[5] Searle considers that human beings can engage in cooperative behavior and do not consider non-cooperative actions as a possibility of collective action.
[6] See Searle (2010, p. 4). Hence, Searle presupposes methodological individualism.

few words, “any fact involving collective intentionality is a social fact” (Searle J. R., 1995, p. 38).

The second basic notion in the characterization of social reality is the *assignment of functions*. Human beings have the capacity to impose specific functions to objects (and also to persons). Tools are the simplest examples. When this notion is combined with the previous notion of collective intentionality, the idea of a *collective assignment of functions* arises: social groups or communities assign functions to objects. Assigned functions are observer relative.

The third basic notion is a special case of assignment of function to objects. There are some actions that an object or person can perform only in virtue of the fact that a certain *status* has been collectively assigned to this object or person (so that this status is accepted by the group). A typical case would be an instructor in his function of evaluating the written exams of students. Searle considers a fourth basic notion that he uses to explain intentionality: There are preintentional capacities in the mind that enable intentional states. Searle calls these capacities the “*Background*”[7]. As far as this notion depends on particular thesis in Searle´s philosophy of mind and language, it will not be discussed here.

Now, in terms of the first three notions (collective intentionality, assignment of functions and status functions), the structure of institutional facts can be expressed by means of the general form *X counts as Y in context C*., where X represents certain features of an object, a person or a state of affairs, Y assigns a special status to X, and C indicates that this assignment holds in a determinate context (a legal framework in force, the situation of a group or a community, etc.). Of course, this general form can be iterative, that is, Y can include other institutional facts, and the context can be institutional. If the institutional fact becomes regularized, it becomes a *rule*. Here the term “rule” can be understood in a double sense. First, a rule expresses a regularity in the social reality, and hence it expresses a *law* of the social world. Second, because of their *institutional* origin, it expresses a social *norm* that is explicit, if the institutional structure is formulated in a code. It must be stressed that in some cases it is difficult to distinguish the two senses. Anyway, the general form expresses also rules, which are *constitutive* of institutional structures. This means

[7] See Searle (1995, p. 129ff)

that they establish or constitute the institutional practice or behaviour: Acting in accordance with such rules is constitutive of the behaviour in question. Thus, the existence of the institutional fact (as *institutional*) depends on the rule. They are *constitutive rules*. From this basis, Searle claims that “the institutional ontology of human civilization […] is a matter of states functions imposed according to constitutive rules and procedures.” (Searle J. R., 2005, p. 9).

Searle distinguishes between two functions of constitutive rules. Constitutive rules of the form “X counts as Y in C”, as mentioned above, “create” a certain event or entity: an institutional structure. But they also regulate behaviour, and, consequently, in most cases, they behave also as regulative rules[8].

Let us see, for example, the case of a real estate lease agreement. A written signed piece of paper counts as a lease agreement in certain circumstances. This lease agreement counts as assuming commitments, and assuming commitments counts as a contract. This (constitutive) rules are instances of the mentioned form “X counts as Y in C”. If there are no such rules, there exist no contract. On the other hand, these rules carry rights and duties for the tenant and the landlord, regulated by the same rules.

3. On the roots of NIE

The New Institutional Economics has been shaped primarily from the contributions of Ronald Coase (1937) (1960) (1988), Oliver Williamson (1975) (1985) (1996) and Douglass North (1981) (1990) (2005). These authors assume the institutions as a key factor in explaining the differences in performance between industries, nations and regions because they frame the behavior and the exchanges at the market, business networks, communities and organizations, influencing the results of their interactions.

However, the interest of the economy in institutions has its origins much earlier. German historical school in the late nineteenth and early twentieth century as well as the American institutionalism developed between the First and Second World War have taken institutions as the backbone of their approaches. Following Hodgson

[8] Regulative rules are not necessarily constitutive; they can regulate activities that exist independently of the rule.

(2009), while the former were united by a concern to make economic theory sensitive to individual culture and historical conditions, the latter retained the emphasis of Thorstein Veblen on the central analytical importance of institutions and institutional change, and insisted that markets themselves are institutions partially constituted by the action of the state. The American institutionalism also remarked on the notion of endogenous preferences[9] and embraced an empirically driven view of scientific enquiry, and a policy focus on remedial action by the state to deal with poverty, unemployment and business recessions.

In his paper “The institutional economics and development” (1993), Douglass C. North begins exposing briefly and simply his view of NIE in order to describe how it differs from neo-classical theory. He argues:

“[NIE] is an attempt to incorporate a theory of institutions into economics. However in contrast to the many earlier attempts to overturn or replace neo-classical theory, new institutional economics builds on, modifies, and extends neo-classical theory to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken. What it retains and builds on is the fundamental assumption of scarcity and hence competition -- the basis of choice theoretic approach that underlies microeconomics. What it abandons is instrumental rationality—the assumption of neo-classical economics that has made it in an institution-free theory.”

North[10] argues that in fact individuals possess incomplete information and limited mental capacity to process information. If this were not so, in an instrumental rationality world, institutions would be unnecessary, ideas as well as ideologies would not matter and efficient markets both economic and political would characterize

[9] “Individual preferences cannot generally be taken as given but must be regarded as partly moulded by institutional and cultural circumstances” (Hodgson, Institutional Economics into the Twenty-First Century, 2009, p. 5)

[10] North (1993, p. 1) quotes Herbert Simon who has properly summarized the implications of instrumental rationality assumption in neo-classical economics:
“If we accept values as given and constant, if we postulate an objective description of the world as it really is, and if we assume that decisionmaker’s computational powers are unlimited then two important consequences follow. First we do not need to distinguish between the real world and the decisionmaker’s perception of it: he or she perceives the world as it really is. Second we can predict the choices that will be made by a rational decisionmaker entirely from our knowledge of the real world and without a knowledge of the desicionmaker’s perceptions or modes of calculation (we do, of course, have to know his or her utility function).” (Rationality in Psychology and Economics, 1986, p. 210)

economies. Since this does not happen, humans impose restrictions on human interaction to structure exchange. However, it does not mean that institutions are efficient. In this world, ideas and ideologies do play an important role in the elections and the transaction costs lead to imperfect markets. So, he thinks incomplete information and limited mental capacity by which information is processed determine the transaction costs which underlie the formation of institutions. That is the reason why institutions are created to reduce uncertainty in exchange. This means that, according to North's characterization, NIE´s goal is: Through transaction costs incorporation, that allow the rise of institutions, to extend existing theory in order to remove the assumption of instrumental rationality.

In relation to what was previously mentioned, not only North, but also Williamson, in his own characterization of NIE, points out that what is done is complementary to and not a substitute for traditional analysis (Williamson O. E., 1975, p. 1). In this regard, Langlois (1986) notes that despite NIE emergence and development assume a predecessor, Carl Menger would probably be NIE's patron saint, more than it could be any one of the original institutionalists. Langlois refers to those ideas of Carl Menger about institutions as a means of reducing transaction costs that would, a century later, be signaled by North and Williamson as it has been summarized in the preceding paragraphs.

Following Hodgson (2009), Carl Menger (1871) uses the well-known problem of a lack of a general *double coincidence of wants,* that arises from a barter economy, to develop his brilliant explanation of the origin of money as an institution. Briefly, to deal with the *double coincidence of wants* problem, Menger argues traders look for a convenient and frequently exchanged commodity to use in their exchanges with others. Once such usages become prominent, a circular process of institutional self-reinforcement takes place. Emerging to overcome the difficulties of barter, Money is chosen because it is convenient, and it is convenient. because it is chosen. This circular positive feedback leads to the emergence of the institution of money. In Menger words:

"…it is evident that nothing favores the rise of money so much as the long-practiced, and economically profitable, acceptance of highly saleable goods (*Waaren*) exchangeable for all others by the most astute and capable economizing individuals.

Thus, custom and practice contributed to convert the commodities that were most saleable at a given time into commodities accepted, not just by many, but by all economizing individuals in exchange for their own goods…” [11]

In fact, NIE is not born as a resurgence of traditional institutionalism but develops from the heart of modern orthodox theory itself. Hence the irony noted by Hodgson (1988) that original Veblen and others traditional institutionalism had emerged largely as a critique of orthodox assumptions[12].

In short, according to NIE as described by North and Williamson, institutions emerge from the existence of transaction costs that arise from the limited and incomplete capacity of humans to analyze data which leads them to make decisions resulting in imperfect markets. Thus, institutions are created in order to generate exchange modes that reduce transaction costs. The two institutional modes in which NIE focuses are: internalization of coordinating of resources allocation within the firm (*make*) and coordinating of resources allocation through the market (*buy*).

4. Make and Buy

One of the leading objectives of NIE is to study the causes and consequences of different modes for governing the allocation and coordination of resources in an economy. To find these causes NIE focuses on the role of transaction costs instead of indivisibilities or technological nonseparabilities, on which the theory was used to rely, getting a very insufficient explanation of nonmarket organizations (Williamson O. E., 1975). In Williamson words: “I focus on transaction and the costs that attend completing transaction by one institutional mode rather than another“ (Williamson O. E., 1975, p. 1)

[11] Authors own translation. Menger original quote: “…so ist auch klar, dass nichts so sehr die Entstehung des Geldes begünstigte, als die Seitens der einsichtsvollsten und tüchtigsten wirthschaftenden Subjecte zum eigenen ökonomischen Nutzen durch längere Zeit geübte Annahme eminent absatzfähiger Waaren gegen alle andern. Solcherart haben Uebung und Gewohnheit sicherlich nicht wenig dazu beigetragen, die jeweilig absatzfähigsten Waaren zu solchen zu machen, welche nicht nur von vielen, sondern von allen wirthschaftenden Individuen im Austausche gegen ihre Waaren angenommen wurden…” (Grundsätze der Volkswirtschafstlehre, 1871, p. 255)

[12] Further details between the Austrian School and traditional Institutionalism see: Caldwell (1989)
More information concerning the relation between the Former and NIE see: Iacobuta (2007)

Going back to Ronald Coase (Coase R. H., 1937), NIE tries to understand the reasons to coordinate the allocation of resources using firms or market. Following Sykuta (Sykuta, 2008), the explanation that Ronald Coase proposed to that enquiry was;

I) The price mechanism is not costless, so sometimes it would be cheaper to use internal organization to allocate the resources.

II) The firm's managerial and coordination costs increases at the same time the firm scale and heterogeneity of transactions do. So, these costs will go on increasing to the point where marginal cost of completing the transaction of another resource into the firm is higher than attending to complete that transaction at the market.

So, the decision to internalize resource allocations or use the price mechanisms can be made using a marginalist approach. This approach is to compare the marginal cost of transacting one more unit of resource by each institutional mode. In simpler words, the aim is to decide whether to *make* or *buy* it!

Although a comprehensive description of these two institutional modes is out of the scope of this paper, the following paragraphs describe both of them considering the relevant aspects that may be useful for Searle's characterization of institution.

The market institution refers to a broad manner in which price and quantity for trade are agreed. In the ordinary sense a market is a physical place where there are sellers offering products or services they want to sell and buyers who want to buy them. In an institutional sense, the market is a specific mode of transaction governed by a price mechanism.

Typically, there is a price posted by a seller and fixed for some duration. Then, each buyer can accept or reject this price. Sometimes, the price posted can be seen as an invitation to a negotiation, so buyers will offer a lower sum[13] that can be accepted or rejected, and so on, until the time at which it is decided whether or not the transaction

[13] Usually, in modern society, this process implies the existence of prototypical money. But you can also consider a barter economy.

is performed. Of course, there are many other possible combination of structures[14] and sequences of interaction between bids and offers to reach the quantity and price that will govern the transaction.

Initially, the transaction at the market would be the simplest and more usual way to transact. In a monetary economy, the market transaction may simply imply an exchange where the buyer gives to the seller a monetary sum according to the price posted by the latter and then receives from her the good or service purchased.

Since dealing with suppliers and subcontractors entails risks and incentive problems, such as moral hazard and adverse selection (Platteau, 2008) , transaction at the market may be a little bit more complicated in relation with the simplest example. An easy way to understand this problem is exposed by Éric Brousseau in "Contracts: From Bilateral Sets of Incentives to the Multi-Level Governance of Relations" (2008, p. 38):

"…The gap between the moment at which a promise is made and the time it has to be honored generates risks because the reason that made the parties likely to give what they promised may have changed. First, one of the parties (she) in question may have received what the other (he) was ready to give. She is therefore better off if she does not deliver, or if she delivers less than expected. Second, the situation may simply have changed and she may have better trading opportunities with other partners in the economy…"

Then it would be beneficial to take precautions in order to ensure the fulfillment of the promises in each of the situations that could trigger a default of them. This leads to two observations:

i) Taking precautions is expensive.
ii) It is impossible to know all the states of nature that would lead to a breach of promise, which means that the transaction has an inherent risk.

[14] Market structure refers to characteristics of a market, such as the number and relative strength of buyers and sellers and degree of collusion among them, level and forms of competition, extent of product differentiation, and ease of entry into and exit from the market.

As further precautions are taken to ensure the fulfillment of promises, risk is reduced but the transaction costs rise to the point where it is more convenient to internalize the activity (*make*) instead of performing the market transaction (*buy*).[15]

At the other extreme, there is the option to coordinate the allocation of resources into the firm in order to avoid market risks. It is the so called "Hierarchies" scheme, where there are people (employees) that promise to fulfill certain kind of tasks they are commanded to (subordinate to the authority) by other people (employers or their representatives) as long as they are promised a remuneration (salary) for their activities within the organization.

It should be noted that as in market transactions, the coordination of the allocation of resources within the firm involve promises, which again involves risks, such as moral hazard and incentive problems. In part, the employment relationship reduces risk because the existence of a lasting bond between the parties creates incentives for both of them to fulfill their promises. Then, the existence of certain states of nature that can lead to non-fulfillment of the promises establishes the framework for the emergence of new institutions[16] aimed at reducing the costs associated with those risks. For example, unions, labor contracts, labor laws, etc.

5. Matching *Make* and *Buy* with Searle´s logical structure for institutions

Even if Searle's presentation of the structure of institutional facts lacks of precision and it is not formal enough to express adequately phenomena as iteration, the foundation of rules and norms or the clear distinction between generic facts and specific cases, it constitutes a useful general framework to reconstruct Williamson's account, and to study the causes and effects of different modes for governing the allocation and coordination of resources in an economy. So, the problem consists in determining the different processes of buying and making as "institutional modes" by means of which the allocation of resources can be accomplished. The main idea

[15] It seems evident that between the market and the firm there is a wide grey range of organizational structure. The complexity of this great gray area, "hybrid" accordingly to Williamson (1991), is widely covered by contractual theories. However, the analysis of it is out of the scope of the present paper.

[16] Just as in the case of market transactions, at this time, the article only aims to give intelligible framework for the institutional option to assign and coordinate resources within the firm, leaving aside the treatment of the new institutions that arise as a result of early institutional relationship under analysis (the firm).

should be that the usual coordination mode of allocation of resources for a task is the fact that gives rise to an institution.

As it was shown in section 2, institutional facts obey the general structure “X counts as Y in C”, so that our main task is to fix the values of X, Y and C for the specific case of coordination of allocation of resources. In general, a context C can be conceived as a finite structure $\langle W_1, W_{2,} \ldots, W_n \rangle$ of facts or events of every kind[17].

Only two contexts are relevant for our purposes. Following the description already given in section 3 these two possible (unitary) contexts are:

$C_1 = \langle W_1 \rangle$, where W_1 represents the fact that the cost of coordinating the allocation of resources by means of the market (m) is lesser than the cost of coordinating the allocation of resources within the firm (f).

$C_2 = \langle W_2 \rangle$, where W_2 represents the fact that the cost of coordinating the allocation of resources within the firm (f) is lesser than the cost of coordinating the allocation of resources by means of the market (m).

Then, $C_1 = m < f$ and $C_2 = f < m$ ([18])

There are two convenient remarks in these respect:

- First, although it is obvious that the costs can nor tend to infinite nor be negative, it is not necessary to establish the range of values that they can take, due to the fact that it is only relevant the relation among them which does not depend on the particular value.
- Second, these costs are not only the production costs but also the associated costs to coordinate the allocation of resources in this particular way, the famous transaction costs. Some examples are those mentioned in section 4 (moral hazard, managing, etc.)

Now, the way X of coordinating the allocation of resources can adopt two particular ways, that is:

[17] For the present discussion is not essential to make a neat distinction between facts and events as ontological entities.
[18] The third case where W_1=W_2 is not relevant for the purposes of this analysis.

X_1: Buy

X_2: Make

Both as defined in section 4.

In order to define the regularized way of coordinating the allocation of resources in a particular context, NIE considers two possibilities:

- *Buy* is the regularized mode of coordinating the allocation of resources when $W_1<W_2$.

- *Make* is the regularized mode of coordinating the allocation of resources when $W_2<W_1$.

In terms of Searle´s structure of institutional facts:

- X_1 counts as Y en C_1

- X_2 counts as Y en C_2

Where Y represents the regularized way of coordinating the allocation of resources. These institutional facts in terms of Searle (2005) are those institutional modes noted by Williamson (1975).

In fact, these sentences represent “general (institutional) facts”, that are (hypotetically) valid in every time and space, given certain context. They can be used as basis for norms and can have instances related to specific situations, processes and objects, in a particular space and time. These facts are *economic* facts, because they refer to the allocation of resources.

Finally there as there is exists a system of constitutive rules (two) of the form *X counts as Y in C*, this is an institution in Searle´s conception.

It may be observed that both the regularized way of coordinating the allocation of resources as well as the context itself can prompt the rise of further institutional facts. That keeps with Searle´s alleged idea that institutions can be iterative. Regarding to Searle´s account, let us consider an example of iterated institutional facts. As seen in section 2, Searle considers that an institutional fact is any fact that can be represented trough the semiformal structure: *X counts as Y in C*. Suppose now the case of *make*. Coordinating the allocation of resources within the firm (X_2) counts as a regulated way of coordinating the allocation of resources (Y) in a given context C_2. But this institutional fact gives rise to the possibility that the firm can provide the market with a new good or service in which case further institutional fact (thinking about NIE) will take place, and so on.

6. Conclusion

In the preceding sections it was attempted an elucidation of the implicit meaning of institution in the particular case of NIE (more precisely Williamson characterization of NIE) in order to reconstruct it in terms of the formal and more general Searle's characterization of institution.

In NIE, the notion of institution is implicit in the analysis of the different modes for governing the allocation and coordination of resources in an economy. Using Searle's institutional conception of social reality, the two different modes of "buy" and "make" are described as modes of *institutional facts*. According to the NIE, the elements in each case have specific characteristics that have their origin in the context of the two different ways of attempting to complete transactions.

This description provides an elucidation of the social ontology underlying these economical phenomena, giving an answer to the questions referred to ontology, existence and form of institutional reality that takes into account the NIE specificities.

Now, the notion of institution resulting from the framework of the NIE (at least as defined by Williamson) has been analyzed, and fit properly in Searle's formal characterization based on the general structure "*X counts as Y in context C*".

Although this is a first approach and it is expected to extend the analysis to other economic fields, the preceding discussion suggests that economical phenomena may be *regularized actions* of economic agents which are the result of (collective) intentionality and of their particular actions, like assignment of functions to objects and they have the formal structure defined by Searle.

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