INSTITUTIONS AND INSTITUTIONAL DESIGN
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Part X: Design principles I

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References

”Institutions and their design”, pages 1-53 in

Goodin, Robert E (ed.) 1996 “**The Theory of Institutional Design**”, Cambridge, Cambridge University Press

Also see

Landa, Manuel de 1997 “**A Thousand Years of Non-Linear History**”, New York, Swerve/ MIT Press,

Douglas, Mary 1987 “**How Institutions Think**”, London, Routledge and Kegan Paul (Chapter 9)

Institutional design

- What do we mean by institutional design?
  - Blueprints?
  - Procedures?
- What are the goals of institutional design?
  - Optimality?
  - Sustainability?
  - Adaptability?
  - Promoting values?
- How do we go about designing or redesigning?

Goodin(1996:13) ”What people want to do, and what they can do, depends importantly upon what organisational technology is available or can be made readily available to them for giving effect to their individual and collective volitions.”

Disciplinary approaches to institutions

	Variable	
History	Time	The past shaping present and future
Sociology	Collective	Collective choice constraining individuals
Economics	Choice	Individual choice constrained by scarcity
Political science	Power	Allocation and constraining of power
Social theory	Agency vs. structure	They need to be combined at account for the human condition

Institutional theory comes in a variety of forms in a variety of contexts, but seems in imporant ways to be complementary.

Summing up new institutionalism 1

1. Individual agents and groups pursue their respective projects in a context that is collectively constrained.
2. Those constraints take the form of institutions – organised patterns of socially constructed norms and roles, and socially prescribed behaviours expected of occupants of those roles, which are created and recreated over time.
3. Constraining though they are, those constraints nonetheless are in various other respects advantageous to individuals and groups in pursuit of their own more particular projects.

Goodin (1996:19-20)

Summing up new institutionalism 2

1. The same contextual factors that constrain individual and group actions also shape and constrain the desires, preferences, and motives of those individuals and group agents.
2. Those constraints characteristically have historical roots, as artifactual residuals of past actions and choices.
3. Those constraints embody, preserve, and impart differential power resources with respect to different individuals and groups.
4. Individual and group action, contextually constrained and socially shaped though it may be, is the engine that drives social life.

Goodin (1996:19-20)

Goodin (1996:21) “From this external point of view a social institution is, in its most general characterization, nothing more than a “stable, valued, recurring pattern of behaviour.”” (ref.: Huntington 68, Eisenstadt 68)

Further constraints on institutions

Based on de Landa (1997) we have to add that

1. Institutions are constrained by physical nature, and the temporal dynamic of physical nature: space and time matters
2. Institutions are constrained by the quality and cost of models informing actors about the dynamics of physical nature: adaptive efficiency is a key characteristic of institutions

Change in institutions

- By accident
  - Purely a matter of contingency
- By intentional intervention
  - Political action, inaction, miscalculation
- By evolution
  - Probe heads and selector mechanisms (such as voting with one's feet, or a grand shared value working out its implications)

Institutions are seldom "designed" but grow out of a multiplicity of driving forces from accidents to intentions gone wrong.

Goodin (1996:28) "Thus, even within the realm of our intentional interventions, what we should be aiming at is not design of institutions directly. Rather we should be aiming at design schemes for designing institutions – schemes which will pay due regard to the multiplicity of designers and to the inevitably cross-cutting nature of their intentional interventions in the design process."

We should be **redesigning institutions**, and we should be doing it **indirectly** rather than directly

Change: A micro perspective

The discourse of goals and outcomes: politics

- Shaping collective constraints: institutions
- Constraints: resource scarcities and abilities
- **Individuals have goals and act**
- What individuals actually do: outcomes
- Discovering discrepancies between what is done and what ought to be done: politics

Change: A macro perspective

- Acquiring language “creates” the individual
- Individuals connect to the world through language
- Language is used to confirm and transform the system of values and goals embedded in everyday activities
- Patterns of everyday activities sum up to collective institutional outcomes
- Discovering discrepancies between patterns of outcomes and beliefs may entail a new language

Design of what? And why?

- Creating rules, staffing bureaucracies
- Values: whose values?
- Who is the designer of institutions?
  - Who creates rules? Who appoints staff?
- Can self-grown institutions be said to have a design?
- Who is the beneficiary of the institution?
- How is design different from governance?

Design should build on existing elements and prevailing values, also when the object is to change some troublesome value or practice

Design of

- Policies (political science)
  - New solutions, feasibility, implementing
- Mechanisms (economics)
  - For general resource allocation
  - Integration of information and incentives
- Whole systems (operations and systems research)
  - “Goodness of fit”
- Norms: From “optimal mechanisms” to empirical data?

Goodin (1996:33) “They invite us to reflect upon larger contexts; to be sensitive to all the various forces in play, and to all the complex interactions among them; to interrogate thoroughly our own values, and to assess carefully the way in which all these interactions might impact upon whatever it is we value and disvalue in social outcomes.”

Design criteria and morality

- Internal and external “fit”, but what of its
- Moral worth?
- Is good fit really GOOD?
- Not all environments deserve institutions that optimise their values (e.g. slavery)
- The goodness of fit criterion has to appeal to some larger moral code

Goodin pp 37-39, also see Douglas chapter 9

Some desirable principles (1)

- Revisability
  - People are fallible
  - Societies change
  - Learning by doing
- Robustness
  - Making commitments and stand by them
  - Avoid opportunistic changes of institutions
  - Adapt to new situations by appropriate changes

Some desirable principles (2)

- Sensitivity to motivational complexity
  - Checks and balances of power
  - Bill of rights for individuals
  - Pluralist governance institutions
  - Participatory procedures

Some desirable principles (3)

- Publicity
  - All institutions and institutional action must be in principle publicly defensible.
- Variability
  - Learning by doing requires variability of institutions
  - Federal institutions may provide this
  - Learning from neighbours may lead to a “race to the bottom”, where worst practice is imitated rather than the best

Should we design institutions for knaves, or should we bet on people having higher motives, or at least that enough people have higher motives?

Designing institutions with publicity in mind may avoid selfishness as a guiding motive, but will it avoid sacrificing a large fraction of the community to some “higher” moral purpose?

Can we make assumptions about the frequency of various personality types (knaves to angels) in a population in our design work?

Other papers in Goodin (1)

- Petit: ”Institutional Design and Rational Choice” (p.54-89)
  - Rational choice theory presented for the non-believer in RC, suggesting two strategies:
    - Deviance centred: there will always be a few non compliers
    - Complier centred: many, often most, will comply
  - Presents advice on how to structure sanctions

Other papers in Goodin (2)

- Coram: ”Second best theories and the implications for institutional design” (p90-125)
  - Simultaneous optimization of n sectors requires optimization of all. If conditions do not obtain in one sector other sectors are affected in ways difficult to predict (indicating non linearity)
  - Second best solutions for all sectors may be better
  - Small deviations in initial conditions may cause second best solutions to depart radically from first best

In econcomics second best are usually results if conditions deviate from the perfect neo-classical model, for political and social institutions it is unclear what first best might mean.

1. **The fallacy of continuity**: that small changes in conditions will resutlt in only small changes in outcomes

2. **The fallacy of strechability**: that small changes in rules will result in only small changes in outcomes

Other papers in Goodin (3)

- Dryzek: ”The informal logic of institutional design” (p.103-125)
  - discuss how the informal aspects of institutions, discourses, may be integrated in the design discussion
- Hardin: ”Institutional Morality” (p.126-153)
  - Discuss how to allocate responsibilities within the institution: the ”question of composition: Who is how much responsible for which part of what?”

Other papers in Goodin (4)

- Luban: ”The publicity principle” (p.154-198)
  - Discusses the Enlightenment ideal that each citizen should think and decide for him- or herself against the Plato/ Machiavelli position of allowing any means including lies and secrecy
  - The Enlightenment ideal require publicity of public action
  - Delineates cases where it should not be applied reformulating it as
  - Luban (1996:192) ”All actions relating to the right of other human beings are wrong if publicizing their maxim would lead to self- frustration by undercutting the legitimacy of the public institutions authorizing those actions.”

Allowing anything but moral rectitude in public office will lead to adverse selection. The publicity principle is the only way to check on public office performance. If the rulesrs are not by definition wiser and better than the rest, any impulse to keep an action secret is an indication that it probably is wrong.

Luban (1996:196) ”If a policywould ecite across-the-board moral condemnation, the reasonable conclusion is that, even if the public does not know best, it probably know better.”

Other papers in Goodin (5)

- Offe: ”Designing Institutions in East European transitions” (p.199-226)
  - Discuss in light of East European experience general problems of studying change in institutions. Design is a rare source of change
- Shepsle: ”Political deals in Institutional Settings” (p. 227-239)
  - A theoretical discussion of how governments are formed, particularly feasibility and enforcement

Other papers in Goodin (6)

- Klein: ”Self-inventing institutions: Institutuional design and the U.K. Welfare state.” (p. 240-255)
  - Introduction of mimic, or quasi-markets, in the UK led to public institutions that had to learn from and adapt to the environment it created (i.e. self-inventing)
- Brennan: ”Selection and the currency of reward” (p.256-275)
  - Discuss how to structure incentives within institutions

Brennan(1996:272) ” 1. Institutional arrangements can affect the pattern of social outcomes by selecting among agents of different types as well as by altering incentives for agents. 2. An instituional arrangement will support a particular selection process to the extent that the arrangement rewards some types of agents more than others. 3. Rewards can be appropriately by means of the ”currency of reward”, understood as the mix of forms which rewards take – and cannot be so differetntiated even when agents of diferent types cannot be identified. 4. In the academic case specifically, individuals with a relatively high taste for scholarly activities can be differentially rewarded (and hence selected for) by a currency of reward that takes the form of a high proportion of academic support and correspondingly low proportion of cash.”

Judging Design Principles

Criteria

- From economics
  - Optimality?
  - Efficiency?
- From the dynamics of complex non-linear systems
  - Adaptivity?
  - Learning?

Judging design principles (Douglas)

1. Coherence in the way it organizes social behaviour (Hume 1)
2. Amount of arbitrariness in the rules (Hume 2)
3. Complexity: is it too complex to be understood?
4. Practicality: is the system available in the situations needed?

Douglas(1996:121) (systems of ideas of justice) “They can be judged better or worse according to the good sense we can make of their assumptions.”

Douglas(1996:124) “The most profound decisions about justice are not made by individuals as such, but by individuals thinking within and on behalf of institutions. The only way that a system of justice exists is by its everyday fulfilment of institutional needs.”

Design principles (Ostrom)

1. Clearly defined boundaries.
2. Congruence between appropriation and provision rules and local conditions.
3. Collective-choice arrangements
4. Monitoring
5. Graduated sanctions
6. Conflict resolution mechanism
7. Minimal recognition of rights to organise
8. Nested enterprises (for CPR's that are parts of larger systems)

Next time we look at empirically derived principles. Read Ostrom (1990) Chapter 3-6