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Institutional Economics

Daniel W. Bromley

Abstract: Institutional economics remains impaired by a lack of agreement as to the meaning of the concept "institution." At the practical level, this conceptual muddle prevents progress in the crucial task of helping problematic states in Africa, parts of South Asia, and the Middle East. Thousands of refugees seeking to enter Europe are a reminder of the tragic consequences of dysfunctional states. Standard international development programs — emphasizing economic growth and fighting poverty — are counter-productive because they fail to address the underlying institutional incoherence in fragile states. They are flawed because they focus on symptoms rather than reasons. A focus on the reasons for current dysfunctional states would bring attention to the defective institutional architecture — legal relations — that prevents the emergence of economic coherence where dysfunction now reigns. We must help countries craft economic institutions that will improve livelihoods. But conceptual coherence about institutions must first emerge from the academy.

Keywords: evolutionary economics, institutions, notional states

JEL Classification Codes: D02, D71, E02, N01

Thousands of migrants now struggling to reach northern Europe from Africa and the Middle East are a stark reminder of how difficult it is to create an economic system that is capable of delivering and sustaining compelling livelihoods. This problem is often treated as one of "failed states" — a phrase that I quite dislike. Not only is the term "failed" too definitive, but the phrase focuses attention on political processes rather than where the emphasis belongs — on the institutional architecture of the economy. The sense of urgency is magnified by the realization that the economics

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profession is of scant help in knowing what to do to help rescue dysfunctional states. I remind you of the flawed catechism of the Washington Consensus and its allegorical "Ten Commandments." In the early 1990s, there was great relief to learn that the only problem with Nigeria was that it is not more like Norway, and the only problem with Senegal was that it is not more like Sweden. The "Ten Commandments" sought to impose received institutional truths on the developing world. Development was simple: Rich countries have these particular institutions. You should, too. Then you also will become rich.

Instead, the experiment turned into a tragic object lesson in flawed diagnostics and the comprehensive incoherence of induction. International donors embraced the catechism and scaled back or withdrew a wide array of necessary development initiatives on the tendentious premise that, with these newly imposed institutional arrangements firmly in place, the Pareto-improving market process would suddenly emerge and lift the poor into agreeable prosperity and good health. Compounding the problem, we must notice the standard purpose of development policy — "working for a world without poverty." This reminds me of working for a world without terrorism. One searches in vain for an underlying causal structure. There is none. Poverty is a meaningless description of a complex result of untold reasons. Nation-states in Africa and the Middle East are dysfunctional because their economies are dysfunctional. Their economies are dysfunctional because their institutional architecture — the legal foundations of economic processes — are incoherent. And the legal foundations of the economy are incoherent because international donors have yet to figure out precisely how institutions — authorized transactions — matter.

Consider the World Bank's *Country Policy and Institutional Assessment* (CPIA) scheme that assigns scores for countries eligible for special funding through the International Development Association (IDA). This program provides support for health and education, infrastructure and agriculture, and economic and institutional development to the 77 least-developed countries — 39 of them in Africa. These countries are home to 2.8 billion people, 1.8 billion of whom survive on $2.00 a day or less. It is clear that the populations of IDA countries are the poorest of the poor.

The CPIA approach is a *framework* intended to create an institutional environment within which specific policies are adopted and implemented. The four clusters — economic management, structural policies, social inclusion and equity, and public sector management — contain sixteen individual indicators concerning exchange rate policies, fiscal policy, debt policy, trade, financial management, the regulatory environment, gender equity, public resource use, human resources, social protection and labor, environmental sustainability, property rights, budgetary management, revenue mobilization, public administration, and lack of corruption. The CPIA scores are intended to be reliable reflections of each country's progress toward "poverty reduction and growth." I have analyzed these various scores across 59 countries with respect to indicators, such as per capita incomes, infant mortality rates, and the performance of the food system. Unfortunately, the CPIA scores bear no relationship to actual country performance. There are now at least 95 such ranking schemes created and administered by donors or others who wish to judge countries in terms of their development prospects, or their suitability for foreign investment (Cooley and Snyder 2015, 102). These bizarre scoring protocols have all the coherence of college rankings published by popular magazines.

Difficulties plague all such efforts to conjure design standards for the performance of an economy. There are simply too many moving parts and confounding factors to rely on blanket proclamations about the instrumentality — the causal attributes — of such things as social protection and labor, or property rights, or quality of public administration, or fiscal policy, or the financial sector, or efficiency of revenue mobilization. There must be a procedure to link judgments about institutional quality to explicit development outcomes. But no such linkages exist.[1]

The CPIA seeks to judge and assign scores to the quality of a country's policies and institutions. Perusal of the concept of an "institution" reveals that the World Bank believes that institutions can be a wide range of things. We see a repeated reference to institutional arrangements, institutional frameworks, legal/institutional barriers, financial institutions, institutional context, institutionalized and institutional responsibilities, institutional checks, oversight institutions, institutional dimensions, policies and institutions, institutions or programs, institutional performance, institutional and systemic risk, labor institutions, and labor market institutions (World Bank, 2011). The designers of the CPIA scheme, hitting upon an idea that seemed important — institutions matter — seem to have used the word whenever they were in need of a noun or adjective. As long as institutions can be anything, and thus nothing, the term cannot possibly be useful for thinking about development assistance programs (Bromley and Anderson 2012).

A final problem here is that development assistance programs are now fixated on economic growth. Countries can experience dramatic growth in GDP via oil exports — think Gabon, Guinea, Chad, Nigeria, and Angola — yet realize precious little in the way of improved livelihood prospects. While most observers now understand that "institutions matter," there has been little effort to be precise about what exactly that concept means.

On Institutions[2]

[G]grasping a concept is mastering the use of a word.
-- Robert Brandom (2000, 6)

A focus on institutions brings us to the socially constructed transactional parameters whose purpose is to influence individual behavior. Collections of individuals, ranging

[1] A point stressed by Nelson (2007). Consider just one indicator — property rights. Scoring protocols favor "strong" property rights, whatever that might be. The extensive *latifundia* of South America most assuredly have strong property rights, but it remains unclear whether such institutional arrangements actually do much for improving livelihood prospects of the millions of landless families affected by this prized institutional architecture.

[2] A rereading of Walter Neale's masterful article "Institutions" reminds me of just how little progress has been made in pinning down the precise meaning of this central concept (Neale 1987).

from the family to the nation-state, cannot function without rules to live by. There are two sources of such rules. First, there are autonomously constructed rules from a group of individuals revealing to all inside the group precisely “how things are done here.” Compliance with such norms and conventions is a matter for the group to work out. The second category of institutions emerges from a sub-group of authoritative agents who formulate such rules, and then ensure compliance and enforcement. Some writers prefer to call the first class of institutions *informal* and the second *formal*.

As the above epigram from Robert Brandom (2000) makes clear, it is essential that words map into concepts and concepts map into words. Unfortunately, institutional economics remains hampered by a failure to be clear about this central issue. I will, therefore, devote the bulk of my comments to the second class of institutions — those rules to live by that carry the legal imprimatur of authoritative agents (courts, legislatures, city councils). We are concerned with what is often called *the law* — speed limits, urban zoning strictures, “No Smoking” signs, the precise meaning of net taxable income, and traffic signs indicating that left turns are unacceptable. These are codified rules to live by.

Economists are interested in such rules for the obvious reason that these transactional parameters define choice sets for individuals. These codified rules quite often reflect settled norms of behavior. John R. Commons (1924) talked of the transition from “custom to contract.” On the other hand, new rules can conflict with existing norms — the habituated personality — and here institutional change becomes contentious. John Dewey (1988) insisted that individuals become the habits they tend to evince. We are our habits. Thorstein Veblen wrote of the habituated mind, and Charles Sanders Peirce wrote about how life tends to take habits (in Hiedanpää and Bromley 2016). Institutional change, therefore, is not just some simple matter of passing a new law or issuing a new legal decree. Institutional change necessarily redefines who people imagine themselves to be, who they aspire to be — indeed, who they are able or unable to be (i.e., drug dealers). There can be no clearer reminder of this than the difficult battle to prohibit smoking in public places. Here, a long tradition of acceptable — even socially prized — behavior (a desirable norm) was gradually undermined and eventually brought under the purview of new codified laws.[3] Current political struggles over the profusion of guns in the United States remind us of just how very difficult it can be to modify norms of behavior through legal decrees and democratic legislation.[4] Human history is nothing but a record of the gradual replacement of old laws and customs (norms) with new codified law redefining acceptable human action (from slavery to wife beating). We see that certain habituated behavior gradually becomes unacceptable and must be altered, so that it accords with new settled beliefs about what is better to do (Bromley 2006). Institutional change is willful corrective surgery by and on the body politic.

[3] Recall cigarette advertisements featuring glamorous movie stars and other worthies.

[4] Dictatorships have little difficulty in this regard.

In the economic realm, it is easy to forget that Adam Smith (1776) was motivated by a single urgent question: Why were the Dutch so rich, while the British languished? Some economists seem to believe that his answer concerned the simple act of throwing off customary fetters so as to unleash the magical powers attributable to the division of labor and the fortuitous liberation of the metaphorical invisible hand. To imagine this is to forget that smothering legal strictures and customs of the time — laws and norms — could not be thrown off without being replaced with something instrumental to the new purpose. The newly desired institutional architecture had to be teleological. But what was to be the new and necessary purpose of the state? If it was no longer to protect dynastic comfort, what should it be? Wealth creation presented itself as a plausible purpose and so Smith decided to work out a theory indicating how things might actually be improved upon. One does not replace something with nothing. Something is always replaced with something else. And that replacement — that institutional change — requires the advancement of some mental picture to help convince others of the wisdom of change. This conceptual justification is nothing but a theory — a series of "if-then" propositions that seem, at the time, plausible and compelling.

The division of labor — and the unintended beneficence of the invisible hand — were effects of a set of purposefully created and novel legal relations that set in motion those catchy slogans. Notice that there was nothing invisible about the new rules — new legal relations — that displaced durable custom. These new rules (new institutions) allowed the partitioning of complex tasks into discrete activities, and they facilitated managerial agency on the shop floor. Outside of the realm of what Commons called *managerial transactions*, out in the world where *bargaining transactions* are found, sellers gained the new right (capacity) to name their selling price. In both the managerial and bargaining transaction, we see a new choice domain comprising a different set of authorized transactions. This is a perfect phrasing for practices that had until recently been illegal. Those innovative legal modifications were justified by a new final cause — a purpose — which was to bring about increased national (and individual) incomes.

Curiously, some economists firmly in the institutionalist camp still find it possible to believe that institutions are both rules to live by (laws and norms) and organizations (the Catholic church). This assertion offers the same intellectual satisfaction as when an architect claims that a set of blueprints and the house predicated on those blueprints are both usefully regarded as blueprints. A house is not its blueprints any more than a set of blueprints is a house. The house is defined and given empirical content by its blueprints — its structural parameters.

The Catholic church is an organization. It is not a rule or norm. Rather, the rules and norms of the Catholic church are the institutions that give empirical content to the entity called the Catholic church. Those rules define authorized transactions if one wishes to remain in good standing in that particular going concern. But the *organization* (the church) is not — and cannot possibly be — an institution. Similarly, marriage is often called an institution, but it is no such thing. Rather, the legal parameters regarding marriage are precisely the institutions that matter. This should be apparent as we have recently watched a profound change in the legal capacity for certain individuals to become married. Marriage as a social practice has not changed. The thing that has changed is who is legally able to marry. That is an institution specifying an authorized transaction.

Perhaps institutional economists have resisted being precise about the meaning and content of the concept of "institution" so as to avoid being painted with the same reductionist brush with which we decorate our mainstream colleagues. A commitment to "everything is important" in the name of holism can be understood as a form of intellectual laziness. It impedes conceptual clarity, and economic phenomena that lack clarity are of no use. After all, if physicists were to talk and write of entropy without first stipulating what that concept means to them, it would be impossible for coherent scientific discourse to occur. I find support for my concern in Richard Nelson's 2007 Veblen-Commons address. He observed that "[i]ndications of the intellectual challenge come into view once one recognizes the large number of things distinguished economists and other social scientists have called institutions, at least if one continues to believe that somehow they are all talking about roughly the same thing" (Nelson 2007, 322). It is telling when Nelson remains unclear whether or not institutional economist are indeed talking about the same thing.

It is ironic that Commons, who has rightly been noted for his convoluted writing, offered admirable clarity on a matter that most institutional economists since Commons have managed to ignore. Here I refer to Chapter 4 of *Legal Foundations of Capitalism* wherein Commons goes to great and elaborate pains to teach us about institutions as legal relations. Drawing on the work of Wesley Hohfeld (1913, 1917), Commons is strikingly precise about the legal foundations of transactions — that human activity at the core of our craft. There, under a heading called "Authorized Transactions," we encounter "right," "duty," "no right," and "no duty" (Commons 1924, 83-100). In *Sufficient Reason: Volitional Pragmatism and the Meaning of Economic Institutions*, I (Bromley 2006) have changed the terminology in line with other versions of these fundamental legal relations (correlates). I reproduce them here in tabular form in Table 1.

Table 1. The Fundamental Legal Correlates

	ALPHA ←	→ BETA
Static correlates	**Right ← → Duty** **Privilege ← → No right**	
Dynamic correlates	**Power ← → Liability** **Immunity ← → No power**	

Source: Bromley (2006, Table 4.1 [after Commons 1924]).

The top row of Table 1 depicts the *status quo* legal correlates that are the *working rules of going concerns* (to Commons) indicating what "individuals *must* or *must not* do (compulsion or duty), what they *may* do without interference from other individuals (privilege or liberty), what they *can* do with the aid of collective power (capacity or right), and what they *cannot* expect the collective power to do in their behalf (incapacity or liability)" (Commons 1924, 6, emphasis original).[5]

In the lower part of Table 1 is the domain of institutional change. This is the process of adopting new "authorized transactions." To have *power* is to have the ability to force other individuals into a new legal situation (the top row) against their will. If Alpha has *power,* then she may put Beta in a new legal situation, not of Beta's choosing. And whence does this ability come? This ability springs from the capacity of Alpha to enlist the coercive power of some authority (the state) to impose her will on Beta's choice domain (field of action). The state (or the pertinent authority system) becomes an essential participant in the exercise of Alpha's *power* with respect to Beta. When Alpha has *power*, Beta suffers from a *liability* to the capacity of Alpha to force Beta into a new and unwanted legal situation. If Beta is not exposed to Alpha's attempt to create a new legal relation inimical to Beta's interests, then we say that Beta enjoys *immunity* in the face of Alpha's efforts to put Beta in an unwanted legal position. And in the face of Beta's *immunity*, we would say that Alpha has *no power*. To have *no power* means that Alpha is unable to put Beta in a new legal situation that is not to Beta's liking.

The Hohfeldian scheme adopted by Commons, and elaborated in my own work, is symmetrical with respect to the position of Alpha and Beta. That is, the legal relation is identical regardless of the position from which the relation is viewed (Alpha or Beta). The difference lies "not in the relation which is always two-sided, but in the positions and outlook of … [Alpha and Beta] … which together make up the two converses entering into the relation" (Hoebel 1942, 955).

We can regard these four legal relations as being either *active* or *passive*. The *right/duty* and the *power/liability* relations are active in that they represent imperative relations subject to the authority of the state (or the appropriate authority system). On the other hand, the *privilege/no right* and *immunity/no power* relations are passive in that they are not subject to direct legal enforcement. Instead, these latter correlates define the limit of the state's legal activities. That is, they indicate types of behavior in which the state has no interest. In the case of privilege, the state declares that it is none of its direct concern if Alpha pollutes a river (and kills the fish) of interest to Beta.

In modern legal systems, every right that Alpha has upon Beta is given effect by the obligation held by the state to compel Beta to abide by the duty incumbent on Beta. That is, to have a right is to know and to expect that the coercive power of the state will be continually brought to bear on those who have a duty against one's right.

[5] See Bromley (2006) for an extended discussion of "understanding institutions" (ch.3), and "the content of institutions" (ch.4).

Indeed, there is more to the story. To have a right is to be able to *compel* the state to protect one's interests. Notice that if Alpha has a right, this is more than being a mere passive recipient of the state's direct support. Rather, the state agrees, when it grants a right to Alpha, to stand ready to defend Alpha's interests against the claims and incursions of others. That agreement is manifest in the state's coercion against those with a duty against Alpha's right. As Commons reminded us, the state is a party to every transaction.[6]

On Institutional Change

An economy is always in the process of becoming. The abiding problem is to understand the urgency of working out plausible transactions parameters and assessing their instrumental implications as the process moves forward. As G.L.S. Shackle puts it:

> Outcomes of *available* actions are not ascertained but created. We are not speaking … of the objective recorded outcomes of actions which have been performed. Those actions are not "available." An action which can still be chosen or rejected *has no objective outcome*. The only kind of outcome which it can have exists in the imagination of the decision-maker. (Shackle 1961, 143, emphasis original)

All institutional change entails the formulation and implementation of *created imaginings*. All institutional changes entail three steps. The first step is recognition on the part of affected individuals that the *status quo* institutional setup induces particular individual behaviors, the aggregate of which give rise to realized outcomes that are no longer regarded as acceptable or as reasonable. This is precisely the agitation felt by Adam Smith. It is worth commenting that the word (concept) efficiency is nowhere to be found, for obvious reasons. Efficiency is not an instrumental — animating — *ex ante* concept for institutional change. Rather, efficiency is a judgment that can only be assessed *ex post*. In earlier work, I have suggested that institutional change is animated by one (or more) of five possible considerations: (1) changes in relative prices that highlight new constellations of scarcity or abundance; (2) changes in technical possibilities that yield new opportunities or threaten settled practices; (3) changes in shared attitudes about emerging income inequality or impaired social and economic opportunities; (4) changes in shared attitudes about the presence or absence of certain goods and services, including undesirable externalities; and (5) the artful machinations of special interest groups that are able to use a favored

[6] I have said little about the other broad category — norms and conventions — because these "learned rules" are not explicit available *choices* in the world of economic policy. Norms and conventions are essential parts of the institutional architecture that must be acknowledged, but they are not choice variables in purposeful institutional design.

situation to further enhance their current advantage. It is in this final source of institutional change that we encounter "rent seeking" (Bromley 1989a, 1989b).

These circumstances comprise the animating inducements that start the process of institutional change. The second step concerns the formulation of *new*, created imaginings that offer a new vision of how conditions will (are claimed to) change under a new institutional architecture — new institutions. We may usefully regard these imaginings as families of hypothetical propositions of the sort: If X_i *then* Y_i where the subscript i relates to the proposition held by the i^{th} member of the community, whether citizen or politician. The essence of created imaginings is that they allow members of a democratic society to create mappings of plausible outcomes (the various imaginings Y_i) from the enactment of new institutional arrangements (the possible new institutions X_i).

Of course, individuals will create different imaginings about possible outcomes. This should not surprise us. As Shackle says, we have different imaginings because the *available actions* are novel events in our lives. We have *not done that before*, so why should it be supposed that each of us could have definitive data and similar imaginings concerning precisely what will transpire? Once there is an emergence of plausible created imaginings, we approach the final stage of institutional change — policy formulation. This process is precisely concerned with institutional design. Commons called it "artificial selection." Democratic market economies are in continual need of new created imaginings as new problems and new opportunities arise almost on a daily basis.

When the process of sifting and winnowing through the various created imaginings reaches the point that several of them have come to dominate the others, the third essential component of institutional change comes into play. This final stage is the actual process whereby the rules of authorized transactions are modified for the explicit purpose of implementing one of these dominating created imaginings. We may properly consider this emergent and now reigning imagining as the *reason for* the new institutional arrangements. That is, the *emergent created imagining is the outcome in the future for the sake of which the new institutional arrangements must be implemented now*. This dominant imagining comprises the *sufficient reason* for the new institutions. It *explains* the institutional change (Bromley 2006).

The process is repeated *ad infinitum* in a democratic market economy. That is, such economies are engaged in a continual process of: (i) assessing existing settings and circumstances; (ii) searching for plausibly causal (epistemic) connections between those outcomes and the institutional arrangements on which they are plausibly predicated; (iii) formulating new created imaginings; (iv) working out the political arrangements to discard the most implausible imaginings; (v) searching for and articulating the plausible mappings between surviving created imaginings and the institutional arrangements that are their plausible explanations; and (vi) undertaking collective action in parliaments, the executive branch, and courts to modify the implicated institutional arrangements from their *status quo* configuration to a new and plausible configuration that will — on the newly accepted emergent imagining — plausibly lead to desired outcomes in the future.

Following Commons, public policy — the process whereby new institutions are debated and then adopted — is collective action in restraint, liberation, and expansion of individual action (Bromley 1989a, 1989b, 2006). Notice that institutions liberate and expand individual action as well as constrain it. I am liberated by the no-smoking laws that constrain the smoker. Coherence in the economic analysis of institutions is undermined by the common perception that institutions are simply "*constraints* that shape individual action" (North 1990, 3, emphasis added). Such talk shows evidence of a failure to understand the reciprocal nature of all institutions. The crippling effect of this conceptual muddle is apparent in a recent effort to compare theories of institutional change as understood by "original" and "new" institutional economists (Caballero and Soto-Oñate 2015). The lack of agreement — the absence of coherence — in this large literature cannot possibly be a surprise when there is no consistency in the central concept (institutions) being analyzed for their dynamic properties. How can there be a coherent account of *institutional change* when there is disagreement concerning an *institution*?

Institutional change is nothing but a reconsideration of whose interests now warrant liberation (non-smokers), expansion (minorities bearing discriminatory laws), and restraint (smokers, or those who deny certain individuals access to lunch counters). In the language of Commons, public policy is a rationing transaction. Actions of legislatures and courts redirect or reallocate economic opportunities for differentially situated individuals (Bromley 1989a, 1989b). Public policy necessarily advances the economic and social agenda of some individuals, and it impedes the economic and social agenda of others. Individuals will strive to have their interests represented in that process, but there can be no doubt that public policy is precisely concerned with such reallocations of relative advantage in the economy. This is what institutional change entails.

With this as a starting point, I now turn to the purposeful process of institutional change at the level of a nation-state — what I call the historical evolution of *state-crafting*. Considering this process will allow me to address the current problem of dysfunctional states.

Creation Stories of Coherent States: Institutions as Social Technology

The intricate constellation of legal, political, and economic arrangements that gradually came to constitute the modern state first emerged in western Europe following the 1648 Peace of Westphalia. Most importantly, those institutional arrangements did not emerge and evolve in some random or aimless fashion. Rather, the specific purpose of this emerging institutional architecture was to enable and reinforce the extraordinary importance of investing in and controlling valuable land and associated assets — forests, water, river transport, minerals, pastures, arable land, and wildlife habitat. Such location-specific stewardship and investment required purposeful legal and economic arrangements that would result in the desired incentives. This legal and economic architecture was gradually crafted by political processes dedicated to coherent governance. Economic necessity predated and prefigured political structures. These evolved institutional arrangements were instrumental in the gradual transition from an agricultural to an industrial economy — a process that required several centuries of purposeful "trial and error." It is alleged that the seeds from which England's industrial revolution would spring in the mid-1700s had been planted as early as the mid-1400s (Macfarlane 1978, 1987).

It is from this ecological and institutional history that we trace the origins of the modern state. The social arrangements associated with this gradually enhanced asset base, including the fiscal bargain between asset owners and the state, provided for a governance structure that gradually bound scattered populations to their government. The recipe was to balance the enhanced economic prospects of those out on the land with the political desire to create a strong and fiscally sound state. The economic interests of those who ruled and those who were ruled are less divergent than is commonly supposed. Successful harmonization of the many areas of mutual gain created auspicious incentives for collaboration. The evolved result is what we call the *empirical* state. National leaders were bound together with their constituents by a shared commitment to the prospect of improved livelihood. Taxation was the essential nexus and lever — both ruled and rulers shared the financial gains of an industrious population. If leaders failed to deliver on their end of this implicit contract, trouble was on the horizon.

The favorable climatic and agricultural settings of western Europe gradually gave rise to an economy based on sedentary agriculture. As above, coincident with this emergence of a productive agricultural economy, there evolved the need for correlated political arrangements dedicated to the protection of that asset base with its embodied capital, and its politically important labor and management of the landowner. Gradually, the grant by kings and lords of ownership of land set in motion modernization processes. The bountiful asset base explains the evolution of a particular ownership structure, and this ownership structure explains the evolution of the associated legal, political, and economic structures. The emerging agricultural structure enabled the empirical state, and the empirical state nurtured agricultural development.

The evolution of law, political processes, and subsequent economic relations was a gradual and experimental process of "working out" what seemed necessary at various junctures as European societies gradually evolved from scattered forest dwellers, through feudal relations, and eventually into reasonably similar parliamentary systems unifying pronounced ethnic and religious differences. No one sat down and designed it as such. It evolved as it met obstacles and pursued unforeseen opportunities. Here is a gradual institutional change. The Chinese have a saying for this: "Crossing the river by touching the stones."

In contrast to this evolutionary account, there has recently emerged a contrasting model suggesting the importance of "big-bang" institutional change leading to economic progress (Acemoglu et al. 2011). Daron Acemoglu, David Cantoni, Simon Johnson, and James Robinson conclude that such imposed "radical" institutional reforms might just be what is needed to jar dysfunctional countries out of their persistent lassitude. The supportive evidence for military invasions and radical reforms comes from Napoleon's European adventures beginning in 1803. These authors also claim that the Napoleonic wars held little lasting harm for Germany. Indeed, they insist that the effects were all positive. In this telling, Napoleon managed to eliminate the stifling institutional oppression of the "*ancien regime*," so that, quite miraculously – and after a period of fifty years – Germany quickly became industrialized in 1850. Who could have imagined that new institutions could lie around for over half a century before suddenly springing to life as the reason for German industrialization?

In fact, Michael Kopsidis and I (2016) show that the historical evidence adduced by Acemoglu et al. is deeply flawed, mistakenly attributing to Napoleon institutional changes that had been underway, to varying degrees, since the middle of the eighteenth century – long before the French revolution and Napoleon's European campaigns (Kopsidis and Bromley 2016). The convoluted econometric exercise of Acemoglu et al. also ignores the emergence of serious extraction of coal beginning in a few locations around 1845. When coal is admitted into a straightforward econometric model, we show that there is no reason for German historians to change their mind. Institutional change, if it is to alter economic performance, must be indigenous, consensual, and incentive compatible across a range of contending interests. Napoleon's imposed reforms were none of these.

This period of European history coincides with the modern era in economics that began in 1776. Adam Smith provided the theoretical justification for moving from authoritarian monarchs to discursive parliaments. In his time, and in his own way, Smith was addressing the problem of weak states. The subsequent choreography of emerging democracy and nascent markets consumed the better part of the next century as Britain, followed by other European nations, engaged in a slow-moving workshop on institutional innovation with great practical significance. Both epistemic domains – economics and political science – contributed ideas and were themselves created and recreated through this ongoing exercise in mutual learning.

By the time most European nations had reached reasonable maturity, a few of them were projecting political and military rule over the Arab world and much of Africa. While some of this activity was mere political gamesmanship to out-maneuver a neighboring European power, much of it was driven by a desire to control the natural resources that could be extracted and sold on world markets, or shipped to Europe for domestic use. Copper, gold, diamonds, timber, and a few crops (cotton, tea, coffee, cacao, tobacco) were the objects of greatest interest. Slaves and ivory also figured in colonial calculations. Oil would not appear until the early years of the twentieth century.

Colonial administrations were rarely interested in developing coherent governance and administrative procedures. If they did have such interests, it was so they could better control economic and political processes in order to facilitate surplus extraction. These foreign administrators understood the meager economic potential of the vast spaces and found little reason to think of territory – conquered land – as an economic asset. The Europe of their experience had a bounteous asset base worth investing in and controlling, while the material circumstances in the colonies represented vast domains largely devoid of compelling economic potential. The colonizing powers understood that European states had grown strong in the eighteenth and nineteenth centuries because they had to be in order to defend valuable economic assets. They had no wish to create strong states in the colonized hinterland. Indeed, they had an incentive to keep those states weak — the better to enhance surplus extraction.

It cannot be a surprise or an accident that throughout Africa and the Middle East, these new artificial states were (and are) weak because, unlike those in Europe, they never had compelling reasons to be strong. Most of them are notional states. Individuals scattered across these meager landscapes are not the subjects of the governments in charge of the notional state. They are merely there — behind the mask of citizenship. There is no taxation because there is no representation, and vice versa.

Institutions Matter: The Arab World in Disarray

I now return to the other broad category of institutions mentioned above — norms of behavior emerging from within particular groups of individuals. The tragedy now unfolding in the Middle East is frequently cast in terms of religion, situating those problems in the realm of behavioral norms rather than in the economic realm where codified rules inform behaviors. To get started in understanding the Arab world, it is necessary to draw a distinction between a religion and a sect. Religion concerns systems of beliefs, doctrines, rites, sacred texts, and various practices associated with sacred objects and the revealed meaning of human life. Sect, on the other hand, concerns the social organization of a community of those individuals who are affiliated with a specific religion (Barakat 1993). So we find the familiar sects of Druze, Shi'a, Sunni, Alawite, Sufi, and Wahabi in the Islamic world. Closer to home, sects come in the form of Catholics, Methodists, Lutherans, Baptists, Presbyterians, Unitarians, and Episcopalians.

The original colonialism in the region — the Ottoman Empire — was built on various layers of intermediaries who served as buffers between the general population and distant authoritarian rulers. These intermediaries, who lived among the population and who were thus accessible, were leaders of the various atomized sects. Over time, as the central control of the Ottoman Empire weakened, the former reach and authority of the central government — what we might wish to think of as the state — withered and was gradually taken over by these sectarian leaders (Barakat 1993). The historian of religion Karen Armstrong (2002) often alludes to these intermediaries as the "priestly class." All sects have them — we call ours parsons, preachers, ministers, priests, pastors, and bishops. In Islam they are the mullahs, imams, and clerics of the popular media.

In light of the colonial history of this region, we can now see why the atomized and fragmented societies of the Arab world — but especially the "Arab East" — have weak levels of social, political, and economic integration (Kamrava 2014). When I talk of the Arab East, I have in mind what is often called the Middle East. The Arab West runs across North Africa all the way to the Atlantic Ocean, encompassing Egypt, Sudan, Tunisia, Libya, Algeria, Morocco, and Mauritania. This region is known as the Maghreb.

Religion is irrelevant in these current troubles for the simple reason that, contrary to popular opinion, Islam is not a unifying force in the Arab world. Instead, it is a rather abstract entity. The salient organizing principles in the Arab world are the highly tangible sub-entities known as sects. In other words, the history of authoritarian political leaders — first of the Ottoman rulers and more recently of propped-up petty dictators — has produced a governing climate in which the sect has become of enduring importance. The sects often organize and operate the schools, thereby assuring continuation of their centrality to local affairs. It is through the sect that the politically disenfranchised individual comes into contact with the appearance — and I stress appearance — of political power and voice. The Arab sociologist Halim Barakat writes: "These sectarian affiliations are comparable to — indeed, inseparable from — tribalism or ethnicity. All three divisive sub-categories of society [civic life, culture, psyche] relate in similar ways to systems of economic interdependence, political arrangements, and social movements" (Barakat 1993, 125).

Barakat (1993) insists that religion — official Islam as a spiritual, moral, and integrative force — had been in a state of decline long before the emergence of radical jihadists. The triumph of sectarian politics is symptomatic of what I call *social entropy* — the degree of disorder or randomness in the system. It would be difficult indeed to find a more fitting metaphor for the societies of interest here. Social entropy nicely captures the problem in the Arab world. Social entropy breeds alienation — separateness, isolation, being apart from something. In psychology, alienation can imply a condition of estrangement between the imagined self and the perceived objective world. Alienation concerns an individual's perception of self as it comes into contact with the world in which that self must exist and perhaps flourish.

The question worth asking is this: Why is there so much alienation in the Arab world? Throughout the world — whether in Africa, Latin America, Europe, Asia, or North America — the single best predictor of civil unrest (turmoil, mayhem, local war, kidnappings, rape, and pillage) is the number of young men with too much time on their hands, and with too little hope for a promising future. Alienation is a male problem, and in the Arab world, where the calming influence of wives and daughters is attenuated or entirely absent, that translates into a serious social cancer. Young men are unemployed and unemployable because there are no jobs to be performed. Exporting oil is capital intensive and so the demand for labor in such countries is minimal.

The second pertinent fact is this: Marriage in these societies is difficult — perhaps even impossible — in the absence of a job and the ability to prove to a protective and skeptical father that a suitor would be able to provide for his precious daughter. Societies in which young men are closed off from any prospect of female companionship, with no alternative in sight, are not promising places. Males who cannot find work are, of course, supported by the extended family. But imagine what this does to an individual's self-esteem. Thus, with marriage and family formation impossible, the pressures of self-doubt escalate accordingly. The next stage is to find someone to blame for this situation of hopelessness and disgust — perhaps self-loathing. The sectarian schools, so prevalent because of the dysfunctional public school system, provide a ready answer. Many such schools are laboratories of learning and acquired victimhood. As noted, alienation is a condition between the self-perception of the individual and the perceived world out there. If the world available to the individual is one that forces apartness, then there is no hope for social cohesion. My concept of social entropy is precisely concerned with this problem.

In a recent presentation at the World Bank, entitled "The Arab Spring Stress Test: Diagnosing Reasons for Revolt," I offered an econometric model seeking to identify plausible reasons for the revolts that started in December 2010 in Tunisia (Bromley 2015). In this paper, I challenge two dominant narratives of the Middle East in general and the Arab world in particular. It is said that they are robust authoritarian regimes, and that they are suffering economic dysfunction under the stifling "institutional stagnation" of Islamic law. Neither story is credible. I draw on rather standard economic and demographic data to construct a model of the trajectories to political revolt in sixteen Arab countries. This work shows rather standard economic phenomena at work in the Arab world since 2000: high male unemployment, high inflation, a dramatic drop in marriage rates, and the quite expected plummeting of fertility. Male unemployment and a severe drop in family formation account for most of the story. My model suggests that an attentive observer of five-to-six plausible explanatory variables could have predicted — by the summer of 2010 — which Arab countries would very soon fall into political chaos and which ones would not. I can predict all of them — Egypt, Libya, Syria, Tunisia, and Yemen. It may be noted that of the five countries with a serious revolt, not a single one was a monarchy. Now there is an institutional variable.

Final Observations

I am enormously honored to receive the Veblen-Commons Award from the Association for Evolutionary Economics. My own work is firmly embedded in the conceptual world of both individuals. I enjoyed being a long-time member of AFEE, and I paid close attention to (and have published in) the *Journal of Economic Issues*. As I reflect on the foregoing thoughts, two main ideas stand out. First, circumstances in the world out there have never been more auspicious for important conceptual and empirical research and policy advice from evolutionary economists. In contrast to Lionel Robbins (1932) and his crabbed legacy of the centrality of resource allocation among competing means to achieve some vague end, I insist that economics is properly concerned with how societies choose to organize themselves for their provisioning. The bulk of my comments here concern this historical process in western Europe and the comprehensive failures in that regard in the places where I work — Africa and the Middle East.

My second point hits a little closer to home. I am concerned that classical institutional economics — what some disparagingly call the "old" institutional economics to differentiate it from the shiny new and conceptually incoherent variety

– seems to have abandoned the field of state-crafting to others. I have mentioned the flawed allegorical research on German industrialization – work that is bad history, bad economics, and bad econometrics. It now seems that if the econometrics is tricky enough, hassled reviewers will give up trying to figure it out, and if the flashy robustness checks are sufficiently obtuse – and the authors are well known – it *must* be true.

I wish I saw more good institutional economics in the areas of international development, dysfunctional states, flawed governance, and other areas that matter for plausible livelihoods. The problems are certainly on striking display. Please, join in the urgent quest to offer coherent policy advice. Millions of the world's marginalized people are waiting for us to make a difference. After all, everyone seems to agree that institutions matter.

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