

WHAT ARE INSTITUTIONS?

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There is now widespread consensus that institutions matter crucially for development, but what are 'institutions'? This first *IPPG Briefing Paper* discusses institutions in general with later *Briefing Papers* focusing on economic, social and political institutions, and illustrative cases and problems.

All human societies are characterised by more or less complex and overlapping networks of regular social interactions and practices. Whether economic, political or cultural, such repeated interactions require agreed and predictable rules – ways of doing things; such sets of rules constitute institutions. Language, for example, can be understood as an institution, constituted by the rules governing the use of sounds for meanings and communication, likewise, systems of marriage or burial are institutions which vary greatly over time and place, their specific forms being shaped by the rules which govern them. Unemployment insurance systems, relations between genders or age groups, educational practices and provision, and labour markets are also governed by rules, or institutional arrangements. Economic activity – whether silent barter, the operation of stock markets, the conditions for opening a new business or obtaining credit – is shaped by 'the rules of the game' (North, 1990) which forbid some forms of behaviour and encourage others, the form which such rules take may either hinder or promote growth. Politics is also profoundly influenced by rules which steer political behaviour in different directions, consider the contrasts between politics in federal and unitary systems, or between presidential and parliamentary systems, or between proportional representation and first-past-the-post electoral systems – all of which structure politics and distribute power in different ways.

Institutions can be formal or informal; *formal* institutions are normally established and constituted by binding laws, regulations and legal orders which prescribe what may or may not be done. *Informal* institutions, on the other hand, are constituted by conventions, norms, values and accepted ways of doing things, whether economic, political or social; these are embedded in traditional social practices and culture which can be equally binding. So, for example, laws which grant, recognise and protect individual land ownership establish formal institutions governing property rights in land, whereas communal systems of land tenure may be thought of as informal, embodying rules which have been established by custom and convention and do not permit private ownership, purchase or sale. Both institutional arrangements

have different implications – institutions which ensure strong property rights in land (or anything else for that matter) may enhance productivity by enabling owners to use their property to obtain credit and inputs, but may also deepen inequality, (by giving rise to landlessness, for example). The institution of communal tenure, on the other hand, may guarantee access to land for subsistence, but may not promote growth through increased productivity. Likewise, formal political institutions – the rules expressed in constitutions and electoral laws, for instance, or in the separation of powers between the executive and the judiciary – are supposed to set the rules about political behaviour, the use of legitimate power and authority, decision-taking and patterns of governance; but there are also informal political institutions – patron-client relations, old boy networks, *guanxi* in China, for instance – which embody private forms of power and influence, and which may operate behind, between and within the formal institutions, hence substantially influencing how public power is used to make or prevent decisions that benefit some and disadvantage others.

Institutions are neither static nor neutral, they distribute advantage and disadvantage in different ways, and there will always be winners and losers in the course of establishing or changing them. Sudden and radical institutional change does occur, but generally, institutions change slowly through the politics of modification and reform as different interests and ideas compete to get the most out of the rules. Nonetheless, institutions are best thought of as durable social rules and procedures, formal or informal, which structure the social, economic and political relations and interactions of those affected by them. The great French scholar, Émile Durkheim (1895/1938:lvii), observed that social science is 'the science of institutions, of their genesis and their functioning'.

The interesting and difficult questions to answer, therefore, concern 1) how institutions are established, maintained and changed; and 2) how the many and varied social, economic and political institutions, both formal and informal, interact with each other – within and between societies, in complementary or conflicting ways, to promote or hinder pro-poor growth and development.

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