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THREE COMMENTS ON EMMA TIEFFENBACH'S REVIEW

Francesco Guala*

Emma Tieffenbach has written an insightful and balanced review of *Understanding Institutions*, for which I am very grateful. Inevitably, she has also highlighted some shortcomings: I thank the editors of the *Annals* for giving me the opportunity to comment and, I hope, clarify those aspects of *Understanding Institutions* that have disappointed her.

I will address Tieffenbach's three main critical comments in reverse order. At the end of her review Tieffenbach suggests that the rules-in-equilibrium approach will leave some social constructionists cold: while coordination games with multiple equilibria are able to capture the contingency of social institutions, they also imply the 'equivalence' (in moral or political terms) of prevailing and alternative institutions.

I suspect that this remark is based on a misunderstanding: the concept of coordination game does not presuppose that the payoffs of alternative equilibria are equivalent. Except in a few special games (such as the driving game), individual payoffs typically differ and privilege some players. Take the game in Table 1, for example:

	A	B	C
A	3, 2	0, 0	0, 0
B	0, 0	2, 5	0, 0
C	0, 0	0, 0	4, 4

Table 1. Coordination game with unequal payoffs

In this peculiar version of 'battle of the sexes', the players may be trapped in a suboptimal equilibrium (AA) simply because they are not aware of the existence of better solutions, or because they fear that an institutional reform will make them worse off. But clearly we can say that AA

* Università degli Studi di Milano. Address for correspondence: francesco.guala@unimi.it.

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is inferior to CC, given some fairly uncontroversial normative principles. Thus social constructionists need not be hostile to game theoretic analyses of oppression – not for this reason, at any rate.

The issue of payoff distributions lurks also behind Tieffenbach's earlier comment that 'the notion of equilibrium does not account for the coercive aspect of discriminatory institutions'. I know by experience that most people find the idea that slavery may be a coordination equilibrium (hence, mutually beneficial!) deeply counterintuitive. The problem, I think, is that we intuitively compare the costs and benefits of an institution against some paradigmatic (sometimes real, sometimes utopian) 'just' alternative. But the existence of a better alternative is compatible with the claim that slaves play their part in maintaining the institution of slavery. Take the following game for example:

	A	B
A	5, 1	3, 0
B	3, 0	3, 3

Table 2. Coordination game with power asymmetry

The BB solution looks clearly better (more just) than the AA solution. Yet, the row player – who is better off in AA – has more bargaining power than the column player (because the payoffs are asymmetric when the AA institution breaks down). This is an accurate (albeit sketchy) representation of those historical situations in which an overwhelming asymmetry of power leaves one player (an ethnic group, or an entire people) facing the dire choice between living under an oppressive regime or going extinct. So the coercive aspects of institutions *can* be represented in game-theoretic terms, by means of appropriately designed coordination games (see also Cudd 1994).

Tieffenbach's second critical point concerns my treatment of normativity. This is an aspect of *Understanding Institutions* that has left several readers unhappy, but to offer a theory of normativity was never part of my plan. I believe that normativity has many sources and comes in different shapes, and I also think that a general theory is unlikely in this area of philosophy. Instead, we should better focus on the *functions* of normativity, that is, on the effects that are brought about by turning institutional rules into norms. These effects may be modelled as perturbations of the incentives, and may help us understand why human beings are so eager to 'moralise' – why, in other words, even the most innocent and irrelevant social practices are often normativised.

The main function of normativity is to stabilize behaviour, to make individuals more predictable in situations in which the incentives may vary. This is clearly an explanation of the *persistence* of behaviour, rather than of its emergence. But as Philip Pettit (1996) has argued persuasively, functional explanations can be helpful even though they fail to live up to Elster's demanding standards.

I finish with Tieffenbach's first critique, partly because it is the most difficult one, and partly because she knows a lot more about Menger than I do (e.g. Tieffenbach 2010). She says that

> The crux of Menger's story … is to dispense with all coordination devices, be they centralized or decentralized. But if this is so, it follows that it is too strong a requirement to ask of institutions that they solve coordination dilemmas. For a coordination dilemma may not characterize all pre-institutional stages.

This is a correct interpretation of Menger's story, I think: the point of invisible-hand explanations is to dispense with coordination devices altogether. Traders are guided only by profit (or utility), and relative prices.

I will only make two comments: first, the fact that convergence on a common currency may occur spontaneously – without a 'coordinator', so to speak – does not mean that the players are not facing a coordination problem. The very fact that different societies develop different kinds of money in similar circumstances suggests that several solutions to the problem of double coincidence of wants are possible. Spontaneous coordination is coordination nonetheless.

Second, it is true that my theory of institutions emphasizes the role of *coordination devices*, and in this sense it departs from Menger's spirit. But it is generally agreed that Menger's story is not entirely adequate, from a theoretical point of view, and that it is not historically accurate. To begin with, Menger struggles to account for the emergence of fiat money. When a completely arbitrary currency is introduced in the economy, it is usually introduced by a 'coordinator'. The latter need not be a national state, as Bitcoin has shown, but some group or organization usually takes the initiative. The moral or political authority of the organization may persuade a sufficient number of people to use the new currency for trading, and keeps sustaining the system of self-fulfilling expectations by sending appropriate signals to the individuals concerned. The 'coordinator' must at least make sure that the currency is not devalued, by keeping its quantity stable in the medium term. But since other equilibria (currencies) are always possible, the prevailing currency gets going mainly because people see no reason to depart from the current convention – *history*, in other words, works as a correlation device. This was Schelling's (1960) and Lewis' (1969) great insight, which I think is still valid after many years. When I applied it to the case of money I found it useful to relate it with Menger's theory, but the result was not meant to be an orthodox 'Mengerian' story.

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