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Introduction

Social institutions are prevalent wherever individuals attempt to live and work together. From the simplest to the most complex, we produce them while conducting all aspects of our social life. From political decision making to economic production and exchange to the rules governing personal relationships, institutional arrangements establish the framework in which these social interactions take place. To be a member of a community or society is to live within a set of social institutions.

Consider their variety. At the most basic level of society, an array of social conventions, rules, and norms affects the ways in which we act in our everyday lives. Their influences on social life are substantial and numerous. They structure relations between the sexes and the ongoing affairs of family life; they set the standards of behavior among the members of a neighborhood or community; and they constitute an important source for the transmission of social knowledge and information from one generation to the next. In short, these informal conventions form the base on which a vast range of formal institutions organize and influence economic and political life. Economic organizations, from the small firm to the multinational corporation, are governed by institutional frameworks in the workplace and the boardroom. More generally, economic markets themselves are structured by institutions that include the systems of property rights defining economic exchanges. Political decision making, from the neighborhood association to the government of a nation, is framed by institutional rules and procedures. The very establishment of these political institutions is regulated in most countries by a constitution, probably the most all-encompassing form of institution found at the national level. Many of these economic and political institutions are buttressed by the force of law, itself a pervasive institution that in many important ways is the mere formalization of informal conventions and norms. Finally, an ever-growing set
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of international conventions and norms, treaties, and rules influence everything from international trade to the rules of engagement in a war zone.

Many of our fundamental questions about social life entail an examination of the role played by these institutions. Why do we have so many? Why do they take one form in one society and quite a different form in another? What are the effects of these different arrangements? How did they develop? And when and why do the forms of institutions change? Many conflicting answers from a wide range of intellectual sources have been offered to these questions. The implications of how we answer them are numerous. From an explanatory perspective, social explanations of institutional development and change help us understand both the history of a society and its contemporary events. From a critical perspective, an understanding of institutional change allows us to determine whether our existing institutions further those goals by which they are usually justified. From a normative perspective, an understanding of how institutions evolve influences our ability to reform them.

Questions such as these are the main subject of this book. The primary focus is on the basic network of conventions, norms, rights, and rules on which a society is based. I shall analyze how this informal network develops and changes and what happens when this network is formalized as law backed by the enforcement of the state. I also shall consider this network’s effects on the development of other formal institutional arrangements, both economic and political. To do this, first, I shall examine the various existing theories, delineate their common themes (even across diverse intellectual disciplines), and assess their merits. Second, I shall propose and develop an alternative theory of institutional emergence and change that captures important features of social life missing from the other accounts. Third, I shall consider the implications of different theories of institutional change for our understanding of existing social institutions and for our critical and normative judgments about those institutions.

Let us begin by defining a social institution. Social theory offers various definitions, ranging from that of formal organizations, which have explicit rules and forms of administration and enforcement, to that of any stabilized pattern of human relationships and actions (March and Simon, 1958; Taylor, 1982; Weber, 1978). Although each of these definitions singles out certain aspects of institutional detail, the simplest and most straightforward way to derive a working definition is to identify the common features of institutions in these various contexts. First, an institution is a set of rules that structure social interactions in particular ways. Second, for a set of rules to be an institution, knowledge of these rules must be shared by the members of the relevant community or
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society. This definition gives broad scope to what might be considered a social institution while at the same time excluding behavior often considered institutional. Thus, rules of thumb such as the maxims “pay my bills on the day I get my paycheck,” “get an hour of exercise five days a week,” and “get a physical once a year” are not institutions. Although such rules may help organize one’s daily life, they are purely private constraints, idiosyncratic to the individual actor.

In subsequent chapters I shall explore and elaborate this conception of a social institution, but I shall mention briefly two related issues now. By so doing, I can clarify at the outset the scope of my analysis and also address two contemporary debates. First, an important implication of this broad definition is the implicit rejection of the law—society dichotomy underlying much of the analysis in legal anthropology and jurisprudence (Comaroff and Roberts, 1981; Starr and Collier, 1989). According to this distinction, the only institutions with lasting structural effects on social life are legal ones. Thus, societies that lack developed systems of legal enforcement are presumed to lack an institutional framework worthy of analysis. Although it is important to acknowledge a variance in the extent to which institutions require some external authority to ensure their enforcement, the dichotomy is a false one. Law and legal institutions rely on the state’s enforcement powers to guarantee that social actors will abide by these rules and procedures. Other types of institutions, such as social conventions and international institutions, are self-enforcing in the sense that no external authority is available to guarantee that social actors will respect them. Whatever sanctions do exist in these cases are informal and decentralized. Between these two extremes of externally enforced and self-enforcing institutions are many institutions with some of the characteristics of both, institutions that are recognized and authorized in principle by some external authority such as the state but that are organized by the behavior of the particular actors involved. Note that each of these institutional forms can have significant and related effects on the structure of social interactions. The distinction between formal and informal sanctions is relevant primarily to the extent of those effects and their stability over time.

A second clarification pertains to the difference between an institution and an organization. Whereas institutions are sets of rules that structure interactions among actors, organizations are collective actors who might be subject to institutional constraint. Organizations generally have an internal structure, an institutional framework governing the interactions of those persons who constitute the organization. Accordingly, several collective entities can be conceptualized as both an institution and an organization, for example, a firm, a governmental bureaucracy, a church, or a university.
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To underscore the importance of this distinction, consider the recent resurgence in the emphasis on political institutions. According to analyses of state institutions and bureaucracies, institutions are important because they are independent political actors with their own goals and interests (Evans, Rueschemeyer, and Skocpol, 1985; Katzenstein, 1978; Skowronek, 1982). State institutions are combined with other factors in macro-level explanations of political outcomes.¹ The power of these explanations rests in their elaboration of “state capacities” — the extent to which the state can implement its own goals in the face of opposing actors and adverse conditions (Nordlinger, 1981; Skocpol, 1985). The key theoretical point is that the greater the “state capacities” are, the more important the role of state institutions will be in the production of political outcomes.

This is helpful as far as it goes, but this is really a debate about the autonomy of the state: To what extent do state institutions have autonomous interests motivating their agents to act in independent ways?² As I have defined it, this is merely a debate about the effectiveness of state organizations as collective actors and not about the distinctiveness of social institutions. An inquiry in the spirit of my analysis would ask: What are the effects on “state capacities” caused by various state institutional arrangements? More generally, questions about the effectiveness of organizations as actors do not address what is distinctive about institutions for social explanations. This question can be addressed, as I shall suggest, only by considering the relationship between institutional rules and social action.

Classical accounts of institutional change

Social and institutional change has long been a subject of concern to scholars of various intellectual traditions. Although the proposed explanations have been diverse, we can categorize them into two schools of thought characterized by their differing emphasis on the distinctive effects of social institutions. The first conception of development and change stresses the collective benefits of social institutions for the community as a whole. The second conception emphasizes the discriminating benefits of such institutions, the disproportionate advantages for some segments of a community produced by an institutional framework. The distinction is, broadly, one between coordination and conflict, between the coordination of interests and the competition among

¹ See Levi, 1988, for a thorough and intelligent review of the burgeoning literature that seeks to “bring the state back in.”
² See Przeworski, 1990, for a general critique of theories on the autonomy of the state.
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interests. By reviewing some of the prominent proponents of these two conceptions, we can begin to see some of the implications of the different approaches and how the first conception has come to dominate contemporary thinking on these questions.

Consider first the coordination-for-collective-benefits conception of social institutions. Four central mechanisms for institutional change have developed in this tradition, mechanisms which still dominate contemporary discussions. One of these mechanisms, the contract, forms the basis for classical accounts of the intentional development of social institutions. Thomas Hobbes (1963) used the contract to explain the intentional design of the state's original political institutions. Those who lived in a pregovernment state of nature were said to have entered into a general social contract in which the nature and form of basic political institutions were established. Because the focus of my book is primarily the evolution of social institutions and only secondarily their intentional design and reform, the Hobbesian influence on contemporary accounts of the intentional design of political institutions will receive less attention. I shall return, however, to the question of the contract as a mechanism of intentional design in Chapter 6.

The classical accounts use three mechanisms to explain the evolution of social institutions: spontaneous emergence, exchange coordinated by the market, and social selection. Although these mechanisms do share common characteristics, they offer distinctive answers to questions of institutional development. Their basic logic can be found in the classical works of David Hume, Adam Smith, and Herbert Spencer.

Hume introduced the idea of the spontaneous emergence of norms of justice and property as a counterargument against two existing justifications of such institutions: (1) natural-rights accounts, such as John Locke's view of property, and (2) contractarian accounts such as Hobbes's view of the state (Hume, 1978: bk. III, pt. II, sec. II). To counteract these explanations emphasizing the intentional design of property rights, Hume used an evolutionary account that focused on the emergence of social conventions and norms as the unintended product of an ongoing process of social interaction. The problem, to which the conventions of justice and property are conceived as a solution, is a classic one: In a world of scarce resources, how does a community prevent others from interfering in the enjoyment of the benefits of one person's

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3 The term coordination has come to have a technical meaning in the game-theoretic literature. A coordination game is a game in which there is more than one equilibrium that will benefit the actors if they can find a way to coordinate their strategies on the same one. Here I use the word more generally to describe both situations in which social actors intentionally coordinate their actions and situations in which the coordination is accomplished by a mechanism such as the market.
property? According to the spontaneous-emergence thesis, social actors resolve this problem over time in the process of being confronted by it in their repeated interactions with one another. In these recurring interactions, individuals come to realize that some rule of “just” division will be an improvement over anarchic transgressions of property claims. Through a process of trial and error the actors begin to recognize that certain patterns of behavior become the standard responses to questions of property division. How these patterns come to be established in the Humean account is unclear. But as people come to anticipate these patterns in the appropriate situation, they begin to expect that these rules will be followed in the future. Eventually a convention stabilizes, and the members of the community come to treat this rule as the appropriate and just form of behavior. From this, Hume concludes that norms of justice and property are therefore artificial and not the product of conscious design. A further implication is that the establishment of such norms is arbitrary and could just as easily have developed in substantially different forms. The key here for Hume is not the exact nature of the norm but, rather, that some norm is necessary for the collective benefit of the community as a whole.

This theme of spontaneous emergence is also prevalent in Adam Smith’s account of the institutional development of capitalism, but it is supplemented by the concept of institutional development through exchange coordinated by the market. In analyzing Smith’s work on morality and political economy, we find a social theory that synthesizes intentional and unintentional institutional design. The logic is the same in either case: the development of social institutions through an ongoing network of interactions among small subsets of the community. In regard to a community’s normative order, Smith shared a view similar to Hume’s, describing the spontaneous emergence of a system of basic sanctions to control the selfish behavior of individuals (Smith, 1969). Smith emphasized a similar learning through trial and error in which people establish both internal and external sanctions to restrain self-interested actions. These sanctions introduce a certain degree of impartiality in the behavior of social actors, moderating selfishness with a concern for what an “impartial spectator” in a community would consider appropriate behavior (pp. 161–2). Although the external sanctions appeal to the individual’s desire for social approbation, the internal sanctions are the product of an internalization process necessary to satisfy the individual’s desire for self-approbation. Thus, a two-tiered sanctioning mechanism evolves to constrain self-interested behavior, for the benefit of the community as a whole.

Within this normative order a variety of economic and political institutions are produced from the exchanges of individual actors in the mar-
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The logic of the famous “invisible hand” argument. Through exchanges, individual actors devise patterns of behavior that allow them to exploit their gains from specialization and trade. The market coordinates in two ways these individual contracts for the benefit of the community as a whole. First, the pressures of the market prevent individual actors from using their bargaining power to produce institutional arrangements that would harm either other individuals or the whole community. Smith stresses the negative effects of economic power unconstrained by the market (IV.vi.c. 631–2). Second, the competitive pressures of the market encourage greater efficiency in the development of economic institutions (I.xi.b. 163–4). Over time, those institutions that are less efficient are squeezed out of the market by those who emulate more efficient contract exchanges. In these ways the market tends to produce collectively beneficial economic institutions.

Hume’s and Smith’s themes of spontaneous emergence and the market coordination of exchange are central to the classical tradition of collective benefits. A third theme, social selection, comes from a quite different intellectual tradition, but it also can be detected in the invisible-hand arguments. To identify the similarities, consider the logic of social selection as presented by Spencer (Spencer, 1969). Theories of social selection explain the development of social institutions according to the criterion of fitness: Social institutions arise and persist to the extent that they help societies survive in a competitive world. Social institutions are viewed in terms of their capacity to satisfy the functional needs of the community. The central elements of this evolutionary process are variation, selection, and inheritance. For Spencer the growth of a society follows a path of increasing structural differentiation, an ever-growing variety of institution forms. These social institutions have an important impact on a society’s capacity to adapt functionally to changing circumstances. The pressures to adapt arise from the population’s growth and the resulting competition among communities for available resources. This competition then becomes the mechanism for evolutionary selection: Only those societies whose institutions render them capable of growth and adaptation will survive. For Spencer this competition is ultimately manifested as war and struggle among societies, with those societies that grow in both number and abilities conquering those less able to adapt. The remaining societies pass on collectively beneficial institutional forms to future generations. Then the social-selection mechanism repeats itself through future competition. The division of labor in a society is the prototypical example of successful evolution.

Here we can see the similarity between Smith’s market-coordination-of-exchange mechanism and Spencer’s social-selection mechanism. Smith identified the division of labor as the product of individual
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exchange tempered by market competition; that is, the market selects those institutional forms producing the most benefits for the community. The market is for Smith what competition among societies is for Spencer. Both theories emphasize the collective benefits produced by social institutions.

In contrast with this collective-benefits approach to social institutions, there is a second classical tradition that places greater emphasis on the discriminating effects of these institutions. According to this alternative approach, social institutions can be explained in terms of their beneficial effects on particular segments of the community. It suggests a central focus on the conflict of interests inherent in distributional questions. Yet despite all of its implications for a theory of conflict in institutional development and change, the second approach, the “discriminating effects” approach, remained much less elaborated than the first approach in terms of microfoundations and mechanisms for change. Two theorists reflect this emphasis on distributional questions: Karl Marx and Max Weber.

For Marx, social and institutional change was not a smooth path of increasing collective improvements but, rather, was a sequence of fluctuations between stability and substantial change, with each change shuffling those social groups who most benefited from the dominant institutional arrangements (Marx, 1986: 187–8). He offered two distinct theories to explain this change: historical materialism and class conflict.

The first theory proposed a societal-level dynamic of change driven by a functional relationship between the forces and the relations of production. When the relations of production (the existing institutions) no longer satisfied the functional requirements for the continued growth of the forces of production (the famous “fettering” of the forces-of-production argument), an institutional revolution would occur, creating new institutional relations more functionally suitable for continued economic growth. How this revolution would come about remained unanswered by the theory of historical materialism. The second theory elaborated an irreconcilable tension between the interests and capacities of different economic classes and suggested that this tension would be manifested in a fundamental social revolution. How this revolution would lead to new institutions functionally superior to the previously existing order remained unanswered by the theory of class conflict. Thus, although both theories rested on the view that social institutions discriminated in favor of the dominant social groups and could be explained in these terms, they remained alternative accounts of inevitable institutional change, failing to offer a synthesis that would explain the necessity of the change in the relations of production – the institutional founda-
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tion of society – in terms of conflict among the classes.\(^4\) Here the emphasis on distributional effects is important to the explanation of institutional maintenance, but it fails to enter adequately into an account of the mechanism of institutional change.

A similar attention to the bias inherent in social institutions is present in Weber’s account of social and institutional change. His major works can be characterized as an attempt to show why social institutions favoring some social groups survive, whereas those favoring other segments of the community either fail to arise or perish.\(^5\) His classic account of the rise to dominance of the Protestant ethic and the resulting institutions of modern capitalism is his most concise and systematic account of the competition inherent in institutional change (Weber, 1989). Although Weber recognizes the important distributional effects of these institutional changes and even explains their maintenance in terms of dominant interests, these effects fail to enter fundamentally into his theory of change. Weber’s theory is a classic account of the systematic adaptation of behavior to changes in the economic and social environment. Initially a subset of economic entrepreneurs found it in their interests (broadly defined to include nonmaterial interests) to alter their economic behavior. Such behavior was found to be advantageous (defined more narrowly in terms of material interests) in light of changing economic conditions and was, therefore, emulated by others. After a period of transition, market conditions forced others to comport with the new forms of economic behavior. Here Weber’s theory adopts aspects of Smith’s notion of the competitive pressures of the market: The new forms of behavior become a necessity and not a choice. Note that the mechanism initiating the change seems to be accidental and that serendipitous, nonmaterial interests produce a strategy dynamically superior to those dictated by material interests in the market. In the end Weber offers a theory of social change that fails to elaborate a mechanism for change that adequately incorporates the fundamental insight of the importance of conflict and distributional effects.

CONTEMPORARY THEORIES OF INSTITUTIONAL CHANGE

In contemporary analyses the problem of institutionalization has been conceptualized as a problem of collective action. The role of institutions

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\(^4\) For a detailed analysis of the alternative theories of social change in Marx’s writings, see Elster, 1985.

\(^5\) See, for example, Weber’s programmatic statement of the study of change at the beginning of Economy and Society, 1978: 39–40. This statement has led some writers to describe Weber erroneously as an adherent of a social-selection theory of institutional evolution; see, for example, Langton, 1982. A careful review of this statement will show that it in no way implies an acceptance of the standard social-selection thesis.
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is to resolve recurring problems in society (Schotter, 1981); institutions are constraints that help individuals avoid the negative “emerging effects” of collective action (Boudon, 1981); institutions enable social actors to work together to produce beneficial social goals (Elster, 1989a); and institutions reconcile rationality at the individual level with rationality at the collective level (Bates, 1988). The possible citations are endless. Given the heightened sensitivity to problems of collective action and collective decision making in the years since the publication of the seminal works by Arrow (1951) and Olson (1965), this emphasis on institutions as a solution to collective problems is understandable.

This contemporary focus is reminiscent of the classical tradition of coordination and collective benefits. The fact that this tradition had better-developed microfoundations of institutional change makes the contemporary dominance of theories of institutions as collective or public goods even more understandable. In some ways the contemporary discussion of institutional change is merely a continuation of the tradition represented here by Hume and Smith. This is also true of the conception of the fundamental role of institutions in social life as well as the mechanisms for institutional change.

To illustrate this, let me suggest a way of categorizing contemporary theories of social institutions, according to two criteria: (1) the institutional effects invoked to explain maintenance and stability and (2) the mechanism for institutional change. First, institutional maintenance and stability are explained in contemporary accounts by their ability to produce collective goods or benefits for the relevant group or community. The collective benefits may be efficiency (in regard to the allocation or employment of resources), social optimality (in regard to the maximization of social benefits), minimization of transaction costs, stability, or the satisfaction of some other functional need. Here we can distinguish “naive” and “sophisticated” variants of this collective-benefits explanation. The naive variant assumes that social institutions produce efficient or socially optimal outcomes. The sophisticated variant allows for the possibility that suboptimal institutions may develop and persist, but it retains the conception of collective benefits and seeks to explain these inefficiencies in the context of failures or weaknesses within the community. However, in either variant the continued ability of an institution to provide one of these collective benefits is invoked to explain its ongoing stability.

Second, theories of institutional change can be distinguished by the form of the change on which they focus. Evolutionary theories generally rely on one of the mechanisms foreshadowed by classical theory: spontaneous emergence, market-coordinated exchange, or social selection. Theories of intentional design usually adopt a contractual