

Towards a taxonomy of institutions in economic development.

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Abstract

There is growing acknowledgement that institutions play an important and significant role in economic development as well as deeper understanding of the nature of institutions. In addition institutions have been more widely studied, better defined and their impact better understood.

Yet despite this progress, an authoritative taxonomy of institutions is still lacking. For those seeking to understand how and why institutions matter, the increased definition raises the need for taxonomy of institutions. Institutions relevance, scope and priority in economic understanding cannot be advanced without establishing such taxonomy.

A number of specific issues underlie this overall problem of a lack of taxonomy, these relate to the absence of an authoritative broad class definition that provides discriminating categorization of institutions, the development of a typology within this broad categorization as well as the need to recognize transitional relationships between institutions within the broad class and to acknowledge the usefulness and fitness for purpose.

The taxonomy advanced draws on existing accepted definitions providing categorizing criteria to address these definitional ambiguities. It enables a descriptive and discriminating framework that can be used to clarify what does and does not qualify as an institution and why.

For students of institutions and institutional change, the framework can provide a basis for comparative institutional study with greater focus on what matters. The taxonomy should enable easier differentiation of institutions from related aspects which may be of interest but not necessarily of immediate relevance.

Introduction

Over the last two decades there has been a revival of interest in institutionalist thinking within economics and the social sciences. Institutions are being increasingly acknowledged as playing a significant role in economic development and socio-economic change. The nature and role of institutions has been more widely discussed across the social sciences. Some progress relating to the definition and description of institutions has been made, however an authoritative taxonomy of institutions is evidently still lacking.

The study of institutions is broad and encompasses a number of quite different aspects. Attention has been increasingly given to how institutions develop, change and influence economic and social life. In doing this consideration has included understanding the role(s) of values, beliefs, habits and even culture. Often considerations relating to “culture” as well as other aspects and descriptions of social interactions have been loosely classified alongside institutions. This widened scope has tended to lead to ambiguity of institutional definition and taxonomy and consequently obscured our ability seriously to assess, and / or inform discussions and debates relating to the role and effectiveness of institutions in economic development. In the absence of a clearer taxonomic understanding of institutions themselves, the relevance to and relationship with, other quite different concepts remains at best problematic.

The progress made so far in defining institutions, however, lays a stronger foundation for institutional economists to address questions relating to the role of institutions in economic development. At a broad level the definitions enable us more easily to include institutional considerations in analyses and debates about economic development and change. But tentative definition, of so broad a class is not the same as detailed taxonomy. As enquiry has gone from “whether institutions matter”, and turned to “what they actually are and how they matter”¹, (including what they influence and how they develop and change), it has become evident that without further progress in definition and the development of a taxonomy, the increasing acknowledgment of the importance of institutions in economic development - remains just that - mere acknowledgment which cannot be seriously debated, tested or used to inform policy assessment. Clearly further definition and a more authoritative taxonomy of institutions are needed. Such further progress in definition should enable us to advance our understanding of the relevance, scope and priority of types of institutions in economics and economic development. In addition further progress in definition and taxonomy will facilitate efforts to extend the debate on the emergence, development and evolution or demise of institutions may be handicapped. However, for such further taxonomic definition to be useful, it needs to be able to help us identify and focus on what is important and relevant to be aware of, and what is superfluous.

¹ Schmid [2004] notes, for example, that increasingly the question is not whether institutions matter but rather what they are and how they matter. Questions relating to what institutions influence and how as well as how they develop and change, have increasingly taken greater precedence.

The main aim of this paper is to identify some specific problems raised by the overall lack of a taxonomy of institutions and to suggest how these issues may be addressed to enable progress to be made towards a taxonomy of institutions. The paper begins by contextualising the recent revival in acknowledgement of the role of institutions in development. It considers prevailing definitions of institutions, including contributions from across the social sciences. Finally it suggests some key criteria that can be used to move towards a more definitive taxonomy of institutions in economic development.

The role of institutions in economic development - the broader historical context.

It has been noted that in recent years, institutions have been taken more seriously within economics. Notably institutionalist analyses are evident in the work of a wide range of respected economic scholars [Schmid, 2004]. In addition there has been a revival of interest in the role of institutions in economic development. This interest reflects a coincidence of concerns, notably: policy and analysts attempts to explain differences in countries' economic performance, a continuing critique of the shortcomings of mainstream neo-classical economics, some economists growing acknowledgement of the relevance of models of cognition and social interaction and the further development of theory encompassing ideas associated with institutionalist thinking.

To put this in historical context, this relatively recent revival of interest in institutions somewhat belies the fact that the role of institutions in society, socio-economic change and development has a heritage that stretches back to the beginning of the last century and across to other social sciences. Whilst the term "institutional economics" did not itself come to general attention until 1918², Veblen's oft quoted institutions as "settled habits of thought common to the generality of men" Veblen [1919] has evidently gone on to presage a school of thought that has developed to establish itself and to emphasise the importance of institutions in socio-economic matters. Veblen's early insights led to subsequent work looking at the underpinnings of economics by Wesley Mitchell in 1910, and 1913 [Rutherford, 2001]. Nurtured and championed by scholars from influential academic schools and disciplines, institutional economics developed to hold, by the inter-war period – a pre-eminent position in the United States, contributing to research, theory and policy making³. Unlike orthodoxy, institutionalism was perceived as more modern, critical and more scientifically based - addressing the pressing issues of the day. Institutional Economics was also seen as drawing on insights from other relevant and authoritative disciplines such as of psychology, philosophy and law in contrast to what was seen as the outmoded and unrealistic assumptions embedded in orthodoxy [Rutherford, 2001].

2 Rutherford [2001] notes that the term Institutional Economics was first brought to general attention by Walton Hamilton in 1918 when Hamilton delivered his manifesto "The Institutional Approach to Economic Theory."

3 Notably Columbia and Wisconsin and scholars such as John Dewey (Philosophy), Kurt Lewelyn (Law) and in the 1920's and 1930's John R. Commons, Walton Hamilton, and Robert L. Hale. [Rutherford 2001]

Institutionalism, however, did not come to hold similarly pre-eminent positions outside the US. In the US its ascendancy eventually waned. Institutionalism was criticized for lacking theoretical depth and was eventually eclipsed – giving way to Keynesianism and to neoclassicism, the latter managing eventually to establish itself in the mainstream and to remain in clear ascendancy well into the late eighties⁴.

More recent influences from within economics

The revival of institutionalist analysis within the mainstream, however, needs to be seen in a broader context encompassing the contemporary as well as the historical. From this perspective the more recent focus of interest may be seen as a later incarnation stimulated by a number of interests from within economics as well as from across the social sciences.

From within economics for example, there has been the development of a “new institutionalism” concerned, for example, with property rights and transaction costs, the nature of the firm, ownership and agency, and game theory (For example [North, 1990], [Williamson, 1998], [Schotter, 1981] amongst others) There has also been a number of empirical works that have pointed to the role of institutions in development. In addition there has been the continuing impetus of more eclectic and influential works, increasingly leading to mainstream economics concession that economic activity is social as well as individual, information asymmetries exist in real social situations, cognitive processes matter, perceptions have a social dimension, and habits and social norms influence individual behaviour⁵.

For the purposes of this paper, the contribution and influence of empirical studies in reviving interest in the role and importance of institutions is particularly noteworthy. The force of findings of various empirical studies has influenced acknowledgement of the importance of institutions. This has been particularly reinforced as analysts and policy advisors have sought to understand and explain differences in countries’ economic performance and development experience⁶.

In this area a number of recent studies all point toward the primacy of institutions as the decisive influence over and above geography, endowments or location. Easterly and Levine [2003] found that geographic endowments, “tropics, germs and crops affect development through institutions” and that there is no evidence of impact or any effect on policies once they controlled for institutions. In addition work by Acemoglu, Johnson and Robinson [2001] found large effects of institutions on income per capita. They too

4 As Rutherford [2001] points out institutionalism failed to develop theory relating to social norms, technological change or decision making and ended up focusing on policy issues. Furthermore through the development of theory on monopolies, imperfect competition, market failures and externalities – neo classical economics strengthened its claim to the mainstream by developing a language encompassing for many of the issues of concern to Institutionalists.

5 In support of this, for example, Williamson [2000] notes that institutions are complex and we are still relatively ignorant about them, but asserts that much progress has been made and recommends that, awaiting a unified theory, we should be accepting of pluralism.

6 Notably, IMF economists make particular reference to the growing body of research into the differences in institutions and economic development experience across countries and the “channels through which institutions may affect economic outcomes...” [The IMF, 2003: 95]. The agency notes that studies involving statistical assessment of institutional measures and their impact on GDP per capita have shown that quality of institutions have a significant impact on GDP per capita. Internal IMF empirical work carried out in relation to the April 2003 report, was consistent with other studies indicating that institutional quality (as measured by aggregate governance measures) alone explained nearly three quarters of the cross-country variation in income per head (IMF 2003 page 106).

discount geography. As Engermann and Sokoloff [2003:1] point out – it is difficult to conceive of any processes of economic growth in which institutions do not matter. They go on to add that "Institutions matter, but our thinking of how they matter should recognize that they are profoundly influenced by the political and economic environment, and that if any aspect of institutions is crucial for growth, it is that institutions change over time as circumstances change".

Taken together with the broader context discussed above, what emerges is a historically rich and broad contribution to institutionalist thinking covering definition, ideas and issues. Yet the breadth of intellectual ground and issues covered by institutional thinking would appear to be a strength as well as a weakness. With the development of different strands and emphases, and such a broad and eclectic heritage of cross – disciplinary contributions, institutional analysis can be perceived as lacking in focus and territorial definition manifesting as problems of taxonomy of institutions⁷. As Schmid [2004: 2] notes “the problem of institutional economics is not that it has no theory, but that it has too many theories that are not well integrated”.

Definition of institutions and the need for a taxonomy

Whilst much has been written from within and without economics about the impact and importance of institutions and how they impact human behaviour there have been less significant attempts within economics to advance specific authoritative definitions of the term institution. Schotter [2001: 9] points out that defining institutions is not an easy task because “they are amorphous and require a definition general enough to encompass all of them without being meaningless”. This is partly because institutional economists are typically concerned with a more holistic view of influences on social interaction and economic outcomes than is common within the mainstream of neoclassical economics. Institutionalists’ preoccupation has until recently been primarily focused on understanding rather than on definition. They have sought to develop an analytical perspective and theoretical approach that takes into account the whole system to enable the understanding of specific problems.⁸ As a result attempted definitions, seeking to be all encompassing can at times appear multifaceted and belaboured, lack descriptive clarity or combine quite different and potentially conflicting ideas in a somewhat confusing manner.

This does not mean, however, that no progress towards better definition has been made at all. Institutional study is not the distinctive domain of any one discipline within the social sciences. Economists, sociologists, lawyers, psychologists and anthropologists all lay claim to an interest in understanding and studying the role and influence of institutions

7 Warren Samuels points out that in contrast one reason neo-classical economics has been successful is that it has “strenuously pursued a division of labour” assigning itself a narrower two pronged course of action – addressing a “pure a-institutional abstract conceptual model of the economy” and a “research protocol that seeks unique determinate optimal solutions to problems” [Schmid 2004: 3]

8 Gunnar Myrdal states “The most fundamental thought that holds institutional economists together, however different they are otherwise is our recognition that even if we focus attention on specific problems, our study must take account of the entire social system, including everything else of importance for what happens in the economic field: Foremost among other things, the distribution of power in society and generally, economic social and political stratification and indeed all institutions and attitudes. To this we add as an exogenous set of factors, induced policy measures, applied with the purpose of changing one or several of the endogenous factors” [Myrdal, 1957: 11]

often with quite different starting points and foci of concern.⁹ Inevitably the definitions and descriptions of institutions that emerge from different sub-disciplines within the social sciences vary in scope and substance. Thus makes the task of arriving at even a few authoritative definitions of institutions across the social sciences a difficult and challenging one.

It is not surprising, therefore, that whilst progress has been made towards better definition of institutions, this definition of the term "institution" has as yet not led to greater or widespread agreement on what the term definitely encompasses. There is as yet no agreement on what the sub-classes or constituents of the class might be or how they might relate to each other. Indeed it is noteworthy that an authoritative taxonomy of institutions is still lacking [Hodgson, 2001]. For the purposes of this paper, the definition of institutions provides the foundation on which a taxonomy may be built and therefore a brief consideration of definitions is therefore warranted.

Across the social sciences there have been a number of the contributions that inform our understanding and definition of institutions. Some sociologists view economic action as socially situated and subject to norms, customs and practices that are socially and culturally embedded [Granovetter, 1992]. In anthropology, for example, studies relating to culture and cultural development document the *sanctioning* and *rule like* nature of institutionalised practices and taboos [Douglas, 1966] and [Harris, 1979]. In addition the strengths of socio-cultural myths in shaping agents world views and expectations are explored, [Thompson, Ellis and Wildavsky, 1990]. Furthermore, other works explore the role of culturally embedded beliefs and values influencing what ideas gain currency, the choices and initiatives that result and ultimately whether and how wealth is created. [Hampden-Turner and Trompenaars, 1993].

Social scientists outside economics have also examined and sought to define institutions themselves. The examinations have covered a number of aspects, notably, their nature, development, function in societies, shaping of reality, change and shaping and influencing each other. For example, regarding the nature of institutions, Raimo Tuomela [2003] sees institutions as norm governed social practices that confer new conceptual and social status to some entity; confer new deontic status and status functions to member of the collective; and / or create organization involving social positions and a task/right system. So conceived social institutions are seen as both enabling and constraining through the norms and sanctions they encompass¹⁰.

Other social scientists have noted the way they function in societies, for example noting the key role they play in enabling social interactions¹¹. In relation to shaping reality institutions are seen as being part of our ongoing social reality, socially constructed and expressed through language as well as our purposeful interactions with each other. The

9 Myrdal is quoted as saying that there are no economic, sociological or psychological problems, but just problems, and they are all complex Angresano [1997: 85]

10 Tuomela refers to institutions as collectively adopted social attitudes – and sees "institutional acting" as a social practice governed by a social norm accompanied by sanction" [Tuomela, 2003: 137].

11 Schmid [2004: 7] notes the key role of language as the carrier of social rights and social interactions of intent critical in the development of institutions. Searle sees language (an institution itself) as reflecting a commitment to constitutive norms and rules and therefore plays an important role in expressing the intentionality and belief that is involved in the sustenance and development of institutions [Searle, 1995].

social creation of institutions is seen as part of our natural being as human beings with a capacity for language¹². Thus our socially constructed institutional reality created has a factual status within our societies, a status that extends to assigning new functions to entities that would otherwise not have those functions. “Institutional facts” are thus distinguished from “brute facts” Institutional facts create a reality or a function for an entity that results from collective intentionality and application of constitutive rules. [Searle, 1995].

In relation to institutional development and change, models of how institutions develop and change have been advanced to explain overall institutional evolution and change [Scott and Meyer, 1994] as well as changes in institutions in relation to organizations and organizational fields¹³ [DiMaggio and Powell, 1983].

Within economics some progress has also been made towards the authoritative definition of institutions. Definitions that have been advanced within economics go beyond the general non-academic usage of the term institution¹⁴ by emphasising a number of additional aspects including: a) rule-like nature of institutions b) the ability to shape and constrain as well as enable, human behaviour c) the formal and informal scope of their influence d) an aspect of durability or permanence within a social context e) a dynamic aspect influenced by the formation and propagation of habits within a society.

Institutions are conceived of as being a system of rules that regulate (constrain and enable) human interaction. Douglas North refers to them as “the rules of the game in a society or more formally, the humanly devised constraints that shape human interaction” – encompassing formal rules and informal constraints¹⁵. North includes “...any form of constraints that human beings devise to shape human interactions” North [1990: 4].

Kasper and Streit [1998: 30] see institutions as “rules of human interaction that constrain possibly opportunistic and erratic individual behaviour, thereby making human behaviour more predictable and thus facilitating the division of labour and wealth creation. Institutions, to be effective, always implies some kind of sanction for rule violations”.

For example, more broadly Hodgson presents a definition that bridges older and newer definitions of institutions into a more unified definition and introduces notions of durability, encompasses the informal as well as the formal and draws attention to the generative and sustaining role of habits. Hodgson’s definition is consistent with but goes beyond Veblen’s “settled habits”, Commons “collective actions”, Hamilton’s “way of thought or action of some prevalence and permanence” and North’s rules of the game. Hodgson refers to institutions as “..durable systems of established social rules that

12 " That is I see the human ability to create money, property, government, and marriage as an extension of more basic biological phenomena such as the ability of human beings to engage in cooperative behaviour, and their innate capacity for linguistic symbolism" [Searle & Smith, 2003: 300]

13 DiMaggio and Powell refer to institutional isomorphism, the process by which one unit in a population is constrained and forced to resemble others in the population [DiMaggio and Powell, 1983]. (They go on to identify mechanisms of institutional isomorphic change that results in increasing homogenization of organizations within a field caused by political and social coercion; adoption of common operating procedures in response to uncertainty and increasing professionalisation.)

14 The Cambridge International Dictionary of English has definitions of institutions relating to institutions as buildings as well as systems. Under the system definition it states that institutions are “a custom, system or organization that has existed for a long time and is accepted as an important part of a particular society”.

15 As Hodgson points out North does not make a clear distinction between formal and informal rules, he does however explicitly recognise the existence of a varying nature of how institutions have effect– and specifies the existence of conventions and codes as being significant. (Hodgson 2003)

structure social interactions”. Hodgson[2003] sees institutions as social rule systems and by so doing including and involving the formal, codified and enforceable rules as well as the informal “norms of behaviour and social conventions”.¹⁶ As a social rule system it is evident that the force to structure and constrain comes as much from the formal as well as the attending informal aspects that develop and reinforce the formal created over many years and habitually and culturally enforced. It also evident that institutions come in quite different forms from the highly codified, often written and specific (a legal system of rules) to orally transmitted and unrecorded (some local dialects of smaller pastoral / gathering tribes in Africa and parts of Pacific Asia). In addition some are unified and purposeful – in very special ways – as in markets and organisations¹⁷ – whilst others may be diffuse and less structured – as in enforced behavioural codes.

So whilst progress has evidently been made in defining institutions, definition, of so broad a class, however, does not equate to detailed taxonomy. A more authoritative taxonomy of institutions is needed. Such a taxonomy should help us understand and study institutions, their relevance, scope and types more effectively. In addition it should help us to extend the debate on the emergence, development and evolution or demise of institutions and eventually to understand better the role of types institutions in economic development. For such taxonomy to be useful, however, it needs to be able to help us identify and focus on what is important and relevant and what is superfluous.

Towards a taxonomy of institutions

A number of specific issues illustrate the overall problem of a lack of taxonomy. These relate to: the absence of an authoritative broad class definition that provides discriminating categorization of institutions; the development of a typology within this broad categorization; the transitional relationships between institutions within the broad class; and the usefulness and fitness for purpose of the definition.

These issues lead to what are identified as four key problems that a taxonomy should address, these are:

- 1) Problem 1 – establishing categorical boundaries to avoid definitional vagueness and obscurity;*
- 2) Problem 2 – developing intra category differentiation to establish an internal familial typology;*
- 3) Problem 3 – taking into account relational lineage to determine intra category familial proximities and the probable nature and directions of development and succession between institutional types; and*
- 4) Problem 4 – considering contextual relevance - enabling description and analysis that is fit for our purpose (in my case - for a comparative study of the influence of institutions on economic development.)*

¹⁶ Hodgson goes further in that he points to the rule like character of norms (What North may see as informal constraints) In so doing establishing a much broader description and scope of institutions and their effect [Hodgson 2003]

¹⁷ The specific considerations that qualify organisations as institutions include their clear boundaries, membership criteria, governance and command structure, and explicit or implicit purposes. [Hodgson 2003]. Hodgson[2001: 174] defines markets as “organised and institutionalised exchange”

These are explained further below.

Firstly, there is the problem of the broad definition and non-integrated categorization of institutions. For social scientists the term institution has developed special meaning that goes beyond and is more specific than the general popular public usage (see above). Within economics - even more, specific definitions are emerging. It is evident however that the class of social phenomena referred to as "institutions" are still as yet not as clearly defined in a unified manner that establishes categorical discrimination indicating more unanimously - what may or may not be included in the category.

Secondly, there is the more specific problem of the existence of different types of institutions. It is evident that within any broad definition of institutions there exist types of institutions which are related to each other in significant and notable ways that differentiate them as particular families within the broader grouping.

Thirdly there is the problem of development and transformation of institutions within the broad definition and from one family to another. It is clear that all institutions can change and develop. For some institutions the changes may transform into different types of institutions. The dynamic processes that change and transform one type of institution into another also relate some types of institutions more closely to each other and place others as quite distinctly separate types.

Finally there is a need to consider what we are concerned to explain and describe - and the purposes that we have for the taxonomy. The interest here is to advance a taxonomy to be used for comparing institutional and economic experiences of different countries. Such a taxonomy needs to be capable of meaningfully classifying, relating and enabling us to explain institutional developments in different socio-political contexts. The taxonomy thus needs to provide a framework within which to further examine the historical experience of why and how institutions have such powerful influences on economic and social activity including issues relating to the nature of institutional origin, creation or emergence; institutions' authoritative / influential hierarchy within societies; the degree of institutional formality / informality; the nature of institutional influence - constraining and / or enabling; and institutional means of enforcement and socialization enabling sustainability and change.

The suggested taxonomy advanced here addresses these specific problems relating to the lack of taxonomy.

The taxonomy problems addressed

Firstly it addresses the problem of establishing categorical boundaries to avoid definitional vagueness and obscurity:

The current widespread and diffuse use of the term institutions and the insufficient attention the development of a categorical framework has left us in an exciting if rather confusing state. Social scientists define institutions in a variety of relevant and useful ways but appear less able to decide whether some important and widely acknowledged phenomena reflecting and regulating social activity actually qualify as institutions [Nelson, 2001]. This is particularly true at the boundaries - where habituating activities

are confused with the rule-like nature of institutions and where collective cultural manifestations of beliefs and ideas are confused with norms and conventions.

The taxonomy suggested here draws on existing accepted definitions. Some categorizing criteria are advanced to address these definitional ambiguities and to provide a descriptive and discriminating framework. The aim is to use these categorical boundaries to clarify what does and does not qualify as an institution and why.

In the taxonomy that advanced – it is suggested that a so-called institution qualifies as a "true" institution if it fulfils the following categorizing criteria – that is it:

1. Has a rule like nature [North, 1990], structuring, enabling and constraining social interaction [Hodgson, 2001]
2. Is manifest and operates at a societal rather than individual level [North 1990], [Hodgson, 2001]
3. Is established and embedded within the society and/or the social setting [Hamilton 1932]
4. Is evident, codified or codifiable [Hodgson, 2001]

It is therefore worth noting that beliefs ideas and values are not institutions - although they may be shared and influence social and economic choices and social behaviours [Hampden-Turner and Trompenaars, 1993] and may under pin, reinforce and even sanction institutions [Thompson, Ellis and Wildavsky, 1990]. Furthermore, habits are not institutions - they operate at an individual level affecting thought and activity of individuals within a society. While habit has been defined by Charles Camic as “more or less self actuating disposition or tendency to engage in a previously adopted or acquired form of action” [Hodgson, 2001: p 289]. Such a disposition is in itself not of the nature of a social rule - although it can influence the emergence of and be influenced by existing social rules. Two other key considerations should also be noted here. Firstly institutions will at any one time reflect a socio-cultural paradigm and have social expressions that are embedded in a way that is particular to the culture [Whitley, 1990]. Secondly, oft related and associated concepts such as culture and social capital relate to quite different considerations (with some aspects which may overlap) that are in essence quite different from institutions [Hodgson, 2001] and [Fine, 2001]. These concepts fall outside the categorical criteria advanced here and do not qualify as institutions.

Secondly it addresses the problem of intra-category differentiation to establish an internal familial typology:

It is evident that within the category institutions - there are different types of institutions. For example laws, markets and organizations are all institutions in that they satisfy the categorizing criteria outlined above. They also self evidently represent quite *different types* of institutions. Once included in the broader class of institutions, the question we face therefore is: - what families of sub categories do they belong to and why? Furthermore, how do these various families of sub categories relate to each other? The taxonomy advanced suggests a further intra- category definition that describes the

different kinds of institutions that make up the overall category. 3 families of institutions are identified:

1) **Informal Rules** - these are social and societal stipulations enforceable, enforced and regulating. They are strengthened and re-enforced through cycles of habit, adherence and or sanction¹⁸ [Mirowski, 1986], [Hodgson, 2001]. These also include conventions – seen as specific instances of social rules [Searle, 1995]

2) **Specified Formal Rules** - these are explicitly, formally and deliberately formed and codified rules. They have societal specificity and apply within a socio-historical context that confers widespread validity, legitimacy and authority. Formal rules such as laws may be socially and politically enforced and sanctioned.

3) **Rule Systems** - these are objective, defined and bounded socially constructed systems of activity and social interaction regulated and enabled by rules, conventions and laws and embedded in socio-cultural contexts. These may be formal or informal. These include organizations, [Hodgson, 2001] markets [Rosenbaum, 2001], [Hodgson, 1988 pg 174] "A set of social institutions in which a large number of commodity exchanges of a specific type regularly take place, and to some extent are facilitated and structured by those institutions" and States [Hodgson, 2001].

Thirdly it addresses the problem of relational lineage and intra category familial proximities:

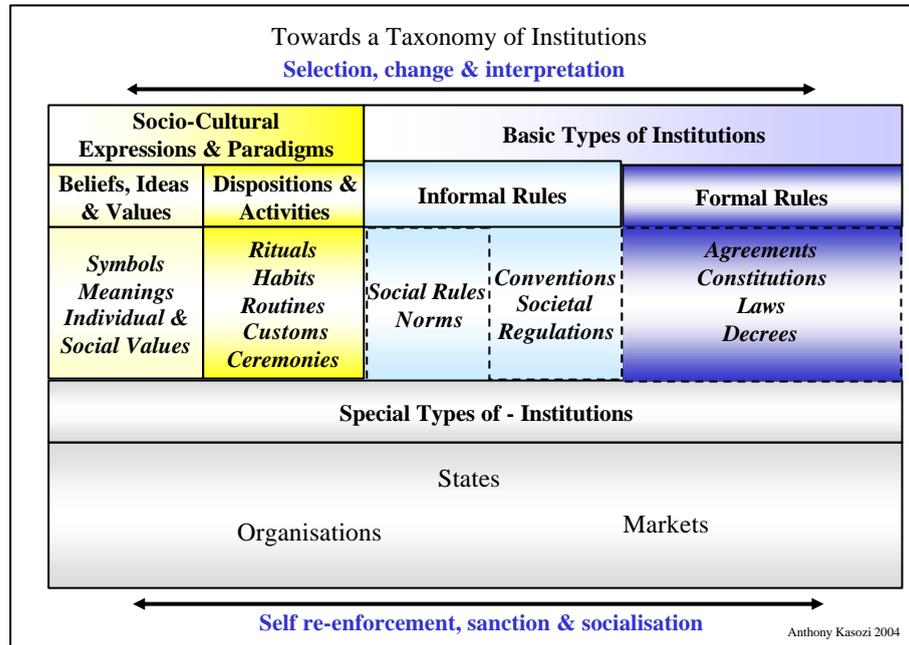
Habits precede institutional emergence. The emergence of particular family of institutions developments can precede the development of another. The sustained existence of some family of institutions presupposes the pre-existence of another family. Families of institutions can be seen as evolving, one to another, coevolving one with another or developing in proximity one to another. The dynamics of evolution, co-evolution and development are outside the scope of the taxonomy - however the representation of families within the category should be consistent with what we know about how institutions develop and change to emerge from and succeed each other.

Fourthly it addresses the problem of contextual relevance:

This taxonomy is put forward for a purpose - to facilitate the assessment and comparative study of the influence of institutions on economic development in countries with historic and economic commonalities. It has to provide a categorization and description that is meaningful in the context of a country's economic and social political development. In addition it needs to provide a useful, pragmatic and usable framework for discussion and fieldwork (i.e. comprehensive but not over elaborate or unnecessarily complicated. Able to be used to explain and help interpret the reality that is observable on the "ground")

A diagrammatic representation and detailed description of the proposed taxonomy

Fig 1: A diagrammatic overview of the taxonomy



The taxonomy as a whole is made up of a broad categorization of institutions and cultural expressions and paradigms and rule systems.

In this representation of the taxonomy there is a differentiation between “true” institutions – ones that qualify as rules, laws or rule systems from socio-cultural expressions that are less rule-like and / or are not codified or codifiable and / or are not embedded within the society and or social setting. I identify Socio-cultural expressions and paradigms as including:

- i) beliefs and values – such as symbols, meanings as well as individual and social values; and
- ii) dispositions and activities – such as rituals, habits, routines, customs and ceremonies.

It is notable that much of what is broadly referred to as say American or African “culture” often refers to these expressions and paradigms and not to “true” institutions as I define them. (I have included socio-cultural expressions and paradigms to locate these important – culture related features that are strictly speaking not institutions.)

Institutions as represented in the taxonomy, refers to expressions which are rule like, are codified or codifiable and are embedded within the society and or social setting. I include as institutions:

- i) social rules – including social norms, social rules, societal regulations and conventions; and
- ii) specific laws – such as agreements, constitutions, laws and decrees.

In addition I refer to a special type of category of institutions – as rule systems which fulfil the criteria of an institution and may also encompass and simultaneously be socio-cultural expressions. I include in this special category for example – organizations, markets and governments.

The arrangement and diagrammatic proximity of the representations relates as well to the relational proximity between them. So societal regulations are closer to laws (and arguably more easily develop into laws) than social beliefs do. Similarly socially accepted conventions may more easily be enforced as decrees than tribal customs could be. In both cases however the taxonomy asserts no expectation that the one type of expression inevitably leads to the development of the other.

In the diagram the bi-directional arrow above the categories refers to an ongoing and dynamic change processes involving the societal selection, changing and interpretation. The bi-directional arrow below refers to the ongoing self-reinforcement, sanctioning and socialization of expressions and institutions. This means that expressions and institutions can evolve, devolve, appear and disappear - the direction of change being neither inevitable nor necessarily predictable.

Implications for the comparative study of the influence of institutions on economic development

The proposed taxonomy should enable more focused and discriminating study of institutions and related features. It should help clarify what matters and how and make it easier to avoid interesting but less relevant distractions and debates that dis-integrate rather than help integrate the insight and understanding that we are seeking.

The taxonomy is however not intended to (and is unlikely to) suggest that cultural features and broader social considerations do not matter. It is hoped that by offering a taxonomy the role of associated features can be addressed more effectively and brought into sharper and more clearly explained relief in relation to institutions.

Conclusion

There is growing acknowledgement that institutions play an important and significant role in economic development as well as deeper understanding of the nature of institutions. In addition institutions have been more widely studied, better defined and their impact better understood.

Yet despite this progress, an authoritative taxonomy of institutions is still lacking. For those seeking to understand how and why institutions matter, the increased definition raises the need for taxonomy of institutions. Institutions relevance, scope and priority in economic understanding cannot be advanced without establishing such taxonomy.

A number of specific issues underlie this overall problem of a lack of taxonomy, these relate to the absence of an authoritative broad class definition that provides discriminating categorization of institutions, the development of a typology within this broad categorization as well as the need to recognize transitional relationships between institutions within the broad class and to acknowledge the usefulness and fitness for purpose.

The taxonomy advanced draws on existing accepted definitions providing categorizing criteria to address these definitional ambiguities. It enables a descriptive and discriminating framework that can be used to clarify what does and does not qualify as an institution and why.

For students of institutions and institutional change, the framework can provide a basis for comparative institutional study with greater focus on what matters. The taxonomy should enable easier differentiation of institutions from related aspects which may be of interest but not necessarily of immediate relevance.

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