

INSTITUTIONS AND INSTITUTIONAL
DESIGN

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Part X: Design principles I

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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?

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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

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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.

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.

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)

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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

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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

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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?

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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?

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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

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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

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Some desirable principles (2)

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

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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

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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

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."

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: Institutional 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

Judging Design Principles

Criteria

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

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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?

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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)

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Some conclusions on design

- The Humility Principle
 - Acknowledge the limits of knowledge and hence governance
- The Precautionary Principle
 - Remember the propensity for regressive outcomes of public intervention
- The Reversibility Principle
 - Think carefully about the possible path dependence you may create
