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Institutional form (blueprints) and institutional function (process): Theoretical reflections on property rights and land

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ABSTRACT

This paper is concerned with the question how we should understand cases on property rights in general, and on land economics in particular, in which a remarkable level of growth (or other measures of institutional performance) is combined with so-called ‘perverse’ institutions. That is to say institutions that are not proposed by the neoliberal politics, in which the insights of mainstream economics (orthodoxy) and especially the economics of property rights and related market policies based on formal competition and corporate laws, figure prominently. This approach works out of the idea that societal objectives can be realized by following the blueprint of establishing the ‘right’ institutions, so the behavior of the actors in society is incentivized in the right direction and the societal objectives such as efficiency, innovation, and economic growth are realized. In this approach economic policy is about creating the right institutional form of the economy according to the “blueprint” of neoliberal politics, which is based on mainstream economics, also known as neoclassical economics (NCE), or orthodoxy. This paper will review various theoretical positions that might substantiate or provide credence to an alternative view based on the function of institutions.

1. Introduction

In an earlier paper published in this journal (Ho, 2014), the proposition is made that in the economies like China, property rights emerge in a spontaneous way out of the interactions of actors, which do not have the form of the institutions the blueprint of mainstream economics would prescribe. Nevertheless they fulfill functions in the economy, and the land-based economy in particular, in such a way that the behavior of actors results in impressive growth figures or other indicators of positive institutional performance, such as can be expressed in terms of lower transaction costs or greater sustainability. Consequently it is argued that existing property rights and institutions should be analyzed about their function and not their form. While form is linked to ‘intentional, purposeful design’ (blueprint), function is related to unintentional, spontaneous emergence’ (process) (Ghorbani et al., 2021). The proposition has its companion in the so-called credibility thesis (Ho, 2014, 2): institutions in society spontaneously emerge out of the behavior of individual actors and evolve in such a way that they are credible for the members of society. “In different wording, institutional function presides over form; the former can be expressed by its credibility, that is, the perceived social support at a given time and space” (Ho, 2014). When institutions fulfill specific functions and their form (private, collective,

common, or public) is not of interest, it is suggested that another paradigm than mainstream economics, would be appropriate to understand how the “perverse” institutions emerge and function (Zheng and Ho, 2020). In this paper I will discuss how the two approaches towards institutions and property rights have found their place in economics and how both would understand and explain institutions and institutional change. I will discuss how mainstream economics is of a blueprint nature but frequently uses concepts as ‘spontaneous, evolution and credibility’. I will also discuss heterodox economics, of which I consider the so-called Original Institutional Economics the core, and show how that type of economics connects well to the process perspective on institutions and the credibility thesis.

The paper is organized as follows: in the first section I discuss the blueprint approach, as we know it from the centrally planned economies, as well as the market economies. In planned economies the political system imposes the policy objectives upon the economy and makes a blueprint of all institutions, including the state owned enterprises and agricultural collectives, involved in realizing the objectives by means of command and control. In the market economy, we also often see a blueprint approach: if the “right” institutions of mainly formal laws (competition and corporate laws) are put in place, the market mechanism will automatically realize the best performance possible. The

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blueprint approach of the market with its focus on the required form of institutions is grounded in mainstream neoclassical economics. In this section I will elaborate both the static approach based on the work of Williamson and the spontaneous dynamic approach based on the work of Aoki. Both approaches provide insight into the importance of what Grabel (2000) calls ‘external credibility’. In the second section I will discuss the opposite of the blueprint approach: the process approach. I will start with an overview of OIE followed by an explanation of the work of the Bloomington School. Both connect well to the ideas in Ho (2013, 2014, 2017). In the concluding section I will discuss the relevancy of the two approaches for understanding land-based economic developments as the ones in China and selected other countries discussed in this special issue, and make some critical notes.

1.1. The blueprint approach

The blueprint approach is a view on the social system in general and the economy in particular, in which end state and equilibrium are central. This view can be found in both centrally planned economies and market economies.

2. Planned economies

In short: centrally planned economies are part of socio-political systems in which politics determines the objectives of the economy in terms of economic growth, investments, consumer goods and services, and the like. The economy is presented in input-out tables, which makes it possible for a central planning agency to calculate the inputs for each final product. All outcomes can be formulated into commands for the production units (Cave and Hare, 1981). In theory such a centrally planned economy could function, but the ‘socialist debate’ revealed that in practice the information and motivation problems would be insurmountable. Experiments were undertaken with so-called parametric planning in which the right behavior of the actors was incentivized through changes in the prices. Also then lack of knowledge and information about the motivation of the micro actors and the elasticities of their reactions to price changes made the central planning system fail. The theoretical and empirical experiences with the blueprint of the centrally planned economy showed that designing institutions in order to command or decisively influence behavior of micro actors demands an enormous amount of centralized information, a precise calculation of the outcome of their behaviors and a very accurate knowledge of motivations of the actors. As we will see below the idea that these issues can be solved and controlled is also present in modern mainstream economics and translated in neoliberal policies of the World Bank and the IMF (Grabel 2000).

The idea of politically established objectives of the economy and the establishment of a blueprint control mechanism to realize them, has also been experienced in market economies after WWII in France, Japan and later Singapore, Taiwan, Hong Kong and the Republic of Korea. Many other countries followed that model of ‘indicative planning’ with a ‘developmental state’ (Johnson, 1982). The point of the blueprint perspective is that intentionally purposeful institutions were designed and created in order to realize explicitly established economic objectives. In France this happened, for instance, in the beginning (1982–1983) of the presidency of Francois Mitterrand when large banks and industries were nationalized to serve the objectives of ‘Le Plan’.

3. Market economies

When we use the terminology of markets we mostly associate it with ‘autonomous actors, consumer sovereignty and spontaneous developments’ and not with a blueprint. In fact the ideal type of the market economy includes both: the blueprint when it comes to the rules of the game and the corresponding institutions, the autonomy of actors when it comes to their behavior within that well-defined institutional structure

of property rights and competition laws. Below I will discuss the theoretical foundation of the market blueprint model and what kind of institutions and property rights should intentionally be created and made ‘externally credible’ (Grabel 2000). I will focus on two schools in New Institutional Economics (NIE): one of a comparative static nature and the other of a dynamic nature. Before doing so a brief introduction to their neoclassical foundation seems appropriate, because the NIE is based on the same principles.

4. Neoclassical economics

Neoclassical economics is based on methodological individualism: the analysis starts with the construction of individual actors. The actors in neoclassical economics are modelled according to very specific characteristics of rationality (which makes ex ante calculation of optimal combinations possible) and rules of behaviour (maximize utility and profit, minimize costs). The fully informed and knowledgeable actors are positioned in well-defined environmental structures such as the political, cultural, technological, social and economic environment. Of the latter the market structure is most important. In neoclassical economics these environments are given, stable and optimal to support the functioning of the market. Latsis (1976) concluded that neoclassical models are all of a ‘single-exit structure’: given the characteristics of the actors and their environmental structures, logically they have no other option than calculate and ‘choose’ for the one optimal solution, which theory predicts. Core in NCE is the equilibrium approach: competition forces all individual actors to the one and most efficient combination of production factors. When that point is reached none of the actors has an incentive to make changes. Furthermore, NCE claims to be value-free. The wants and subjective valuation of actors are exogenously given, i. e. objective facts for the scientific researcher. A normative analysis of those facts cannot and should not be part of the economists’ scientific inquiry: the positive and the normative should be carefully separated and then, it is claimed, economics is a value-free science. A related tenet to this separation is the claim that the facts are objectively accessible through our senses. In this positivistic approach the facts are so-called ‘brute facts’, i.e. they are in no way constructed by the theoretical concepts used.

5. New institutional economics: transaction cost economics

New Institutional Economics (NIE) addresses questions that were ignored by neoclassical economics: why do institutions like property rights and competition laws exist and why do they matter? In addressing such questions, NIE introduced additional attributes to the economic actor: bounded rationality and opportunistic behaviour. The actors are positioned in complex and uncertain environments implying that they are not able, as in NCE, to eliminate all uncertainties through complete contracting. Hence, to govern their transactions in an efficient way, the actors create institutional arrangements like vertically integrated firms, long-term contracts, and branch associations. Maintaining the value free philosophical and methodological characteristics of NCE,¹ as well as its equilibrium approach, NIE explains that institutional arrangements exist because they are efficient, because they minimize transaction costs.

The theoretical framework out of which Williamson works is presented in Fig. 1 as the ‘Economics of Institutions’.

As indicated in the figure the policy issue at the level of formal institutions is ‘get the institutions right’ (level 1.2.) and when these are in place private actors will then have the right institutional environment to

¹ A distinction is made between the so-called Williamsonian and the Northian branch of NIE (Groenewegen, 2011). In our interpretation we conclude that the former stays in the philosophical and methodological tradition of NCE, whereas the latter departs from it and adopted many characteristics of the original economic institutionalists (see below).

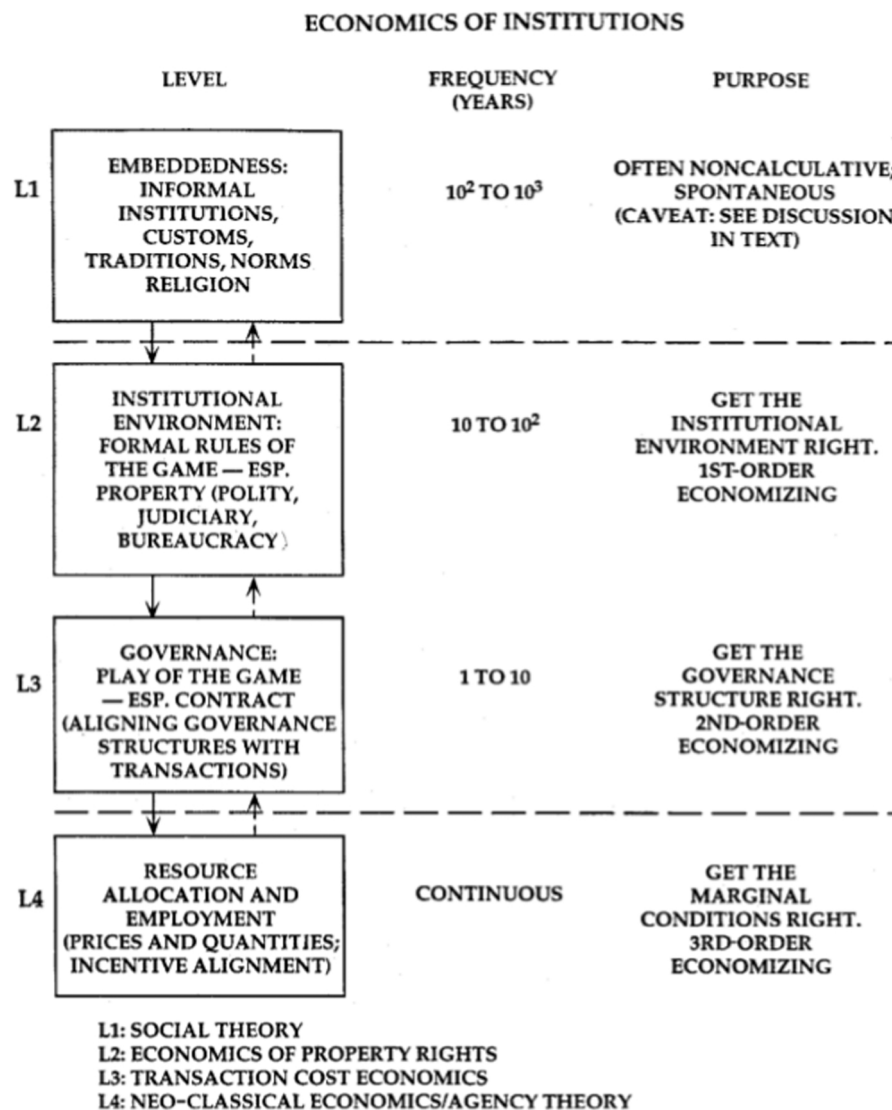


Fig. 1. Theoretical Framework used by Williamson.
Source: Williamson (1998), 26.

allocate resources efficiently (at levels 1.3 and 1.4) (for details see Williamson, 1998). Although Williamson gave most of his attention to the level of institutional arrangements, many of the economists that work in the domain of NIE also apply transaction costs insights to design issues at the level of the formal institutions. Spiller (2013) for instance has demonstrated how the cost of regulation in the form of 'public contracting' in situations of governmental and third party opportunism can be analysed and how institutions can be designed to minimize opportunistic behaviour.

The NIE, at least the Williamsonian branch, connects perfectly to NCE: the same type of optimisation questions, the same type of modelling actors and their environments, and the same type of philosophical foundations about facts and values, make NIE part of mainstream economics. Consequently the explanation of issues of economic growth are much alike: "get the institutions right and get the institutional arrangements right" and then the selection mechanism of markets will produce the best outcome possible. If the system is not working properly the cause should be in not having the "institutions right".

6. Aoki: institutions - as - an - equilibrium

Above we discussed that NIE claims that (political) actors should get

the formal institutions right: a matter of intentional behavior. That is different in the case of informal institutions like norms and conventions (level 1.1 in Fig. 1). In NIE, as presented by Aoki (2001, 2007) the emergence and evolution of that kind of institutions² is explained in a setting of an evolutionary game and the institution is defined accordingly as an equilibrium. When the domain of the game is specified (economic, political, or social) and the choices the agents can make are also specified, then it can be shown that boundedly rational actors will over time create stable institutions. The definition of institutions as social rules that correspond to this approach is formulated by Aoki (2007) (7) as follows :

"An institution is a self-sustaining, salient pattern of social interactions, as represented by meaningful rules that every agent knows and are incorporated as agents' shared beliefs about how the game is played and to be played".

Aoki conceptualizes institutions (and property rights, for that matter) as equilibria, which emerge as an unintended consequence out of

² The concept of the 'institution as an equilibrium' can also be applied to more formal institutions as formal regulations. Here we focus on informal institutions.

the actions of the actors at decentralized level in the system. That is to say the actors behave in a specific way because it is in their own interest to do so and as an unintended outcome an institution like a norm or convention emerges. That behaviour at individual level of the actors can be intentional (they aim at for instance minimising costs) or routinized (not being aware actors follow a specific rule). The point in this evolutionary approach is that institutions can come about under a set of specific conditions without individual or collective action intended to design and create the institution or to change the existing one. Note that such an equilibrium emerges only under a specific set of conditions. One of the conditions is the existence of homogeneous actors: actors must have the same motivation (maximise for instance their own utility), stable preferences, must operate in the same environment and should be informed by the same signals. Furthermore, all actors must consider behaviour in line with the emerging norm to be in their own interest and would like to see others to behave likewise. Each actor discovers that it is costly to ignore the emerging institution and that it is beneficial to copy the behaviour. Behaviour according to the emerging norm reduces uncertainty, or information costs. This insight grows over time when the institution develops and all actors share the same knowledge when the institution is established and is in equilibrium.

The equilibrium approach to institutions is closely linked to the ideas of Hayek. Hayek (1979) compared the emergence of an institution with the creation of a footpath through the forest. A path can come into existence when individuals who travel through the forest follow the track of their predecessors. It is easier for an individual to follow an existing track than to explore whether a new, may be shorter, path can be created. Out of the behaviour of all individual walkers over time a footpath is formed. Note that the original track cut through the woods was not intended to become a footpath: it is created unintentionally and it is self-enforcing. Note also that the spontaneously created footpath is not necessarily the most efficient one and that multiple equilibria can exist.³

Both blueprint approaches discussed above result in the formulation of a set of 'right' institutions, i.e. institutions that will constrain actors and incentivize them such that they are forced to allocate resources in the most efficient, i.e. equilibrium way. Note that there is due to information asymmetries and bounded rationality room for second order efficiencies and note also that multi-equilibria are possible. The core of the message is the existence of a theoretically devised right form of the institutions, that should be imposed on society by government. It is an example of what Grabel (2000) calls 'external credibility'. Note furthermore that the dynamic approach of Aoki applies many of the same concepts we encounter in the spontaneous approach of the credibility thesis, but that the differences are substantial. That will become clearer in the next section.

7. The process approach

In this section I focus on the function of institutions and the idea that functions come about in a (spontaneous) process, in which institutions that fulfill desirable functions emerge and change through the interactions of many (autonomous and anonymous) private and public actors. This process connects in some respect to the view of Aoki, but the fundamental difference is its non-equilibrium nature.

I start with an overview of so-called Original Institutional Economics, because after the classical economists (Smith, Mill, Ricardo) that school of economic thought has put the dynamics of the economic system central stage. After that I will show that many connections and often similarities exist between the OIE and the Bloomington school of Vincent and Elinor Ostrom. The Bloomington school deserves special attention in this paper because it relates closely to the concepts and

terminology in this special issue, with particular reference to the credibility thesis Ho (2013, 2014, 2017).

8. Original Institutional Economics⁴

In the USA at the end of the 19th century Thorstein Veblen was a well-known institutional economist, who was highly critical of neo-classical economics (Veblen, 1899, 1904). In his opinion NCE was too formal and abstract, too static and wrongly based on the theoretical assumption of individual actors that are disconnected from their institutional environment. Until around 1945 an influential group of institutional economists dominated the development of the discipline in the USA. Wesley Mitchell (1927), John R. Commons (1931, 1934) and Clarence Ayres (1944), joined Veblen in his criticism of NCE and underlined the importance of including institutions in the economic explanation (see Gruchy, 1972 for details). The work of those institutional economists is called Original Institutional Economics (OIE). Hodgson and Stoelhorst (2014) (516) quote Hamilton's (1919) (315) founding statement of the institutionalists: "We need constantly to remember that in studying the organization of economic activity.....we are dealing with a unified whole which is in process of development". The core issue institutionalists have been working on from the beginning onwards is the relation between the individual actor and the institutions: what are the characteristics of the actor (motives, instincts, habits), how do institutions influence these characteristics and constrain the actor, what then is the 'latitude of choice', his volition, her will, how and to what extent are institutions designed by intention or emerge unintentionally through numerous anonymous interactions? The function institutions should fulfil, the subjective and common values, are central in institutionalist analysis. How do these values come about and how to resolve conflicting values? It is claimed that OIE is a policy oriented and normative approach. Moreover, dynamics of institutions is not only a matter of a spontaneous process, but can as well be the result of decisions of powerful actors who change institutions in order to have their interests better served. Let me clarify.

With respect to values the OIE developed the so-called social theory of value: Values are not considered to be exogenous to the economy and only based in the individual preferences, but are constituted in a process of interaction between individuals, in which pre-existing values play a structuring role. This fundamental difference between the subjective theory (NCE and NIE) on the one hand, and the social theory of value (OIE)⁵ on the other (Tool, 1986), reflects a number of other differences, like the attributes and motivations of actors, the structures that embed actors and the interaction between actors and structures.

According to OIE, the economy, first of all, is a dynamic system, in which actors of different nature (political, economic, social) with different interests and capabilities and with different degrees of power, take decisions. They act, react, follow, initiate....choose. In doing so, these actors are constrained and enabled by structures such as technology, formal and informal institutions and their own (shared) 'mental maps' (Denzau and North, 1994; North, 2000). In the process perspective on the emergence and dynamics of institutions the economy, the actors, the structures and the values are mutually constituted. Then the concept of function becomes central as well as the concept of system. In short: systems, such as the economy, the political and the judicial systems are parts of the larger social system: the society. The system as a

⁴ This part is largely taken from Correljé et al. 2014.

⁵ Original Institutional Economics (OIE) was after the emergence of NIE often called Old Institutional Economics. We prefer the terminology of Original. The label of Neo-institutionalism is also used for the post war institutionalists like John K. Galbraith, Gunnar Myrdal and others that followed the approach of the Veblen and Commons (see Gruchy, 1972). In this contribution we call the pre- and post-war institutionalists both OIE. (see also Rutherford, 1994 and Groenewegen et al., 1995)

³ Multi-equilibria are also part of the theory of Aoki: different initial/historical conditions result in different equilibria.

whole and its constituent parts fulfil functions to realize the system objectives. Core is the whole, its dynamics and the function of its constituent parts (Wilber and Harrison, 1978).

A second important difference between NCE and NIE on the one hand and OIE on the other is its normative orientation (Bush, 1987; Bush and Tool, 2003). In line with the social theory of value (Correljé et al., 2014), OIE evaluates and designs institutions different than mainstream economics. Firstly, the question about society's collective values is asked: What *ought* to be and what is the end? Then the actual situation is characterized and analysed; the *is*. If there is a gap between the *ought* and the *is*, the question is raised how the gap should be repaired. What kind of change in the institutional structure is required in order to have a more desirable performance of the system?⁶ In order to know about the design of effective institutions in the socio-economic system insight into the motivation and behaviour of social actors is required.

In order to understand the role of individual and collective actors in the process of change, OIE considers a deep understanding of the drivers and motivations of actors of utmost importance. Institutionalists want to know about the “why”, so in case another outcome is desired, they have to know how behaviour can be changed, by means of what kind of interventions. Instincts, habits and customs are seen as important drivers and motivations for human decisions. Habits for instance are dispositions of actors that have evolved over long periods of time and form the basis of many of actor's decisions. ‘Habits of thought’ form the foundation of much of our behaviour and contain past beliefs and experiences, but at the same time human actors have a large capacity to deliberate and to choose; they are also ‘volitional’ (Commons, 1934; Bromley, 2006).⁷ Moreover, actors are well able to identify habits, to analyse how they influence behaviour and to evaluate whether the habits contribute to realizing the desired consequences of actions, or not. If not, then actors can make existing habits and their consequences explicit, and start a process of deliberation in an attempt to change habits. (Bromley, 2006, Hodgson 2004).⁸

In the OIE framework actors are positioned with dynamic ‘cognitive structures’ in an evolving institutional context; actors and structures are mutually constituted. Economic actors are social actors operating in specific institutional environments and markets are institutionalized structures, in which power is equally important as efficiency to understand their performance. It is a fundamental misconception to present markets as neutral anonymous selection mechanisms, in which individuals independently decide, as if they were atoms. Markets are political constructs strongly regulated by informal and formal institutions. In part, these rules evolve spontaneously (especially the informal ones), but they also result from purposeful design.

However, societal interest groups heavily influence the political process of institutional design and redesign. It is characterized by

struggle and conflict because a change of rules almost always implies an adjustment of the distribution of costs and benefits. Consequently markets are best perceived as dynamic systems, in which individual and collective action results in both intended and unintended consequences, in both expected and unexpected consequences. Likewise markets are never in equilibrium, but always in a process of adaptation, transition and evolution or dynamic disequilibrium, as described in (Ho, 2018).

The existence and constitution of collective values is explicitly taken on board in the social value theory. On the one hand values underlie the formal and informal institutions of society, and through that ‘filter’ they determine the (economic) values as terms of exchange (see Dolfsma, 2004, p. 49). On the other hand the analysis undertaken by the economist is not value free; facts are always theory-laden and on top of that theories are value-laden. In contrast to the subjective theory of value, facts and values are no separate categories. Reality is not considered to be composed of objects to which the researcher has direct access, and which would allow for objective knowledge. On the contrary; in order to understand (complex) reality, people in daily life and researchers in scientific inquiry make use of ‘ordering ideas’, like concepts, categories and frameworks that allow for abstraction, and that structure reality.⁹ The world of facts is complex and continuously data have to be sorted out, applying specific standards of relevance (Bush, 2009). In selecting the proper standards, inevitably choices are made and then unavoidably values and value judgments are involved.¹⁰ Facts speak as far as they are considered relevant from a specific value point of view. In the design for values, both markets and non-market institutions enable individuals to reveal their endogenous preferences and values and offer ways to decide about collective values. It is not only about ‘free markets’ where individuals express their subjective values, but also about rules of the game on how collective values ought to be ‘revealed and implemented’. Moreover, the so-called virtue ethics is part of the social theory of values; local, contextual virtues of actors should be made explicit and are also subject to judgment: some virtues are more ‘right’ than others.

In the perspective of the social theory of value, markets are seen as one among the many potential instruments to realize societal values. A well-designed market can be a tool to realize specific (instrumental) values, like an efficient use of assets, but other tools can be considered more appropriate to realize other values, like a more equal distribution of income, a sustainable energy production, or more attention for the cultural heritage in the community. Moreover, designing and implementing markets to allocate goods and services is not ‘value free’ as the subjectivist theory of value suggests. Not only are markets, as discussed, always institutionalized, reflecting specific property and power distributions. Yet, as for instance Sandel (2012) points out, the use of markets in turn influences the norms in society and, as such, markets are not value free and cannot be properly analyzed and evaluated within an isolated economic discipline.

This also holds for non-market institutions: democratic, participatory coordination mechanisms that have an impact on the norms in society are neither value free. In other words: which allocation mechanisms are preferable not only depends on their efficiency attributes. It should also depend on its positive or negative impact on the values and norms a society wants to endorse. To judge, values are investigated on their consequences for the well-being of the members of the society: What are the consequences of implementing specific values for realizing other more fundamental values? Because values are contextual and dynamic, the social theory of value designs institutions that make a ‘social construction’ possible in such a way that individuals in the process of deliberation: a) have access to the necessary information, b) have access to the arena's where the deliberation and decision making takes place,

⁶ That is what OIE economists mean when they claim OIE is problem solving and policy-oriented.

⁷ Here we can see large differences in focus between different institutionalists, for instance Veblen and Commons. However, all of them theorized about the interaction between individuals and structures.

⁸ Interesting is the question what room is left for volition, for rational purposeful action? In this respect the distinction between habits and routines becomes important. Dewey (1922) (p. 28) explains that habits also can be inquired and tested by man, i.e. man can take distance from the specific habits that cause an action and reflect on the consequences of that action. When such reflections raise doubts about the rightfulness (is the ‘is’ well analyzed?), or desirability of the belief (do the habits contribute to the realization of the ‘ought?’), then man is in the position to inquire what is wrong about the habits causing the undesirable action, and to intervene by altering the institutions (the rules of the game) to change the “habit of thought”. In the case of routines man acts mechanically, without thought about the consequences and without valuation of the consequences of the routinized actions in the light of the societal goals. The real opposition is not between reason and habits, but between reasonable habits and unintelligently routinized habit. (Costa et al. 2009)

⁹ ‘Structuring reality’ should not be interpreted as ‘creating reality’.

¹⁰ Bush (2009) makes a distinction between values (standards of judgment), valuation (the application of those standards) and value judgement (the evaluation of values in relation to (other) intrinsic values)

and c) that they can participate and also have the capabilities to do so in a responsible way. In other words actors should be informed, knowledgeable and aware of their responsibilities. This implies what Grabel calls ‘internal credibility’: endogenously the institutions of society, or institutions of specific parts of society, become credible because the members of the community consider them to fulfil desirable functions. If not, the institutions lose credibility and will disappear. Note however, that such a spontaneous process is often dominated and intervened from ‘outside’, which imposes an ‘external credibility’. Both exist in the real world so both should be part of the theoretical framework to understand and explain the existence and dynamics of institutions.

In sum: OIE works with a framework that addresses institutional issues in a dynamic, holistic and systemic way (Wilber and Harrison, 1978). In doing so, actors in the theories and models are not one-dimensionally efficiency driven, but their preferences are endogenously (Ho, 2013) constituted in the process of interacting and acting.¹¹ Correspondingly the environment is not only complex as in NIE, but structures in the environment are constituted mutually with the individuals and collectivities. In contrast to the methodological individualistic approach of the subjective theory of value, the social theory of value is characterized by so-called methodological interactionism, including both the interaction between actors and structures and the interaction among actors.

9. The Bloomington School¹²

The OIE has many connections with the institution – as – function approach and the credibility thesis (Ho, 2014; Ho, 2017). So does the Bloomington school of Vincent and Elinor Ostrom and it highlights some additional ingredients important for the framework to be discussed in the next section. Especially the idea of self-governance, spontaneous evolution and the creation of credible institutions with a pluralistic and polycentric view of the world, are the insights the Ostroms offer in the context of this paper. We focus on the so-called Institutional And Development Framework (IAD framework (Ostrom, 2005) and its philosophical underpinnings as formulated earlier by Vincent Ostrom. The history of the development of the AID framework starts in the mid 1930s in the USA, when in the debate on the reforms of the public administration in the American metropolitan areas, the cause of the administrative problems was supposed to be found in the existence of a large number of independent public jurisdictions within a single metropolitan area. The “settled belief” of those days was that the chaos of many decision centers should be replaced by one center for coordination. This typically referred to the existing blueprint in those days to be imposed on all communities and to be accompanied by a policy of external credibility. The traditional view that large bureaucracies were more efficient in providing public goods and services and solving administrative problems was based on a well established traditional paradigm in political science. The starting point of the work of the Ostroms was doubt about the appropriateness of that belief. Instead of the settled belief, a new belief was formulated that better explained the existing situation (the ‘is’) and also provided an alternative guideline for desired institutional change (to realize the ‘ought’). Vincent Ostrom developed an alternative “political economy approach:” the optimal scale of production was not the same for all (urban) public goods. Efficiency depends on the nature and the type of good or service that the

governmental agency is meant to produce. “Thus the mere application of standard economic logic raises serious doubts about the validity of the metropolitan reformers’ notion that efficiency was a function of centralization” (Aligica and Boettke, 2009, 12). Opposed to the private market and the central government, other forms of coordination could be more efficient: relationships between governmental units, public agents and private business functioning in a public economy can also be coordinated through patterns of interorganizational arrangements. These arrangements may evoke “self-regulating tendencies.” The “political economy approach” questioned the traditional view that large bureaucracies are more efficient in providing public goods and services than systems based a plurality of self-organized units.

In the IAD framework action and action arenas are central. The Ostroms defined “citizens” as active co-creators of their environments, and the work they do collaboratively are called “civic initiatives.” Inspired by the institutional economist Michael Polanyi, polycentrism and monocentrism became central concepts in their work. A monocentric political system is one where the prerogatives for determining and enforcing the rules are “nested in a single decision structure that has an ultimate monopoly over the legitimate exercise of coercive capabilities.” On the contrary, apolycentric political system has many centers of decision-making that are formally independent of each other. “No one has then ultimate monopoly of the legitimate use of force. All rulers are constrained by the ‘rule of law.’ This makes the rule system central in the study of polycentric systems.” Elinor Ostrom explained in an interview with Aligica and Boettke (2009) (40) how to understand polycentricity: “by “polycentric” I mean a system where citizens are able to organize not just one but multiple governing authorities, as well as private arrangements at different scales.” For a more detailed operationalization of polycentricity, see Aligica and Tarvo (2012). The core rules of law in a polycentric system are about the rights and duties of the different decision making units and how these should discuss and decide about common goals and instruments.

In the theory of ‘institutions as a function’ and the connected credibility thesis, the assumptions made about the actors (their rationality, dispositions and capacities) should be consistent with our knowledge of human evolution, i.e. the cultural heritage carried by individuals should be well understood by the scientist. This heritage is time and place specific, so empirical research of that nature should connect well to the local specificities. Vincent Ostrom made major contributions to that type of research. He developed a theory of human action that was not based on abstract formal attributes of the actor, like full rationality, but on stylized facts derived from an anthropological and historical understanding of what would be the central issue in social science: choice. Choice is loosely defined as actors being able to consider alternative possibilities and to select a course of action after comparing and assessing the consequences of different alternatives. Choice is then a form of selection and shows close similarities with the ideas of OIE. The theory of choice is connected with the theory of institutions via a theory of learning, knowledge, ideas and language. According to the Bloomington School, rules, routines and institutions are crucial to understand how actors choose. In their “idea centered approach” actors choose on the basis of ideas. Ideas cover a broad class of beliefs, world views, values, motives, intentions, causal beliefs, operational codes, etc. Ideas both react to and create social order. 30.

The idea-centered frame is the lens of the Bloomington School with which the analyst perceives the social order; consequently some aspects are highlighted but others ignored. The idea-centered frame opens in the AID framework the view on design and creation, which is combined with the view on institutions as “spontaneous.” As Aligica and Boettke (2009) (25) put it, institutional design and spontaneous order are interrelated: “Institutional design, the understanding of the rules and consequences and the conditions that determine their interplay, is part and parcel of spontaneous order and not inimical to it”.

¹¹ This is the core of philosophical pragmatism. In the words of Nooteboom (2013) (p. 2): pragmatism “(...) holds that cognition, in a wide sense that includes normative judgments and goals, occurs on the basis of mental dispositions and categories that are developed in interaction with the physical and especially the social environment”. The crux of the argument is that action, practice, constitutes the actor: “Intelligence is internalised practice”. This connects well with the framework of North (2005) about institutional change.

¹² This part is largely based on Groenewegen (2011)

10. Conclusions

In the study on land-based property rights, the discussion over institutional forms and functions as put forward by the credibility thesis is an important one (Ho, 2017). Equally important, whereas the literature on the credibility thesis started out from the research on land in China (Ho, 2014), it has over time expanded with numerous studies on different economic issues and assets, as well as in different geographical contexts. These include, but are not limited to, land (Goyal et al., 2022; Davy, 2018; Chen, 2020; Koroso et al., 2019), housing and informal settlements (Zhang, 2018; Sheppard and McClymont, 2020; Celhay and Gil McCawley, 2020; Oranje et al., 2020), natural resources (Nor Hisham and Ho, 2016; Gomes and Hermans, 2018), mining (Fold et al., 2018; Zhao and Ho, 2022), planning (Wu et al., 2018), migration and urbanization (Zeuthen, 2018), and have been conducted in Africa, Latin America, Asia and Europe. Moreover, the research has also led to the development of different analytical tools to measure the credibility of institutions and property rights, such as the FAT (Formal, Actual and Targeted) Institutional Framework (Sun and Ho, 2020; Arvanitidis and Papagiannitsis, 2020), CSI (Credibility Scales and Intervention) Checklist (Fan et al., 2019; Sun and Ho, 2018), the CAM (Conflict Analysis Model) (Yang and Ho, 2019; You et al., 2022) and agent-based modeling (Ghorbani et al., 2021). In this paper I explored institutional ‘form’ and institutional ‘function’ and linked these respectively to ‘blueprint’ and ‘process’. I demonstrated with both the static comparative NIE approach and the dynamic spontaneous NIE approach, how the blueprint looks like and that external credibility comes with it. In the section on function I discussed the OIE approach and The Bloomington School, which together would present a comprehensive picture of the role of institutional function and credibility in the explanation of the dynamics of institutions. In these approaches internal credibility is part and parcel of the view on institutions.

To study the function of institutions in a specific situation of time and place demands a broad multi-disciplinary and multi-layered framework. That does not imply that frameworks and theories about the form of institutions are irrelevant. However, they are less or not relevant for the questions the study of ‘institutions as a function’ is interested in. Theory discussed above in Section 1 might be relevant for other types of questions and correspond better to situational conditions of stability, certainty and harmony.

I suggest that theory of ‘function’ and theory of ‘form’ can be complementary. First, as mentioned above by Aligica and Boettke, institutional design (form) and spontaneous order (function) are interrelated. In a spontaneous process individuals and collectivities design intentionally institutions with the purpose to influence behavior and the outcomes of the process. Second, both the theory of form and the theory of function address different questions (‘issues’) and both refer to different situations (‘conditions’). Groenewegen and Vromen (1996) have discussed this issue in the context of pluralism and suggested “different theories for different questions” and “different theories for different conditions.” Looked at different paradigms in this way allows for the existence of a broad theoretical framework of “economics”, in which the theories of ‘form’ and ‘function’ can live happily apart to together. Note that the scientist is then obliged to the reader to make clear why she chooses a particular theory for a particular research question or for a particular empirical situation. This does imply that I do not dismiss mainstream economics upfront, but like Arthur (2013), I would suggest that “Certainly, many parts of the economy could be still be treated as approximately at equilibrium, and standard theory would still be valid here. And other parts could be treated as temporarily diverging from strong attracting states, and we could study convergence here. But this would still be seeing the economy as a well-balanced machine temporarily prone to getting out of adjustment; and that neither gets us to the heart of seeing how the economy behaves out of equilibrium nor captures the creative side of disequilibrium. A better way forward is to observe that in the economy, current circumstances

form the conditions that will determine what comes next. The economy is a system whose elements are constantly updating their behavior based on the present situation”.¹³ With respect to the questions about the dynamics of institutions and their functions with a focus on land-based economics, we conclude that the approaches of OIE and the Bloomington School are most relevant. In these approaches the constituting interactions between actors and their contextual structures are central implying that such an approach could well provide useful insights into the mechanisms of the dynamics of institutions. In contrast, for questions about optimization under constraints and of comparative static nature the NIE approaches seem more relevant.

In the detailed analysis of the mechanisms that make the dynamics of institutions the research should contain a precise picture of the existing structures, the existing forms and their external credibilities, as well as a detailed notion of the existing functions and their internal credibilities. From our point of view the empirics of institutions will always show a mix of form and function although the mix can differ substantially from time to time and place to place.

I close with a critical remark. Drawing conclusions about the mechanisms of change will always be extremely difficult because mostly a complex of actors and factors that interact is involved. Moreover, the process will rarely be one of a pure spontaneous process in which anonymous individuals intentionally or unintentionally take decisions out of which institutions emerge and change. Such a process of internal credibility will mostly be accompanied or dominated by a power play in which the dominant actors will try to impose their institutions upon the other less powerful actors. Then the existing institutions do not reflect a spontaneous process supported by the individual actors perceiving them as credible, but will reflect a process of conflict and battles, in which dominant actors impose an (unstable) institutional structure upon society.

Conflicts of interest

The author declares no conflicts of interest.

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¹³ Also within the ‘institution as a function’ approach a variety of differently constructed theories are around about which I would like the attention to two recent sources: one about the future of institutional and evolutionary economics (*Journal of Institutional Economics*, JOIE, special issue, December 2014) and the other about complexity theory (Arthur, 2013).

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