

EDITORIAL

Open Access

Disentangling institutions: a challenge



Claude Ménard*

*Correspondence:
claude.menard@univ-paris1.fr

Centre d'Économie de La
Sorbonne, University of Paris,
Paris, France

That “institutions matter” has become a mantra among economists. It has not always been so. For a long time, the conventional wisdom considered institutions as exogenous parameters, the study of which should be delegated to ‘soft’ social sciences, mainly sociology and political sciences. And many contemporary economists still disregard the analysis of institutions in their research agenda, mainly because of the difficulty in quantifying and modeling their role.

However, this state of affair is changing. The breakthrough came from the pioneering contributions of Ronald Coase, who showed that transaction costs permeate all economic activities and that these costs largely depend on institutional factors, e.g., the definition and implementation of property rights and more generally the legal regime. Three followers, also Nobel winners, pushed the analysis further. Douglass North substantiated the role of macro-institutions, namely: the polity and the judiciary, in understanding the drivers of growth and development as well as the potential obstacles institutions may create, keeping nations poor. Oliver Williamson rejuvenated organization theory, showing the determining role of transaction costs in the choice of micro-institutional arrangements and extending the set of solutions beyond markets and hierarchies through the introduction of hybrid solutions and the role of contracts. Last, Elinor Ostrom deepened our understanding of issues of governance when it comes to public goods and the commons, pointing out the key role of collective action and the complex conditions of its success. These contributors and their followers initiated the development of an integrated set of concepts and local models (for an extensive review, see Ménard and Shirley 2022).

Notwithstanding these analytical progresses, going far beyond the vague statement that ‘institutions matters’, a major gap subsists when it comes to connecting macro-institutions (often assimilated to the ‘northian’ branch) and micro-institutions (the ‘williamsonian’ branch). If we define macro-institutions (the “institutional environment” in Davis and North, 1971: 6) as the layer within which the rules of the game and the general conditions of their implementation are established, and micro-institutions (“the “institutional arrangements,” *ibid.*) as the layer within which transactions are organized and the allocation and usage of resources shaped, what are the transmission mechanisms linking these two dimensions? And what role for norms and values, which North tagged as “informal rules”? Very little is known about these modalities of interaction besides some notable exceptions in the literature on regulation. What is missing is an integrative

model to capture the modalities of interdependence/interactions between macro- and micro-institutions. This lacuna might also contribute to the poor state of affair when it comes to measuring the impact of institutions on economic performance.¹

Think about the issue of sustainability, a polysemic word that makes the phenomenon it intends to capture hard to grasp. Researchers in the field have primarily focused their attention on the macro-layer of public policies and/or the micro-layer of actors developing innovative strategies to “support sustainable, resilient, and food-secure systems” (Grando and Brunori 2020: 5). However, very little is said about the devices and mechanisms through which public policies and the strategies of actors interact. For example, how is a regulation intending to guarantee food safety implemented among actors of a supply chain spread over several countries with different political and judicial regime?

Recent contributions intend to fulfill this challenging gap. Although built on different preliminaries, they concur in emphasizing the key role played by “intermediate” (e.g., Abbott et al. 2017), “meso-institutions” (e.g., Kunneke et al. 2021) in the implementation and adaptation of rules and norms that connect the macro- and micro-institutional layers. Meso-institutions bridge the gap through the accomplishment of four main functions. (1) Meso-institutions *translate and adjust* general rules to specific spatial–temporal conditions. Consider EU regulation intending to support sustainability by restricting the usage of certain pesticides. These general rules need adaptation to specific crops, climatic conditions, etc. In the EU this is processed through dedicated national agencies (e.g., ANSES in France, BfR in Germany, ISS in Italy). In that process, even translation of rules in different languages matter. (2) Meso-institutions *monitor* the actual implementation of rules. For example, laws or directives might specify that environmental goals should be reached through contracts, while the actual design and implementation of these contracts is delegated to parties to the supply chain. In the Netherlands, EU’s agri-environmental schemes are implemented through the intermediation of collective of farmers contracting with the Dutch RVO and NVWA agencies. (3) Meso-institutions also *enforce* rules, typically through penalties and rewards that motivate or even constrain micro-institutional actors to conform. (4) Last, meso-institutions function as *go-between*, informing operators of the motivation behind the adoption of certain rules and/or providing policy-makers feedback about the acceptability and feasibility of certain rules. There might be other functions fulfilled by meso-institutions.

Figure 1 summarizes the key role of the three institutional layers, suggests areas of overlapping responsibilities, and indicates the need to introduce technology in the model. For example, innovation (e.g., internet, or AI) may require changes in the rules of the game, impair responsibilities of regulatory agency(ies), impact the organization of transactions.

To sum up, at least two major tasks are waiting researchers wishing to better understand the nature, role, and impact of institutions on economic activities. One is to develop further a theory of institutions that better integrate their different dimensions, paying special attention to the meso-institutional layer. The other is to look for solutions to the problem of measuring the impact of institutions on performance, which might as

¹ As one referee pointed out, it might also partially explain why the study of micro-institutions assumes most of the time a given macro-institutional environment, and why comparative studies of micro-institutions across different environments are so scarce.

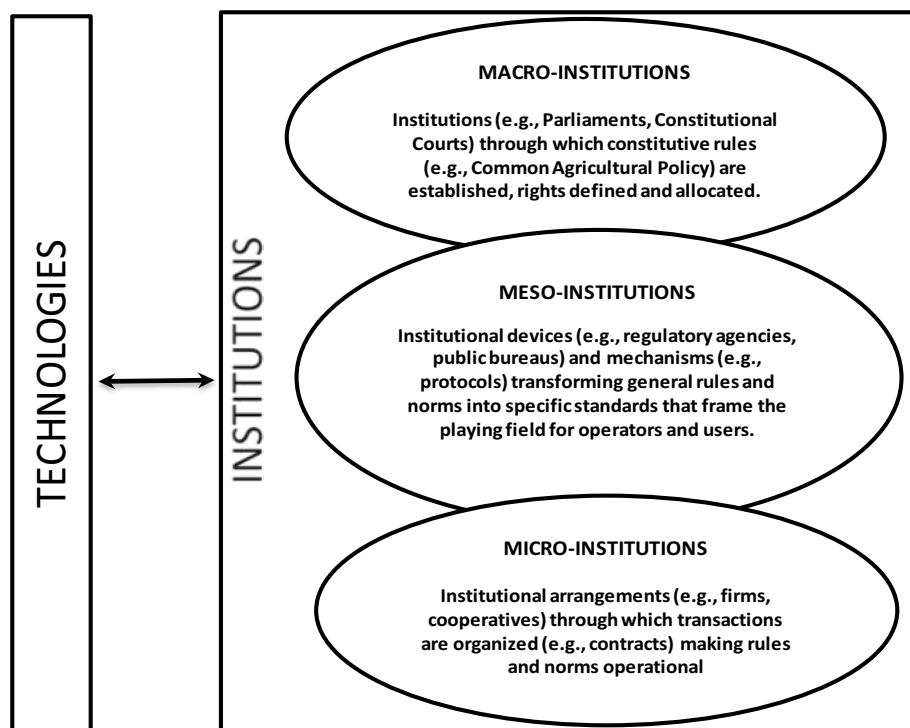


Fig. 1 Institutional layers, their overlapping areas and their interdependence with technology

well go through a better understanding of the role of meso-institutions. These are exciting tasks for a new generation of economists wishing to grasp the central role of institutions in the running and dynamics of our economic systems.

Acknowledgements

Thanks to Gianluca Brunori, Gaetano Martino and two referees for the very useful feedback. All opinions and errors are mine.

Published online: 12 June 2022

References

Abbott KW, Levi-Faur D, Sindal D (2017) Theorizing regulatory intermediaries: the RIT model. *Ann Am Acad Polit Soc Sci* 670:14–35

Davis L, North DC (1971) *Institutional change and American economic growth*. Cambridge University Press, Cambridge (UK)

Grando S, Brunori G (eds) (2020) *Innovation for sustainability. Research in rural sociology and development series, vol 25*. Emerald Publishing Limited, Bradford

Kunneke R, Ménard C, Groenewegen J (2021) *Network Infrastructures: technology meets Institutions*. Cambridge University Press, Cambridge

Ménard C, Shirley M (2022) *Advanced introduction to new institutional economics*. Edward Elgar Publishing, Cheltenham

Publisher’s Note

Springer Nature remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.