

Some Bumps on the Road Between *tizhi* and *zhidu*

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As a political economist trying to explain who gets what -- how, when, where and why – in societies liberalizing political, economic and social institutions, more and more I am forced to seek new interdisciplinary methodological tools in order to understand momentous and yet unexpected and even counter-intuitive structural changes in these societies. A merger of cultural studies and policy studies that creates methodological breakthroughs in both areas would be immensely useful. As I briefly try to argue here, however, there are considerable theoretical and methodological obstacles in the development of such a merger. I focus on some key problems that the Western policy studies scholar faces in using notions of culture in analysis.

Given the predominance of assumptions of individual utility maximization and methodological individualism, Western policy studies is ill-equipped generally to accept alternative explanations, be they supported by qualitative or quantitative empirical work. But recent scholarship using “Neo-Institutional” approaches have helped policy studies scholars incorporate “culture” – societal, state, organizational and collective – in a limited fashion. Fundamental disagreement about the direction of change in social institutions,

and of the range of actors involved in social change, however, make it very difficult for Neo-Institutional scholars to present theoretically valid, systematically empirical analytical frameworks that might replace those currently used by state and non-state policy makers and scholars.

I argue that there are at least three common, competing Neo-Institutional explanations for how social institutions change, with associated values about the preferred direction of social change, and briefly try to show here how these motivate policy studies scholars to examine the role of some actors and not of others. I try to show how these are relevant to several issues identified as starting points for discussion in the development of a critical policy studies framework.

Competing Neo-Institutional explanations of change in social institutions. Although many policy studies scholars commonly use Neo-Classical economic theories and methods, when they do try to incorporate culture into their analyses they turn to Neo-Institutional approaches with whom they share a common set of assumptions about individual utility maximization and methodological individualism. This is true in Western scholarship and practice, and more and more in China as well, through such economists as Zhang Shuguang and such economic policy think tanks as the Unirule Institute in Beijing. Neo-Institutional approaches used by economists, political scientists, anthropologists, sociologists and legal studies scholars thus comprise the most potentially useful set of contact points in a union of cultural studies and policy studies.

What do we mean by social institutions? In Neo-Institutional explanations they are viewed as socially shared rules that inform individuals of potential constraints upon their future actions. They constrain action because they create the expectation that other individuals may force the individual to comply with the terms of that rule or law. Or, as Nobel-prize economist and prominent Neo-Institutional scholar Douglass North has phrased it, institutions are "humanly devised constraints that shape human interaction".

Defined as such, the set of all institutions includes everything from a nation's constitutional laws to the norms of behavior in a small community. The most important characteristic is that they are rules that create shared expectations about the response others may take to one's own actions. The contravention of criminal law in most societies usually leads to punishment by law enforcement organizations. The breaking of norms of personal conduct often leads to disapproval and isolation by the members of a community. Neo-Institutional scholars thus distinguish between formal and informal institutions. Formal institutions are rules enforced by external actors, most commonly the state. Formal institutions often refer to laws, regulations, rights and codes. Informal institutions are rules defined and enforced within a group or organization. These include norms, customs and conventions.

The formal/informal dichotomy is important because the dynamics of change are different for each, and they distinguish the three competing general explanations for how social institutions emerge. I focus on their explanations for change in property rules, which many assume to be the most important rules in any society, but most Neo-

Institutional scholars would argue that their explanations should apply to the entire range of social institutions.

Formal-centric theories of change in property rules. Formal-centric theories of change in rules see rights as being "granted" by state actors who try to create socially beneficial rules of property distribution. As commonly argued by such rational choice institutional scholars as William Riker, there are two postulates and four necessary conditions for the emergence of property rules. The postulates are common among rational choice, formal-centric explanations: (1) political actors maximize utility; and (2) public officials have more resources (military, acknowledged legitimacy) than other actors. The second postulate identifies this theory as a distinctly formal-centric explanation in assuming that in each society there is a public organization that is both united enough and capable enough to enforce property rules for all other organizations and individuals. Other Neo-Institutionalists who study property rights, however, suggest that informal property rules are the norm in most societies.

The four necessary conditions for the emergence of property rights give explanatory primacy to rulers:

Condition 1: Scarcity. The content of the right is scarce, driving its value above enforcement costs. Without such value, control is pointless...

Condition 2: Right-holders desire the right. If this condition is not satisfied, holders do not seek the right; hence, it does not emerge.

Condition 3: Rule makers desire to recognize the right. This condition is necessary because a right unproclaimed by enforcers is not ultimately enforceable...

Condition 4: Duty-bearers [those who should respect the right] respect the right. This is a necessary, but often unnoticed, condition.

As outlined in the postulates and conditions, Riker's theory is very much like other theories of change in formal property rights: such changes are not stable until they are "recognized" and enforced by the organization that has enough resources to enforce that right, the state. In its basic form, this theory does not exclude the possibility that such changes began as informal institutions, or that the process of emergence and recognition is one of conflict and bargaining. Thus it might be used to support Hobbesian, social-contractarian, and libertarian arguments that state organizations are basically predatorial, or that state organizations are composed of opportunistic, rent-seeking bureaus and agencies.

In practice the policy community's use of this theory, however, can be distinguished by two additional claims: (1) rulers select and enforce property rights that are socially beneficial; and (2) stable property rights are the products of changes initiated and directed by rulers. The first claim is particularly problematic for theories of institutional change. According to this logic, not only must those who are defining the property right know which of the possible alternative institutional arrangements is the

most "efficient", but they must also be capable of collectively selecting the most "efficient" property form. The first problem would be a difficult one to overcome even among economists, but the second problem raised by this claim points to a logical inconsistency in this theory. As has been argued elsewhere, claims that rational actors select socially beneficial institutions from among other institutional arrangements violate assumptions of individual utility maximization.

The second claim follows from the first. In order for rulers to be able to choose the most socially beneficial property right to enforce, they must initiate and control the "recognition" process. First, these theories predict state actors and "politicians" initiate and control the recognition and enforcement process. Change in formal property rights is not merely the passive "recognition" of informal agreements undertaken by social actors, for in order to select and enforce the collectively beneficial property forms state actors must have the ability to eliminate sub-optimal alternatives. Second, these theories predict politicians and state actors intentionally select and enforce property rules that are collectively beneficial and "efficient". This assumes that such actors are not only capable of determining which of the alternatives is the most beneficial, but that they are also collectively capable of selecting and enforcing that standard.

Formal-centric theories of privatization and marketization are the most common explanations for transition in the former central planned economies, including China. Consider the many theories of reform and transition that place causal primacy on change in formal institutions and see state actors as capable of acting cooperatively in order to choose and enforce socially beneficial property rights. Many theorists note the

"difficulties" in implementing policies which suddenly and profoundly change the property and future income of the majority of populations, but suggest that the benefits of marketization can only be realized with the design and implementation of a thorough "plan. In these theories, reforms are the product of political leaders acting collectively to "recognize" the country's development needs, to minimize uncertainty in the marketization process, or to choose policies through objective trial-and-error experimentation. Policy think tanks and agencies are thus seen as the value-free messengers of efficiency or at least as sometimes objective policy advisors. Even when such think tanks are viewed as the product of factional strife, the emphasis is on the primacy of change in formal political institutions at the central government level. Other theories assume the primacy of state actors and formal property rights in viewing privatization as a process of the formal "reassignment" of rights toward the level of the populace or in suggesting that there should be no grand government-led marketization plan. "Culture" here often comes in as knowledge: individually in the education and traits of leaders, organizationally in the creation of models and plans, and socially in the popular acceptance or non-acceptance of the knowledge superiority of political elites. Formal-centric theories are thus essentially top-down explanations. Or, as some Neo-Institutionalists have phrased it, the "acropolis" is assumed to come down to change the "agora".

Competition-centric theories of change in property rules. Unlike formal-centric theories, competition-centric theories see change in formal rules as the product of competitive bargaining among state actors and between state actors and other organizations. State actors, therefore, do not necessarily intend to select and enforce

property rights that are socially beneficial. Competition-centric theories assume, however, that competition between organizations over informal property forms can lead to state recognition of the most socially beneficial property forms. And societies with state organizations that are more capable of systematically enforcing the most productive informal property rules are most likely to grow economically. The key to these explanations is the competition between informal property forms that eliminates those that are less productive, and the process by which state actors recognize and enforce the most socially beneficial of those rules.

Douglass North's theory of institutional change most clearly exemplifies the competition-centric theories of change in property rights. Changes in relative production or monitoring costs cause changes in the opportunities of individual actors who seek to create new forms of organizations to lower such costs. As these organizations evolve incrementally they seek to change formal institutions, to obtain state enforcement of their informal institutions. Organizations here include communities and firms. The state creates formal rules, or property rights, but as North points out these formal rules only change when it is in the interest of those with sufficient bargaining strength to change them. And why would state actors create rules that potentially favor other actors in the future distribution of resources -- as efficient property rights must? Clearly it is not in the self interest of state actors, acting for themselves or as agents of certain groups in society, to devise such rules.

It must be in the interest of other organizations which provide the informal constraints that are the origins of the potential efficiency of property rights. According to

North, the engine of change in informal constraints is the desire to decrease transaction and measurement costs. Certainly reducing such costs increases the possibility of exchange efficiency, but only if the relevant actors cooperate to create and maintain the exchange efficient rule of property distribution. For North these informal constraints do exactly that. At this level, property rights are determined by individual reactions to formal rules, by socially sanctioned norms, and by internally enforced standards of conduct. How do these determine the cooperative resolution of conflict over the rights to the distribution of resources? It is because they are all geared towards cooperation in reducing costs. According to this theory, however, these informal constraints are not shaped, as are the formal ones, by varying levels of bargaining strength, and by intentions to take advantage of or exploit others. As with the formal-centric theories, informal institutional change is basically a cooperative or coordinating process that somehow eliminates the less productive or less socially beneficial property forms.

North's theory introduces non-self-interested or norm-driven determinant of institutional change and some structural-functional features to explain why there is more exchange efficiency in capitalist societies. Socially beneficial norms of work and a "lock-in, path-dependent" feature of institutional change in capitalist societies help explain why change in informal institutions is socially beneficial. The origins of the former are not explained, however (thus creating the potential for distinctly "cultural" origins) and the latter is seemingly explained in terms of the benefit -- adaptive efficiency -- it provides. The former seems to contradict the assumptions of individual rationality, and the latter seems to offer a functionalist, non-intentionalist explanation.

But how might individuals and organizations intentionally "compete" such that the most socially beneficial informal property rules are maintained and those that are sub-optimal eliminated? North's theory predicts that either norms of cooperation and ideals of social efficiency play an essential role in the social selection of collectively beneficial property forms, or that competitive pressures eliminate the less efficient, less beneficial property forms. These are the only means by which rational actors would intentionally select the most socially beneficial institutions. Either these norms or ideals must be strong enough to cause those who would be disadvantaged by the proposed property rules to actually support such rules, or competitive pressures must be strong enough to eliminate those informal property rights that are less socially beneficial. As such they are essentially compatible with many liberal, market-driven explanations of social change, from Hayek to Schumpeter, Polanyi and Keynes.

In the study of marketization in the economies of Eastern Europe and the former Soviet Union, these theories emphasize the emergence of cooperation-inducing norms to enforce changes in formal property rights. Or they view the emergence of informal property rights from a process of competition between individuals and organizations as an essential part of the marketization process. Unlike formal-centric explanations, these explanations are bottom-up: formal rules follow from changes in informal rules. In the study of China's reforms, "competition-centric" explanations can be seen in theories of the influence of competing state actors on property rights relating to fiscal systems and natural resource management institutions. Historians and political scientists studying the role of informal relationships between politicians and economic organizations, such as the Nationalist Government's National Resource Commission and the bureaucracies of

Communist China before the Great Leap Forward, offer similar explanations. “Culture” here comes in as social norms and conventions within political, economic and social forms of organization. Finally, theories that explain the emergence of informal property rights systems from a process of competition among local governments and such economic organizations as township and village enterprises, cooperative and collective enterprises and “traditional” forms of property organization (either socialist or pre-planning) are also competition-centric. These include theories of "local corporatism", "federalism, Chinese style," and "de-facto federalism", which play a role in debates over the balance of power between central and local state authority.

Bargaining-centric theories of change in property rules. A third approach explores the bargaining foundations of informal institutional change, emphasizing the roles distributional outcomes play in such change. Unlike the formal-centric theories, bargaining-centric theories assume changes in property rights begin with changes in informal property institutions, a feature they share in common with competition-centric theories. Bargaining-centric theories, however, view all institutional change as the product of conflict over the distributive outcomes from such changes. Property rights here are a "by-product" of the struggle to create and enforce rules that benefit oneself or one's organization.

Bargaining-centric theories have two distinct elements. First, they place causal primacy on change in informal institutions: even within state organizations changes begin with informal institutions. Here, individuals and organizations that maintain or

respect a formal property right will settle on a new rule of distribution before the state or another actor is introduced to enforce the formal rule. Competition-centric explanations require the primacy of informal rights in order to explain the socially beneficial outcome that may result from institutional change, because state actors are believed to be incapable of acting cooperatively to choose such an outcome. Bargaining-centric explanations, however, emphasize informal institutions simply because that is where the origins of change are believed to occur.

Bargaining-centric theories of change in property rights are also different in that they view institutional change as the product of bargaining over distributive outcomes. Individuals and organizations are not striving to create or maintain the most socially beneficial institutions, but rather simply trying to popularize the rule that benefits them the most. These theories rely on bargaining models that emphasize asymmetries in information and other bargaining resources to explain the direction and outcome of change. Most commonly, bargaining over the enforcement powers of state actors determine the resources available to actors in changing property rights and the means by which advantaged individuals and organizations obtain the distributive outcomes they most prefer. Accordingly, neither state nor individual actors intentionally create socially beneficial property rights. Again, such benefits are merely the "by-products" of self-interested behavior.

Informal centric theories of change in property rights thus make three predictions: (1) informal institutional change precedes change in formal institutions; (2) individuals and organizations do not intend to create socially beneficial property rights; and (3) the

most powerful groups and individuals should not be disadvantaged by changes in property rights. The second and third predictions are related. Because of assumptions of utility maximization, individuals and organizations cannot rationally create rules of property division that might disadvantage themselves, and thus the resulting changes should benefit those who are the most powerful. These explanations are often offered by scholars trying to update Marxist and Marxian approaches that examine social inequality and unequal distribution of resources.

"Bargaining-centric" explanations of changes in property rights are even less common than "competition-centric" ones. Theories of marketization that view the privatization process as driven by the unintended, collective defection of political elites from the previous regime are essentially "bargaining-centric" explanations. Others have been used to explain the emergence of informal property rights for women in China's sericulture area and the spontaneous, collective creation of private land-use rights in post-Mao China. They have also been used to examine the strategic construction of norms of retirement for cadres after the Cultural Revolution. Explanations that look at the role of the "culture" of social networks in defining and enforcing property rules – among local and diasporic communities, among foreign enterprise investors and domestic capital market investors, within bureaucratic agencies and within production and distribution chains of large state-owned enterprises and other danwei – are a promising area of future research by bargaining-centric Neo-Institutional scholars. As with the bargaining-centric theories of change in property rights in other CPEs, they place causal primacy on change in informal property rights and view these changes as the by-product of individual, strategic action. As such, they are also bottom-up explanations.

The problem of empirical conditions and implications for critical policy analysis.

Formal-centric, competition-centric and bargaining-centric theories of change in property rights make different predictions about the origins of, and direction of, change in property institutions. Formal-centric theories predict that changes in formal rules of property distribution precede changes in informal institutions, and that state actors are somehow motivated to select and enforce socially beneficial property rules. Competition-centric theories of institutional change predict that changes in informal institutions precede those in formal institutions, and that either norms of cooperation or the pressures of competition motivate non-state actors to select and enforce the most socially beneficial informal property institutions. Bargaining-centric theories of institutional change predict that informal changes precede formal changes, that actors do not intend to create socially beneficial property rights, and that the property rights that result advantage the strongest individuals and organizations.

Cultural studies scholars and policy studies scholars seeking a merger in a critical policy analysis framework need to recognize that on the Western policy studies side there is still fundamental disagreement about the nature of change in social institutions, particularly in property rules and rights. Rather than dismiss these differences as irreconcilable theoretical approaches – founded on disagreements about the philosophical value of the preferred direction of social change in general – I would argue that cultural studies scholars can play an important intellectual and even strategic role in persuading policy studies scholars to devise interdisciplinary empirical research that force them to

address the strengths and weaknesses of these competing explanations. This would not only inform the important policy debates in China and other societies in transition, but also the underlying philosophical debates with which these competing explanations are associated. I look forward to identifying, and overcoming, some of these bumps on the road between *tizhi* and *zhidu*.