The Two-Pronged Mechanism of Competition for Institutional Development

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Abstract

How do institutions evolve? The answer lies in solving conflicts which may arise from different economic, political and ethical principles. In turn, these principles underpin decision-making to consolidate or to change institutions. This does not happen in a vacuum but in the context of structures. Pre-existing structures and institutions have an ontological power over current individual and collective agents. Both types of agents face a two-pronged competition. On the one hand there is competition between collective agents for their influences upon institutional decision-making. On the other hand there is competition between individual agents and collective agents. This two-pronged competition mechanism results in a process of institutional evolution and may challenge agents to re-identify themselves. Notwithstanding that working rules and procedures are developed to create reasonable values, it is not predetermined whose interests
dominate this competition process. Consequently, progress in social and economic development is not a given fact.

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1. Introduction

In the quest for institutional evolution, different mechanisms between structures, institutions and agency have received ample attention. For example, Steve Fleetwood’s (2008) incorporates in his structure-institutions-agency model two mechanisms through which structures, institutions and agency are connected. These mechanisms are reflexive deliberation and reconstitutive downward causation. The former is extracted from Margaret Archer (2003) and the latter is extracted from Geoffrey Hodgson, who (2011) relabeled this as reconstitutive downward effects. Fleetwood tries to investigate if one of these mechanisms has priority over individual preferences. He does not provide a decisive answer, but concludes that reflexive deliberation is just another human devise. Neither of these scholars provides a clear definition of structure. Additionally, he ignores that Archer and Hodgson address different types of agency. Namely, Archer addresses individual agents and collective agents, whereas Hodgson addresses individual agency.

In the present article, I discuss the concept of structure and its relationships with institutions and agency in pursuit of a refinement of the structure-agency dichotomy. I first define the concepts of structure, institutions and agency. Second, I expand Fleetwood’s structure-institutions-agency model by distinguishing individual and collective agency. I argue that pre-existing structures and institutions have an ontological power over current agency. The temporal separation of pre-existing structures and institutions from current agents enables me to avoid a
conflation of structures and agency, and of institutions and agency. Third, I elaborate that the two types of agents differ with regard to decision rules and procedures. Given (aggregation) rules and procedures, the decisions which are made by collective agents may conflict with the economic (efficiency and scarcity), political (rationing) and ethical principles that are adhered to by other collective agents and individual agents. Among and between broth types of agents exists a competition over their influence upon institutions. This two-pronged competition is underdeveloped in the prevalent literature, even in the sophisticated and subtle interpretation of agency by Anne Mayhew (2001).

In the next section, I elaborate the concepts structures, institutions and agency. After that, I cast a quick glance at two institutional economic approaches in order to get a first impression of the interactions between these three concepts. I wrap up with some conclusions and discussion notes.

2. Definition of structure, agency, and institutions

Within the institutional literature, the distinction between structures, institutions and agency is not clear. Thorstein Veblen and Clarence Ayres make an analytical distinction between structures and institutions (Waller 1982, 757, 762), whereas others integrates both in institutional structures (Hodgson 2006, 7-9, 16), or use structure as an equivalent for institutions (Schmid 2004, 13-14). There also consist confusion in the literature about the distinction between collective agency and institutions. In this section, I disentangle structure, agency and institutions from each other.

In this section, I refer to concepts that are developed within specific theories, inter alia, the structuration theory and the morphogenetic theory. I elaborate the concepts but not the theories. The concepts of structures, agency, and institutions are analytically separated in a way that allows
me to assign an ontological power to structures and institutions over agency. In turn, existing structures and institutions might become transformed through current agency.

Structures

The term structure is prevalent in the institutional economics and sociological literature. It is applied to describe several issues or situations but lacks a univocal elaboration. In the traditional structure-agency approach, structures are reminiscent to rules and resources—that is, power over individuals—, whereas the structuring of social actions of agents is performed through the so-called memory-trace. In other words, structures are the medium and outcome of agency at which structure neither agency has primacy (Giddens1984, 5, 17, 25). Archer has a different approach.

According to the sociologist Archer (1995, 44), structures comprise resource distribution and culture. They are unintended results of activities in the past, whereas desires of persistence or transformation of structures are shaped by the advantages or disadvantages which are distributed “differentially throughout the population.”

According to Archer (1995, 44), the first component of structures coincides with power relations within collectivities of populations that conditions agency. These collectivities may concern different groups. For example the demographic structure concerns the power relations between age cohorts such as elderly, the reproductive cohort and youngsters. The distinguished groups cannot exist on their own because they are existentially dependent on each other.

The second component of structures concerns culture. A culture “is man’s medium, there is not one aspect of human life that is not touched and altered by culture. This means personality, how people express themselves (including shows of emotion), the way they think, how they move, how problems are solved, how their cities are planned and laid out, how transportation systems function and are organized, as well as how economic and government systems are put
together and function” (Hall 1977, 16-7; Trompenaars and Hampden-Turner 1999, 6). The logical consistency or relationships of doctrines, beliefs, theories and values or ideas constitute cultural emergent properties (Archer 1995, 144, 179-180, 197; 1996, 336). Examples of cultures are predatory, barbaric, archaic, mystic, individualistic, feministic, pecuniary or (post-) materialistic cultures.

Archer (1995, 40, 66, 83, 106, 148, 168, 195, 299) assumes that resource distribution and culture have causal powers in that sense that they supply “directional guidance for agency.” They pre-date action and are not dependent upon current practices. This does not imply that they are immutable at all. They may be changed and transformed by current agents, either unintendedly or deliberately. In the process of reproduction mutations may occur. Agents may reflect upon structures and choose to change institutions to suit their goals and purposes.

Archer approaches structures from the perspective of societies as a whole. She indicates what structures encompass—she (1995, 179) focuses upon their emergent properties—but does not elaborate upon the constitutive variables. Analogous to organizations structures might be said to be constituted by: the number of groups of persons that fulfil specific functions or perform specific tasks, how these groups are arranged (who has which authority and accountability), their size distribution, their cohesiveness (for example, indicated by task commitment and interpersonal attraction to the group), and the frequency of interactions (Blau 1977, 245). The culture that co-exists with resource distribution at a micro level might be a combination of power, role, and task or person culture.

Here above I referred to the sociological literature. Economists are used to refer in their efficiency analyses to resources as the factors of production. From this perspective, structures concern the management, labor, capital and technology. Regarding the analysis of scarcity power is included in the form of market power. According to Commons (1990, xxvi) economic power is
determined the alternative opportunities and the power to withhold that what somebody else wants or needs.

**Agency**

Mustafa Emirbayer and Ann Mische (1998, 970) define agency as “the temporally constructed engagement by actors of different structural environments—the temporal relational contexts of action—which, through the interplay of habit, imagination, and judgment, both reproduces and transforms those structures [which encompass institutions] in interactive response to the problems posed by changing historical situation.” (Emphasis in original) Actors are socially embedded agents who perform a social or economic role. Their concept of structures encompasses institutions.

The temporal separation of agents from structures, as is mentioned in the definition by Emirbayer and Mische’s, means that current agents are subordinated to structures upon which they may themselves have decided upon in the past or which might have arisen unintendedly by their behaviors in the past. This resembles the ontological power of structures over agency as is mentioned by Archer. In turn, current agents may unintendedly influence or deliberately decide to change structures. This implies that agents have ontological power over structures. As soon as these changes are realized, agents become subordinated to these new structures. The new structures change the opportunities of agents. In order to realize desired socio-economic outcomes, agents decide upon adaptation of structures and institutions (Archer 1995, 188, 195).

Economic, political and ethical principles underpin agents’ economic decision-making. The interplay of habit, imagination, and judgment implies that agents are neither atomistic ‘choice machines’ nor limited to utility maximizing or cost minimizing (Hodgson 2004, 319-320).
Agency is not restricted to individual agents. Individual agents are individuals who are entitled with unanswerable decision-making rights (in markets) or individuals whose powers are “appropriated from the organization and incorporated by the agent” and who are entitled with answerable decision-making rights (Llewllyn 2007, 133; Solo 1974, 35-37). The latter are also known as proxy agents (Hewson 2010, 13). Agency also might be ascribed to organizations (Archer 1995, 247-293; Samuels, Johnson and Perry 2011: 269). Organizations are treated in the literature as collective agency: “When individuals collaborate they create collective entities; as far as these entities engage in effectual activity, they become collective agencies” (Hewson 2010, 13). Collective agents are entitled with either answerable authoritative decision-making rights or answerable composite decision-making rights (Solo 1974, 35-37). Examples of the former are courts. They create reasonable values which are “a mean between the palpably inefficient or stupid and the exceptionally capable and efficient. Their rulings are binding. Binding decisions are also made by the interest groups that receive “sovereign power (rule enforcement power) from government, provided they create rules that society considers reasonable.” Here reasonable means “‘the best practicable,” seen as a local practice” (Uni 2017, 75, 85). Examples of collective agents of composite decision making are firms and Congresses. Their decisions are binding provided that they are in accordance with the law/the Constitution.

There exist two approaches to organizations such as corporations as collective agents. One strand of literature approaches them as unitary players. For example, in North’s (1990, 4-5) approach, organizations are the players of the game. These players are assumed to economize on transaction costs. In other words, organizations are reduced to single actors, to artificial single actors to be sure.

An other strand of institutional literature approaches organizations as multiple players (Aoki 2001, 132)—that is, as a set of different decision units with their own preferences or
stake. Though sharing the same cultural traits and following certain decision procedures and
decision rules, their decisions might (marginally) deviate or conflict decisions by other decision
units within the same organization.

Before law, collective agents might be approached as legal persons. This approach fosters
economic stability, because property is no longer tied to a personal but to an organizational
lifespan. However, if organizations are held accountable for the predictable results of their
actions, whereas organizational agents cannot be sued individually for their choices, this
endangers the stability because limited individual responsibility multiplies the chance that
managers take irresponsible risks (Solo 1974, 71; Citizens United 2010; Peters 2017; H.R. 781
2017). Namely, individual accountability connects individuals with organizations or the society.
Additionally, one may doubt whether a juridical status also means that an organization is really a
unitary player.

A common feature of collective agency is that it differs from individual agency: First,
individual and collective agents apply different rules and processes to decide upon adapting or
establishing new institutions (Urlacher 2014, 7). An individual “agent runs his/her own mental
program—or cognitive mechanism—in order to recognize and interpret the state of relevant
environments, predict the consequence of various alternative actions on the state (including other
agents’ reactions), and make an action choice from among them to solve relevant problems.” In
contrast, collective agents apply “organizational or administrative rules/procedures” that are
specifically developed to deal with conflicting interests within and between organizations (Aoki
2001, 131-132). Second, collective agents apply different methods of reflection upon changed
expectations (Maccarini 2014, 74). Collective agents reflect less loose on changed expectations
than individual agents. Collective agents follow prescribed rules/procedures which are likely to
include scientific inquiries, whereas individual agents are likely to consult colleagues, friends, family or the internet and decide according to their assigned authority.

**Institutions**

Finally, there are institutions. Institutions concern, in substance, prevalent or shared individual habits of thought regarding cooperation or solving conflicts. Some are funded in science, whereas others have no basis in fact, for example, because they arise from animistic superstition. They comprise, *inter alia*, laws, rulings, protocols, procedures, guidelines, status, and quality marks, and along with this they “settle the role, rights, duties, [liberties, exposures] and expectations of transaction partners” (Spithoven 2012, 430; Commons 1968, 6). An illustration of exposure is employees who “are exposed to the freedom of the employer to fire them or not fire them” (Uni 2017, 64).

Institutions liberate actions of agents “from coercion, duress, discrimination, or unfair competition,” and, along with this, institutions expand the will of those agents by enabling them to do things that go far beyond they can do alone. Simultaneously, they restrain actions or behavior of others—that is, they constrain for example their coercive or discriminatory behavior. So, institutions enable behavior and choices of some agents by means of restraints placed on other agents (Commons 1990, 73).

Institutions facilitate transactions by specifying how to acquire and to distribute income, wealth, rents, rights, duties, liberties and exposures. Consequently, institutions stipulate who counts in society (Samuels 2007, 28, 80, 167). Those who count may be qualified as vested interests—that is, those who have power to control “the conditions of life for those who are or wish to be engaged in industry [. . . or] for those who have to resort to the markets to sell or to buy” (Veblen 1919, 160, 162). Power of control is the authority to hold back the goods and
services that people want, but do not have, and to negotiate transfers of property rights in accordance with the working rules and culture of society (Commons 1990, 302-303).

Institutions enable agents to compete or to cooperate. They provide an answer to experienced conflicts and aim to avoid these conflicts in the future (Commons 1990, 87). Notwithstanding this forward looking character, institutions tend to lag behind the present social and economic state of affairs (Veblen 1934, 190-191, 210-211, 266). The tension between shared habits and changed or desired social and economic conditions—that is, institutions lag behind what is necessary to meet the changed or desired socio-economic conditions—invoke individuals and organizations to adapt institutions (Samuels, Johnson and Perry 2011, 4, 125, 212-213, 222, 269).

Selection, adaptation and creation of institutions are processed through institutionalized methods of organizational decision-making and procedures (Veblen 1934, 188, 212-213; Commons 1990, 73-74, 698). Given the definition of agency, agents may either deliberately or spontaneously (unintendedly) change institutions to meet “the special material requirements of the situation” (Foster 1946, Chpt 3).

Whatever the source of institutional change, it may eventually contribute to a change of structures. Namely, structures are constituted in institutions. If institutions change also structures change. For example, the distribution of wealth is changed through taxation. The rise of tax havens enables international operating firms to avoid taxes. Consequently, the owners of these firms may enrich themselves much faster than workers or owners of national firms. This affects the distribution of wealth.

Conflation and disentanglement
Within the institutional economic and sociological literature there exists confusion regarding the status of institutions. One strand of literature conflates structures and institutions. Another strand conflates institutions and organizational agency. The reason for conflation might be found in the definition of structures. Giddens’ definition of structures as rules and resources and Archer’s definition of structures as distributions of resources and culture—with institutions as their emergent properties—both combine, so to speak, the hardware and software of agents in one concept. From a Marxian perspective one may argue that both do not distinguish between the superstructure and the substructure. The so-called objective world and subjective reality are combined in one concept.

Archer (1995, 179) qualifies institutions, stratification of positions (such as lords and serfs or the privileged and under-privileged) and roles (landlord and tenant; capital owner and wage laborer) as emergent properties of structures. This suggests a collusion of structures and institutions (Hodgson, 2006: endnote 5). According to Hodgson (2006: 21), Archer’s approach fails to distinguish structures in general from institutional or rule-based structures. He illustrates this with a reference to demographic structures.

Steve Fleetwood (2017, 90) provides a slightly different approach than Archer. In analogy with his metaphor of the sandcastle, structures are emergent from but irreducible to the institutions that constitute it. Institutions are rules that determine who has which roles, rights, duties, exposures etcetera and as such they have primacy in determining resource distribution—that is, the structure of production factors and the accompanying wealth and power distribution. Ergo, institutions are distinguished from overarching structures by their intermediate level.

In order to avoid the conflation between agency and institutions, Hodgson (2006, 9-10) and Christopher Brown (2013, 219) explicitly label organizations as institutions, whereas Daniel Bromley (2016, 313-314) explicitly approaches organization as a social practice and not as an
institution. The latter fits the approach by John R. Commons (1990, xxviii, 58), who approaches organizations as a coalition of agents that is kept together by working rules.

Conflation of structures with either institutions or agents might be circumvented by restricting the concept of structure to its materials and construction, and distinguishing institutions as transmission channels through which structures trigger the properties of agents and through which agents constitute and support the structure. The distinction between structure and institutions is an analytical one. For example technology as the set of tools, machines and knowledge of techniques, processes etcetera concerning the accomplishment of certain objectives might be approached as structure, whereas the shared habit of thought concerning how to accomplish certain objectives such as production of goods and services with the application of the technological capital might be approached as an institution.

3. Two institutional economic approaches

There exist two institutional approaches in economics. First, there is the vested interest approach in the tradition of the Original Institutional Economics (OIE). OIE scholars are, among others, Warren Samuels, Robert Solo, Hodgson, and Christopher Brown. Second, there is the transaction costs approach of the New Institutional Economics (NIE). NIE scholars are, among others, Douglass North, Elinor Ostrom, Daron Acemoglu and James Robinson.

Avner Greif and Masahiko Aoki might be seen as institutional economists who combine elements from both approaches. They approach “institutions as [historically moving] equilibria of a game”, whereas “the behavior of actors who enforce the rules of the game must be explained by institutions” (Alesina and Giuliano 2014, 6-7). Institutions “convey useful information in compressed forms [. . . that . . .] will not made be completely transparent and transmittable in
codified forms through the workings of institutions [. . .] Actually some economically valuable information may not be readily codifiable, and some institutions may emerge too make better use of such knowledge” (Aoki 2004, 277). This is a source of institutional evolution.

Of course, there are more scholars in both traditions. I selected these scholars only to get a first glance of the interactions between structures, institutions and agency.

*The OIE*

Original institutional scholars focus upon the analysis of transactions. Bargaining, managerial and rationing transactions constitute going concerns. A going concern is a joint expectation of beneficial transactions, kept together by working rules and by control of strategic or limiting factors. Working rules limit and enable transactions. They are a product of “human nature, of human preference, prejudice, aspiration, endeavor, and disability” (Commons 1990, 58, 655). They are subject to interpretation and this may result in conflict. In the field of arbitrage (judges, juries, commissioners and arbiters) conflicts are ruled upon by applying the criterion of reasonableness. The assessment of reasonableness is what adjudicators say what reasonable is. It is organizational and historical (Commons 1990, 206-207, 682, 697). What is defined as reasonable value is an assessment of a complex of causations, “such as efficiency, scarcity, sovereignty, and customs” at which should be taken into account “not only equality of opportunity, fair competition, information disclosure, and equal bargaining power [. . .] but also other social values that are more compatible with our era” (Uri 2017, 4, 51) It is strongly influenced by, first, the prevalent economic, political and ethical principles, and, second, by the agents with the best developed rhetoric skills.

The OIE and how institutions influence individuals.
Institutions stipulate who counts in society by specifying one’s liberties and exposures, and by specifying how to acquire and to distribute income, wealth, rents, rights and duties. From the assumption that agents are rule followers (Rutherford 1994, 78, 176), institutions influence agents. In line with this approach, Hodgson (2003; 2004, 188; 2005, 1, 4; 2011) asserts that (individual) agency is influenced by institutions through a process of reconstitutive downward effects—that is, institutions create or reiterate “conditions that can be related to changes in the character” or preferences of agents. This process operates at the psychological level by influencing tacit knowledge, habits, propensities and properties of individuals. Propensities concern, *inter alia*, the instinct of self-preservation, emulation, workmanship (achievement) (Veblen 1934, 8, 21, 51; Jensen 1987, 1040). Properties include, among other things, gender, education, income, preferences, beliefs and goals.

Modern DNA research shows that individual choices and behavior might be the result of a complex interaction between genes and experiences/information. Repetitive social experiences may change the function of gens without changing the DNA structure (Chen and Galbraith 2012, 420). A change in the function of gens implies that individuals may decide differently than before. These functions might become firmly anchored in the biology of human beings.

Comparable processes may occur within social organizations (Redmond 2006, 436). For example, without changing the organizational structure, the function of administration may change because of new management approaches. Administration might be, among other things, approached as a tool to render account or as a tool to facilitate cost control policies. If the function or status of institutions changes, then this effects behaviors (Bromley 2016, 312) and may invoke re-identification of embedded agents (Davis 2003, 151), or may invoke what Mayhew (2001, 240) calls a change one’s institutionalized personality.
OIE scholars assume that individuals are influenced by their social and cultural environment. Socio-cultural individuals have an innate drive to cooperate from their desire of belonging in a social setting (Atkinson and Reed 1990, 1101). They may pursue “a multiplicity of goals and objectives” (Jensen 1987, 1069).

The OIE and how agents influence institutions.

Social-cultural individuals may unintendedly or deliberately influence institutions (Foster 1946, Chpt 3). Institutions are deliberately developed to “make rules for a conflict of interest to be decided with the public interest in view.” Working rules are developed for maintaining security of expectations. Therefore, “causation is in the future” (Commons 1990, 655, 683, 746). They are funded in what Veblen labelled the instinct of workmanship as one of the properties of agents who seek “in every act the accomplishment of some concrete, objective, impersonal end” (Veblen 1934, 15). This instinct is “a proclivity for taking pains. Thus, Veblen is compelled to introduce purpose into his instinct of workmanship and thereby to change from Darwin’s ‘natural’ selection to Darwin’s ‘artificial’ selection” (Commons 1990, 661). From this perspective, an institution is “a spur to and a check upon change, a creature of means and a master of ends” and, accordingly, one also may qualify technology as an institution (Waller 1982, 762).

The OIE scholars provide a normative theory of transactions within “evolving going concerns in an evolving going society”. Institutions are instrumental for realizing certain social purposes. Conflicts are decided upon by a range of adaptation tools: “coercive power, co-operative good-will, compensation, et cetera” (Atkinson and Reed 1990, 1099, 1102). Because the public goals vary “according to the changing personalities on the bench” (Commons 1990, 684), it is relevant to distinguish who are in change with the development of institutions.
Organizational and collective agents may influence the evolution of (formal) institutions by deliberately triggering neurological processes within the brains of common citizens. They may channel habits of thought through creating shared images or mental maps of society by deliberately exposing agents to repetitive information, actions and experiences (Hodgson 2004, 319-320; 2007, 107). In other words, they may exploit insights provided by the science of neurological processes (Brown 2013, 210-212, 217, 222).

Because Veblen assumed that governments are instruments of vested interests, he thought that governments were unable to set the goals of life that suits the common men and common women (Leathers 1989). He argued that instrumental value—that is, the generic goals of life that are functionally served by institutions—should be funded upon scientific research (Ramstad 1989, 755-766). However, this does not solve the problem. Assumptions in social sciences are ideologically funded. That is why instrumental values that are developed by scientists also may reflect the goals of vested interests. In contrast to Veblen’s expectation that governments might be unable to change institutions that suits the commoners, history has proven that governmental policies may result in incremental improvements for the common men and women. This gives credit to Common’s idea of reasonable value.

Within a Veblenian framework reasonable value would coincide with a reasonable distribution of resources. Instead of maximization of “individual utility reflected in market demand prices” (Leathers 1989, 294), this might be combatting robbery, poverty, monopoly power, unemployment, and coercion. From this perspective one might endorse a policy of distribution of income and wealth and consequently of a reallocation of property rights (Veblen 1978, 340, 343).

Nowadays, within a Veblenian context, a reasonable distribution of income concerns a society without poverty, oppression, arbitrariness, pollution and (systemic) fraud. Such a society
is not inscribed into the order of things (Gellner 1988, 3) because, *inter alia*, it might be frustrated by the power of rapacious vested interests (Veblen 1919), and citizens in constitutional democracies are not likely to counterbalance this power as long as they adhere to the delusion that “business governments” serve a general interest (Veblen 1978, 286).

*The NIE*

NIE scholars assume rational decision making by agents who strive towards an efficient allocation of resources. Although they acknowledge that decision making is bounded rational, which allows for incomplete contracts and leave uncertainties (Groenewegen, Spithoven, Van den Berg 2010, 67), this does not resemble the idea of reasonableness as that is elaborated by Commons. Bounded rationality concerns decision making by atomistic individuals who are driven by incentives (compensation), whereas reasonableness concerns decision-making by mutual interdependent individuals who participate in a variety of going concerns. These individuals are not rational beings but institutional minds (Commons 1990, 656) with multiple goals and purposes and who may render account for their common goals.

NIE scholars substitute the OIE concept of “going concerns” for governance structures—that is, specific configurations of institutions and instruments that are developed to organize transactions. From the perspective of explaining the choice of governance structures, NIE scholars provide a normative analysis as a positive theory of transaction costs. Given the dimensions (asset specificity, frequency, and risk) of transactions, they explain the choice for a governance structure by its transaction costs. The governance structure with the lowest transaction costs ranges from market to bureaucracy.

Ostrom (1986, 6-7) enriches the NIE approach by highlighting that rational decision-making by individual and organizational agents is embedded in a specific configuration of
institutions. It is not one isolated institution that results in a specific behavior but a whole set of institutions. These configurations determine the range of allowable and forbidden behaviors of agents. Individual agents are subject to rules that establish their individual freedoms to act, liberties (absence of coercion), rights and duties. Organizational agents are subject to position rules (that define the different roles of participants), boundary rules (rules that specify the selection of participants), scope rules, authority rules, aggregation rules (for example, decision making according to the majority rule, the consensus rule, the weakest link rule, which focuses upon cooperation, and the strongest link rule which requires offering concessions), information rules and payoff rules (Ostrom 1986, 19). These rules influence not only the decisions concerning the development and accomplishment of organizational goals but also decisions concerning the creation and adaptation of institutions. For example, the selection of participants for certain roles influences the distribution of beliefs, ideologies, skills and information within the organization and within its decision units. These distributions, in combination with the aggregation rules, are relevant for choices made within and for the organization.

North (1990, 73, 76, 83-84, 91-95, 112) also refers to individual and organizational agency. According to him, both are driven not only by a change in relative prices, due to technological developments, but also by a change in preferences. He takes the preferences for granted and assumes that agents maximize utility and profit. Along with this, they are assumed to minimize transaction costs through the choice for efficient institutions. Within his organizations-institutions-agency model, institutions provide incentives to become educated, to save, to invest, to innovate et cetera. Consequently, they affect innovation and growth.

Notwithstanding North’s focus upon efficient institutions, he acknowledges that institutions can be inefficient due to a competition constraint or a (political) transaction cost constraint. They also may persist due to informal institutions (North 1981, 28; 1990, 81-84, 111-112, 116-117,
138; 1994, 366). For example, if one transplant effective growth enhancing institutions from the Western world to Latin American societies, then informal institutions may prevent that imported institutions might become less effective than they are in the country of origin (Fukuyama 2014, 386-396).

Acemoglu and Robinson resume North’s question why inefficient institutions are not eliminated by competitive pressures. They (2006a; 2006b, 325-326; 2012, 73-83, 183, 206, 429-430) provide a formal political-economic model in which interaction between political and economic institutions is behind the development of societies from extractive towards inclusive societies. Inclusive societies are characterized by inclusive political institutions and by inclusive economic institutions. Inclusive political institutions comprise the rule of law and its checks and balances. They are essential for a proper functioning of democracies. Inclusive economic institutions comprise secure private property rights, exchange and contract freedom, and freedom to choose to enter into or exit from business or vocation. They stimulate the exertion of efforts to become educated, to adopt new technologies at the cost of old technologies (creative destruction), and to increase productivity. In other words, they are conductive to spread market power and to foster economic success. In line with this, Acemoglu, Robinson and Thierry Verdier (2012) favor market economies because extractive economic institutions such as taxes and premiums hamper innovation.

Acemoglu and Robinson (2006b, 329; 2012, 82, 431) explain the persistence of inefficient institutions by the interests of political elites in the persistence of political systems. They explain changes of inefficient institutional systems by the occurrence of critical junctures. Critical junctures, which they define as “major events that disrupt existing political and economic balance”, may be turning points to change institutional systems. Examples of major events are,
among other things, high population or economic growth rates, wars, and incidents like bubonic plagues (Diamond 1998).

Although Acemoglu and Robinson stress the importance of inclusive institutions for economic growth, they do not elaborate upon rules and practices to make decisions. According to them, democracy and the rule of law are inclusive institutions. They approach both as a black box. Countries might score equally on a democracy and on the overall rule of law index. Nevertheless, they may differ in democracy regimes (differences in representation system, the use of referenda, gerrymander etc.) and the rule of law might show different deficiencies. Different democratic regimes and different deficiencies in the rule of law result in differences in decision-making and in socio-economic development (Spithoven 2017).

Acemoglu and Robinson (2006a, 38-40, 273-278; 2012, 210) acknowledge that vested interests are able to capture democratically controlled legislators and governments. If this occurs, this might endanger the support to political institutions by the middle class. Namely, if expectations of the members of a broad middle class become frustrated, then they might tend to protest against prevailing rules and enforce a change. The result might be that inclusive political institutions might decay even further.

*Taking stock*

OIE and NIE scholars both acknowledge the existence of collective and individual agents. Conflicts may arise among and between both types of agents. According the former, conflicts are decided upon by a range of adaptation tools, whereas the latter stick to compensation as a tool of adaptation (Atkinson and Reed 1990, 1099).

Notwithstanding that elements of both approaches might be combined, the NIE and the OIE approach cannot be fully reconciled because of the differences in assumptions. First, OIE
scholars assume that agents are socio-cultural individuals who pursue a multiplicity of goals and who participate in different going concerns to which they “adjust themselves according to the positions, jobs, or memberships that they hold”, whereas NIE scholars assume economizing behavior (Uni 2017, 11). Second, OIE scholars assume that agents are subject to social psychological processes: Rationing transactions employ arguments and pleading, managerial “transactions employ the social psychology of command and obedience [; . . . , whereas] bargaining transactions employ the social psychology of persuasion or coercion [, the advertising and propaganda]” (Uni 2017, 15, 19). NIE scholars focus much more upon autonomous individuals who are subject to individual psychological processes (Atkinson and Reed 1990). Third, the OIE scholars assume that agents may have multiple reasons to adapt institutions to changing circumstances (Waller 1981, 758), whereas NIE scholars assume that agents are efficiency driven in adapting governance structures. Fourth, OIE scholars acknowledge that mutual-interdependent agents may pursue multiple goals and purposes by reflection and judgment upon going concerns and that goals and purposes may change, whereas NIE scholars assume given goals and preferences and stress that atomistic agents are either bounded-rational utility or profit maximizers or bounded-rational cost minimizers.

Fleetwood’s (2008, 187-188, 191) structure-institutions-agency model fits the OIE approach: Structure influences agency through reflexive deliberation and institutions influence agency not only through a process of deliberation but also through a process of habituation. Fleetwood does not deal with the differences and interactions between and among mutual interdependent agents and collective agents, and their influences upon structures and institutions. I expand his model in accordance with these criticisms (See Figure 1).

INSERT FIGURE 1 ABOUT HERE
4. Mutual influence between structure, institutions and agency

Structures, institutions and agents fundamentally influence each other. Their mutual influence is not a tautology or circular reasoning. They interact in historical time and through different mechanisms.

Agents may unintendedly change structures through either entry and exit decisions. They also may unintendedly or deliberately by adapting institutions through what Hodgson qualifies as upward causation—that is, acting in accordance with a subjective interpretation of institutions (Hodgson 2004, 187). In turn, structural changes may require a change of institutions. As soon as a change of institutions is realized, a process of reconstitutive downward effects or what Archer qualifies as socialization starts.

In the institutional literature, it is assumed that simple situations and marginally conflicting habits might be addressed spontaneously because they do not need deliberation, whereas complicated questions and strongly conflicting habits require deliberation (Commons 1990, xxi, 698; Acemoglu and Robinson 2012, 101). In other words institutional stress—that is, the difference between what existing institutions brings about in structural outcomes and which institutions are necessary to bring about a desired structural outcome—is relevant for determining which mechanism has priority in generating institutional change.

The easiness to address institutional stress is influenced by several variables; inter alia, the age structure of population. Seniority of agents is correlated with stickiness to institutions (Spithoven 2017). Namely, habits are strengthened with every satisfying experience: “The longer the habituation, [...] the more persistently will the given habit assert itself” (Veblen 1934, 108). By contrast, newcomers might be assumed to be perpetually a source of ideological change and
institutional transformation (Solo 1974, 12). Consequently, the degree of turnover in organizations influences the openness for institutional change.

*Interlinking downward mechanisms between structures and agency and institutions and agency*

According to Hodgson (2006, 7), institutional structures influence agency, whereas Archer (1995, 36, 80, 100, 155) allows also for an influence of structures upon agents. According to Archer, structures and their related institutions are made up by “other people” and pre-exist current agents.

Individual and organizational agents are influenced by structures and institutions through a process of enculturation and socialization. Organizational agents might become “socialized” through enforcement of laws and social pressure from countervailing organizations and (social) media.

In addition to reconstitutive downward effects, according to Archer (2003: 119, 130), structures and institutions influence agency through a process of reflexive deliberation—that is, through internal conversation in relation with human action. This might be a force to adapt institutions or to change participation in a certain structure. As elaborated in the Section on Agency, individual agents are likely to reflect rather loose, whereas collective agents are likely to base their decisions much more upon scientific research or upon advice provided by professional agencies. Whatever, agents may experience or observe that pre-existing cultures tend to conflict with the pre-dating structures or that prevailing institutions are insufficient to address undesired social and economic developments. If someone’s desired participation in a certain social structure or if someone’s desire for an institutional change is not honored, then reflexive agents are induced to re-identify themselves—that is, individuals have to reconsider adaptation of goals, beliefs, preferences etcetera because their expectations are changed (Davis 2003, 111-120, 143-
In order to cope with unwarranted conditions, also collectives may re-identify themselves. Re-identification of collectives concerns, for example, a change in focus upon activities they perform and a change in strategy. Their identity may change through mergers and acquisitions or through deciding to specify on a certain component of a product (lean-production).

*Interlinking upward mechanisms between agency and structures respectively agency and institutions*

Agents may reflect upon pre-existing structures—that is, upon the distribution of populations or upon cultures that has been evolved in the past—and decide to change them. As such current agency has ontological power over future structures. As soon as structures are changed, the changed structures are a power to which current agents are subordinated. Through the changed conditions, current agents of today differ from the current agents of yesterday—that is, from the pre-existing agents.

Agents also may reflect upon pre-existing institutions and decide to change them. As such current agency has ontological power over future institutions. As soon as they have decided upon a change, these institutions function as givens for future agents—that is, “they are a point of departure for further development” (Veblen 1898, 391).

The impact of a decision regarding structures and institutions depends on the authority of the agent. Autonomous agents do not have the authority or the power to deliberately change structures or formal institutions. The deliberate change of structures and institutions belongs to the domain of decision-making by answerable authoritative and composite decision bodies. Ideology might bias authoritative decision-making, whereas composite decision-making is likely to be pragmatic (Solo 1974, 37).
Spontaneous change of institutions and reproduction of existing institutions (upward causation)

Institutions might have spontaneous roots. Veblen (1934, 145, 277, 306, 366, 370) touches upon spontaneous institutions. He mentions, *inter alia*, anthropomorphic cults, their devout observances, ritualistic survivals, and reversions to old habits that spontaneously come out. Additionally, he acknowledges that individuals exhibit mimicking behavior with regard to habits. This mimicking of habits, especially if it is “natural” or instinctive in character, might be seen as a source of the spontaneous rise of institutions.

In addition to mimicking habits, institutions may spontaneously emerge because of spontaneous arising mutations of habits. Namely, socialization is not that perfect as is suggested by Anthony Giddens’ “oversocialized view of man” (Archer 1995, 121; Davis 2003, 113). Socialization is bounded in character, among other things, because of differences in psychological dispositions (Spithoven 2008, 653).

Mimicking habits might result in the rise of mutated habits which nobody intends to become a shared habit. The rise of mutated institutions might also be rooted in, for example, interpretative ambiguities and transmissions of habits to another context. Interpretative ambiguity is likely to arise, among other things, if copying transcends (sub-) cultures or if copyists have to cope with conflicting demands that arise from participating in different (sub-) cultures (Hodgson 2004, 422).

Another elaboration of spontaneously emerging institutions is delivered by Friedrich Hayek. He (1964, 40) describes the spontaneous rise of institutions in analogy to the development of a footpath by individuals who cross a piece of land by walking in someone else’s track. The eventual emerging footpath is no-one’s intention but the outcome of individual choices to take the easiest route. An example of such a “footpath” is the institution to gather in hay or silage on
Sundays. Until the late 1960’s, Dutch catholic farmers were used to ask their priest for permission to gather in hay or silage on Sundays if the weather forecast predicts rain. Because more and more priests independently tended to allow them to get in hay or silage, farmers gradually developed the habit to abstain from asking permission. Eventually, this became a shared habit of thought, whereas nobody had ever had the intention to upgrade this behavior to a common rule. Another more recent example concerns removal of pubic hair. This has become that common that most women seem to think that this is the norm (Rowen et al. 2016). A whole product and service industry has already arisen to facilitate this habit.

In modern societies, spontaneously emerging institutions are likely to be restricted to marginal adaptations of deliberately constructed “footpaths”. Major footpaths are already constructed or formalized via human intention in all domains of modern Western societies. Therefore, in our highly deliberately institutionalized Western world, spontaneous emerging habits are, in analogy to Hayek’s footpath, limited to the forming of institutional “elephant paths”.

Decisions by organizational agents or collectives to change institutions
Decisions by organizational agents or collectives to formalize spontaneous arisen institutions (Hodgson 2009, 146) or to adapt prevailing institutions to critical junctures are preceded by deliberate reflection. Deliberate reflection follows predetermined processes. First, organizations may dispose of administrative agencies to inform management about the ins and outs of the organization. Second, data mining and scientific analyses might be sources upon which structures adapt their policies or strategies, either or not influenced by lobbyists. However, it must be acknowledged that social-economic sciences do not provide absolute answers and mono-disciplinary micro studies often result in significant but small coefficients. Consequently, the
scientific basis of reflection is often thin. Finally, reflection occurs through a process of discussion with relevant stakeholders.

Every process of reflection is followed by a process of decision-making upon the need of one’s own re-identification or upon the need of changing the institutional environment. Institutional adaptations might concern decisions to improve efficiency or, according to the OIE scholars, decisions to create reasonable value that suit the goals of life of commoners. For example, from the perspective of “the three great social reasons of accuracy, security, and justice” (Commons 1990, 211), one might regulate minimum wages in laws in order to protect citizens against avarice and extortion. These decisions are processed through organizational rules and procedures. Within this process, experts, such as scientists, physicians, engineers, economists, statisticians, and lawyers but also professional representatives of the common man and common woman are relevant. The creation of reasonable values is based upon a weighing of a complex of factors, such as property rights, “efficiency, scarcity, futurity, sovereignty, and custom” (Uni 2017, 10).

Prescribed rules and procedures of collectives

Ostrom (1986) provided a list of rules that guide decision-making by organizational agents. These rules comprise of practical and moral norms or values. Illustrations of practical norms of, for example, aggregation rules are electoral thresholds, the dictator rule for decision-making, a simple majority vote, a two-third majority vote, unanimity, checks and balances such as the consultation of stakeholders by politicians, composite decision-making and the veto right of the the President of the United States (hereafter abbreviated as POTUS). The veto right of the POTUS might be overruled with a vote of two-thirds in both houses, whereas bills may pass Congress by a simple majority vote (with excluding abstentions and blank or “present” votes).
Moral norms or values might concern “honesty, forthrightness, mutual aid, trustworthiness, fairness, respect and fellowship among practitioners” (Wallace 2009, 11-12).

Decision-making is subject to detailed procedures. These procedures concern not only the process of collecting and reporting information but also the process of how to incorporate relevant information into decision-making, how to implement the rules and how to render account for decisions. For collectives, these procedures are sophisticated, whereas individual agents may exhibit satisficing behavior in collecting information and may decide emotionally upon choices.

Prescribed decision rules and procedures are instrumental to decide who may enter or who has to leave the organization, to decide about a possible re-identification of the organization, or to decide about a restructuring the organization. From this perspective, decision rules and procedures stabilize the structure of organizations.

In turn, structural stability is also supported by institutional stability. Institutional stability protects organizations for becoming swayed by issues of the day. Institutional volatility is curbed, among other things, through time consuming protocols for decision-making. Protocols may slow down decision-making because they may prescribe time consuming deliberations, consultations and integrative negotiations (Olson 1982, 55). For example, before a bill is signed into law it is preceded by a process that comprises: consultations, refereeing in appropriate committees as well in subcommittees, considerations in the House, refereeing in the Senate and conference meetings, and reconciliation of differences in the House bill and the Senate bill. Another example concerns the international trade agreements. These agreements take years before they are concluded. Before they are decided upon, a wide range of stakeholders have to be consulted.

Another example of suppressing institutional volatility concerns systems of checks and balances which ensure accountability of the powers of government. Accountability is the social
mechanism that relates individual and organizational behavior with the prevalent culture and institutions. Through these mechanisms authorities might be allocated to specific committees or may uphold the separation of powers because they enable each power to limit the powers of the others. Examples of such checks are the veto right of the POTUS, the separation of public and private interests of rulers, the acceptance by lawmakers of judicial decisions, and judges abstaining from assessing the social impact of laws. All this is enforced by upholding a free press (the media) and science.

A shadow side of institutional stability is institutional sclerosis—that is, institutional adaptations are delayed because of time consuming prescribed decision rules and procedures. These rules and procedures may delay adaptations even if changed structures result in the need for institutional adaptations. Additionally, prescribed decision rules and decision procedures are not neutral. Along with securing institutional stability, they influence institutional choices as well. First, agents may “indwell” with each other—that is, they “may possibly discard individually idiosyncratic elements of cognitive inputs as organizationally irrelevant” (Aoki 2004, 133). Second, if decisions are taken by a majority rule, then (big) opposing minorities might become neglected. If this happens repeatedly, then these overruled individuals have to re-identify or re-group themselves—that is, to establish new (countervailing) organizational agencies or going underground—in order to challenge the dominating vested interests within organizations that “play the major part in institutional decision-making.” If they succeed in overcoming the barriers to re-group then they may become an effective force to enforce adaptations (Archer 1995, 189, 195, 266). The outcome is insecure. Consequently, progress in social and economic development is not a given.

5. Conclusions and discussion notes
Structures and institutions have a layered ontological status over agency. I focus upon structures as resource distributions (*inter alia*, wealth and power) and approach institutions as transmission channels between structures and agency. I subdivide the latter into current individual and current organizational agents. Current agents may reproduce and transform structures and institutions, and are temporal separated from previous agents.

The analytical division of, on the one hand, individual and organizational agents, and, on the other hand, structures and institutions is a subtle but important distinction. For analyzing the evolution of institutions and the impact of institutions not only the preferences and goals of agents but also the properties of structures deserve a prominent place in empirical socio-economic research. The properties of structures—such as the size of the organization and the distribution of power or ideologies (as occurs in for example the Congress or the Supreme Court of the United States) might be entered into investigations as computational entities. Institutions reflect a country's specific socio-economic structure and cultural climate which cannot be divorced from the society's history and can therefore not easily be copied by others.

This article expands on the position of agents in the structure-institutions-agency model. Answerable authoritative or composite decision-making by collectives is influenced by personal composition of decision bodies and aggregation rules and procedures, whereas decision-making by individual agents is influenced by (social) psychological dispositions and by rather loose reflection and decision processes. Consequently, individual and collective agents may behave differently, may adhere to other economic, political and ethical principles, and may make other decisions. Regardless that aggregation rules may take into account the preferences of different stakeholders, collectives may not always satisfy all individual agents. Possible dissident or deviant voices with regard to collective choices are either not heard because agents may adjust
themselves to going concerns, or are likely to become silenced by the majority of the members of
decision bodies or by the person with the highest authority. However, alternatively, if dissidents
re-group themselves in countervailing and persuasive organizations, then institutions might
eventually become transformed into the direction that benefits them. Simultaneously, competing
organizations of vested interests who want to sustain, enforce and consolidate their privileges,
may try to influence institutional decision making by lobbying upon governmental agencies of
composite choice. If the positioning of these agencies deviates from that of (the majority of)
agents of authoritative choice then the latter may take action against the decisions by the former.

There exist a two-pronged competition between agents. On the one hand there is
competition between organizational agents for their respective influences upon decision-making
on institutions, and on the other hand there is competition between individual and collective
agents for their share in authority to decide upon institutional change. This two-pronged
competition not only concerns economic but also political and ethical principles. It enforces a
process of institutional evolution.
References


http://uhra.herts.ac.uk/bitstream/handle/2299/3280/900700.pdf?sequence=1.


*Figure 1: Structure-institutions-agency*

Legend:

azzo = tension between individual agency and organizational agency

T1: initial causal effects; T2: adaptation