

Institutional economics

Bernard Chavance

University of Paris Diderot

Facultad de Economía,
Universidad Nacional Autónoma de México,

Aug. 22nd, 2018

BERNARD CHAVANCE

BERNARD CHAVANCE

La economía **institucional**

La economía institucional



Fondo de cultura economica, Mexico, 2018

Traducción Christian Escobar Jiménez
Prólogo por Laila Porras Musalem

The « institutional turn » in social sciences

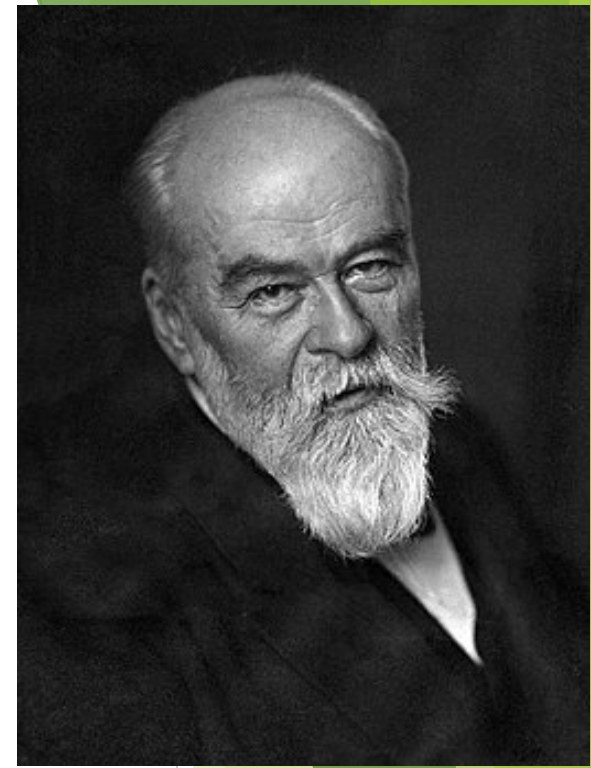
- ▶ Politics
- ▶ Sociology
- ▶ History
- ▶ Geography
- ▶ And... Economics

A field with a contrasted history

- ▶ Original American « Institutional economics » (1900-1940), influential in the US
- ▶ ... marginalized by the dominance of neoclassical theory (1940-1980)
- ▶ Until the fast development of « New institutional economics » since the 1980s
- ▶ In parallel with the modernization of the tradition of « old » institutional economics, specially in Europe

The German historical school

- ▶ “Institutions, of a political, legal or economic nature” form “a framework or mould for the action of successive generations”
- ▶ Institutions : **“a set of habits and rules of morals, custom and law... which are consistent with each other and which constitute a system”**
- ▶ Examples : property, slavery, serfdom, marriage, the market, money, industrial freedom
- ▶ Organs : personal aspect of institutions; marriage is the institution, family is the organ
- ▶ Associations, corporations, communes, firms, the State - are organs, i.e. organizations



Gustav
von Schmoller
(1838-1917)

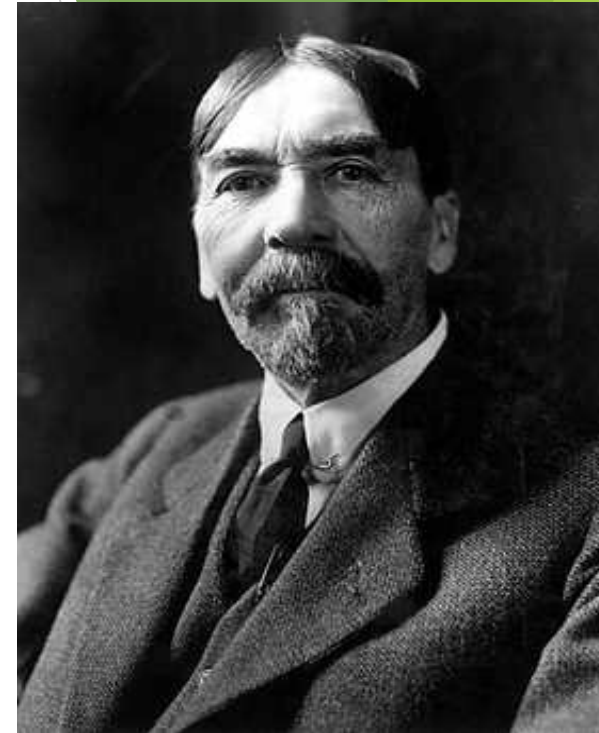
The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the left and right sides of the frame, creating a modern, layered effect. The central area is a plain white space where the text is located.

Original American Institutional Economics

Veblen: an evolutionary institutionalism

- ▶ A critique of « neo-classical economics »: its teleological bias, and its neglect of the role of institutions
- ▶ Economics should become an evolutionary science, concerned with the change of institutions
- ▶ Institutions are *prevalent habits of thought and action*, inherited from the past and never in full accord with the requirements of the present
- ▶ A tension between the change of technology and the inertia of institutions
- ▶ “A theory of a process, of an unfolding sequence” (vs equilibrium approach)
- ▶ Cumulative causation: cause → effect

↑ _____ |



Thorstein
Veblen
(1857-1929)

Institutions: a veblenian view

- ▶ Centrality and ambiguity of institutions in history
- ▶ Institutions constitute factors of order but also possibly disorder
- ▶ They embody knowledge but also ignorance
- ▶ They are subject to
 - ▶ Historical drift
 - ▶ Conversion
 - ▶ Forgetfulness of origins



Walton
Hamilton
(1881-1958)

Commons: an organizational theory of institutions

- ▶ The institution is ‘collective action in restraint, liberation, and expansion of individual action’, or ‘collective action in control of individual action’
- ▶ Going concerns and their working rules compose institutions
- ▶ Society is made of a great number of going concerns (the family, the corporation, the trade union, the trade association, the state)
- ▶ Three types of “transactions”, managerial, bargaining, rationing
- ▶ The “common law method”: legitimate authorities decide conflicts, forming the working rules (for the time being) of a given concern
- ▶ Futurity : individuals act in the present institutions on the basis of their views of the future
- ▶ Search for a “reasonable capitalism”

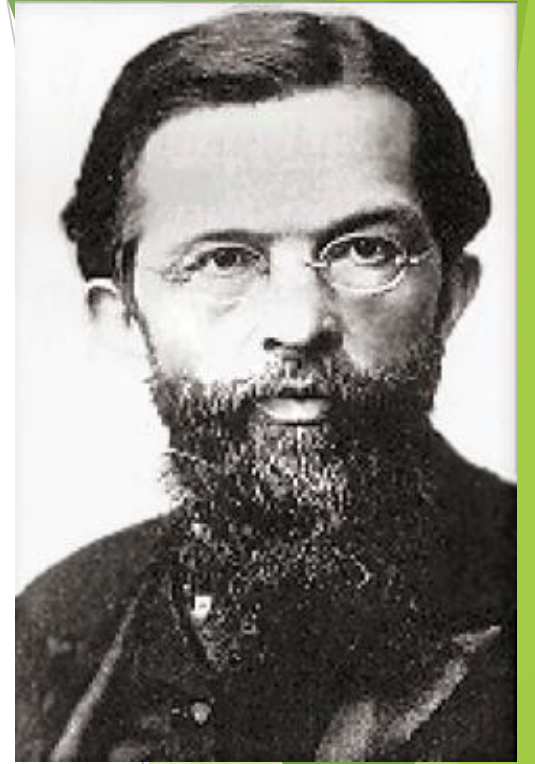


John Commons
(1862-1945)

The Austrian school

Menger: pragmatic and organic institutions

- ▶ Two types of institutions : the first of deliberate, ‘pragmatic’ origin, the second of spontaneous, ‘organic’ origin
- ▶ Organic institutions: money, law, language, markets, communities, the state
- ▶ Individuals strive for personal interest, follow certain rules, others imitate them if they meet success; the unintended result is organic institutions
- ▶ A combination of methodological individualism and of Adam Smith’s « invisible hand »



Carl Menger
(1840-1921)

Hayek: two classes of orders



Friedrich Hayek
(1899-1990)

	Organizations	Spontaneous orders
Type of order	Simple, « made »	Complex, evolved
Direction	Yes	No
Objectives	Yes	No
Rules	Finalized	Non finalized (eg law)
Coordination	Deliberate	Unconscious, unplanned

Spontaneous orders: society, the market

The major error of socialism or of « constructivist » views: to deal with spontaneous complex orders as if they were organizations

Cultural evolution

- ▶ A process of selection which is neither natural nor artificial
- ▶ Rules are initially individual innovations, when adopted by larger groups they lead to distinct cultural traditions
- ▶ They spread through imitation and group selection (decline or absorption)
- ▶ Rules that are more beneficial to the global spontaneous order survive and take root
- ▶ Praise of the British common law model

Critics of Hayek

- ▶ Dichotomous model of orders
- ▶ Romantic anglophilia
- ▶ Ignorance of the interdependence between capitalism and socialism (Schumpeter, 1946)
- ▶ Tensions between political and economic liberalism

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the left and right sides of the frame, creating a modern, dynamic feel. The central area is a clean white space where the text is placed.

New Institutional Economics

Williamson: Transaction costs economics

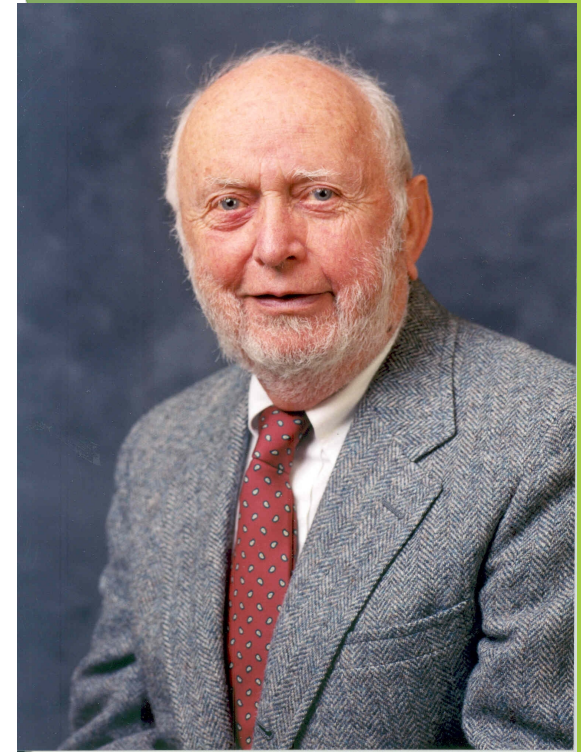
- ▶ Complementary to orthodoxy
- ▶ Inspired by Coase, « The nature of the firm », 1937
- ▶ « New institutional economics » 1975
- ▶ Mains institutions of capitalism: the market, the hierarchy (the firm), hybrids
- ▶ An efficiency approach: the choice between governance modes results from economizing on transaction costs



Oliver Williamson
(b. 1932)

North: the rules of the (economic) game

- ▶ Institutions
 - ▶ formal constraints (rules, laws, constitutions)
 - ▶ informal constraints (norms of behaviour, conventions, and self imposed codes of conduct)
 - ▶ and their enforcement characteristics
- ▶ Institutions are “rules of the game”, organizations are the players
- ▶ Holders of power determine formal institutions, which are not based on efficiency
- ▶ Institutional change is essentially gradual; formal rules may be changed fast, but not informal rules; transfer or imitation of institution is not a sufficient condition for good economic performance



**Douglass North
(1920-2015)**

Mental models and ideologies
(beliefs)



Institutional framework of polity and economy



Incentive structure



Organizations



Policies



Performance

Acemoglu: institutions as the key to economic success

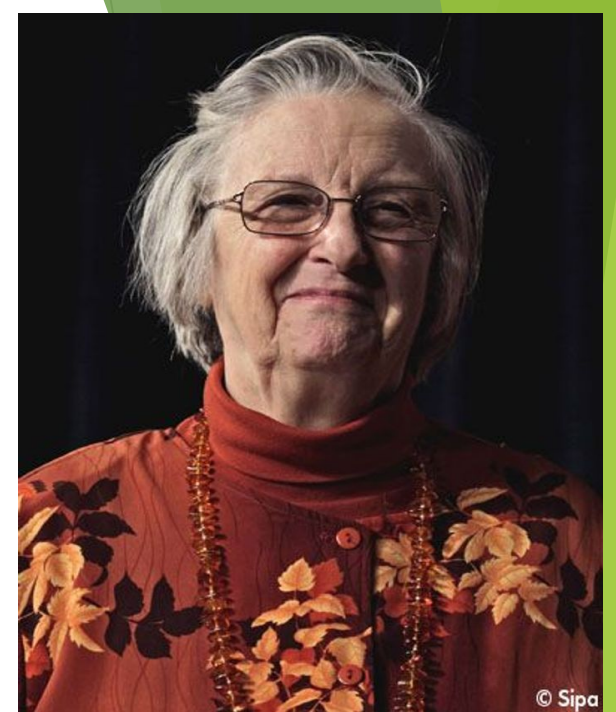
- ▶ Extractive vs inclusive institutions
- ▶ **Inclusive institutions** include secure property rights, law and order, state support for markets; free entry of new businesses; « level playing field », they are linked to political democracy
- ▶ **Extractive institutions in favor of elites** are obstacles to long-term growth
- ▶ Influence of political institutions on economic institutions (vs the « culture » explanation)



Daron
Acemoglu
(b. 1967)

Ostrom : diversity of institutional arrangements

- ▶ Complex and polycentric systems
- ▶ Institutional diversity
- ▶ 3 levels of rules: the operational level, the collective-choice level, and the “constitutional” level
- ▶ Commons’ influence → Rules : understandings by actors of *enforced* prescriptions concerning what actions are *required*, *prohibited*, or *permitted*
- ▶ Analysis of common-pool resources: numerous collective institutional arrangements that disprove the « tragedy of the commons »
- ▶ Against institutional panaceas



Elinor Ostrom
(1933-2012)

Neoliberal radicalization : « quality of institutions » (2000s)

- ▶ « Good institutions » characteristic of the anglo-american model of capitalism, « bad institutions » typical of other models
- ▶ Good institutions : economic freedom, private property, rule of law, clearly delineated property rights, flexible labor market, shareholder oriented corporate governance
- ▶ Econometric studies : institutional quality/growth
- ▶ Diverting the institutional turn in a neoliberal perspective

Controversy over neoliberal institutionalism

- ▶ World Bank and the IMF (with their conditionalities), and the OECD, the G7, the World Economic Forum, promoted the adoption of such « good institutions » of the neoliberal model
- ▶ World Bank « Doing Business » Reports
- ▶ But « Global standard institutions » favour the rich over the poor, capital over labour, and finance capital over industrial capital (Chang 2011)
- ▶ « Good institutions → Development » : ignores the reverse causality « Development → Institutional improvement »

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the left and right sides of the frame, creating a modern, layered effect. The central area is a plain white background where the text is placed.

European heterodox institutionalisms

The French Régulation school

- ▶ Five institutional forms of the fundamental capitalist relations:
 - ▶ Monetary and financial regime
 - ▶ The wage-labour nexus
 - ▶ Forms of competition
 - ▶ Insertion into the international regime
 - ▶ Forms of the State
- ▶ Diversity of capitalisms: eg Amable 2003
 - ▶ Market-based capitalism
 - ▶ Social democratic capitalism
 - ▶ Asian capitalism
 - ▶ Continental European capitalism
 - ▶ South European capitalism

Robert
Boyer
(b. 1943)



The nature of institutions

- ▶ ‘Institutionalized compromises’ between social groups in conflict
- ▶ The emergence of new institutions often follows crises, conflicts or wars, it takes place mainly in the framework of the nation state
- ▶ Imitated or imported institutions are generally transformed in the process : hybridization
- ▶ **Complementarity**, and **hierarchy** of institutions (eg dominance of the wage-labour nexus in Fordism, dominance of the monetary and financial regime in contemporary neo-liberal capitalisms)

Accumulation regime, mode of régulation

- ▶ The *accumulation regime* corresponds to a pattern of regular growth
- ▶ The *mode of regulation* represents the process of maintaining through time the relative stability of a contradictory system through fluctuations and negative feedbacks
- ▶ Recursive causality between the institutional framework and the modalities of economic growth : institutionalized compromises shape accumulation regimes, but *structural crises* are generally overcome through the restructuring of institutional forms
- ▶ Question of *viability* of an institutional configuration, rather than one-dimensional “performance” (growth)

Hodgson and the revival of original institutionalism

- ▶ Institutions are systems of established and embedded social rules that structure social interactions
- ▶ Rules are socially transmitted and customary injunctions that « in circumstances X do Y »
- ▶ Organizations are special institutions that involve
 - ▶ (a) boundaries and a distinction between members and non-members
 - ▶ (b) principles of sovereignty concerning who is in charge
 - ▶ (c) chains of command
- ▶ Actor and institutional structure, although distinct, are connected in a circle of mutual interaction and interdependence.



Geoff Hodgson
(b. 1946)

From a darwinist approach to legal institutionalism

- ▶ Evolutionary institutionalism: the three main principles put forward by Darwin - variation, inheritance and selection – hold for institutions
- ▶ Legal institutionalism : the fundamental role of law in the institutional setup
- ▶ Capitalism, property, money, markets, and corporations depend on, and are partly constituted by, the state
- ▶ Property is an essential institution, but the theory of property rights deals neither with property (only with possession) nor on rights (it underestimates legal titles sanctioned by the state)

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the left and right sides of the frame, leaving a large white central area. The shapes are composed of triangles and quadrilaterals, some of which are semi-transparent, creating a layered effect.

To conclude

Common theses in different theories of institutional economics

- ▶ Institutions, and history, matter for understanding the economy
- ▶ Institutions determine the economic system, and influence economic development and growth
- ▶ The neoclassical tradition is unsuitable to approach the question of institutions
- ▶ The problem of *change* is central, different temporalities of change intersect
- ▶ A *process* view is favoured over an *equilibrium* approach
- ▶ Cumulative causality or path dependency are at work
- ▶ *Emergence* - new forms or new processes result from lower levels interactions
- ▶ A positive relation to other social sciences

A remarkable diversity

- ▶ Differences between Original IE and New IE, and diversity within both groups of theories
- ▶ Methodological individualism vs holism in methodology (but also opposition to such dichotomy)
- ▶ Doctrinal stances in relation to economic liberalism: from a radical critique (German historicism, Régulation theory) to a resolute defense (Austrian school)
- ▶ Preferred social science for interaction: history, sociology, political science,...

Theoretical and doctrinal differences

- ▶ Analysis focused on institutions established top-down, in a deliberate fashion, or bottom-up, through spontaneous evolution
- ▶ The focus may be on formal or informal institutions
- ▶ The general perspective may be the reform of existing institutions, or their conservation
- ▶ It may be motivated by a critique of capitalism (Veblen) or of socialism (Hayek)
- ▶ Diverse views of human psychology and behavior may be mobilized
- ▶ Various specific institutions may constitute the model for a general theory of institutions: money, the state, law, property, the market, the firm...

Institutional economics remains a large and diverse family

- ▶ This family includes many differences found in economics in general, some of which are profound
- ▶ However there are many examples of coming closer or overlapping between different theories in that family
- ▶ Debates and controversies between different institutionalist theories contribute to reduce their incomplete character, but does not lead to convergence
- ▶ Differences in institutionalist theories do not exclude elements of complementarity
- ▶ The captivating field of institutional economics is largely open to future developments and new insights

Muchas gracias !