

1 What is an institution?

Introduction

The advent of the new institutionalism as a framework for social science analysis has been hailed as the kind of scientific revolution that one has had in mind when analysing theoretical developments in the natural sciences (Kuhn 1962). Since it is stated that the new institutionalism or neo-institutionalism is radically different from the old institutionalism, it is regarded by many as a radical innovation in the way in which social science concepts are to be framed as well as in the manner in which social science modelling is to be made. What is different in institutionalism compared with other major approaches such as behaviouralism, rational choice and structuralism is the focus on the concept of an institution (Keman 1997). What, then, is meant by this key term 'institution'?

The institutionalist trend in the social sciences is broad enough to encompass a number of different approaches (Steinmo 1992; Koelble 1995; Hall and Taylor 1996; Rothstein 1996; Immergut 1998). One basic division is that between individualist, economic or rational choice neo-institutionalism, on the one hand, and sociological neo-institutionalism, on the other. The first adheres to the doctrine of methodological individualism while the second is to be regarded as holistic in its approach. Yet, this is not the place to discuss the pros and cons of various institutionalist approaches, but to link the contention between rational choice institutionalism and sociological institutionalism to the double-natured core of the concept of an institution.

Thus, the purpose of this chapter is to examine the concept of an institution in order to make a distinction between two senses of institution, namely rule and organization. We will argue that there is one fundamental difficulty connected with the word 'institution' in that the word is ambiguous between these two senses. It may stand for either a norm or for an organization. An institution may be a rule that directs behaviour by means of sanctions, i.e. it is a norm that has been institutionalized. Or an institution may be a system of behaviour that is directed by means of a set of rules, i.e. it is organized activity. In Max Weber's taxonomy of fundamental concepts in the social sciences, we find the very point where the rule conception turns into the organization conception.

Ambiguity of 'institution'

One promising approach to the discussion about the concept of an institution is to ask how this concept is related to other key terms in the social sciences such as 'rule', 'behaviour', 'practice', 'organization' and 'order'. The more one probes into the variety of meanings given to the word 'institution', the more difficult it becomes to arrive at one common conceptual core. We will employ the well-known Weber taxonomy over basic social science terms to show that it is far from evident what the connotation (meaning) and denotation (reference) of 'institution' is or should be. Asking for the connotation of a word focuses upon properties whereas asking for the denotation of a term pinpoints what the word stands for.

From surveying the literature within neo-institutionalism, it is apparent that the word 'institution' may be either defined as a norm or it may be defined as an organization or a system of organs or offices. Interestingly, the *Oxford English Dictionary* contains these two definitions of 'institution':

An established law, custom, usage, practice, organization, or other element in the political or social life of a people.

Whereas 'institution' as a law points towards the norm interpretation, 'institution' as an organization or organ is a behavioural interpretation. Thus, the *Oxford English Dictionary* speaks of an institution as:

a regulative principle or convention subservient to the needs of an organized community or the general ends of civilization.

This is very much the norm interpretation. It should be separated from the following definition in the *Oxford English Dictionary* of an 'institution' as:

An establishment, organization, or association, instituted for the promotion of some object, esp. one of public or general utility . . .

This then is the organizational interpretation of institution, or 'institution' defined as an establishment or association or organ. Associations tend to have institutions in the sense of 'institution' as rules, but 'institution' as organization covers much more than merely norms, and includes behaviour, interests and belief-systems. Not only is the connotation different in these two definitions, but also the denotation is not the same. Let us therefore give a few more examples from the many definitions of 'institution'.

Walton H. Hamilton also identifies institutions as rules or norms or conventions. He wrote in 1932:

Institution is a verbal symbol which for want of a better describes a cluster of social usages. It connotes a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people.

(Hamilton 1932: 84)

'Institution' may stand for practices that are more or less codified into a set of rules. One author identifies the institutions of democracy in the following manner:

There were (1) a written constitution; (2) with a declaration of rights implying a limitation of the sphere of government; (3) majority rule, usually control of a government by an elected legislature; (4) the separation of powers of government so that each power might check and balance the other; (5) public education to produce the knowledge and spirit appropriate to democratic government.

(Finer 1962: 78)

Democratic institutions according to this quotation would consist of constitutional norms in so far as they correspond to actual practices. Democratic norms and realities need not be the same phenomena, if the rules have been unsuccessfully institutionalized.

It is always stated that the use of sanctions is typical of an institution. This entails that an institution includes norms, as the sanction must be directed against behaviour which violates rules:

Institutions derive from particular, established codes of conduct, which shape the behavior of particular groups of men who implicitly or otherwise have a loyalty to that code and are subject to certain controls (anxiety, guilt, shame, expulsion, etc.) if they violate the norms.

(Bell 1988: 51)

Doing institutional research may involve focusing upon certain important rules. Or such research may look at a web of institutions that cover an entire practice:

Since institutions provide society with the framework that enables it to operate as an organized whole, in which individuals and social groups, their symbols and ideas can act and interact, institutional history offers many ways of looking at society without losing sight of its unity. Intellectuals, officials, economic leaders and workers, priests, and professional figures function within the institutional structure and contend for place there.

(Anderson and Anderson 1967: vii–viii)

One may interpret 'institution' in this quotation as comprising a web of rules that give the framework for major practices in social life. When institutions are considered as frameworks for practices, then one is not far away from considering institutions as macro practices:

The concept of 'institution' refers to a pattern of supraorganizational relations stable enough to be described – polity, family, economy, religion, culture.

(Alford and Friedland 1985: 16)

The danger of confusing institutions as rules with institutions as practices appears clearly when institutions are identified with certain types of practices, namely the activities of corporations or organizations:

Since the Roman law, two main forms of the juridical personality have been distinguished: (1) Corporations (*universitas personarum* or the medieval *collegia personalia*) where the union of the members as persons is stressed – such as most of various corporations, incorporated societies, firms etc. (2) Institutions (*universitas bonorum* or the medieval *collegia realia*) as a complex of property with a specific purpose, endowed by the law to act as a single person, such as various universities, asylums, etc.

(Sorokin 1966: 38)

In all debates about institutions, we tend to find two basic definitions of 'institutions', either as rules, i.e. the sense (2) above, or as organizations, i.e. the sense (1) above. 'Corporations' and 'institutions' are different words, both on the level of connotation and the level of denotation. The ambiguity of 'institution' referring either to norms or to organizations reappears in all discussions about institutions, e.g. in theories about the design of institutions or constitutional engineering (Sartori 1994).

Organizations act, but rules are never said to be actors or to have preferences. Political organs or bodies such as a parliament, a government or a supreme court are often spoken of as 'political institutions', as behaviour in such bodies tends to be heavily institutionalized. At the same time one may distinguish the institutions of such bodies, i.e. their rules, as an aspect that is separate from other characteristics of such bodies, such as their resources or capacity to take action.

It would hardly serve any purpose to legislate here for or against one of these two definitions. What is crucial, however, is to make the separation between the two definitions, because it goes a long way to explain the contrast between rational choice institutionalism (rule interpretation) and sociological institutionalism (organization interpretation). A political institution may be simply a rule that is upheld with sanctions or it may be a complex organ in the state.

Thus, it is perfectly legitimate to speak of national assemblies or legislatures as institutions or, even more strongly, as the most important national institutions of a country. This use of the word 'institution' is, however, different from when one is speaking of the voting rules of parliaments as examples of their institutions. A parliament like the British one is an organization that follows certain rules. When 'institution' stands for an organization, then the meaning of the word is much wider than when 'institution' stands for a norm or rule. This distinction is vital if one wishes to understand why the new institutionalism in the social sciences harbours so many divergent approaches, because, to a large extent, they are speaking about different phenomena.

The cause of the confusion about what 'institution' stands for is the link between rules and organization, i.e. institutionalization. Note that not just any norm is an institution. Far from being the case, an institution is a norm that is upheld in behaviour by means of sanctions. Organizations, obviously, do have rules that are combined with sanctions. Institutions are essential to organizations, as they could not operate without them. But that is not saying that an organization is the same as an institution. The command 'Drive on the right side of the road' is an institution in several countries, but it does not constitute an organization. Let us develop this argument more below.

Epistemology and ontology of institutions

Reflecting on the meaning (connotation) and reference of 'institution' (denotation) brings us into both ontological issues (what institutions exist?) and epistemological issues (how do we come to know about institutions?). Theorizing institutions entails that one not only identifies what 'institution' stands for, but also states how we can gather knowledge about these phenomena in accordance with the canons for the conduct of scientific enquiry (Kaplan 1964).

Taking a broad look at the neo-institutionalist literature, one is confronted with not only very different views about what an institution is – ontologically speaking – but also with different positions as to how one goes about acquiring knowledge about institutions – the epistemological aspect. Whereas many scholars take the view that institutions may be investigated by the ordinary canons of scientific enquiry, others claim that institutions require a special approach, the so-called 'logic of appropriateness' (March and Olsen 1989). Institutions call for approaches that are more hermeneutic in spirit, it is argued.

Neo-institutionalism, state March and Olsen, is a reaction against various reductionist perspectives that attempt to explain how political institutions work by means of non-political factors. Institutions have a logic of their own, the understanding of which requires approaches that are not reductionist, explaining politics with only preferences (economic man) or with simply social structure (sociological man).

In order to understand the place of institutions in social and political life one can use the analogy of a chess game as a model of human interaction. In chess, people interact under a clearly given and transparent set of institutions about how to move the pieces. These are the rules of the game. The behaviour of each actor is orientated in terms of these rules, acknowledging them in every move. Yet, the actual moves are determined by the strategies of each player, which aim at maximizing their advantages. What the rules do is to restrain the choice of alternative strategies so that they comply with the idea of chess. Thus, chess is both institutionalized practice and rules. It is also organization, as chess may be played at clubs on a competitive basis which involves arranging tournaments all over the world.

New institutionalism and institutional design

One finds in the institutional literature simple definitions as well as complex definitions of 'institution'. One philosopher writes: 'a social institution is nothing more than a stable, valued, recurring pattern of behavior' (Goodin 1996: 21), which implies that institutions are behaviour patterns. And 'institutionalization' he defines as 'the stable, recurring, repetitive, patterned nature of the behavior that occurs within institutions, and because of them' (Goodin 1996: 21), which implies, we take it, that institutions are different from behaviour. This difficulty with introducing a clear definition of the concepts of institution or institutionalization is endemic.

What is an institution? If it is a rule or a code, then it is not behaviour. One must make a very clear distinction between, on the one hand, the rules of the game, which are crystal clear, informing us about how one makes moves and when the game is over with a determinate outcome, and, on the other hand, the actual play of the game. Social life, modelled on the analogy of the chess game, would include both the rules and the behaviour, although these are separate entities.

Suppose that an institution is a system of action. To those who argue that the rational choice perspective is the most promising framework for institutional analysis, one could argue that there is a basic difficulty involved in the application of economic decision models to institutions. Self-interests are not the sole consideration within institutions as systems of action, which could involve social or altruistic interests to a considerable extent.

Suppose that institutions are rules or norms. Then one may certainly examine the morality of institutional design, meaning the questions surrounding whether an institution promotes purposes that are indeed morally acceptable. Internal and external morality relating the individual and the institution may be distinguished on the basis of the idea that 'the moral theory of institutions and of the behavior of institutional office holders must be derived from the nature of the institutions' (Hardin 1996: 152). Yet, since it is difficult to establish the contribution of each individual to institutional performance – the crux of the matter is individual responsibility – the conclusion is that institutions could be outside of the realm of moral discourse. Yet, institutions as norms are certainly critical in resolving problems of how persons as members relate to groups, both the instrumental rules of the group and those that identify its ultimate purposes.

If institutions are first and foremost moral norms, then perhaps they should be examined by means of the publicness requirement, as in Kantian ethics. However, a legal scholar has shown that the requirement that institutions as maxims or norms satisfy publicness is far from being as self-evident as one might think (Lubin 1996). The acceptance of institutional publicness could depend upon shifting empirical circumstances, namely whether one can enhance justice secretly.

What is the import of the publicity principle for the evaluation of institu-

tions? Kant thinks about publicness as a sufficient criterion of justice: an action is wrong if their maxim is incompatible with publicity. It means that publicness is only a necessary condition. It does not hold that an action that satisfies publicness *ex ante* is thereby just. Even if Hitler had made public the decision to eliminate the Jewish population in Germany and if it had met with little resistance among Germans at that time, it would still have been wrong, for both Germany and the Germans. All German governments after the war have admitted this, satisfying publicness *ex post*.

If institutions are organized behaviour or organizations, then one may wish to consult the sociological analysis of institutions, i.e. codes. Interestingly, one sociologist says that institutions are codes, but he writes about them as if they are actors: 'Institutions generate vested interests in their own preservation' (Offe 1996: 208), he writes, but only men/women can have interests and take action, not codes themselves. Similarly, 'institutions are designed to redesign themselves' (Offe 1996: 209), but it is men/women who change the codes, not the codes themselves. This is a macro perspective of institutions conceived of as organizations having purposes and responsibilities to individual members.

Suppose that institutions are codes. Then one would focus on how codes function in social life by governing behaviour, and especially how they develop over time. Questions of institutional design loom large, quite naturally, and cover here not only intentional rule-making but also the evolution of rules. In a micro approach to institutions one would wish to separate codes from actors and rules from behaviour. Yet, if one goes back to a macro perspective on institutions, then institutional design loses its intentional aspects and one enters the evolutionary perspective, where institutional selection is a slow process, only partly the result of the actions of actors. It is a commonplace observation that institutions constrain behaviour, but perhaps they also select actors. Proper selection procedures identifying the correct people are as important as rules that restrict the activities of the incorrect people (Brennan 1996).

Institutions as rules, moral norms, codes, behaviour regularities, organizations – this is a substantial set of connotations taken from the institutional literature (DiMaggio and Powell 1991).

Holistic institutionalism

When we turn to holistic, or sociological, institutionalism, then the meaning of institution becomes complex (Brinton and Nec 1998). Let us quote the places where 'institution' is mentioned in an already classical text – *Rediscovering Institutions* (1989):

traditional political institutions, such as the legislature, the legal system, and the state.

(March and Olsen 1989: 1)

institutions, such as law and bureaucracy.

(March and Olsen 1989: 1)

the ways in which political behavior was embedded in an institutional structure of rules, norms, expectations, and traditions.

(March and Olsen 1989: 5)

It seems from these quotations that March and Olsen are inclined to link up the definition of an 'institution' with the concept of an organization. Since organizations can be considered as actors, institutions would not be the rules or norms that govern the activities of actors, but would constitute actors themselves. Yet, March and Olsen often refer to institutions as rules: 'Thus, political institutions define the framework within which politics takes place' (March and Olsen 1989: 18).

The danger involved in such a wide definition of 'institutions' as both rules and organizations are twofold. First, we have reification or the fallacy of misplaced concreteness when institutions are looked upon as actors. If institutions regulate the behaviour of actors, then how could institutions be actors themselves? Second, when institutions are included in the set of organizations, then institutions take on a number of the properties of organizations. Thus, we read:

Political democracy depends . . . also on the design of political institutions. Bureaucratic agencies, legislative committees, and appellate courts are arenas for contending social forces, but they are also collections of standard operating procedures and structures that define and defend values, norms, interests, identities and beliefs.

(March and Olsen 1989: 17)

But if agencies, committees and courts are institutions, if institutions are activity, values and beliefs, then maybe institutions are everything and by entailment nothing?

Sociological neo-institutionalism suggests that one should look at: (1) the physical structure; (2) the demographic structure; (3) the historical development; (4) personal networks; (5) the temporal structure (decision points in time) (Olsen 1988: 35). Institutions may be analysed as: (a) normative orders; (b) cognitive orders; or (c) symbolic orders; but how about the action aspect? Are institutions primarily norms, belief-systems or symbols, and do they comprise action phenomena meaning that collective activity takes place and leads to social outcomes? If all state organizations are looked upon as institutions, then the concept becomes a wide one indeed.

Institutions come before interests; institutions shape the wishes and desires of individual persons, their preferences. Already this position is risky, but March and Olsen move to the doctrine of holism (Nagel 1961), i.e. public institutions constitute a social reality that involves more than simply

the acting persons. March and Olsen argue that the emergent properties of institutions as organized social systems give public institutions a life of their own, a destiny that even the social researcher finds it difficult to unravel. Institutions are not only an important part of the common sense equation of rules plus interests, they also determine individual preferences or interests.

The sociological version of the new institutionalism looks upon institutions as something more than constraints on choices. The identities and conceptions of the actors, perhaps even the notion of an actor itself, are formed by the institutional structures. The distinction between interests and institutions gets blurred. In sociological neo-institutionalism, institutions seem to assume the role of actors, i.e. resulting in reification or the fallacy of misplaced concreteness. In this perspective, interests are endogenous, as the individuals or the actors are formed in the institutional context which they live. Common sense, though, teaches us that interests and institutions are separate entities in social reality. Preferences are determined exogenously with regard to institutions – this is a basic tenet of rational choice institutionalism which, however, raises the question of where and how the interests of actors originate (Wildavsky 1987).

Old institutionalism: Weber

The institutionalist paradigm has become fashionable in the social sciences since the 1980s. A long-known framework for social analysis dating back to Montesquieu's emphasis on the importance of rules, i.e. laws and customs (1748) has been revitalized. The new institutionalism may be seen as an attempt to revitalize the old institutionalism in political science that, we were once told, had mutilated political research for such a long time (Eulau 1963). By confining the conduct of political enquiry to history and case studies, institutionalism was accused of provincialism by emphasizing country-specific formal rules to the neglect of real-life behaviour and its law-like regularities.

How do we single out the political institutions in the general set of institutions? Acknowledging the existence of political, economic, social and cultural institutions, the distinctive features of the public institutions are, it is assumed, that they constitute a political order orientated towards conflict resolution. More specifically, the new institutionalism answers that the concept of the state is crucial in designating those institutions that are political and it regards the revival of state theory as an institutionalist trend (Skocpol 1979; Evans *et al.* 1985; Dunleavy and O'Leary 1987).

It cannot be emphasized enough that not all of old institutionalism was deficient (Eisenstadt 1968; Apter 1991; Selznick 1996; Stichcombe 1997). Among the old institutionalists we have Weber, who launched a sociological kind of institutionalism which was not, however, holistic. Here, we have an analysis of institutions that pinpoints the connection between institutions as rules and institutions as organization.

In 1913 Weber published an article where he attempted to systematize several concepts about various forms of social life. It was included in *Economy and Society*, published shortly after his death in 1920. The ultimate unit in human interaction is, argued Weber in 'Basic Sociological Terms', behaviour that is orientated or intended in terms of expectations about people - social action (Weber [1922] 1978). All aggregate units such as organizations and states consist of such units, i.e. actions. Weber moved from the most simple unit to the most complex entities by doing two things: aggregating actions and adding what he called 'maxims'.

These maxims enter social life when one looks at the occurrence of orders in social life. An order, writes Weber, is more than a mere uniformity of social action, as it involves behaviour that is determined by orientation to a norm or rule which is held to be valid or 'legitimate'.

Actions and norms are the building-blocks in the Weber system. By distinguishing between various kinds of actions as well as between various types of norms, Weber was able to compile a long list of definitions of key terms used in political science. We will look at some of these distinctions below, but the key one for our purposes now is the separation between action and norm. By moving from simple to more complex social science concepts Weber managed to pin down a concept of an institution which is suitable for present-day research endeavours.

Using 'social action' we may introduce more complex concepts. Thus, we proceed to 'social relation', which stands for an interaction between two or more people. A social relation is a more complex term, as it requires more than merely the aggregation of social actions. The emphasis in Weber's taxonomy lies upon social relations and their ever more complex properties resulting from the combination of properties into successively more complex constructs. Some types of relations consist by definition of several actions (e.g. friendship), while other types may contain only a few actions (e.g. buying or selling). A one-sided relation would be a social relation where the orientations of the persons are neither of the same type nor complementary. A two-sided relation would occur when the orientations are either of the same type or complementary.

More complex concepts can be introduced as various kinds of social relations. A communal relation would be a relation based upon approval between persons. A relation of interest occurs when there is mutual neutrality between persons interacting. 'Communal relation' stands for relations of deference and erotic relations, whereas 'relation of interest' refers to market relations, for instance. Obviously, these types of social relations involves different forms of co-operation, one based on mutual feelings and the other based on shared interests or a compromise of interests.

Anyone may enter into open social relations, whereas in a closed relation participation is restricted. As types of examples of closed relations where participation is confined to certain persons, Weber mentions the family, the religious association and the monopoly in economic life. Market interaction

under conditions of complete competition is an example of an open relation, where entry is without restrictions. Over time, social relations may hover between these two extreme types.

More types of social relations may be identified: a relation of solidarity is a social relation, where both are responsible for what goes on. A relation of representation is different, as one party is responsible to another for what he/she does, but not the other way around. The property solidarity is most usual among communal and closed relations like the family and the tribe. Representation occurs in rationally established corporations and almost always in some form or another in formal organizations.

Weber links up the state with a relation of representation, but before we arrive at such a highly abstract construct we must pay attention to the specific qualities which are, in general, connected with a political action. Thus, Weber links politics with power, of which authority is the form of power that he underlines. Authority is a social relation in which there is obedience between two or more persons. This type of social relation is of central importance for Weber as he employs it in his theory of domination. Weber's word 'Herrschaft' is synonymous with the other word he also employs in this connection, namely 'Autorität' (authority) (Weber 1964: 157).

Let us turn to the definition of power or 'macht' in Weber before we move to the concept of an institution. A relation of selection is, according to Weber, the most basic general predicament in societies of whatever conceivable kind they may be. Note that it is not a social relation, as it is not necessary that persons orientate towards each other in order for selection to occur. When we add that the relation of selection should also be a social relation, then we arrive at conflict as a relation among actors. Thus, we have a relation of conflict which involves a relation of selection where two or more parties confront each other about the advantages in social life.

Weber distinguishes between biological and social selection, but conflict is the most general construct for selection when it takes place within social interaction. Relations of conflict may involve the use of force or they may be peaceful as in competition. Violent conflict is the opposite to co-operation as it involves a clash between different orientations in a relation of selection. Weber distinguishes between various types of conflict relations such as competition and regulated conflict. Power occurs in a social relation when one of the actors exerts his will against that of another actor. Thus, a power relation is a social relation in which one party carries through his/her will against the will of the other party, even if it meets with resistance.

This brings us to the introduction of a few definitions containing one term that is essential for the concept of an institution. The word 'legitimacy', meaning 'considered binding', allows Weber to introduce an 'order' as a legitimate system of rules. A valid order occurs when the behaviour in a social relation is orientated in terms of a system of norms.

Weber speaks about these rules of behaviour as the so-called maxims of social life, indicating that the norms that persons orientate towards tend to be generalized. What makes these maxims into institutions is the additional property that they tend to be guaranteed, not only by belief in their legitimacy but also by activity. Thus, an institution is a system of norms towards the rules of which there is obedience. We arrive now at two types of institutions, depending on how the maxims are guaranteed.

A legal order is an institution which is guaranteed by means of the employment of physical violence against non-compliance. A convention is an institution which is guaranteed by other means. Institutions may thus be of two types: legal orders and conventions. They both have three distinctive properties: (a) a regularity of behaviour; (b) a set of maxims in terms of which the behaviour regularity is orientated; (c) the occurrence of a mechanism of some kind through which the maxim is upheld in the sense that behaviour tends to occur that complies with the maxim. Weber shows in the further development of his taxonomy that such a concept is useful in order to introduce other concepts which elaborate somewhat upon the properties of institutions and that are very relevant for the purposes of social science analysis.

It is readily seen that the concept of an institution is different from that of an organization, as the latter concept requires more than the former: a corporation is an institution that is guaranteed by the activity of leaders. A corporation is the combination of three properties: social relation, norms and activity by leader(s) in order to implement the norms. As examples of corporations, Weber mentions the family, the formal organization, the State and the Churches.

The concept of corporation has a central place in Weber's taxonomy. It is a necessary component in his definition of the state. Weber introduces terms for properties of corporations but also terms for types of corporations. A territorial corporation is a corporation whose system of norms is valid for a specific territory. An organization is a corporation which involves interest relations between the members of the corporation. To Weber, formal organizations need not have a territorial property but they are always based upon the interests of participants, not their affections.

Weber ends up with his definition of the state as a special territorial corporation, and in order to arrive at the definition of the state he separates voluntary and compulsory corporations: a compulsory corporation is a corporation whose system of norms is valid for each and every member of the corporation whether he/she wishes it or not. A voluntary organization is a corporation whose system of norms is valid for the members of the organization in so far as they accept them. States belong to the general set of compulsory organizations. Their distinctive properties are introduced as follows: a state is an authority corporation whose system of norms is guaranteed within a territory by physical violence or the threat of physical violence by its leaders.

Following Weber's list of concepts with their increasingly more complex constructs has allowed us to identify a concept of institution that is more distinct than that employed in sociological neo-institutionalism.

Rational choice institutionalism

The holistic or sociological approach is challenged by the rational choice approach, which has two sources within neo-institutionalism, one in political science and the other in economics (Weingast 1996). The sociological view of institutions originates in organization theory (DiMaggio and Powell 1991), while the rational choice perspective is based upon the neo-classical decision model within economics (Eggertson 1990). Between these two approaches stands the new institutional economics, which is atomistic but models behaviour in terms of bounded rationality also originating within economics (Williamson 1986).

The rational choice perspective on institutions has been heavily influenced by the many new developments within so-called social choice, i.e. the analysis of how decision rules affect outcomes when groups come together and aggregate individual preferences (Arrow 1963). The many results concerning the paradoxes of voting, path dependencies and the chaos theorem all indicate the same, namely that the rules of the game play a profound role, alongside preferences, in shaping outcomes (Moulin 1983; Kelly 1986; Nurmi 1987). Institutions are regarded as stability conducive mechanisms, reducing the turbulence that stems from the lack of so-called core solutions in collective choice, i.e. solutions that cannot be defeated by some strategy or coalition. Institutions help derive stable outcomes, so-called equilibria (Shepsle 1989).

The rational choice perspective on institutions has also been much influenced by developments in economics, especially the emergence of new institutional economics (Coase 1988; North 1990). In the economic institutionalist models there is a focus upon those institutions that are basic to economy (Eggertson 1990) such as the market, property rules and the firm whilst not taking the existence of institutions for granted, these new models emphasize the crucial importance of social rules for social interaction, modelling how men/women make rational choices about which institutions they wish to live with in order to maximize economic output and minimize the dissipation of rents. Somehow society tends to find the institutions that are transaction-cost minimizing.

As in economic institutionalism, the word 'institution' is, without exception, defined as rules. Institutions as rules are looked upon as constraints within which actors may maximize their self-interests. Or they are considered as transaction-cost saving devices regulating the interaction between men/women. In the public choice literature, institutions tend to be regarded as rent-seeking mechanisms that reduce economic efficiency or total output (Stigler 1988; Mueller 1989). Yet, in law and economics, rational choice

institutionalism has been developed in a theory about the consequences of various legal institutions for economic life, such as property rights, the limited liability company as well as alternative arrangements within contract law, tort law and public regulation – all rules enhancing economic efficiency (Posner 1992).

Thus, among the rational choice institutionalists, those social phenomena which are to be called 'institutions' range from simple to complex rules, which are implemented by means of some form of sanctions. Matthews (1986) distinguishes between four kinds of institutions: property rights, conventions, types of contracts and specifically contracts about authority or governance structures like the firm or the limited liability company. Williamson (1985: 15), concentrating on governance mechanisms in a world of bounded rationality, states: 'Firms, markets and relational contracting are important economic institutions'. North stresses the importance of distinguishing conceptually between the rules of the game (institutions) and the strategies (organization) which the players in the social game find it advantageous to adopt (1990: 5).

Conclusion

The new institutionalism has been hailed as a most promising approach in the social sciences in the 1990s. There is interesting work on institutions going on in the disciplines of political science, sociology and economics. Our focus in this analysis of public institutions is to establish to what extent do institutions have an impact upon outcomes. Thus, we are less interested in discussing the variety of nuances in various concepts of an institution, which is after all basically a matter of choosing a definition, than in finding out whether the claim that '(IT) Institutions are important' is a valid statement about the world.

The sociological institutionalism of March and Olsen, rejecting each and every reductionist interpretation of the public sector, has a basic holist twist which upsets the balance between the motivational aspects – interests – and the rule aspects – institutions – in public sector behaviour. In contrast, there is a tendency in the neo-institutionalist approach developing from the economic man decision model, to expect that institutions can be derived from interests in a manner that could satisfy criteria on optimality and rationality. We remain sceptical about both the sociological and the economic versions of neo-institutionalism.

Following Weber, a clear separation between interests and institutions may be upheld, while at the same time remaining within the confines of methodological individualism. When a set of maxims are obeyed in a society through the orientation of the actions of the members of that society, there is in Weber's theory an order. An order can be guaranteed in two ways, says Weber: first, by subjective reason: affectual, value-rational or the belief in legitimacy; and second, by expectations of specific external effects, i.e.

through the employment of sanctions in the form of group approval or disapproval – convention – or in the form of physical or psychological coercion – law (Weber 1978: 33–4). Maxims or norms that are connected with sanctions are called 'institutions'. Maxims that are not institutions lack enforceability.

In the rational choice approach to neo-institutionalism, institutions are looked upon as (or comply to) simple rules or norms. They constrain the actors, who take the existence of institutions into account when they orientate their behaviour. Institutions are thus webs of rules that constitute phenomena that are of a different order to individuals or organized collectivities such as organizations. In rational choice institutionalism, institutions are sharply distinguished from interests or preferences and complex institutions may be decomposed atomistically into simple institutions.

From a political science standpoint, public institutions structure governance relations involving the electorate, the leaders or politicians and agencies or bureaucracies. Public institutions may be looked upon as responses to the search for structuring principal-agent relationships in politics. What could this mean? The next chapter suggests an answer.