



Institutional function versus form: The evolutionary credibility of land, housing and natural resources[☆]

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ABSTRACT

This special issue addresses a critical question in the studies regarding land, housing, and natural resources: how does institutional form relate to performance? The question has spawned numerous studies that examine the (cor)relation between formal, private, and titled rights in relationship to development and growth. Contrarily, the contributions posit that the question lacks meaning as institutional Form follows from Function. This premise—known as the “Credibility Thesis”—entails that enduring institutions have been formed through endogenous evolution. As such, they are likely functionally adapted and, in effect, credible; otherwise, they would have changed, atrophied, or become extinct. Ergo, the speed of institutional change reflects credibility, and when informal or communal institutions apparently “persist”, it is not to be defined in terms of being inefficient, perverse, or “second-best”. Interventions such as titling and formalization that intend to alter enduring institutions should be performed with care and paying attention to their function. A crucial step towards achieving this is the execution of an “institutional archaeology”, to dissect institutional structures within spatio-temporally determined contexts and consider their credibility, as is done by the contributions here. The expounded theory is substantiated through a series of in-depth cases in different geographical and socio-economic settings. They range from construction land in urban China (as done by Clarke) to artisanal mining in Ghana (see Fold) as well as from informal settlements in India (see Zhang) to land-enclosed water rights in Bangladesh (Gomes and Hermans).

1. Introduction

A big problem that dogs the current orthodox literature on institutions and development is its inability to clearly distinguish between the forms and functions of institutions (Chang, 2007:19).

An ongoing debate in the studies on land, natural resources, and housing is that which is regarding the role of institutional form in relationship to economic performance. Mainstream (economic) theories of development presuppose a straightforward relationship between the two with certain institutional forms—such as formal, private, and titled property rights—regarded as imperative for economic growth. As, for instance, Haas and Jones (2017: 2 and 5) claim:

[S]ecure property rights are believed to raise incomes by encouraging people to invest in both themselves and in different forms of physical capital. (...) There is now a growing body of empirical evidence which reveals how the formalization of property rights—specifically land titling—can raise the level of investment in

developing countries.”

However, the empirical evidence on the assumed relationship between institutional form and performance is often contradictory. Reality demonstrates highly complex, co-existing structures of “institutional informalities and formalities” that have only minimal direct relationship to economic performance.

Let us, for instance, consider the titling of land and what is on top of that land. Some studies ascertained that informal tenure is economically inefficient (e.g., Micelli et al., 2000). In contrast, others furnished evidence that informal property rights are economically efficient, irrespective of whether those rights are measured in terms of investment and income (Pinckney and Kimuyu, 1994; Atwood, 1990), transaction costs (Lanjouw and Levy, 1998), or land value (Monkkonen, 2012). Such findings not only pertain to land but have also been determined regarding housing (Payne, 2009). Case-studies ranging from the United States, Colombia, and Peru ascertained no direct relationship between formal title and economic performance regardless of whether that was

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expressed concerning a mortgage, home improvement, property value, or poverty reduction (Ward et al., 2011; Gonzalez, 2009; King, 2003).

A similar discussion has divided the research over the property rights of tenancy or sharecropping. Under share-tenancy, a landowner (or landlord) allows a tenant to use the land in return for a share of the crop rather than the landowner working and investing in the land. As a result, the division of rural labor becomes fragmented over many individual workers with large(r) farms no longer benefiting from economies of scale. Land tenancy was, and still is, in widespread use over time and space ranging from the post-slavery United States of the 1880s (Reid, 1973) to today's rural India (Lahiri-Dutt and Adhikari, 2016).

From a purely (neo)classical perspective, sharecropping is deemed economically inefficient (Marshall, 1920; Issawi, 1957; Sen, 1966),¹ subject to moral hazard and free-riding (Reid, 1976; Hallagan, 1978) or, at most, a “second-best” institution (Stiglitz, 1974). As such, the system is regarded as an impediment to agricultural modernization which should or would yield to private, formal property over time. Yet, its endurance throughout human history has challenged this view (Byres, 1983). In accounting for its endurance, Cheung (1968) posited that sharecropping is efficient.² His position has been followed and confirmed in other studies (Kassie and Holden, 2007; Bhandari, 2007; Caballero, 1983).

To solve the scholarly paradox between form and performance, this special issue proposes a paradigmatic shift along a dual dimension. One, for a more comprehensive understanding of the role of institutions in development, it is better to forego the focus on institutional form in lieu of function. This postulate accentuates institutions as they exist and studies them in that existence rather than *a priori* labeling or condemning their form. Two, while acknowledging human action (Aligica and Boettke, 2009: 25), it is simultaneously posited that institutions do not arise from willful design but, instead, emerge *endogenously*³ in the interaction with other actors and a spatio-temporally determined context. Differently worded, although actors have, employ, and project their intentions to shape institutions, these are invariably adulterated into something different than first intended due to continuous negotiation, bargaining, and conflict. It is what we term a Dynamic Disequilibrium (see Ho, this volume) which pushes change forward through the continuous destabilization of institutions at any given infinitesimal point in time.

The argument is related to a growing body of literature on the relevance of function for understanding institutional change (e.g., Ho, 2017; Monkkonen, 2016; Miyamura, 2016; Dixon, 2012; Chang, 2007: 19–20; Aron, 2000: 128). In this context, Agrawal et al. (2014: 277) duly noted that empirical studies “demonstrate the difficulty of meaningfully interpreting interventions or their effects from their form alone” and, therefore, “highlight the importance of focusing on how interventions function in specific contexts”. Building on this literature, the Credibility Thesis (Ho, 2014: 14) posits:

“[W]hat ultimately determines the performance of institutions is not their form in terms of formality, privatization, or security, but their spatially and temporally defined function. In different wording, institutional function presides over form; the former can be expressed by its credibility, that is, the perceived social support at a given time and space.⁴”

The contributions assembled in this volume attempt to validate the Credibility Thesis by examining what types of support institutions rally amongst social actors and, if they do, whether that must be considered

as being separate from form. Moreover, the contributions consider whether and how credibility is related to disequilibrium and conflict as well as the degree to which a given function—be it for social welfare, political influence, cultural cohesion, or economic transaction—is considered as a shared arrangement.

This article serves as the overarching framework for the special issue, and is divided into three sections. The first section provides a theoretical review on institutional function and introduces its defining parameters while interrogating the concepts against which it is positioned—in particular, structural functionalism and equilibrium. The review is followed by an empirical section that discusses the various contributions of this special issue with regard to the role of land, housing, and natural resources in development. The final section elaborates on the papers’ implications for the credibility theory in terms of its validation and a consistent explanation of three empirical inconsistencies inherent to mainstream economic theory (discussed below).

2. Theoretical review: leaving parsons for lamarck

2.1. The issue with morality in economics

It is virtually impossible to explain development from within a mainstream economic paradigm. One of the significant issues is that it takes human behavior as a personalized subject of study, reasoned and conceptualized from an individual's own institutional habitat. As a result, during the analysis, it is difficult to remain unbiased about that subject and thus to express something about it without making normative statements. Terms such as “second-best”, “perverse”, and “inefficient” are inherently moral. It is why Freeman and Carchedi (1995: ix) noted:

“Official economics, for deep material reasons, is an ideological endeavor. It sanctions what is (...). This lends it a deeply apologetic character.”

The natural sciences appear to suffer substantially less from such problems. It seems ludicrous if an astronomer maintains that the moon is an inefficient or perverse celestial entity as it has not been able to preserve oxygen in its atmosphere or if a micro-biologist contends that a phage is only “second-best” compared to a “best” bacteria. Then, why does it not seem equally ludicrous when someone maintains the same about, for instance, land property rights or housing institutions?

Apart from defending the institutions that are deemed by mainstream economics as being necessary by humankind, another problem might be caused by frustration over the “persisting” and “stagnating” institutions that surround and constrain us. Mainstream economics consequently becomes an instrument to push for change. Activism can be an important, commendable human endeavor to take to the streets in order to engage in a movement and collective action for better wages, human rights, or social equity. This special issue makes no judgment on such endeavors nor is it a plea to condone a certain status-quo or reject formal and private property as a possible arrangement to structure economic transactions. Yet, the contributions in this special issue do caution that there are times when pushing for institutional change will lead to increased conflict and, in effect, can even be extremely harmful for a country's or community's socio-economic fabric.

The contributions also maintain that development is, by definition, coupled to social rupture and cleavage and that institutional change is never a simple matter of oppressed versus oppressors, winners versus losers, or governors versus governed but that all are intricately intertwined in the same *endogenous* game. In effect, what the contributions contend is that institutions evolve from a spontaneous order that transcends the intentions and powers of individual actors and that, from this evolution, this order is essentially conflicting in nature with institutions emerging as the crystallization of economic, socio-political, or cultural functions that actors accord to them in adaptation to the environment.

¹ See the footnote in Book VI, Chapter X.14 (Marshall, 1920).

² Cheung posited this under conditions of competition and no transaction costs.

³ “Endogeneity” in this regard refers to the premise that institutions cannot be designed externally, for instance, by the government, but develop in a spontaneously ordered fashion from actors’ multitudinous interactions. See also (Ho, 2013).

⁴ A detailed description of the theoretical underpinnings and positioning of the Credibility Thesis is described in (Ho, 2013).

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