This paper explores the role of the third sector in the institutional economics theory of John R. Commons, a classic writer in the tradition of original American institutionalism. One of the central tenets of John R. Commons’ institutional economics is that human conflicts can be overcome in the framework of going concerns that are structured by working rules. Going concerns are very diverse and include, e.g., families, states, corporations, trade associations, trade unions, cooperative associations, employers’ associations (Commons 1990; 1970). Social interaction within going concerns takes the form of transactions classified by Commons into three types: bargaining, managerial, and rationing.

The present paper is concerned with the way a particular type of going concerns – third sector organizations – can be fitted into Commons’ typology of rationing, managerial, and bargaining transactions. The challenge of doing so is related to taking account of the democratic self-governing character of these organizations. While, according to Commons, managerial and rationing transactions occur between legal superiors and legal inferiors, member of third sector organizations are legal equals. At the same time, in Commons’ typology, legal equality is characteristic of bargaining transactions, yet these transactions occur between parties with opposite economic interests, such as buyers and sellers, or labor unions and employers. In contrast, members of third sector organizations have common economic interests (related to realizing the mission). This research objective gains additional importance from the need to identify the position of the third sector in the new institutional economics market-hierarchy continuum (e.g., Williamson 1996).

The paper addresses this research problem by introducing two dimensions of bargaining, managerial, and rationing transactions: the extent of legal equality of transactional participants and the extent of commonness of their transactional interests. These two dimensions are helpful in constructing a classificatory framework that positions third sector organizations with respect to rationing, managerial, and bargaining transactions, as well as to market and hierarchical transactions. In contrast to all these transaction types, third sector organizations are shown to combine legal equality with commonness of their participants’ interests.

Dimensionalizing Commons’ typology of transactions with respect to the legal equality of transactional participants and the commonness of their transactional interests yields three implications for the new institutional economics framework of institutional choice between markets, hybrids, and hierarchies. First, the suggested framework reinforces Commons’ emphasis on citizenship in going concerns that is missing in the new institutional economics treatment of markets, hybrids, and hierarchies as incentive structures. By framing institutional choice in terms of combating opportunism, new institutional economics fails to take account of the various forms of citizenship behaviour, which is of particular relevance to third sector organizations (cf. Valentinov 2008). Second, and related, the suggested framework potentially sheds light on the under-researched issue of positioning of third sector organizations with respect to markets, hybrids, and hierarchies (cf. Evers 2008). Specifically, the distinctive rationing transactions of third sector organizations are based on the significant commonness of interests of transactional participants. By being conceived as alternative opportunism-combating devices, markets, hybrids, and hierarchies emphasize divergence, rather than commonness, of these interests, thereby suggesting the need to extend the market-hierarchy continuum to make it incorporate the third sector (cf. Lohmann 1992).

The third implication of the paper is that commonness of interests can be regarded as a criterion of institutional choice between third sector organizations, on the one hand, and markets and hierarchies, on the other. Specifically, the for-profit sector provides an appropriate institutional framework for governing transactions presupposing divergent interests of transactional participants, while their common interests may best be pursued through third sector organizations. Whereas the institutional choice within the for-profit sector is relatively well explained by Williamson’s (1996) criteria of asset specificity, and frequency and uncertainty of transacting, the institutional choice between the third and for-profit sector can be accounted for in terms of commonness of transactional participants’ interests.
References


