

A General Theory of Institutional Change

Shiping Tang



Routledge Studies in the Modern World Economy

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Institutional change is a central driving force behind social changes, and thus a central topic in all major fields of social sciences. Yet, no general theory of institutional change exists.

Drawing from a diverse literature, this book develops a general theory of institutional change, based on a social evolutionary synthesis of the conflict approach and the harmony approach. The book argues that because the whole process of institutional change can be understood as a process of selecting a few ideas and turning them into institutions, competition of ideas and struggle for power to make rules are often at the heart of institutional change. The general theory not only integrates more specific theories and insights on institutional change that have been scattered in different fields into a coherent general theory, but also provides fundamental new insights and points to new directions for future research.

This book makes a fundamental contribution to all major fields of social sciences: sociology (sociological theory), political sciences, institutional economics, and political theory. It should be of general interest to scholars and students in all major fields of social science.

Shiping Tang is Professor at the School of International Relations and Public Affairs (SIRPA), Fudan University, Shanghai, China. He has a very broad research interest and has published widely. His most recent publications include *A Theory of Security Strategy for Our Time: Defensive Realism* (Palgrave Macmillan, 2010), and articles in the *European Journal of International Relations*, *International Studies Review*, *Journal of Economic Issues*, *Philosophy of the Social Sciences*, and *Security Studies*. He is now working on another book, *Social Evolution of International Politics*.

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To my parents and parents-in-law – who have
lived through bad and good institutional
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Introduction

A specter has been wandering in the social sciences since the very beginning of human inquiries into human society. This specter has been variously called the institution, or simply rules and norms, and the specter's larger embodiment order and structure.¹ The more recent rise of (new) institutionalism or institutional analysis in economics, history, political science, and sociology merely confirms that the specter will never go away.

The study of institutions has been at the heart of sociological inquiries since the founding of sociology as a science. Karl Marx, Max Weber, and Emile Durkheim, the three founding fathers of modern sociology, spent most of their energy understanding how institutions shape individual behavior and history. Not surprisingly, the study of institutions still retains a central place in sociology (e.g. Powell and DiMaggio 1991; Brinton and Nee 2001).

In economics, other than mainstream neoclassical economics, the new institutional economics (NIE) is the other mainstream economics (Clague 1997; Furubotn and Richter 1991; Greif 1998; Williamson 2000). Meanwhile, the "old institutional economics" (OIE) in the tradition of Thorstein Veblen, John Commons, and Wesley Mitchell has survived the neoclassical onslaught and come back alive under the name of neo-institutional economics (Field 1981).²

In comparative politics and historical sociology, the rise of the historical comparative institutional approach (HCIA) symbolizes the triumphant return of institutional analysis (Clemens and Cook 1999; Evans 1995; Hall and Taylor 1996; Kato 1996; Thelen 1999; 2003; Mahoney and Thelen 2010). The institutionalism approach has even become a major school in the study of international politics (Keohane and Martin 2003), long held to be an anarchical place with few formal institutions. The debate on the autonomy of institutions between realism on the one side and institutionalism on the other has played an important role in the development of international politics as a science (e.g. Jervis 1998; Keohane and Martin 1995; Mearsheimer 1994–5).

In short, if there is a unifying theme among the different branches of social sciences today, understanding institutions is it. Today, no one can seriously dispute the cliché that "institutions matter."

If institutions are "the foundation of social life" (Campbell 2004: 1), then institutional change is a fundamental force of social change. To understand

institutions truly, we must have an adequate understanding of the process of institutional change. A general theory of institutional change, therefore, must lie at the heart of social science. Yet no such general theory exists (for details, see Chapters 1 and 2 below).³

This book seeks to fill this gap, based on a social evolution paradigm (hereafter, SEP) toward social change.⁴ I advance two central theses. First, because institutional change is essentially a process of selecting a few ideas out of many and solidifying them into institutions, competition of ideas and struggle for power to make rules are often at the heart of institutional change. Second, the process of selecting a few ideas out of many and solidifying them into institutions can be understood with the central mechanism of social evolution, artificial variation–selection–inheritance.

Before I proceed further, I shall state explicitly what a general theory of institutional change is and is not. I consider a theory of institutional change to be a general theory if it does two things. First, the theory states the general dynamics of institutional change and identifies the essential ingredients for constructing specific theories or explanations for specific cases of institutional change. Second, the theory subsumes or integrates several or many specific theories, thus achieving some degree of theoretical unification both vertically and horizontally.⁵ In other words, a general theory claims its generality by achieving theoretical unification of specific theories.

A general theory thus is not a general law, as in natural science, as some social scientists may hope or mistakenly take it to be. Neither does a general theory seek to explain or predict the exact timing, course, or outcome of any particular institutional change. Because institutional change operates in the social system in which any outcome depends on the interaction of many factors (Jervis 1997), it is impossible to explain or predict the exact timing, course, or outcome of a particular process of institutional change without knowing the specific circumstances of that process. Thus, a general theory of institutional change is not an attempt of *invariant* generalization across historical cases, a venture that is doomed to fail and leads to distorted understanding of social events (Hirschman 1970; Tilly 1995).

A word on the approach taken here is also in order. Because my aim is to advance a general theory, my approach is almost purely theoretical. Though I rely on second-hand literature on institutional change (often with empirical contents) extensively to justify my claim that the general theory developed here can subsume existing specific theories of institutional change, I do not get into the more empirical part of testing the general theory. This is so because the more critical way for testing a general theory is to see whether the theory can accommodate more specific theories rather than testing it with empirical data (see Chapter 4 below). Moreover, testing a general theory with empirical data is a huge task that is beyond the capacity of a single author.

In the rest of this introduction, I set the stage for developing a general theory of institutional change. I begin by defining institutions and several

other related concepts. I then move to underscore three meta-facts of human society and the human agent, which will serve as the yardsticks for measuring any general theory of institutional change. Next, I emphasize three fundamental challenges that human agents face in institutional change. Finally, I state explicitly what constitutes a good general theory of institutional change.

Definitions

Institutions

For institution, I adopt North's definition: "Institutions are the humanly devised constraints that *shape* human interaction" (1990: 3; see also Hodgson 2006: 2). In other words, institutions are social rules, which include both formal rules (e.g. constitutions, laws, and international regimes) and informal rules (e.g. norms, taboos, and conventions).⁶ Because rules are made of ideas, institutions are essentially embodiments of ideas or codified ideas (Durkheim 1982 [1895]; Boland 1979; Hayek 1960; Nelson and Sampat 2001; Goldstein and Keohane 1993: 20–4; Weber 1978, 29–38, 311–338). In conventional usage, (regulative) policies are newly imposed rules and thus institutions (Kingdon 1995).

I, however, differ from North in a crucial aspect. Whereas North emphasizes the constraining part of institutions, I, following Giddens (1993 [1976]: 169), emphasize that institutions do *constrain and enable* agents at the same time (see also Hodgson 2006: 2, 6–8). This becomes apparent when one admits that institutions sometimes do improve social welfare by reducing transaction costs and uncertainties (see also Chapter 5 below).

By adopting North's definition, I reject two other definitions of institutions.⁷ The first definition to be rejected is that institutions are patterned actions or behaviors such as "typification of habitualized actions by types of actors" (Berger and Luckman 1966: 72), "patterns of correlated behavior" (e.g. Foster 1981: 908; Bush 1987: 1076; Jepperson 1991: 145), "recognized patterns of behavior or practice around which expectations converge" (Young 1982: 277), "practices which are deeply sedimented in time-space," or "practices which have the greatest time-space extension" (Giddens 1979: 80; 1984: 17).⁸

As Durkheim noted long ago, agents' behaviors are shaped by institutions but not by institutions alone. For one thing, biological instincts certainly still drive individuals' behavior, despite all the socialization of individuals. Moreover, agents may often resist or violate the constraints or rules dictated by the institutional system (Durkheim 1984 [1893]: 4–7; Giddens 2006: 108). As such, "patterns of correlated behaviors" are not equivalent to institutions. Worse yet, when institutions are defined as patterns of correlated behavior, we risk "the logical fallacy of first identifying institutions on the basis of observed behavior and then using them to explain that same behavior" (Duffield 2007: 4–5). Surely, when institutions are defined as patterns of correlated behavior, the system of institutions as structure will no longer have its duality that agent and structure mutually constitute each other (see Chapter 5 below).

The second definition rejected is that institutions are organizations (for earlier reviews and discussions, see Duffield 2007: 3; Powell and DiMaggio 1991: 6–7). This definition is widely adopted by many students of international politics and economy (e.g. Keohane 1984; Nelson and Sampat 2001; Hodgson 2006: 8–11) and by many sociologists (e.g. Haveman and Rao 1997: 1606n2; March and Olson 1989). The problem with this definition becomes evident when one takes the literature of collective action and social movement into consideration. Social movements are essentially attempts of institutional change (see Chapter 5), and they inevitably require organizations to have any chance of success. Apparently, organizations are agents or instruments for changing institutions. Thus, although organizations are almost always underpinned by institutions or rules (Haveman and Rao 1997: 1606n2),⁹ they are agents for making and enforcing rules but not rules themselves (North 1990: 5; 1994: 361; 1995: 15; Thelen 2003: 217).

Ontologically, both individual agents and organizations are mostly material entities (or at least have significant input from material forces), whereas institutions are *purely* ideational entities. Moreover, as becomes clear later, because institutions are often made and backed by power and organizations are instruments of power but not power itself, it is only logical to treat institutions as distinct from organizations. Finally, organizations can be considered mini-social systems, and they too are underpinned by institutions as rules. Because we differentiate society from structure (see below), it is only logically consistent that we differentiate organizations from institutions.

Happily, many are now converging to the consensus that organizations should not be treated as institutions for a variety of reasons (e.g. Duffield 2007; Young 1986: 108; 1989: 32; for dissenting voices, see Nelson and Sampat 2001; Ruttan 1978).

Society

A society is a collective of individuals that exhibits the characteristics of a system; the collective cannot be reduced to the sum of the individuals within the system (Jervis 1997).¹⁰ One of the most fundamental reasons for this is that a society inevitably has a system of institutions that connects individuals with each other (Giddens 1993 [1976]: 128; 2006: 106–7). Society as the social system consists of agents or actors (i.e. individuals and collectives of individuals), an institutional system, and the physical environment. The physical environment is equivalent to “time and space” or “place and moment” in Giddens’ and Bourdieu’s definitions of society (Bourdieu 1998: 32).

By defining society as a system of agents, an institutional system, and the physical environment, I emphatically reject definitions of society as “a system of structured social relationships connecting people together according to shared culture,” “the composite of many individual actions” (Giddens 2006: 1012, 1036), “an ensemble of structures, practices and conventions which individuals reproduce or transform, but which would not exist unless they did so”

(Bhaskar 1979: 45), or “a distribution of knowledge” (Barnes 1988: 57). These definitions overemphasize the relational and ideational aspects of society but underemphasize, if not totally neglect, the presence of physical individuals and the physical environment and thus risk falling into the trap of ideationalism.

I also emphatically reject a reductionist approach toward society in which all properties of a society are reduced to properties of its individual members (e.g. Collins 1981). Although properties of the social system are made by individuals’ action in time and space, these properties cannot be reduced to properties of its individual members or the sum of the properties of its individual members (Bhaskar 1979: 34–9).

Finally, I also reject Bourdieu’s position, which essentially takes society, social space, and structure as equivalent, if not identical, to each other. For Bourdieu:

All societies appear as social spaces, that is, as structures of differences that can only be understood by constructing the generative principle which objectively grounds those differences. This principle is none other than the structure of the distribution of the forms of power or the kinds of capital which are effective in the social universe under consideration – and which vary according to the specific place and moment at hand.

(1998: 32, emphasis in original)¹¹

Such a practice of defining society as equivalent to structure (as a whole) is illogical. If two different concepts label the same thing, then one of them must be redundant: when society and structure are defined as essentially equivalent, structure ceases to be unique and thus has no reason to exist (see below).¹²

Structure

Human society is underpinned by many rules. Interrelated institutions form a system of institutions, an institutional subsystem (Lin 1989; Lin and Nugent 1995). Society is underpinned by the whole institutional system of a society, and the whole institutional system is usually understood as the society’s “*structure*” or “*social structure*” (Parsons 1951; North 1981: 201–2; Young 1982: 277).¹³ My definition of structure is thus an “institutional” definition (Porpora 1998 [1989]; Elder-Vass 2008).

Obviously, structure as the whole institutional system of a society can only exist within a social system that is made of individuals. For a single individual living in the wilderness, there is no need for institutions. Moreover, structure is not the whole system but only a component of the social system that glues individuals together (for similar arguments, see Bunge 1997, 415–6). Agents, structure, and the physical environment together constitute the whole social system.

Apparently, the definition of structure here is very different from and much narrower than that in much of the sociology and anthropology literature (e.g. Giddens 1979: 59–69; 1984: 376–7; Poulantzas 1987 [1968]: 115n24;

Bhaskar 1979; Bourdieu 1998). For these authors, although a large chunk of the structure may be the institutional system, structure is more, often much more, than institutions.¹⁴

I resist a broader definition of structure because there is a danger in stretching the concept of structure too much that it becomes meaningless. For instance, although Giddens has never defined structure rigorously (partially because he was more interested in “structuration”), it is apparent that his structure means much more than just “rules and resources.” To a large extent, Giddens’ structure is equivalent to Foucault’s “apparatus”: “a thoroughly heterogeneous ensemble consisting of discourses, institution,¹⁵ architectural forms, regulatory decisions, laws, administrative measures, scientific statements, philosophical, moral and philanthropic propositions – in short, the said as much as the unsaid” (Foucault 1980: 194). Obviously, with such a definition, it is difficult to see whether the concept of structure holds any specific meaning. Moreover, both Giddens and Foucault tend to confound structure with the effect of structure upon agents: they often take the duality of structure, that is, structure both enables and constrains, as structure itself (see Chapter 5).¹⁶ By confounding structure with structure’s impact upon agents, their notion of structure too is in danger of making structure as a concept redundant.

Nonetheless, I agree with Giddens and Bourdieu on one crucial aspect: structure is purely *ideational* because it is made of institutions. In Giddens’ words, structure is “virtual order” and exists only as “memory traces” (1984: 17, 377; see also Bourdieu 1998: 3). Contra Giddens and others who believe that agent and structure as mutual constituting thus neither having ontological priority over the other, I insist that agent (and hence agent’s action) has ontological priority over structure and institutions. Because agent and agent’s action have material input whereas structure is purely ideational and material forces always have ontological priority over ideational forces (Searle 1995: 55–6), agent (and agent’s action) has ontological priority over structure.

Finally, I also reject the relational definitions of structure. Such definitions can take various forms. For instance, Marxism essentially defined structure as “systems of human relationships among social positions” (Porpora 1998 [1989]: 343–5).¹⁷ Likewise, Radcliffe-Brown took social structure as the sum total of all the social relationships of all individuals at a given moment in time (Lopez and Scott 2000: 46).

A relational definition of structure too confounds structure and its impact upon agents’ actions, although indirectly. If we accept that structure influences agents’ behavior and agents’ behavior then constitutes the relationship among them, then obviously structure also influences relationship. By defining structure as part of the relationship among agents, a relational definition of structure also renders the concept of structure redundant.

In sum, an institutional definition of structure should be preferred because such a definition not only makes structure a distinct concept, but also makes the notion that structure and agents mutually constitute each other meaningful. As becomes clear in Chapter 5, the institutional definition of structure allows

us to explain a key aspect of the duality of structure that structure both constrains and enables.

Power

Power is a central concept in all fields of social science. Yet, despite much ink spilled,¹⁸ power remains a “contested concept.” Here, power is defined as:

the capacity or ability possessed by an entity – which can be an agent (i.e. an individual), an organization, or an institutional arrangement or system (which inevitably requires the backing by agents or organizations) – to make something happen or prevent something from happening in a given social context, with or without the entity’s conscious behavior being involved.

This definition, I believe, is the most accommodating definition possible, and it will allow a more synthetic approach toward understanding the source, faces, forms, ways of exercising, and impact of power. For the specific task of understanding institutional change and institution’s impact, such a definition also allows us to truly understand the relationship between power/institution and agency (see Chapter 5). Due to the enormous complexity associated with defining power, however, I can only elaborate on the rationale behind this definition elsewhere (Tang n.d.-b).

Ideas

Ideas are simply the products of our mental activities. An idea can take the form of conviction, plan, opinion, ideology, or scientific knowledge. For our discussion here, we are mostly interested in *agents’* ideas about institutional systems and what specific institutional arrangements should look like.

Two critical points should be emphasized immediately. First, although institutions are embodiments of ideas and do come back to shape the production of ideas, institutions and ideas are not equivalent: only codified ideas can be understood as institutions. Second, as emphasized more forcefully in Chapters 3, 4, and 5, to say that institutions are embodiments of ideas or codified ideas is not to suggest a simple causal link from ideas to institutions. There is no straightforward way from ideas to institutions.

Three meta-facts and three fundamental challenges

No social theory is possible without admitting some basic meta-facts about human society and the human agent as fundamental assumptions or a starting point. For developing a general theory of institutional change, we admit three meta-facts regarding human society and the human agent.¹⁹ These meta-facts serve as yardsticks for measuring the logical consistency and explanatory power of any social theory, including a general theory of institutional change.

First, individuals (and thus collectives of individuals such as groups, bands, and organizations) are self-interested or egocentric.²⁰ Second, as the human population grows larger and resources become scarcer (Diamond 1997), agents (i.e. individuals and collectives of individuals) often have to compete for the same resources, and conflicts of interest among agents become inevitable.²¹ Third, human society has progressed greatly – as measured in population, average lifespan, and gross domestic product (GDP) per capita – since our beginning as a species in the jungles of Africa, although progress has been enormously uneven and often tortuous (Kremer 1993; Diamond 1997).²²

Once we admit the three meta-facts and recognize that institutional change is essentially a process of turning ideas (out of the pool of many) into institutions (because institutions are embodiments of ideas or codified ideas), it becomes clear that human beings have to solve three key challenges in institutional change. The first challenge is the incompleteness of our knowledge, which is permanent. In other words, our knowledge can be true, false, or even evil (e.g. Nazism). In the context of institutional change, although it may be possible for agents to come up with a Pareto-superior/optimal solution in some simple transactions (e.g. barter trade), the limitedness of our knowledge presents a formidable obstacle for arriving at an institutional arrangement that improves social welfare under most circumstances. And, under most circumstances, we simply cannot know beforehand whether the particular institutional arrangement we desire will improve social welfare in the real world; we can only do so after the institutional arrangement comes to exist and is tried in the social system. In light of the overall progress of human society, this incompleteness of our knowledge thus poses the most fundamental challenge for any general theory of institutional change.

The second challenge is the problem of a surplus of agents (Young 1991: 297; see also Denzau and North 1994: 11), recognized long ago by men like Montesquieu and James Madison (Buneno de Mesquita *et al.* 2003: 49–50).²³ Different agents have different ideas about what an institutional arrangement should look like. Achieving a consensus (or focal point) on a possible institutional arrangement among many agents will often be quite difficult, if not always impossible.

The third challenge is the distributional effect of institutions. Most institutions inevitably create winners and losers among agents (Knight 1992: 35–7, 40–3; Pierson 2000b; Weir 1992). In other words, while institutions may manage conflicts of interests, they may also exacerbate them. When an institutional arrangement has distributional effect, agents may refuse to support it when they deem that other agents will gain more benefits from the arrangement, even if it will improve their own welfare.²⁴ Moreover, when agents believe that an institutional arrangement governing a social domain is to last and may have implications for the future distribution of benefits, the long shadow of the future actually hinders cooperation, contrary to Axelrod and Keohane (1985). Rather, when agents bargain under the long shadow of the future and the outcome may have implications for

future bargaining power, they bargain harder, thus making cooperation more difficult (Fearon 1996; 1998).

A general theory of institutional change must explain how human societies have managed to overcome these fundamental challenges in arriving at certain institutional arrangements in light of the three meta-facts about human society and the human agent.

The tasks of a theory of institutional change

A good general theory of institutional change, in addition to being logically consistent, must satisfy three other conditions. First, the source of change must be endogenous: "If one is going to explain change, the source of the change cannot be exogenous" (Boland 1979: 968; see also Lieberman 2002).²⁵

Second, the theory must explain a wide range of specific cases of institutional change with minimal requirement to introduce ad hoc or exogenous *mechanisms* other than historical contexts and accidents (e.g. Black Death). In other words, the theory must explain specific cases of institutional change relatively self-sufficiently (Olson 1982: 9–14; Knight 1992).

Third and most critically, the theory must explain the basic facts associated with the phenomenon that it seeks to explain. Assuming that institutions do matter for human welfare and institutional change is a major driving force of social change, a good general theory of institutional change must explain the following four basic facts associated with institutional change, with each of them containing two apparently conflicting (thus dialectic) aspects.²⁶

First, while institutions often are relatively stable, they are subject to change. A general theory of institutional change must explain both stability and change of institutions (Dahrendorf 1958: 174–5; Williamson 2000).

Second, the evolution of human society seems to be a process of relatively slow changes most of the time, yet numerous abrupt changes do occur from time to time.²⁷ A general theory of institutional change must explain this variation in the dynamics of institutional change.

Third, human societies share numerous common institutional arrangements in some domains (e.g. hierarchy and social stratification) but also have profoundly different institutional arrangements in others. A general theory of institutional change must explain these commonalities and diversities.

Fourth, although human society in general has progressed greatly in terms of human welfare, there exist enormous temporal and spatial differences across different societies. Whereas some societies seem to have good institutions and have achieved significant improvement in welfare; some societies seem to have been stuck in bad institutions and have achieved only limited improvement in welfare. A general theory of institutional change must explain how and why good and bad institutional arrangements and systems come to exist and stay.²⁸

Because each of the four fundamental facts contains two dialectic aspects, together they pose a formidable challenge for a general theory of

institutional change. A good theory must account for both sides of each of the four facts.

The structure of the book

The rest of the book unfolds as follows.

In Chapter 1, the two major approaches toward institutional change – the harmony approach and the conflict approach – are introduced through an examination of their most prominent variants in the existing literature. Within the harmony approach, I examine functionalism, the neoclassical economics approach, and the Austrian school. Within the conflict approach, I examine Marxism, the Weberian conflict approach, realism in international politics, and postmodernism.

In Chapter 2, I make clear that neither the harmony approach nor the conflict approach alone can adequately explain institutional change. I then argue that SEP can organically synthesize the two approaches, thus allowing us to develop a sound general theory of institutional change.

In Chapter 3, a general theory of institutional change is presented. Emphasizing that the whole process of institutional change is essentially a process of selecting a few ideas and turning them into institutions, I highlight the five distinct phases of the process. Two key aspects of the dynamics of institutional change – stability versus change and slow versus abrupt change – are also underscored.

In Chapter 4, the general theory is assessed empirically and theoretically. I show that the theory adequately explains phenomena that could not be adequately explained by existing partial or specific theories. Moreover, the theory subsumes existing specific theories, thus achieving theoretical unification both vertically and horizontally.

A general theory of institutional change should have profound implications for understanding human society in general. Chapter 5 thus highlights implications of the theory for three fundamental issues in social theories, namely the duality of structure, the possibility of escape from power, and a subject-centric approach toward justice. The goal here is not to develop these theoretical arguments in full, but rather to underscore the general theory's potential implications and point out directions for future research.

A brief concluding chapter follows.

1 Two major approaches toward institutional change

How have we fared in advancing a general theory of institutional change that can measure up to the task so far? The short answer is “Not well,” as many have rightly noted (e.g. Knight 1992; Mahoney and Thelen 2010). In this chapter, I critically examine two major approaches that have dominated our thinking toward institutional change and social evolution in general.¹ I show that neither approach alone nor an inorganic synthesis of the two approaches can adequately explain institutional change. I then argue that only a social evolutionary synthesis of the two approaches is up to the task.

There have been many attempts to sort out the many strains within the voluminous theories of institutional change. Most tend to divide the large family of theories on institutions and institutional change into three major approaches, namely, the neoclassical economics (or rational choice), organizational (or sociological), and historical (e.g. Hall and Taylor 1996; Kato 1996; Thelen 1999; 2003; Nee 2001; Campbell 2004: chap. 1; Scott 2008: chap. 1) approaches.² More recently, Kingston and Cabellero (2009) lengthened and changed the list to a collective choice, evolutionary approach (with transaction-cost economics as one variant within this strain), blending evolution and design, and an “equilibrium view,” thus further complicating the picture and confusing others.

Unfortunately, all these attempts to sort things out have failed to grasp the really fundamental divide within the family of theories of institutional change. At the most fundamental level, the most critical divide among the various strains of theories of institutional change, I contend, is their preferences over two foundational paradigms of social sciences: the harmony paradigm and the conflict paradigm (Tang 2010c).³ The harmony approach holds three key assumptions, implicitly or explicitly. First, there is a general harmony of interest, or, at least, more common interest than conflict of interest among agents.⁴ Second, even when conflict of interest does exist, agents will generally eschew (real) conflictual behavior and favor cooperative and coordinative behavior to resolve their conflict of interests. Third and following from the first two assumptions, most social outcomes are produced by agents’ cooperative and coordinative behavior to resolve their conflict of interest and improve their private welfare (and thus, often, their collective welfare too). Consequently, when it comes to institutional change, the harmony approach sees a general

lack of real conflict among agents in institutional change and institutions are outcomes from agents' cooperative and coordinative search for private gains. As a result, institutions often also improve collective welfare, even though each agent merely wants to improve his or her private welfare.

In contrast, the conflict approach adopts the following three key assumptions. First, agents generally have divergent interests. As such, agents often have conflict of interest – mostly real but sometimes imagined – among them. Second, agents often resort to actual conflictual behavior (not necessarily violent but often so) – that is, quarrel, passive resistance, struggle, threat of force, and actual use of force – to advance their interests.⁵ Third and following from the first two assumptions, most social outcomes – even desirable social outcomes (in hindsight) – are produced by agents' resorting to actual conflict to settle their differences rather than by their cooperation and coordination toward collective gains.⁶ Consequently, when it comes to understanding institutional change, the conflict approach sees a general prevalence of actual conflict among agents in institutional change with institutions being the results engendered by agents' resorting to actual conflict to settle their differences.

The harmony approach

In the harmony approach, institutions are the result of agents cooperating and coordinating to resolve their conflicts of interest and advance their private welfare. As such, the harmony approach implicitly, if not explicitly, denies a role for power and conflict in institutional change.

There are three major variants of the harmony approach: the neoclassical economics approach and the Austrian approach, both in economics, and functionalism in sociology and international politics.⁷ Although there are important differences between these three variants, they share fundamental similarities (see Table 1.1 for a summary).⁸

The neoclassical economics approach

The most dominant variant of the harmony approach is the neoclassical economics approach.⁹ In fact, mainstream NIE has been almost exclusively inspired by neoclassical economics.

NIE has been preoccupied with institutional change, as both a dependent and an independent variable. As an independent variable, NIE has been primarily interested in how institutional change shapes human behavior (i.e. institutions as constraints) and subsequently drive economic history (e.g. North and Thomas 1973; North 1981).¹⁰ Despite claims to the contrary (e.g. North 1981), there cannot be genuine theories of institutional change within this literature because institutional change is treated as an independent variable. As a result, “any discussion of institutional choice or institutional change within the ‘institutions-as-constraints’ model must necessarily be ad hoc”

Table 1.1 Comparing variants within the harmony approach

| | <i>Functionalism</i> | <i>The Austrian approach</i> | <i>Neoclassical economics</i> |
|---------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Materialism vs. ideationalism | Mostly ideationalism | More on materialism | Mostly materialism |
| Individualism vs. collectivism | Collectivism (i.e. society as organism) | Both individualism and collectivism (i.e. order) | Purely individualism |
| Human nature: A. Biological evolution B. Socialization C. Anti-socialization | Only socialization | Implicitly admitting biological evolution Most socialization | Very limited inclusion of biological evolution and socialization No anti-socialization |
| Conflict vs. harmony | Mostly harmony | Mostly harmony, very limited room for conflict | Mostly harmony, very limited room for conflict |
| SSP (Social System Paradigm): how systemic | Very limited because it ignores too many bedrock paradigms | Quite limited because it too ignores many bedrock paradigms | Very limited because it too ignores many bedrock paradigms |
| SEP: how evolutionary | Anti-evolutionary: naive adaptationism, and the system cannot be changed | Pseudo-evolutionary: naive adaptationism, the system can be changed but no mechanisms or causes specified | Pseudo-evolutionary: one step toward equilibrium |

Source: This table draws partly on Tang (2010c).

(Calvert 1995a: 59). For a genuine theory of institutional change, institutional change must be the dependent variable.

Within the NIE literature in which institutional change is the dependent variable, there have been two major approaches: the transaction-cost approach inspired by Coase's seminal contribution (1937; 1960) and the collective action or public choice approach prominently represented by Arrow (1970 [1951]), Buchanan and Tullock (1962), Downs (1957), Elster (1989), Olson (1965), Riker (1962), and Posner (1983).¹¹ Although the two approaches proceed rather independently for much of the time,¹² they share a fundamental similarity due to their common intellectual roots in neoclassical economics. Both approaches explicitly or implicitly assume that institutional change is fundamentally driven by an efficiency motivation (Knight 1992: 9–13; Oberschall and Leifer 1986; Zald 1987; Ankarloo and Palmero 2004).¹³ For both approaches, specific institutional arrangements arise to meet specific social demands for improving welfare by solving information asymmetries, reducing transaction costs, and correcting market failure (Arrow 1998: 31; see also Ruttan 1978; Ruttan and Hayami, 1984). Hence, firms arise to reduce

transaction costs (Coase 1937; Williamson 1975; 1985), property rights arise to cope with scarcity (Alchian 1977 [1961]; Demsetz 1967; Ensminger 1992; Feeny 1988; North 1981; 1990), and cooperative norms arise to resolve conflicts of interest (Axelrod 1984; Elster 1989; Ostrom 1990; Schotter 1981; Sugden 1986; Greif 2006). In short, institutions are self-enforcing equilibriums that improve social welfare.

With this efficiency-driven motivation behind institutional change, the direction of institutional change and the effect of institutions upon welfare are more or less preordained. The process of institutional change is a more or less straightforward movement toward the Pareto frontier: any outcomes from institutional change – thus all institutions – must be welfare improving (i.e. Pareto superior or even optimal).¹⁴ The neoclassical approach has an inherent teleological logic (David 1994: esp. 206–7).

Some variants within the NIE approach depart from this assumption of efficiency-driven motivation, holding that there are often multiple solutions (or equilibriums) to a particular conflict of interest and not every solution is Pareto optimal (i.e. not all equilibriums are self-enforcing). Due to some kind of external forces or path dependence *ex ante*, agents may be stuck with some inefficient (and thus unstable) institutions (e.g. Greif and Laitin 2004). Although these theories improve upon their more naive siblings, the improvement is ultimately marginal. More critically, these theories still cannot be good theories of institutional change for two reasons. First, any theory that banks on some external forces that lie outside the theory cannot possibly be a good theory of institutional change: a good theory of change has to be endogenous. Second, as becomes clear in Chapter 4, path dependence is not a heavenly made explanatory variable but really a phenomenon that needs an explanation (see also David 1994). As such, any theory that relies on path dependence cannot possibly be an endogenous theory and thus a good theory of institutional change.

Functionalism, traditional and neo

Traditional functionalism thinking can be traced to Aristotle in ancient Greece, Manu (a legendary priest) in ancient India, and Confucius in ancient China (Dahrendorf 1968: chap. 6; Lenski 1966: chap. 1), although functionalism officially started in sociology with Herbert Spencer and Emile Durkheim's insistence that sociologists look at society as a well-functioning organism.¹⁵ Functionalism then gained its prominence during the 1930s and 1940s due to the work of Bronislaw Malinowski and Alfred R. Radcliffe-Brown in anthropology and Talcott Parsons and Robert Merton in sociology (Collins 1994: chap. 3).

Traditional functionalism holds that the social system (sometimes used interchangeably with social structure),¹⁶ which contains norms and institutions, shapes individuals' behavior. Because society is a well-functioning organism and only society has the *raison d'être* to exist, every part within it must perform an indispensable function for the whole. As such, the most important

dynamic within the social system is to maintain the social equilibrium through *socialization* and *social control*: the former is defined as the process through which actors acquire the orientations necessary to the performance of their roles in the social system, whereas the latter is the process through which the balance between motivations to deviant behavior and the counterbalancing motivations is maintained (Parsons 1951: chaps. vi and vii). Agents that do not conform to existing norms and institutions are considered “anomic,” “pathological,” “criminal,” “morally incompetent,” or at least “ambivalent” (Durkheim 1982 [1895], chap. 3; Merton 1968); and a fundamental task of the system is to socialize and control these “nonconforming” agents so that they can perform their designated roles in the social division of labor.

Traditional functionalism is not terribly interested in understanding how the institutional system or structure comes to exist and takes its shape. For instance, although Parsons (1951: 481–2) insisted that his theory explains both stability and change of institutions, he focused exclusively on how normative patterns are institutionalized without power. Likewise, although Merton (1968: 176) stated that he intended to understand social changes, he merely categorized social phenomena without actually explaining how social institutions and norms come to exist. Finally, Keohane and Martin (2003: 102–3) only came to realize the need for a good theory of institutional change in neoliberalism after almost two decades of neoliberalism.

Functionalism is essentially equivalent to the institutions-as-constraints strain within the NIE literature (David 1994: 206–9; Granovetter 1985; Hall and Taylor 1996: 943–4; Hallpike 1986: chaps. 1 and 2; Knight 1992: 11; Sanderson 2001: 64), although with perhaps a more much conservative political outlook (Cosser 1967: chap. 8; Lenski 1966: chap. 1). Consequently, functionalism cannot really deal with institutional change just as the NIE institutions-as-constraints literature cannot: any discussion of institutional change within the functionalism approach must also be ad hoc (Calvert 1995a: 59). At most, functionalism can only deal with individuals’ adjustment to a social system but not a change of the system or a change of an institution as part of a social system (Dahrendorf 1958: 115n1). Not surprisingly, no functionalists have offered anything close to a genuine theory of institutional change.

In the 1950s and 1960s, traditional functionalism was thoroughly trounced in sociology and political sciences. As such, adherents of functionalism – most prominently, Jeffery Alexander (1985) – remodeled the old temple and developed the so-called neo-functionalism approach in sociology. The key improvement of neo-functionalism over traditional functionalism is that neo-functionalism now wants to explain how social order and institutions come into existence. Unfortunately, neo-functionalism, true to its roots, still explains institutional change with a naive adaptationism: institutions (and social orders) come into existence because they serve some good functions for both the agent and the society. This neo-functionalism eventually spreads to other fields of social sciences. In international relations (IR), Keohane (1984) developed a neo-functionalism toward institutional change in international

politics that has come to be quite misleadingly known as “neoliberalism.”¹⁷ Habermas’s (1984–9) (implicit) theory of institutional change through communication action is the more recent and most prominent variant of the neo-functionalism approach in sociology/moral theory (see also Chapter 6 below).

Both traditional functionalism and neo-functionalism make an explicit or implicit normative judgment about the overall social system, and thus about institutions and institutional change. Because society is a well-functioning (and moral) organism, “everything [in a society] has been settled in the best possible way already: everybody, wherever he stands, is content with his place in society, and a common value system unites all men in a big happy, family” (Dahrendorf 1968: 176–7; see also *idem.*, 1958: 173–4; Coser 1967: 164; Collins 1994: 198–200). Durkheim stated, “a human institution cannot rest upon error and falsehood. If it did, it could not endure” (1995 [1912]: 2). Norms and institutions within the social system come to exist because they serve the overall interest of society and are thus normatively good. For functionalists, norms and institutions are always good things, thus a form of capital (Nee 2001).

This normative judgment on the social system and the norms and institutions that make up the system necessarily dictate a harmony approach toward institutional change (e.g. Parsons 1951: 121–7, 548–51). Because functionalism assumes that the social system reflects a commonly accepted value system and is thus a happy house in which every part is perfectly happy to play its role, functionalism marginalizes, if not totally dismisses, the role of power and political conflict in institutional change (Dahrendorf 1968: 176n24; Giddens 1984: 256–62; Lockwood 1957: 141; Lukes 1982: 18–23; Coser 1967: 164).¹⁸ Not surprisingly, when it comes to explaining stability and change of institutions in international politics in which power has always been a prominent factor in shaping outcomes, the neo-functionalism-inspired neoliberalism explicitly assumes that international institutions emerge to improve the collective welfare of states and their stability is almost solely dependent upon their abilities to bring public goods and improve the welfare of the states: “The growth of institutions is ‘explained’ by the common interests of states in achieving joint gains through institutions” (Keohane and Martin 2003: 83, see also 98; Martin and Simmons 1998: 738; Keohane 1984: chap. 6).

The Austrian approach

The Austrian approach toward institutional change is a strange hybrid of functionalism and neoclassical economics. It is fundamentally a functionalism approach because it is a naive adaptationist approach when it comes to social outcomes (see below). At the same time, however, the Austrian approach also bears close resemblance to the neoclassical economics approach because it insists on methodological individualism.

The idea that social order and the institutions that make it can arise (and should arise) from interactions among self-interested agents without a central planner (i.e. an external enforcer), and/or conscious design by any particular

agents, can be traced to David Hume (1739–40) on liberal society, Adam Smith (1930 [1776]) on market,¹⁹ and Carl Menger (1892) on money. Building upon Menger's "phenomena of organic origin" (Menger 1963 [1883]: 130), Hayek (1967; 1973; 1978) coined the notion of "spontaneous order," a notion that has had a strong following among some theorists of institutional change (e.g. Elster 1989; Schotter 1981; Sugden 1989).²⁰

Compared to the neoclassical approach, the Austrian approach has made two major improvements. First, it explicitly acknowledges the permanent incompleteness of our knowledge and its crucial role in driving social changes. For Hayek, the incompleteness of our knowledge is essential for any dynamic theory of economics (1937; 1945; 1960: chap. 2; 1973: 11–15). Second, inspired by Oxford zoology (Angner 2002), Hayek explicitly adopted a quasi-social evolutionary approach toward the evolution of human society.²¹ Hayek further noted that social evolution operates via group selection and upon acquired characteristics (e.g. rules, norms): groups that happen to have more efficient rules and practices will enjoy advantages in social evolution (e.g. Hayek 1967: 67n3; 1979: 202). Despite these two important improvements, however, the Austrian approach remains fundamentally flawed for understanding social order and institutional changes.

First, the Austrian approach is still a naive adaptationism approach, which is also a hallmark of functionalism and neoclassical economics.²² In various places, Hayek asserted, "the term function is indispensable when talking about spontaneous order," "a spontaneous order will always constitute an adaptation," and "the inherited traditional rules should often be most beneficial to the functioning of society" (1973: 28, 44; 1979: 162). These formulations are almost identical to functionalism's formulations on social order (system) and institutions, such as Durkheim's insistence that "rules emerge automatically" and "[have been] established spontaneously" (1984 [1893]: 302, 304), or Davis and Moore's assertion (1945) that social stratification is an unconsciously evolved device that serves the good function of allocating talent in society.

As a result, despite Hayek's strong criticisms against neoclassical economics (e.g. Hayek 1989), the Austrian approach is saddled with the same weaknesses as the neoclassical approach. Most critically, because Hayek took spontaneous order to mean the absence of external enforcement and yet institutions are relatively stable, Austrian theories of institutional change must treat an institution as "an equilibrium for all of the actors in the situation" (Knight 1992: 99–101) or "regularities in behavior which are agreed to by all members of a society" (Schotter 1981: 9). In other words, institutions are stable because they are self-enforcing: everyone is happy with the institutional system and no one can do better by disobeying or overthrowing the existing institutions. By sticking with functionalism and (implicitly) assuming that all institutions must be self-enforcing equilibriums, the Austrian approach also de-emphasizes, if not totally denies, the role of power and conflict in institutional change.

The second outstanding deficiency of the Austrian approach, consistent with its libertarian roots, is its denying any role for institutional design in the process of institutional change (Hayek 1967: chap. 6; 1973: 8). Such an ideological stand is untenable, ontologically and epistemologically.

Ontologically, the Austrian approach essentially takes any institutional design to be wholesale social planning by a central planner (e.g. a socialist state). Yet, institutional design may merely be a part of piecemeal social engineering. The ontological mistake committed by the Austrian approach here is evident.

Epistemologically, denying a role for institutional design in institutional change – whether as part of wholesale or piecemeal social engineering – is simply untenable. Because institutions are embodiments of social ideas or knowledge (Boland 1979; Hayek 1960; Nelson and Sampat 2001), institutional change is essentially a process of codifying ideas into institutions. Hence, we are *intentionally designing* an institution whenever we try to turn our social knowledge into institutions, even if our design is imperfect and done within bounded rationality due to the incompleteness of our knowledge. If that is the case, then intentional design is indispensable not only for any process of institutional change but also for the evolution of our knowledge about institutional arrangements. If we do not put our knowledge about institutional arrangements to use by codifying ideas into institutions, our knowledge about institutional arrangements cannot be empirically tested and thus cannot evolve (Popper 1991 [1963]). The Austrian approach thus self-contradicts by first admitting the incompleteness of our knowledge about institutional arrangements and then denying the possibility of empirically testing our knowledge about institutional arrangements. Thus a critical venue for our ideas to evolve is eliminated by denying any role for intentional design.²³ In trying to correct the mistake of neoclassical economics that (good) institutions must be designed with complete knowledge, Hayek went to the other extreme of denying a role for institutional design.

Two misunderstandings propelled Hayek's stand. First, he took spontaneous order to mean order without human intention/design playing a role.²⁴ He did not grasp that an outcome in social evolution can be unintended for all the agents involved, even if agents wish to impose their designs. In human society as a system (Jervis 1997), an order can indeed emerge as an *unintended* outcome from the interactions of many *intended* designs (Merton 1936). In Carl Menger's words, "Phenomena of organic origin are not the result of '*an intentional aimed at this purpose*,' but 'natural' products (in a certain sense) ... of unintended results of historical development" (1963 [1883], 130; italics original; see also Elias 1994 [1939]: esp. 365–6).²⁵

The second and more critical reason behind Hayek's extreme stand against institutional design was ideological. Because of his abhorrence of any intervention from the government (Hayek 1944), he denied there can be any good intentional design and believed that only a spontaneous order without any design can be morally good and socially constructive. Hence, while Hayek

(1973: 37) did recognize the possibility of imposed order, he chose to ignore it because he morally rejected the imposition of order by a central planner. For Hayek, any existing order is a spontaneous order and thus is always morally more just and preferable because it has evolved from a long history of human interactions without a central design. By implication then, the (existing) spontaneous order should not be changed at all, because “everything [in a society] has been settled in the best possible way already” (Dahrendorf 1968: 176–7; 1958: 173–4; see also Mannheim 1936: 211–12; Collins 1994: 198–200).²⁶ When pushed to its logical conclusion, Hayek’s liberal democracy cannot remain an open society but will eventually atrophy into a closed society because it does not allow any change.

Finally, other than defending the virtue of spontaneous order based on ideological reasons by conveniently ignoring most real cases of institutional change, the Austrian approach has merely applied the notion of spontaneous emergence to the emergence of certain social conventions and norms as “rules of games” (e.g. Elster 1989; Schotter 1981; Sugden 1986; 1989). See Knight (1992: 97–108) for a good review.²⁷ Yet, although conventions and norms are rules of the game, conventions and norms are very rudimentary rules or institutions. Consequently, theories of conventions and norms as rules of the game can only be rudimentary theories of institutional change.

To begin, our institutional world consists not solely of simple social conventions and norms but of mostly very formal rules (e.g. constitutions, laws). More importantly, although theories of social conventions and norms do give us a flavor of evolution through spontaneous emergence by treating social conventions and norms as equilibriums in cooperation, coordination, and communication games, they are naive theories of institutional change. This is so because cooperation, coordination, and communication games are not the only games, nor even the more important games, in human society, if we recognize that conflicts of interest have been the most critical forces driving social change. As such, it is profoundly misleading to treat all or even most processes of institutional change as negotiating social conventions and norms and to pretend that these social conventions and norms are what a social order is all about. Theories of social conventions and norms are only useful for understanding some very marginal aspects of institutional change; they cannot provide us with even a rough picture of institutional change.

In the end, the Austrian approach either simply finesses the task of understanding the actual process of institutional change by asserting the moral superiority of spontaneous order without looking into the actual process of institutional change, or ignores institutional change in more fundamental domains by focusing only on social conventions and norms. By sweeping most processes of institutional change under the rug of spontaneous emergence without looking into the actual process of institutional change or pretending that institutional change is all about negotiating social conventions and norms, the Austrian approach essentially ignores much of human history. For the Austrian approach, history is largely an empty shell.

Furthermore, by treating all processes of institutional change as games of cooperation, coordination, and communication from which conventions and norms can spontaneously emerge, theories of social conventions and norms inspired by the Austrian approach too implicitly deny any role for conflict and power in institutional change. By denying power/conflict and intentional design a role in institutional change, the Austrian approach eliminates two critical forces of social evolution from the discussion on institutional change.

The conflict approach

The conflict approach toward social change can be traced to Han Fei Zi in ancient China, Kautilya in ancient India, and Thucydides in ancient Greece. Karl Marx, Friedrich Engels, Friedrich Nietzsche, and Max Weber laid the intellectual foundations of the conflict school in the modern social sciences.

The conflict approach sees conflict of interest among agents as prevalent and often irreconcilable and some social conflicts as inevitable (Lenski 1966: 16–17).²⁸ The conflict approach further sees social conflict as the fundamental driving force of social change. In the conflict approach, a society without conflict will inevitably ossify because it cannot change (Collins 1994: chap. 1; Coser 1957; 1967; Giddens 1979: chap. 4; 1984: 256–262; Mack 1965: 388).

In the conflict approach, “most social outcomes are the product of conflict among actors with competing interest” (Knight 1992: 14). Institutional change, then, is essentially a process through which dominating agents impose their political will upon other agents. Thus, according to Max Weber (1978: 51):

An order is always ‘imposed’ to the extent that it does not originate from a voluntary personal agreement of all the individuals concerned. The concept of imposition hence includes ‘majority rule,’ in that minority must submit ... Even in cases where there is formally voluntary agreement, it is very common, as is generally known, for there to be a large measure of imposition.

In other words, “institutions are product of politics” (Soltan 1998; see also Pierson 2000a).

For the conflict approach, the institutional system of a society cannot possibly be the product of rational design by and for the society as a whole but must necessarily reflect the preferences of dominating agents (Lenski 1966: 63). Consequently, the distribution effect of any institutional system must also reflect the preferences of the ruling class or the interests of society as understood by the ruling class. Institutions favor the agents who make them (Knight 1992; Karl 1997: xvi).

Marxism, representing the more extreme wing of the conflict approach, sees the foundation of capitalist society as based on the exploitation of the working class by the capitalists; the whole social superstructure (or the institutional system) of capitalism is to ensure that exploitation can be continued

(Marx and Engels 1848). For Marxism, laws are nothing but instruments of oppression used by the ruling class to exploit the masses (Lenski 1966: 12, 23).²⁹ Contrary to functionalism that views social stratification as natural and serving the function of efficiently allocating talent in a society (Davis and Moore 1945), the conflict approach holds that “inequality is closely related to the social constraint that grows out of sanctions and structures of power” (Darhendorf 1968: 177).

In institutional economics, the conflict approach was presented by the OIE led by Thorstein Veblen and John Commons: “From the very beginning, institutional economists have seen power as inherent and essential to any social order” (Tool and Samuels 1989: vii).³⁰ In *The Theory of the Leisure Class* (1967 [1899]), Veblen scathingly attacked the dominant class’s cultures or habits of status-symbolizing “conspicuous consumption.” In *Legal Foundations of Capitalism* (1924), John Commons documented how the American court system had systematically laid the foundation for the American capitalist system. In a similar vein, Marc Tool and Warren Samuels (1989) identified the economy as “a system of power”; and Philip Klein (1987) contended that economic performance is determined by power or politics.

Realism represents the conflict approach in international politics (e.g. Carr 1939; Niebuhr 1960 [1932]; Morgenthau 1948; Waltz 1979). A core assumption of realism is that international politics is fundamentally conflictual (although not necessarily completely conflictual): conflicts of interest among states are permanent (Tang 2010b: chap. 1).³¹ Contra the functionalism-inspired neoliberalism in international politics that holds that international institutions are the product of states bargaining toward collective gains, realism holds that international institutions reflect the preferences of the side with more power, usually the winning side in the last conflict: “The most powerful states create and shape institutions so that they can shape and maintain their share of power, or even increase it” (Mearsheimer 1994–5: 13; see also Barkin and Cronin 1994; Schweller and Priess 1997). For realism, if international institutions do leave some elbow room for the losing side, it is because the hegemon has designed them as such to make sure its preferred order lasts (Ikenberry 2000; see also Schweller 2001).

The postmodernist/post-structuralist tradition – firmly established by Nietzsche (1989 [1887]; 1990 [1886]) and then taken up by Bourdieu, Deleuze, Foucault, and Lyotard – also reflects a conflict approach toward institutional change and social change. Although most authors in this school tend to disavow theories, they have unambiguously advanced that norms in a society (e.g. morals) mostly reflect the distribution of power in the past and the present rather than rational adaptation toward collective welfare: morality and other norms in society are the products of power relationships (e.g. Foucault 2006 [1961/1972]). Even knowledge and truth – on which the whole enterprise of enlightenment and modernization has been based – are a product of power or at least produced under power (Foucault 1980). At the most fundamental level, even ourselves as subjects or agents and thus our

whole subjectivity – which includes our sexuality, tastes, preferences, interests, consciousness, and identity – are products of power or produced under power (Foucault 2000; Bourdieu 1984).

Finally, Norbert Elias (1994 [1939]) demonstrated that the state, with its monopoly of military and taxation power, has been instrumental in civilizing medieval and modern Europe. As European states gradually consolidated their power, they also gradually moulded what constitutes civilized and uncivilized. This state-centric moulding became so successful that social constraint eventually became self-constraint.

2 Toward a general theory of institutional change

In this chapter, I underscore the inadequacy of the two approaches in providing an adequate understanding of institutional change in light of the basic facts of institutional change and the challenges in constructing a good general theory. I then highlight a solution that can synthesize the two approaches organically, leading us toward a general theory of institutional change.

Rome is easy and lasting: the harmony approach

The harmony approach cannot adequately cope with the three key challenges in institutional change and often violates the fundamental meta-facts of human society.

Recall that the first key challenge is the incompleteness of our knowledge. The harmony approach has tried to cope with this challenge in two ways; neither is tenable.

The first solution, adopted by earlier NIE theorists (e.g. Coase 1937; North and Thomas 1973; Williamson 1975; 1985), is to assume explicitly or implicitly perfect knowledge about the positive effect of an institutional arrangement upon social welfare by assuming that every institutional arrangement is a welfare-improving (i.e. Pareto-superior/optimal) equilibrium. Yet, assuming this perfect knowledge is not only factually untenable but also unscientific: doing so simply assumes the fundamental challenge away.

Moreover, to assume that every institutional arrangement is Pareto superior/optimal is to introduce stasis to a theory of institutional change. Because all institutional arrangements are self-enforcing equilibriums at the Pareto frontier (i.e. they are the best that a society can get), no further changes beyond one round are possible unless some kind of exogenous push comes along (Boland 1979: 968; Thelen 1999: 387). Theories of institutional change within the harmony approach thus face a profound predicament: they cannot be endogenous and dynamic simultaneously; thus, they cannot really be good theories of institutional change.

The second solution is to admit incomplete information momentarily but then do two tricks to circumvent the challenge. The first trick is to assume that all institutions and norms within a social system are products of spontaneous

emergence and ignore the actual process of institutional change. Both functionalism and the Austrian approach adopt this position of idealizing the social system or the “spontaneous order” without trying to understand how the system or order comes to exist. This trick is unscientific because it too assumes the central puzzle away.

The second trick is to treat implicitly or explicitly institutional arrangements as “public goods” (or components of a “common value system” as the Austrian approach and functionalism put it) and then to model institutional change as “procuring public goods,” or more precisely, a process of moving toward collective benefits through bargaining among agents in games of cooperation and coordination. This is the trick adopted by the Austrian approach-inspired theories of social conventions and norms (e.g. Elster 1989; Schotter 1981; Sugden 1986) and the more recent NIE theories of institutional change (e.g. Aoki 2001; Ensminger 1992; Greif *et al.* 1994; Greif and Laitin 2004; Lin 1989; Lin and Nugent 1995; North 1991; Knight 1992; V. Ostrom 1975; E. Ostrom 1990). The two strains eventually merge with each other because both rely on games of cooperation and coordination to model institutional change as movements toward collective benefits.

Of course, once one takes institutional arrangements as public goods and the process of institutional change as a process of procuring public goods, the assumption of efficiency-driven motivation and its logical outcome become more or less preordained: the harmony approach inherently smells of teleology (David 1994: esp. 206–7). Ultimately, this trick too ends with the notion that all institutions are welfare-improving equilibriums, thus morally just and socially stable.

Unfortunately, in addition to (re)introducing stasis to institutional change, this second trick ignores and violates the third meta-fact of human society: there are both common interests and conflicts of interest among agents. The result is that theories of institutional change developed with the second trick self-contradict their self-proclaimed micro-foundation.

Both the Austrian approach-inspired theories of social conventions and norms and the more recent NIE approach assume institutional change as a process toward realizing collective benefits (i.e. improving social welfare). Unfortunately, both approaches also assume self-interested agents. If this is the case, then we cannot treat most processes of institutional change as movements toward collective gains through bargaining in games of cooperation and coordination. In games with conflicts of interest among agents, the primary motivation of agents in institutional change must be to advance their respective self-interests rather than collective benefits, *even if* they want to reach some kind of institutional arrangement. Theories of institutional change that assume institutional change as movement toward collective gains contradict their self-professed micro-foundation of self-interested agents: “Rational-choice explanations of social institutions based on gains in social efficiency fail as long as they are grounded in the intentions of social actors” (Knight 1992: 34, 37–9).

Because self-interested agents want institutions to produce social outcomes that better their self-interests, *collective gains can only be by-products of the pursuit of self-interest even if an institutional change produces collective gains*. As such, collective gains cannot serve as the basis for explaining the stability of a particular institutional arrangement. To explain stability with the improvement in welfare that the arrangement brings to society and then to explain the cause of institutional change with the need to improve social welfare is logically circular: those factors that have predetermined the welfare-improving outcome of institutional change are used to drive the process and explain the outcome (Binger and Hoffman 1989: 78; Zouboulakis 2005: 147).

Facing conflicts of interest, agents can either cooperate with or struggle against each other to resolve them. Yet, by assuming all processes of institutional change as movements toward collective gains through bargaining in games of cooperation and coordination, the harmony approach all too explicitly assumes that *all* conflicts of interest will be resolved by cooperation and coordination, that no actual conflict will ever result from the presence of conflicts of interest among agents (Granovetter 1985: 488).¹ Many make this assumption implicitly (e.g. Aoki 2001; Greif and Laitin 2004; Lewis 1969; Schotter 1981; Elster 1989), but some authors do make this assumption explicitly. For instance, despite insisting that “social institutions are a by-product of strategic conflict over substantive social outcomes,” conflict, according to Jack Knight, merely amounts to “constrain[ing] the actions of those with whom we interact,” (1992: 126). Apparently, there is no possibility for an actual conflict in Knight’s society!

As for the second and third fundamental challenges in institutional change (surplus of agents and the distributional effect of institutions), the harmony approach has simply finessed both. Almost all theories of institutional change within the harmony approach model two, and usually only two, agents in institutional change.² Most of these theories further assume that institutions have no distributional effect and thus ignore the impact of those effects on agents’ calculations in institutional change (Knight 1992).

Because the harmony approach cannot effectively cope with the three fundamental challenges, it cannot produce a satisfactory theory of institutional change. An obvious question arises for the harmony approach: if all of our institutional arrangements have been responses to opportunities of moving toward the Pareto frontier, then “why isn’t the whole world developed?” (Easterlin 1981). If institutions are fundamental to human welfare, the logical answer must be this: not all of our institutional solutions have been good.

The harmony approach tries to cope with this embarrassing existence of welfare-decreasing institutions with three tricks; again, none of them is tenable. The first trick is to deny the possibility that welfare-decreasing institutions can ever form, not to mention the possibility that they will actually stay (van den Berghe 1963: 697–8). By doing so, the harmony approach either ignores history, as functionalism and the Austrian approach have done, or reinvents “as if [and happy] history” to fit the deductive necessity of the approach, as the

neoclassical approach has done (Ankarloo 2002; Ankarloo and Palmero 2004; Klein 1980: 881; Thelen 1999: 400; Zouboulakis 2005). Ultimately, this trick leads the harmony approach to present a static and utopian view of society (Mannheim 1936: 206–15). Although such a trick “may enable us to understand Plato’s *Republic*, it does not describe any real society in history” (Dahrendorf 1968: 176).

The second trick is to admit the existence of welfare-decreasing institutions but then leave the phenomenon unexplained. This is the position that North adopted after he half-heartedly gave up the efficiency assumption in 1981 (1981: 201–2). Obviously, this trick gives up on the task of constructing a good theory of institutional change.

The third trick is to invent several patches for salvaging the harmony approach, but cure through patches is illusory. For instance, path dependence cannot save the harmony approach simply because path dependence is not a fundamental cause but a feature of institutional change.³ Similarly, North’s seeking help from cognitive science for explaining institutional change and the stability of welfare-decreasing institutions represents a depressing step backward (e.g. Denzau and North 1994).⁴ Unless one can explain why a common ideology comes to diffuse and dominate, one cannot explain institutional change endogenously. Likewise, Keohane and Martin (2003: 104) suggested that the harmony approach toward (international) institutional change can be saved by bringing in organization theory and agency theory and admitting that institutions adapt in a path-dependent and step-like manner rather than smoothly.⁵ This solution is still merely a more sophisticated functionalism logic that lengthens the time for getting to the Pareto frontier (Knight 1992: 10), an old trick that has been tried by many other theorists of the harmony approach much earlier (e.g. Merton 1968; North 1990).

There is actually an easy solution to the problems of the harmony approach: to admit the possibility that agents can simply impose institutional arrangements when they have the power to do so. In other words, *an institutional arrangement can come to exist and stay as long as it is backed and enforced by sufficient power*. Unfortunately, the harmony approach has never considered this possibility seriously. Power and conflict occupy a marginal place in the harmony approach at best. By assuming that all institutions are social welfare-improving equilibriums, thus morally just and socially stable, or that all institutional change is movement toward collective gains through bargaining in games of cooperation, coordination, and communication, the harmony approach implicitly denies a role for power and actual conflict in institutional change (Campbell 1998; Dahrendorf 1958; Keohane and Nye 1989 [1977]: 38–42; Klein 1980: esp. 880–1; Oberschall and Leifer 1986: 245; van den Berghe 1963: 698).

Thus, whereas the state is “a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory” for Weber (1946: 78), “the state is, rigorously speaking, the organ of social thought” and “its essential function is to think” for Durkheim (1982 [1895]: 61–3).⁶

Likewise, whereas social stratification must somewhat reflect dominance, power, and conflict for conflict theorists (e.g. Weber 1978; Dahrendorf 1968; Collins 1975), it is essentially “a problem of differentiation of individuals in terms of social superiority and inferiority ... in the moral sense of individuals as units [or their “moral orientations”] or “[social stratification] as a functioning mechanism must somehow distribute its members in social positions and include them to perform the duties of these positions” for functionalism theorists (Parsons 1940: 841–3; Davis and Moore 1945: 242).

By assuming away power and conflict, the harmony approach is useful for understanding institutional changes in some special areas (e.g. conventions, norms) in which agents bargain without the shadow of power (Knight 1992: 102; Zouboulakis 2005: 150). However, it cannot possibly understand institutional changes in the more fundamental and wider areas within human society (e.g. constitutions, laws) because politics and power lie at the heart of institutional change in these areas (Soltan 1998: 54–5; Zald 1987: 707).⁷ By assuming that power and conflict have no roles to play in institutional change, the harmony approach severely undermines its ability to formulate a good theory of institutional change. Denying a role for power and conflict in institutional change is the Achilles heel of the harmony approach.⁸

What Rome? The conflict approach

Contra the harmony approach, the conflict approach has no difficulty in coping with the three fundamental challenges of institutional change. To begin with, the conflict approach does not assume that agents have perfect knowledge about the impact of institutional arrangements upon social welfare. In fact, the conflict approach explicitly assumes that agents are only concerned with their own interests, not the welfare of the whole society.

The problem of surplus of agents does not pose a problem for the conflict approach either. Because of the emphasis on the role of power in institutional change, the conflict approach emphasizes the possibility that agents with sufficient power can simply impose the institution arrangements they prefer (Weber 1978: 51), regardless of how many other agents may want the institutional arrangements to look like otherwise.

The problem of the distributional effect of institutions is also easy for the conflict approach, which readily admits that institutions are made to have distributional effect. Because agents are self-interested, they want to make institutions that favor their own interests (although they may be wrong). As such, institutions must necessarily reflect the preferences of the agents who make them. Not surprisingly, institutions favor some and not others.

The conflict approach also copes well with most of the basic facts of institutional change. Take the dialectic problem of stability and change, for example. Contra Coser's assertion that “in the Marxism mode of analysis it is difficult to account for continued societal functioning under relatively stable conditions” (1967: 141),⁹ the conflict approach (with Marxism as its extreme variant) can

easily account for the functioning or stability of a social system: agents conform to the system and the system functions because agents are coerced by power. Meanwhile, because the conflict approach believes that conflict of interest is eternal and conflict drives social change, this approach easily copes with the problem of change in institutional change.

Neither does the conflict approach have any difficulty in explaining why some institutional arrangements may not be necessarily Pareto-superior/optimal for social welfare. In this approach, an institutional arrangement reflects the interests of the (ruling) group that happens to make the rules (guilds, the state, the ruling class, etc.) and remains in place because it is backed by power amassed by the ruling group. Because the ruling group seeks to advance its own interests rather than that of the whole society, it is not surprising that some institutional arrangements may exist even if they decrease the welfare of the whole society.

Despite capturing more social reality than the harmony approach, however, the conflict approach cannot capture the complete picture. It suffers from two deficiencies. The first and relatively minor problem is that it underemphasizes – although does not deny – the possibility that some institutions can emerge without much power and conflict involved (e.g. institutions governing giving gifts among primitive tribes).

The second and most fundamental problem is the meta-fact of human progress: the conflict approach cannot cope with this meta-fact *without logical self-contradiction*. If most institutional arrangements simply represent the interest of specific individuals or groups and may not improve the welfare of the whole society (i.e. any single act of institutional change does not necessarily lead to Pareto-superior/optimal outcomes), then how has human society managed to progress a great deal – which, by implication, means that human societies have at least installed many welfare-improving institutions in some parts of the world? If ideas embodied within institutions are usually ideas backed by power for a special group or class, should human society not be doomed to repeated conflicts over rules without necessarily hitting on welfare-improving rules?

Other than perhaps Marx and Weber, most theorists within the conflict approach simply ignore the task of explaining human progress. For example, postmodernists from Derrida to Foucault had essentially avoided the question of human progress or implicitly argued that there has been no human progress. For Foucault, law as a major form of institutions is all about social control; he essentially left it open as to whether law, at least some law, is conducive to social welfare (Tadros 1998). Likewise, medicine (or clinics) in the eighteenth century was all about social control of our bodies via gazing. Foucault never bothered even to mention that at least some of the knowledge about the human body gained then contributed enormously to human welfare (1973 [1963]). This is so despite Foucault admitting that power may be “productive” rather than merely “repressive” (e.g. 1980; 1986; 1995 [1975]: 26–8; see also Hoy 1986 [1981]).

Marx and Weber had advanced some theses on the problem of human progress, but none of their theses are satisfactory. Weber (1958) emphasized the problem of social progress in his book *The Protestant Ethic and the Spirit of Capitalism*. Yet, even if we admit that the rise of Protestant ethics gave birth to capitalism,¹⁰ religious reform is only one form of institutional change that can contribute to human progress. Marxism (Marx and Engels 1848) emphasized that class struggle is the main force of social progress and that only a class that represents a more advanced production force moved human society forward. Yet, if class struggle is only a special form of political conflict and every class is to advance its own interests or social welfare as it perceives, how can we expect any class, including the proletarian class, to improve the welfare of the whole society? Put bluntly, why should the proletarian class be any different from other classes before or after it? Marxism's explanation of human progress thus contains an immanent self-contradiction.

Power versus idea

The inability of the harmony approach to explain some of the basic facts of institutional change has been gradually recognized. By 1990, even a supporter of the harmony approach as staunch as Douglass North admitted that "we have paid a big price for the uncritical acceptance of neoclassical theory" (1990: 131).

This recognition has prompted many to abandon the idea that most institutions are necessarily public goods that improve welfare and acknowledge that many stable institutions may actually reduce social welfare (e.g. North 1981: chap. 3).¹¹ More importantly, many theorists within the harmony approach have come to admit that in addition to arriving at an institutional arrangement through cooperation and coordination, agents with power can simply impose an institutional arrangement (e.g. Bates 1989: 35; Ensminger 1992: 6–7, 126; Knight 1992: 32–4; Soltan 1998). In other words, at least some institutions are the product of politics: they have been imposed by power in the first place, and their continued existence depends on the continuous backing of overt and covert power (Acemoglu *et al.* 2005; Lieberman 2002; Soltan 1998).

At first glance, admitting a role for power and politics in institutional change should have enabled the harmony approach to develop theories of institutional change that can easily explain why institutions generally reflect the preferences of the dominant agents and why many welfare-decreasing institutions have come to exist and stay, questions that the harmony approach has been unable to explain adequately. Unfortunately, this has not been the case because the harmony approach has great difficulty in integrating power and conflict into its core.

Some theorists within the harmony approach have simply refused to use the noun "power." For instance, noting that all collective actions require some means to have individuals work together, Mancur Olson (1962) called those

means – especially coercion (i.e. punishment or threat of punishment) – that necessarily involve power and dominance “selective incentives.” Likewise, Douglass North (1981: 201–2), despite noting that institutions were designed to serve the interests of principals and that the institutions that governed lords and serfs were unequal and involuntary, nonetheless insisted on “the contractual relationship between the parties,” apparently forgetting that the relationship is no longer contractual when power or coercion is involved.

Others simply have tried to finesse or marginalize power. When Yao (2004) modeled institutional change as a political process, politics had neither power nor conflict. Similarly, when Barnett and Finnemore (1999) emphasized politics among the bureaucrats within international organizations as a cause of the pathologies of those organizations, they ignored the more plausible possibility that conflicts of interest among states were more responsible for the pathologies of international organizations (and that the politics among the bureaucrats largely reflected these conflicts of interest among the states they represented). Most tellingly, despite claiming that neoliberalism accepts them, the core assumptions of realism that Keohane and Martin (2003: 73, 85) listed do not include power, even in international politics where conquest and expansion have been the norm for much of human history.

Some theorists within the harmony approach have been content with leaving power exogenous to their theories. After identifying ideology backed by power or external actors (e.g. state, law) as a possible cause for explaining inefficient social institutions and their staying power,¹² North (1981: esp. chap. 5) never bothered to explain how a particular ideology comes to be backed by power and how external actors come to have the power in the first place. Likewise, while Knight (1992) recognized that asymmetric distribution of power influences the evolution of social institutions, he treated the distribution of power as a given and did not explore how different distributions of power come into existence in the first place. As such, in both North’s and Knight’s frameworks, institutional change is still driven exogenously. Unless there is a shift in the distribution of power or a more powerful ideology emerges among agents, there will not be institutional change.

Meanwhile, the main problem of the conflict approach is that the paradigm has a marginal, if any, place for the attractiveness of ideas,¹³ despite different ideas having different attractiveness, which is not to be confused with physical power (Young 1991). The conflict approach essentially holds that “bad ideas flourish because they are in the interest of powerful groups” (Krugman 1995). Because it is mostly power that determines the outcome of institutional change, the attractiveness of an idea has no independent explanatory power for explaining the outcome of institutional change. By purging the attractiveness of ideas from its framework of explaining social outcomes, however, the conflict approach has great difficulty in explaining overall human progress because human progress ultimately depends on the selection and retention of good ideas (Hayek 1960: chap. 2; Jones 2005).

The previous discussion reveals some fundamental weakness within the two major approaches toward institutional change. The harmony approach cannot explain the existence of bad institutions and cannot truly explain institutional change endogenously because it does not allow any role for power in institutional change. In contrast, the conflict approach cannot explain the overall progress of human society because it does not admit any role for the attraction of ideas in institutional change. Each thus has something to desire. To explain institutional change adequately, as many have recognized (e.g. van den Berghe 1963; Campbell 1998; 2002; Coser 1967: 138–41; Dahrendorf 1958: 174–5; Granovetter 1985; Lenski 1966: 14–23, 441–6; Levy 1994: 300–2; Mack 1965; North 1981: 59–63; Thelen 1999: 387; Zald 1987: 705–6), we need to synthesize the harmony approach and the conflict approach, idea, and power.

Thus, Lenski (1966) set out to formulate a synthetic theory of social stratification by combining the harmony approach and the conflict approach.¹⁴ Similarly, by asking Kingdon's question, "What makes an idea's time come?" in the context of institutional change (Kingdon 1995: 1), Lieberman (2002) attempted to fuse the harmony approach with the conflict approach. Weir (1992) also explored how value and politics together influenced policy-making processes and outcomes. Finally, Garland (1990) sought to synthesize Durkheim with Weber and Foucault to advance a "rounded sociological account" of the modern penal system (as an institutional subsystem). Unfortunately, these attempts have not succeeded in forging a genuine synthesis.

The rise of historical comparative institutional analysis (HICA) in comparative politics and historical sociology has moved us somewhat forward toward a more satisfying synthesis of the two approaches and thus a general theory of institutional change (for good reviews, see Thelen 1999; Clemens and Cook 1999). Unfortunately, HICA cannot offer a general theory of institutional change either.

First, despite emphasizing politics and having a conflict component, HICA is too in awe of the neoclassical/harmony approach and still marginalizes the role of power and conflict (thus politics) in institutional change (Clemens and Cook 1999: 442, 459–60; Sangman 2007: 207–11). For example, in a detailed and otherwise insightful discussion of the differences and commonalities between the neoclassical approach (i.e. "rational choice") and HICA, Thelen (1999: 370–84) never singled out power and conflict as the most critical differences between the two approaches. In fact, she very much believed that there is very little real difference between the two approaches (see also Campbell 1998; Kato 1996; Ostrom 1991).

Second, HICA has overemphasized the phenomenon of path dependence or critical junctures, making it a *deus ex machina* (e.g. Krasner 1984; Pierson 2000a; Mahoney 2000; Capocchia and Kelemen 2007; Thelen 1999: 387–99). Yet, path dependence itself is not a theory of institutional change but only an aspect of the dynamics of institutional change and needs to be explained (see Chapter 4 below). Overemphasizing path dependence also makes theories of

institutional change exogenous; changes in these theories are largely driven by exogenous shocks (Thelen 1999: 387).

Finally, most studies of institutional change within HCIA have been comparative case studies. As a result, they have been good at uncovering causal relationships behind specific cases and drawing some common lessons from different cases. Unfortunately, they have generally failed to reach the degree of generalization necessary for constructing a general theory of institutional change.

Similar charges can be made against a particular strain of historical sociology (or genealogy, as Foucault preferred), notably those of Norbert Elias (1994 [1939]), Pierre Bourdieu (1984; 1990 [1980]), and Michel Foucault (2006 [1961/1972]; 1973 [1963]; 1995 [1975]; 1990 [1976]).¹⁵ In the fundamental sense, these studies were historical narratives about changes in various subsystems of institutions in which power played a central role. Unfortunately, although these monumental narratives have provided us with rich historical narratives of institutional change, they have failed to provide us with a general theory of institutional change, not the least because Foucault and Bourdieu generally resisted general theorizing.

In sum, although different authors have combined certain aspects of the two approaches in constructing some specific theories, they have yet to produce a general theory of institutional change because they have yet to achieve a general synthesis of the two approaches. To bring the two approaches into a general synthesis, we need a fundamentally new approach.

The social evolutionary approach toward institutional change

In this section, I outline the social evolutionary approach toward institutional change or social change, thus laying part of the foundation for constructing a general theory of institutional change.¹⁶ Afterward, I show that the social evolutionary approach can indeed bring the two fundamental approaches toward institutional change into an organic synthesis, thus leading to a better general theory of institutional change.

Social evolution is fundamentally different from biological evolution because ideational forces are at play in social evolution. Thus, a social evolutionary approach toward institutional change is not a mechanistic application of biological evolution to social changes, but based on a fundamentally new paradigm in social sciences (Tang 2010c; n.d.-a).

Institutions are embodiments of social knowledge or solidified ideas (Durkheim 1950 [1895]; Boland 1979: 964; Hayek 1960: chap. 2; Nelson and Sampat 2001). Because there is diversity of knowledge among agents (i.e. there will always be more than one idea about how a future institutional arrangement should look like), the process of institutional change is essentially about selecting *a very limited few* of those numerous ideas and then turning those lucky few into institutions. As such, we can take ideas as genes and

institutional arrangements as phenotypes;¹⁷ the process of institutional change can then be analyzed with the central mechanism of social evolution: variation–selection–inheritance.

More specifically, consistent with the principle that the effect of mutations and phenotypes cannot be possibly predetermined (to be fitness enhancing or not),¹⁸ the welfare-enhancing value of an idea for institutional changes and the specific institutional arrangement derived from it must be uncertain at the onset of institutional changes, and can only be tested in the real social system. Thus, consistent with the principle that phenotype is normally the object of selection (Mayr 1997), the principal object of selection in institutional change is specific institutional arrangements: subjects under different institutional arrangements select arrangements that they deem to improve their welfare, although the actual process of selection may not be straightforward.

With this evolutionary understanding of institutional change in hand, we can now move to construct a general theory of institutional change.

3 A general theory of institutional change

In this chapter, I apply the social evolutionary approach, with the mechanism of variation–selection–inheritance at its core, to institutional change and outline a general theory of institutional change.

The process of institutional change

The process of institutional change consists of five distinct phases: (1) generation of ideas for specific institutional arrangements; (2) political mobilization; (3) the struggle for power to design and dictate specific institutional arrangements (i.e. to set specific rules); (4) the setting of the rules; and (5) legitimatization, stabilization, and reproduction. Together, these five phases correspond to the three phases of variation (mutation), selection (reduction in variation), and inheritance (stabilization) in evolution: generation of ideas corresponds to mutation; political mobilization and struggle for power to selection; and the setting of the rules and legitimatization, stabilization, and reproduction to inheritance.

The first phase is generating (new) ideas for specific institutional arrangements. New ideas can come from learning in the broadest sense: social science research (Ruttan 1984), importing new knowledge, cross-breeding ideas among agents (Haveman and Rao 1997: 1620), resurrecting old ideas, and so forth. Although it is normal that more ideas arise in response to the opportunity of possible change in institutions (i.e. more mutations are induced),¹ it is also common that multiple ideas for possible institutional arrangements exist before the occasion or opportunity for institutional change arises (e.g. through social science research).

Four important points need to be stressed here. First, just as in biological evolution, an organism cannot know *ex ante* whether a particular mutation will produce a fitness-improving phenotype; in social evolution, agents cannot know *ex ante* – at least not with certainty – whether mutations (i.e. new ideas) will produce phenotypes (i.e. institutional arrangements) that improve their welfare, not to mention the welfare of the whole society. Second, ideas for specific institutional arrangements do *not* have to be very precise or specific. Vagueness of ideas may be a virtue for attracting followers, as illustrated by

politicians' tendencies to offer grand and (by implication) murky visions without providing specific details. Third, different ideas do not have to be poles apart: different ideas may be more similar than their proponents portray.² Fourth, ideas are not invented in a vacuum; the existing institutional system shapes the production of ideas for future institutional change (see below).

The second phase is the phase of political mobilization. In this phase, political entrepreneurs – agents who hold or support a particular idea or ideas for a particular institutional change – mobilize both physical resources (e.g. financial) and political support to compete for the power to set the rules. The amount of physical resources and political support that they can mobilize will largely determine the outcome of the actual struggle for power to set the rules in the next phase (McAdam 1982; McCarthy and Zald 1977; Oberschall 1973; Tarrow 1994; 1998; Tilly 1978; Clemens and Cook 1999: 459–60; Lin 1989: 20; Ruttan and Hayami 1984: 213–14).³

In this second phase, the attraction of an idea, political entrepreneurs, political entrepreneurship, and the problem of collective action (i.e. forming an organization or coalition) all enter the picture, with the *intellectual* appeal of an idea and political entrepreneurs' entrepreneurial skills (especially rhetorical, organizational, and political skills) being perhaps the two more important factors in determining the outcome of the struggle for power. All else being equal, an idea with more intellectual appeal to the subjects (audience) has a higher probability of overcoming the problem of collective action and attracting more support and is thus more likely to win the struggle for power. All else being equal, political entrepreneurs with better entrepreneurial skills have a higher probability of mobilizing more support and thus are more likely to prevail in the struggle for power.

Three points need to be stressed here. First, although the intellectual appeal of an idea is an important factor in determining the outcome of the struggle for power, it may be less important than political entrepreneurship in determining that outcome, at least in the short run.⁴ Propaganda (i.e. packaging, spinning, repeating, etc.) matters a great deal to the support that an idea eventually garnishes (Campbell 1998: 380–1) because subjects cannot know the impact upon their welfare of an institutional arrangement that is underpinned by a particular idea, due to imperfect information. Second, political entrepreneurs do not have to be the individuals who invent the ideas or mutations; ideas can be co-opted, absorbed, or simply stolen from others. Third, an agent most likely will need some initial endowment in physical (i.e. money) or charismatic power to get into the process of institutional change. To struggle for power, one needs to have some power with which to begin; then one must mobilize, deploy, sustain, and even increase that power through the whole process.⁵

Having mobilized political power for their ideas, agents now enter the third phase, the struggle for power to set the rules or the actual political conflict. Because under most circumstances agents cannot know whose ideas will be welfare improving and, perhaps more importantly, will not believe that rules

dictated by others may actually improve their own welfare, the only way for agents to agree on who can make the rules is to go through a phase of struggle for power to set the rules. As such, for most processes of institutional change, a struggle for power *must* take place before the actual setting of institutional arrangements: before we can decide on the rules, we must decide who is going to make the rules.⁶

In this phase of struggle for power to set the rules, agents will most likely view the struggle as a zero-sum game for two reasons. First, winning the struggle for power means that one gets to set the rules, whereas losing the struggle means losing the right to make rules and obeying somebody else's rules. Second, because agents cannot *ex ante* know with certainty whether an arrangement imposed by others will benefit them, they will fear their welfare will be jeopardized by other agents imposing their preferred institutional arrangements, *even if* the institutional arrangement imposed by others may eventually turn out to improve their welfare as well. By viewing this phase of the struggle for power as a zero-sum game, the agents' basic goal is not to cooperate or coordinate toward a collective welfare-improving equilibrium at the Pareto frontier, but to win the power for setting the rules, often at all costs. Not surprisingly, although this phase of the struggle does not always result in actual violence, it has often done so in historical times.⁷

The second and third phases are the actual conflict phases of the whole process; they correspond to the phase of selection (i.e. reduction of varieties) in biological evolution. Consistent with the dynamics in biological selection that only some mutations survive the selection process and are expressed in phenotypes, this selection phase in institutional change also ensures that very few ideas as genes will survive the selection process and eventually be solidified into actual institutions as phenotypes.

The fourth phase is the actual setting of the rules. The side that wins the struggle for power to impose the rules – and thus has more power – plays a leading role in setting the rules. The winning side has three general options when trying to set the rules: dictating or imposing, co-opting part of the losing side, and bargaining with the losing side as a whole. Needless to say, the first option often is the preferred option, although the three options can be deployed independently or combined in different circumstances.

When the winning side decides to impose its preferred design for a particular institutional arrangement, the arrangement necessarily reflects the preferences of the winning side: the arrangement will favor the side with more power (Barkin and Cronin 1994; Knight 1992; Sanderson 2001: 64). Most of the time, institutional arrangements are primarily designed to make the winning side better off, but not everybody else. In other words, institutional arrangements are private goods favoring the winning side and excluding the losing side, rather than public goods improving the welfare of the whole society. When this is the case, the notion that “changes have been made by narrow interest groups seeking their own, which happened to benefit society” must be the rule rather than the exception (Clague 1997: 23; see also Knight 1992: 19).

The winning side may decide to work with (a fraction of) the losing side so that the new arrangements – still reflecting more the preferences of the winning side – can have a broader supporting base and thus be more ‘legitimate’ and stable.⁸ Meanwhile, it may also be in the interest of the losing side to cooperate with the winning side because it is costly to exercise the option of noncooperation, simply because the winning side controls more power. When this is the case, the actual phase of setting the rules may be considered a bargaining process. Even here, however, the bargaining process is conducted under the shadow of asymmetric bargaining power, the distribution of which has already been decided *ex ante*: both sides understand that the side that has prevailed in the preceding conflict phase has more bargaining power, *and there is no room for bargaining on this point*.

In situations in which different agents have equal bargaining power, agents may choose to cooperate or coordinate precisely because there is no clear asymmetric distribution of power.⁹ Evidently, these situations are special cases rather than general cases in institutional change.

The fifth and last phase in a round of institutional change is the phase of legitimatizing, stabilizing, and reproducing.¹⁰ After an institutional arrangement is in place, its utility or its fitness as a phenotype is tested in the social system. If the institutional arrangement improves the welfare of the majority of the population or, perhaps more importantly, the dominant agent inoculates an ideology that can sufficiently legitimize the arrangement or no anti-ideology rises and becomes powerful enough to challenge the institutional arrangement, the arrangement will be legitimized, stabilized, and reproduced. After this phase, a single cycle of institutional change is now complete.

Two critical points need to be emphasized immediately. First, even when an institutional arrangement enjoys real legitimacy (i.e. it improves the subjects’ social welfare and most subjects support it), power often remains indispensable for the arrangement to exist, operate, and reproduce. This is simply because the ruling agent still needs power to inoculate a legitimizing ideology (e.g. through an education system or a propaganda campaign) and socialization – the process through which individuals learn to conform to the arrangement – almost inevitably operates under and through, and thus requires, a power structure (Foucault 2000 [1978]; Collins 1979b; Lukacs 1971 [1920]; Althusser 2001 [1970]). Second, an institutional arrangement that does not contribute to social welfare or even decreases it – such an arrangement does not enjoy real legitimacy – may nonetheless last as long as it is backed by sufficient raw power. Although one can argue that the seeds for further institutional change are sowed when this is the case, the change may not come for a long time because successful institutional change is not easy.

The fourth and fifth phases together correspond to the phase of inheritance or stabilization in biological evolution. Consistent with the principle that the target of selection is often the phenotype (Mayr 1997), the fourth and fifth phases can also be understood as selection upon specific institutional

arrangements in the sense that subjects determine whether a particular institutional arrangement improves welfare. Depending on how much real legitimacy they enjoy and how much power is backing them, different institutional arrangements have different rates of survival in the social system.

So, what makes “the time of an idea come” and turns itself into an institution, at least in the short run (Lieberman 2002)? The process outlined previously indicates that, for an idea to become institutionalized, it must be incredibly lucky; it must have some appeal, it must be picked up by a political entrepreneur,¹¹ and the political entrepreneur must be skillful enough to overcome the problem of collective action to mobilize political support for the idea and eventually win the struggle for power. To paraphrase Jack Levy (1994: 300), which idea can become an institution is as much a political as an intellectual question. The key question to institutional change is how intellectual and political processes interact to shape the outcome of institutional change.

The dynamics of institutional change I: stability vs. change

Our framework sheds new light on the general dynamics of institutional change. Just as the cycle of variation–selection–inheritance in biological evolution runs infinitely, the cycle of variation–selection–inheritance in institutional change also runs infinitely. Four possibilities can almost immediately restart the whole process. Because each of them has been discussed to various degrees by others (e.g. Krasner 1982; Ruttan 1984; Lin 1989; Clemens and Cook 1999; Thelen 2003), I shall mention them only briefly but emphasize their implications for understanding the overall dynamics of stability and change in institutions.

The first is the availability of new ideas as anti-ideologies about a particular institutional arrangement, usually but not necessarily propelled by some dissatisfaction with the arrangement. Here, it is important to note that whether an institutional arrangement improves the welfare of the majority of the population is not the only factor that determines whether new ideas as anti-ideologies arise. Even if an arrangement improves the welfare, new ideas that promise better things can still rise and come to challenge it.

The second is the availability of new power that can be deployed to change the existing institutional arrangement and create or impose a new institutional arrangement. For instance, the losing side in the previous round of struggle comes back with more power and wins the new round of struggle for power. Alternatively, after conquering another group, one group simply imposes its institutional system upon its new subjects, as the United States did in Japan and Germany after World War II (Olson 1982; see also Hodgson 1996).¹²

The third is the incompatibilities of the arrangement with other arrangements in the overall institutional system. With different institutional arrangements interacting with each other to form the overall institutional system,

some incompatibilities inevitably arise and can only be resolved or alleviated by further changes in existing institutions.¹³ Institutional change thus can spread in a self-enforcing way (Lewis 1955: 144–6; Lieberman 2002; Lin 1989: 17–18, Aoki 2001: chap. 8; David 1994).

The fourth is external shocks, such as changes in resource endowments (Ruttan 1978; Ruttan and Hayami 1984; North 1981), wars and threats of war, technology, and natural disasters (e.g. the Black Death). These shocks are necessarily exogenous to the general theory of institutional change outlined previously, although they can be considered endogenous to the whole human society.¹⁴ What needs to be emphasized here is that even institutional changes *induced* by exogenous shocks undergo the same process of change that is essentially endogenously driven.

Once we understand the immediate sources of institutional change, it is easy to grasp the sources of institutional stability.¹⁵ An institutional arrangement can be stable due to any of the following nine general causes:

- 1 Agents governed by the arrangement accept it because it genuinely improves their welfare.
- 2 Agents accept it because they erroneously believe it to be welfare improving due to limited information under time constraint.¹⁶
- 3 Agents accept it because they have been led to believe that the arrangement improves their welfare by the ruling class.¹⁷
- 4 Agents put up with it because agents cannot conceive better solutions (e.g. no new knowledge or anti-ideology).
- 5 Agents accept it because of inertia or habit.¹⁸
- 6 Agents put up with it because it is costly to change any arrangement, even if the arrangement is not backed by power.
- 7 Agents put up with it because the arrangement is explicitly backed by power, sometimes by brutal power; seeking change to it will be punished, and subjects are risk averse (Bachrach and Baratz 1962; 1963; 1975).¹⁹
- 8 The arrangement is explicitly backed by power, and no counterforce has become powerful enough to overpower the established power distribution.
- 9 The arrangement is difficult to change simply because it is embedded in a system of institutions. As such, it may be impossible to change a particular arrangement without changing some other arrangements or even the whole institutional system, but the system is inherently resistant to change (North 1995: 18; Cortell and Peterson 1999).²⁰

Of the nine possible causes of institutional stability, the harmony approach tends to emphasize Causes 1, 2, 4, 5, 6, and 9 (e.g. Keohane 1984: 85–109; North 1981: 31–2; 1995: 18), whereas the conflict approach emphasizes Causes 3, 5, 7, and 8 (e.g. Krasner 1982: 501–3; Tilly 1991: 594). Neither approach captures all the possible causes.

In principle, agents may attempt to change an institutional arrangement (thus changes become possible) whenever any of the nine sources of stability no longer holds. Because the actual process of institutional change is quite demanding (i.e. it needs an effective anti-ideology, political entrepreneurship that can overcome the problem of collective action, and a social movement), many agents simply do not get into the actual process of pushing for change even if they desire changes.²¹ Moreover, even if an attempt for change is made, the attempt may not succeed. As such, although many agents may desire some changes, one almost always detects more (relative) stability in any given society. Otherwise, we cannot have the stable object called society!

Institutional changes, however, are not only possible but also inevitable. Human instincts for survival and insatiable appetite for happiness (or welfare) make social change in which institutional change is an integral part inevitable.

The dynamics of institutional change II: slow vs. abrupt changes

Institutions and institutional systems (thus society as a whole) have experienced both slow (incremental) and abrupt changes.²² Mechanisms behind slow – and usually nonviolent – changes may range from adaptation to patching to diffusion or transposition to gradual degeneration or degradation to gradually dying off (Genschel 1997; North 1990: 89; Cortell and Peterson 1999). Under most circumstances, institutional change is slow because institutional stability is underpinned by many factors and changing a whole institutional system is inherently difficult.

Both slow and abrupt changes can bring fundamental changes to institutions and institutional systems. In other words, not all fundamental changes come abruptly; they can also result from an accumulation of a series of changes within a relatively long period of time. China's transformation in the past three decades is a good case.

Abrupt institutional changes do come, especially but not always in times of crisis or upheaval (North 1995: 19–20; Cortell and Peterson 1999). However, abrupt institutional changes can even occur peacefully. The civil rights movement in the United States in the 1960s unfolded largely peacefully. Likewise, China's transformation from a socialist planned economy to a largely capitalist market economy in the past three decades has also been relatively peaceful.

While exogenous shocks do often induce abrupt changes, they may not do so within shorter time frames. Thus, although the coming of the West propelled *shogunate* Japan to Meiji Restoration, imperial China was never able to reform itself despite actually suffering far more devastating losses of war at the hands of the West than shogunate Japan. Thus, external shocks by themselves are insufficient to induce sudden and dramatic changes, although some attempts to adjust are all but certain.

Fourth, external shocks may not be necessary for abrupt changes. Abrupt changes can come endogenously, or they can occur from inventing or importing

a radical idea (either technological or social), although external shocks may induce more radical ideas or make radical ideas more acceptable. The Glorious Revolution was the culmination of a series of changes driven mostly by endogenous changes within Great Britain. To a lesser extent, the Bolshevik Revolution in Russia was largely caused by the combination of the availability of a radical idea (i.e. Marxism) and a great political entrepreneur (i.e. Vladimir Lenin), with the internal decay of the Russian Empire playing only a *facilitating* although crucial role.

Finally, institutional changes in the same domain can come in mixed forms, that is, with both slow and abrupt changes. The evolution of minority rights in the United States has been the combined result of two episodes of abrupt changes (i.e. the Civil War and the civil rights movement) and slow changes in the legal framework and people's ideas about race and affirmative action (Lieberman 2002).²³

Concluding remarks

In this chapter, I advance a general theory of institutional change by organically synthesizing the harmony approach and the conflict approach via social evolution (Table 3.1 summarizes the major characteristics of the theory). The next chapter assesses the power of general theory against existing (specific) theories of institutional change.

Table 3.1 A brief summary of the general theory

| <i>Items</i> | <i>Descriptions</i> |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gene | Idea |
| Phenotype | Institutional arrangement |
| Mutations | New ideas |
| Source of mutation | Learning <i>de novo</i> , cross-breeding of ideas, and rediscovery of old ideas etc. |
| Process of change | Five phases: generation of ideas, mobilization, struggle for power, setting rules, (de-)legitimatization/stabilization |
| Selection pressure | Human intelligence operated within the constraints set by natural environment |
| Mechanism of selection | Mostly artificial selection |
| Agents in institutional change | Individuals (e.g. political entrepreneurs), organizations (e.g. the state), and existing institutions |
| Dynamics of the process I: stability versus change | Stability usually prevails, but changes are possible and inevitable |
| Dynamics of the process II: slow versus sudden change | Slow change is the norm, but sudden change arises from time to time |
| Path dependence in institutional change | Prevalent and profound, because existing institutions shape future institutional changes in various ways at various junctures |
| The welfare value of institutions: short run versus long run | The welfare value of a particular institutional change in the short run is uncertain, but some welfare-improving institutions do emerge in the long run |

4 Assessing the general theory

A general theory must subsume existing partial or specific theories and make them special cases of a general theory. A general theory must also explain phenomena that could not be adequately explained by existing theories. In this chapter, I shall attempt to show that the general theory outlined previously does subsume existing theories (both vertically and horizontally) and adequately explains phenomena that could not be adequately explained by existing partial or specific theories.

Empirical assessment

By integrating agent, idea, conflict, and power into an organic framework through the core mechanism of variation—(artificial) selection—inheritance, the general theory is a genuine social evolutionary theory of institutional change. As a result, the general theory can endogenously and parsimoniously explain important basic facts of institutional change and human society that cannot be adequately explained by existing theories.¹

Explaining basic facts of institutional change

The general theory adequately explains the first basic fact of institutional change, the stability and change of institutions. Because the stability of institutions rests on a variety of causes and *successful* institutional change is not easy for a variety of reasons, institutions are generally stable. Yet, because agents do attempt to change institutions and some of their attempts do succeed, institutions can be changed. In the general theory, stability and change are thus two sides of the same dynamic: the same mechanism explains both stability and change.

The general theory also adequately explains the second basic fact that institutional change (and social change in general) seems to be a process of relatively slow changes most of the time, yet numerous abrupt changes do occur from time to time. Because of the general difficulties in changing existing institutions, most institutional changes must necessarily come slowly (and most periods of human society must necessarily be periods of slow

changes). Because a ruling group with sufficient power can dictate a whole new set of institutions, however, abrupt and often dramatic changes of institutions are possible. This dynamic also explains why abrupt institutional changes usually occur after a decisive change of political power, usually (although not always) after a violent struggle for power. Too often, only a violent struggle for power can decisively change the distribution of power, thus allowing abrupt institutional changes.

The general theory can adequately explain the third basic fact of institutional change: the presence of both common and different institutional arrangements across different human societies. At the very beginning of human society, the initial choices of institutions in different human societies were strongly constrained by the different natural environments they faced and by their limited knowledge (Diamond 1997). After the initial choice, path dependence began to operate, although natural environment still plays a role. As a result, human societies have accumulated great diversities in their institutional arrangements. The whole world has not looked and will not look the same.

Yet, when it comes to some of the most fundamental institutions for organizing societies, human societies also exhibit a high degree of convergence. For instance, hierarchy prevails in most societies that are beyond the stage of horticultural societies, and the more developed the societies, the more developed the social hierarchies (Nolan and Lenski 2004: chap. 4). The foremost reason for this commonality has been that, during the course of social evolution, different human societies have found that hierarchy is the most efficient way to organize societies to fight organized warfare (Diamond 1997: chap. 14).²

The same can be said about money. After the rise of division of labor in human societies, some exchanges of goods – first as “gifts” – became inevitable, and the primitive market was born as soon as the first exchange took place. As exchange increased, a common denominator of value for goods among those in a community became desirable and eventually inevitable. Not surprisingly, all human societies with extensive trade developed markets and money (Menger 1892).³

Finally, compared to existing theories, the general theory provides a far more realistic and robust explanation of why both good and bad institutions come to exist and persist. The general theory emphasizes that human beings are unlikely to achieve welfare-improving institutions in every case of institutional change due to the enormous challenges for arriving at welfare-improving institutions. Moreover, because most institutions have distributional effects and are usually backed by power, bad institutions often persist because they are backed by vested interest groups with power.⁴ Of course, human beings get some institutions right, and good institutions do come into existence. Moreover, *in the long run*, good institutions are more likely to persist precisely because they improve welfare.

Overall, the general theory explains the basic facts of institutional change well. As such, the general theory measures up well to the first task set in the introduction.

Explaining human progress

Despite admitting that agents can move toward the Pareto frontier through cooperation and coordination, the general theory does not require individual actors to behave toward collective benefits to explain good institutions. In fact, the general theory contends that individuals' *self-interested* search for happiness is the ultimate engine and guarantor of human progress. Exactly because individuals demand happiness, individuals eventually select some good institutions in the very long run, and this mechanism of artificial selection is the ultimate foundation for human progress.

Because human intelligence is fallible, there is no guarantee that an institutional arrangement necessarily improves social welfare. Moreover, because power plays a critical role in most processes of institutional change, there is no guarantee that a good idea will win in a process of institutional change. Facing these two basic obstacles, how can we explain the indisputable meta-fact of human progress, enormous variations across societies in terms of progress notwithstanding?

The harmony approach essentially finesses the problem by assuming either that individuals eventually get things right or that human progress is easy and straightforward because human beings reach good institutions via cooperation and coordination. Meanwhile, the conflict approach essentially denies human progress or ignores the challenges posed by human progress. Neither position is tenable.

As a social evolutionary theory, the general theory can explain human progress neatly. Just as the biological evolutionary approach explains adaptation or fitness, which is equivalent to welfare improving in social evolution, via the mechanism of variation–selection–inheritance, a social evolutionary approach explains social progress via the same mechanism.⁵ The most critical difference between biological evolution and social evolution is that human intelligence plays an enormously important role in the latter.

Just as the fitness of a phenotype in biological evolution can only be tested in the ecosystem, a phenotype's fitness in social evolution can only be tested in the social system. Unlike in biological evolution where nature alone determines the fitness of a phenotype, it is human intelligence and nature together that ultimately decide the fitness of an institutional arrangement in social evolution.⁶ This is measured by the welfare-improving effect of the arrangement judged by human intelligence: subjects' desires for happiness and their calculation of their welfare determine whether the arrangement improves welfare and is thus fit or not. An arrangement's fitness is thus determined by the mechanism of *artificial selection*, or selection by human intelligence. It is in this mechanism of artificial selection that the ultimate foundation for human progress lies (Commons 1934: 45, 636–7, 657).⁷

At the level of individuals, artificial selection works through two major channels. The first channel is that, all else being equal, good ideas are more likely to attract more support and thus are more likely to win the struggle for

power to set the rules. The second and more critical channel is that subjects governed by an institutional arrangement constantly evaluate whether the arrangement has actually improved their welfare. All else being equal, an arrangement that most subjects judge to be social welfare improving is more likely to persist. In contrast, when some subjects feel that their welfare has been jeopardized by the institutional arrangement, some of them (i.e. political entrepreneurs) may develop anti-ideologies that promise a better solution and organize collective actions to change the existing arrangement.

Artificial selection can also operate at the group level. There is group selection in social evolution. Specifically, groups with welfare-improving institutions are more likely to win competitions against groups with welfare-decreasing institutions (Hayek 1967: 67n3; 1973: 148). Most evidently, conflict among nations in the form of war or threat of war, the highest form of competition among groups, has been a powerful mechanism of group selection and thus also a powerful mechanism of spreading good institutional arrangements through most of human history (Chaudhry and Garner 2006; Epstein 2000; Hodgson 1996; Olson 1982; Weede 1993).⁸ Through war, groups that possess more welfare-improving institutions eliminate, absorb, and prevail upon groups that possess more welfare-reducing institutions (Diamond 1997). As a result, some welfare-improving institutions are imposed upon a larger population, and some welfare-reducing institutions are eliminated or are at least weakened. In addition, both sides in a conflict can learn the better part of each other's institutions or emulate the institutions of other more successful states, thus further accelerating movement toward better institutions.

Hence, although a single process of institutional change does not guarantee that a good idea (or a good institutional arrangement) will win, the mechanism of artificial selection in institutional change and in social evolution in general does guarantee human progress in the (often very) long run. This is the neat aspect of the social evolutionary approach: the eventual outcome does not depend on the success of a single round within the process but rather on the repetition of the process. Through the competition of ideas, selection based on subjects' calculations, and competition among groups, some good institutional arrangements emerge and persist in the long run; human progress is secured, although the road toward human progress is often long, difficult, and bloody.

The general theory thus offers a very robust explanation for human progress.

Explaining path dependence in institutional change

Path dependence has become a powerful explanatory variable in many theories of institutional change (Mahoney 2000; Pierson 2000a; Thelen 2003).⁹ As Paul David (1994) pointed out, however, the existing literature on path dependence in institutional change largely fails to note that path dependence itself is not a theory of institutional change but an aspect of the dynamics of institutional

change that needs to be explained. Worse yet, many authors have taken path dependence as a panacea to be smuggled into their theories in an ad hoc manner when their theories cannot seem to explain the phenomena at hand.

Unlike the existing literature in which path dependence is generally used as an explanatory variable, the general theory of institutional change outlined previously provides a comprehensive explanation for path dependence in institutional change and in social evolution in general. Existing institutions and the overall institutional system, which can be understood as a form of endowment or institutional endowment, enter the process of institutional change in all five phases, thus profoundly shaping the course of future institutional changes. As a result, institutional change is inevitably path dependent.

Existing institutions influence the generation of ideas for future institutional changes. As the sociology of knowledge (thus ideas) has long noted, institutions shape the direction of the pursuit of knowledge (Scheler 1980; Mannheim 1936; see also Becker 1976: 11; David 1994; North 1981; 1990; 1995: 18–20). Through his genealogy of power/knowledge, Foucault (1980) incontrovertibly demonstrated that almost all knowledge is produced under a particular institutional system or power structure. In a very real sense, institutions do think by influencing our thinking (Douglas 1986).

Existing institutions limit the entry of agents in institutional change. Because institutional arrangements have a distributional effect (Knight 1992), existing institutional arrangements bestow some agents (i.e. those in privileged positions) with more initial power and other agents (i.e. those in disadvantaged positions) with less initial power. As a result, privileged agents have a higher probability of playing a part in subsequent institutional changes, whereas disadvantaged agents have fewer chances of entering the process even if they desire to do so and have good ideas for possible institutional arrangements.

In other words, power in institutional change can be subject to the dynamics of positive feedback. When agents gain power in one round of institutional change, they can leverage the newly gained power to the next round of institutional change and in other issue areas: power is fungible (Mahoney 2000; Pierson 2000a: 259). In contrast, if agents have lost the struggle for power in a previous round, they may become increasingly marginalized and cannot get back into the process of institutional change. An institutional arrangement thus can be understood as an instrument of social closure or exclusion (Murphy 1988). Extreme forms of social closure (e.g. slavery, apartheid, ethnic cleansing) exclusively allow privileged agents to dictate institutions while excluding disadvantaged agents from the whole process of institutional change, whereas less extreme forms of social closure (e.g. de-franchising, segregation, racism) marginalize the influence of disadvantaged agents in institutional change.¹⁰ Of course, under social closure, many disadvantaged agents will simply give up hope and refrain from even trying to get into the process of institutional change (Bachrach and Baratz 1962; 1963).

Existing institutions also impact the (de)legitimization and rationalization of new institutions. An institutional arrangement, once created, becomes a

part of the overall institutional system and may be either compatible or incompatible with existing institutions. The degree of its compatibleness influences its survivability and stability within the whole institutional system. Needless to say, this understanding firmly brings cultural endowment into the process of institutional change. Because culture (or informal rules) is also a part of a society's institutional endowment, the general theory easily explains why social norms, taboos, and conventions often impact formal and informal institutional change, either by informing as ideas for specific institutional arrangements or by restricting possible choices of ideas for specific institutional arrangements.

Finally, because institutions within a society form a system, change in one aspect of the institutional system often has a system-wide impact. As a result, newly emerged institutions can drive further institutional changes in other areas (Lewis 1955: 144–6). Alternatively, newly emerged institutions can limit changes in some other areas (Weir 1992; Clemens and Cook 1999: 458). This is hardly surprising: within a system, change can be subject to both positive feedback and negative feedback and is thus both self-reinforcing and self-limiting (Jervis 1997).

Because existing institutions influence the course of future institutional changes in so many different ways at various junctures of the process, path dependence in institutional change may be far more widespread and profound than we imagine. To a great extent, institutions are not only rules of the game but also *constitutive players* in the game.¹¹ As such, an institutional arrangement not only has a life of its own (Commons 1934: 635–6), but may actually have a much larger life of its own. This should still hold even if institutions cannot operate totally autonomously from power: institutions backed by power may still exert distinct impact over the course of social changes from (naked) power (Krasner 1982).

Theoretical assessment: theoretical unifications

A major weakness with existing theories of institutional change is the restrictiveness of their explanations (Knight 1992: 84–5; Cortell and Peterson 1999; Thelen 2003).¹² Hence, a more illuminating way to assess the explanatory power of the general theory is to see whether it can subsume other specific theories of institutional change in the literature, thus achieving much greater explanatory power. If the general theory can make it clear that some seemingly unrelated theories are actually dealing with essentially the same dynamics of institutional change, then the general theory will have achieved significant theoretical unification and possess greater explanatory power. When this is the case, the general theory outlined above will have a claim to being a good general theory. Although I cannot possibly engage all the specific theories of institutional change out there (and I apologize for having to leave out many), I insist that all existing theories are specific theories and the general theory can subsume all of them.

Most obviously, the general theory covers *all* of the possible phases in institutional change. As a result, the general theory vertically subsumes many existing theories that only cover some but not all of the phases in institutional change.

For example, Jack Knight's framework (Knight 1992) is a more developed framework within the NIE approach (and the broader harmony approach). Evidently, his framework focuses only on the phase of setting rules with a given (asymmetric) distribution of bargaining power (the fourth phase in the general theory). In contrast, the general theory emphasizes that several phases must precede and follow the phase of setting rules. Because the general theory covers more phases of institutional change than Knight's framework, the former subsumes the later vertically. More importantly, the general theory also explicitly addresses the problem that Knight does not address: where did agents' asymmetric bargaining power come from? In Knight's framework, agents' bargaining power is given *ex ante* and is thus *exogenously assumed*. In the general theory, agents' bargaining power is determined by factors within the general theory and is thus *endogenously derived*. Because changes must be endogenously driven if a theory of change is to be a good theory of change (Boland 1979: 976; Lieberman 2002: 697), the general theory is a superior theory to Knight's.

Theories of social movement and revolution generally focus on the phase of struggle for power to set the rules but ignore the phases of generating ideas, setting the rules, and (de)legitimizing/stabilizing (for a good review, see Goldstone 2001). The general theory also subsumes these theories vertically and makes them partial versions of the general theory (see also the section below).

Weyland's (2007; 2009) theory of institutional change based on the diffusion of institutions (or ideas) essentially focuses on the last phase of institutional change. Any theory of institutional change centered on the diffusion of institutions is ultimately unsatisfactory: it merely pushes the central question back and does not account for why certain institutions came to exist in some other places in the first place. In the end, such a theory cannot provide an endogenous explanation for institutional change.

Some theories of institutional change merely address some specific mechanisms in one or two phases of institutional change. For instance, Denzau and North (1994) single out mental maps in shaping our ideas for specific institutions. Likewise, Weyland (2007; 2008) emphasizes bounded rationality and loss aversion (as captured by prospect theory) as key mechanisms in shaping agents' choices of specific institutions. Although all these mechanisms are valid, these theories merely address specific mechanisms of how agents make and choose ideas (of institutional arrangements) under uncertainty. More importantly, these theories are still within the behavioral economics approach, which is essentially neoclassical economics plus some psychology (Tang 2010c). As such, they still underemphasize the role of power in institutional change. Apparently, the general theory subsumes these specific theories that single out specific mechanisms in specific phases of institutional change.

Other existing theories of institutional change address some specific factors or aspects in one or two phases of institutional change. John Campbell (1998; 2002; 2004), by focusing on the role of ideas in policy making (i.e. institutional change), made an early but fairly sophisticated attempt toward a more general theory of institutional change. Yet, his theory merely covers how different types of idea can affect policy making, without emphasizing how ideas are selected via a political process and then eventually turned into institutions. More recently, Mahoney and Thelen (2010) put forward a theory of gradual institutional change. Their theory, by singling out many elements of the theory noted in the general theory developed here (e.g. ambiguity, power, and of course ideas) and emphasizing that institutional change is foremost a political process, represents a major advance over much of the existing literature. Unfortunately, their theory is not a general theory, as suggested by the title of their chapter. In contrast, the general theory developed here goes beyond what their theory has conceived. The general theory not only explains dramatic and gradual changes within a single theory, but also underscores many elements that remain missing in their theory. Even more fundamentally, their theory still failed to recognize (and thus synthesize) the two major approaches in the existing literature, despite their recognition that power, ideas, and politics are central to institutional change.

The general theory outlined above also achieves horizontal unification of the fundamental paradigms for understanding institutional change and human society in general.¹³ Foremost, the general theory achieves an organic synthesis of the conflict paradigm and the harmony paradigm,¹⁴ whereas previous attempts have only managed a partial synthesis of the two paradigms (e.g. Lenski 1966; North 1981: chap. 5; Weir 1992). Thus, although theories with the harmony approach can only explain institutional changes in which power has no role, or the distribution of bargaining power is equal and conflict theories can only explain institutional changes in which cooperation and coordination have no roles, the general theory can explain all types of institutional change (see Table 4.1). Not surprisingly, the general theory easily subsumes the case of institutional change via spontaneous emergence, if spontaneous emergence is understood to be changes without input from power or outcomes not dictated by particular agents or organizations. Within the general theory, processes of institutional changes via spontaneous emergence are simply special cases in which power does not play a significant role in the process, often because agents have equal bargaining power.

The general theory also synthesizes the individualism paradigm and the collectivism paradigm. In the general theory, while individuals (most evidently, idea providers and political entrepreneurs) are indispensable for the formation of ideas and the mobilization of political power in the process, collective action and organizations and groups are indispensable in the struggle for power and the imposition of rules.

In the next sections, I further illustrate the unifying power of the general theory, showing that it can unify diverse theories in two different issue areas.

Table 4.1 Three approaches toward institutional change – a comparison

| | <i>The harmony approach</i> | <i>The conflict approach</i> | <i>The social evolution approach</i> |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------------------------------------------|
| <i>Accommodating the fundamental challenges in institutional change</i> | | | |
| Incomplete knowledge | No or very limited | Yes, but incomplete | Yes |
| Surplus of agents | No | Yes | Yes |
| Distribution effect of institutions | No | Yes | Yes |
| <i>Explaining the basic facts of institutional change</i> | | | |
| Stability vs. change | Yes, but the explanation is naive and incomplete | Yes, but incomplete | Yes, complete explanations |
| Slow vs. sudden changes | No good explanations for sudden changes | Yes, but incomplete | Yes, complete explanations |
| Commonalities vs. diversities | No good explanations for diversities | No good explanation for commonalities | Yes, complete explanations |
| Good vs. bad institutions (or differences in progress across societies) | No good explanation for bad institutions, and no tenable mechanism for explaining good institutions | No good explanation for good institutions | Yes, complete explanations, with a robust mechanism for explaining good institutions |
| Difficulty of transplanting institutions | Incomplete and ad hoc | Yes, but incomplete | Yes, complete explanations |
| Overall human progress | Yes, but without a tenable mechanism | Having difficulty in explaining | Yes, and with a robust mechanism |

Ideology, anti-ideology, legitimization, organization, social movement, and collective action: the problem of stability versus change

Functionalism theorists, such as Talcott Parsons (1951: 481–2) and Robert Merton (1968: 370), emphasized the crucial role of “common value” or norms for the whole social system to function smoothly. For these theorists, common value is the glue of the social system because it socializes individuals, thus preventing them from becoming dysfunctional. In the conflict approach, these social norms or common values are simply ideologies that legitimize the existing social order, thus stigmatizing institutional and social changes (Darhendorf 1958).

After weakening the efficiency assumption,¹⁵ Douglass North recognized the role of ideology and anti-ideology in overriding the free rider problem in collective action, thus partially explaining institutional stability and change (North 1981: chap. 5, esp. 49–53, and chap. 6). North (1981: 57–8) correctly pointed out that institutional change cannot be adequately explained without a theory of collective action in which a theory of ideology is an integral part

and criticized Mancur Olson (1965) for playing down the role of ideology in generating collective action.¹⁶

Marx and Engels (1848) emphasized the crucial role of proletarians' class consciousness in their class struggles against the capitalist system. Marx and Engels noted that proletarians' inevitable alienation from the capitalist system provides the foundation for proletarians to realize their true class consciousness – that they are the oppressed class in the capitalist society. They also attacked reformist ideas as equivalent to buying into the false consciousness instilled by the ruling class.

Yet, individuals of the proletarian class do not just wake up to their class consciousness spontaneously (Dahrendoft 1959: chap. 1). Facing the stark reality of engineering a revolution (i.e. the burning question of “What is to be done?”), Lenin asserted that proletarians' realization of their true class consciousness cannot be automatic; it takes a leader, a party as the vanguard of the proletariat, and agitation to arouse the proletarians' awareness of their true class consciousness (Lenin 1901–2; see also Lukacs 1971 [1920]). In China, where peasants were 90 percent of the population, Mao Tse-tung (1927) had no difficulties in identifying Chinese peasants rather than their proletarian counterparts as the core force and vanguard for a potential Chinese revolution. Furthermore, Mao also had no difficulty in deciding that peasants too had a class consciousness that could and must be aroused.

The enormous literature on political mobilization and social movement in sociology, pioneered by Doug McAdam (1982), Aldon Morris (1984), Anthony Oberschall (1973), Charles Tilly (1978), and Sidney Tarrow (1982), are studies of how agents operating under structural constraints deploy ideology, power, and political entrepreneurship to mobilize individuals into collection actions. Understood from the angle of institutional change, social movements are essentially collective actions aimed at changing certain institutional arrangements.

Because no attempt of institutional change can be an entirely individual endeavor, social movements and thus organizations are almost absolutely necessary, whether agents want to change or uphold existing institutions: only social movements and organizations can make and enforce institutions (North 1990: 5; 1995: 15; Thelen 2003: 217). After all, organization is the vehicle for “mobilizing bias” (Schattschneider 1960: 71). Not surprisingly, students of collective action and students of social movement have lately realized that they are actually examining essentially the same phenomenon called institutional (or, more broadly, social) change (McAdam 2003). Similarly, students of social movement and organization and students of social networks are also finding common ground (Diani and McAdam 2003; Davis *et al.* 2005). After all, for any successful institutional change, forming and sustaining an organization (and thus a movement) is indispensable (McCarthy and Zald 1977), and a social network is a critical, if not an essential, component in the initial stage of organizing a collective action. This is simply because we tend to rely on those whom we know to form the initial “cell(s)” of collective action (McAdam 2003: 286–9; see also Oberschall 1973; Morris 1984).

The general theory makes it clear that all these authors and their diverse theories are dealing with the same problem of political mobilization and collective action for the struggle for power in institutional change, although from different “class consciousness.”

Because most institutions have distributional effects producing both winners and losers (Knight 1992; Acemoglu and Robinson 2006), an existing institutional arrangement or, more often, an institutional system inevitably generates two sets of ideas: ideologies that legitimize or rationalize the existing institutional system among its subjects and anti-ideologies that delegitimize and thus challenge the existing institutional system among its subjects. In more conventional but no less politically loaded language, ideologies are prevailing “social norms” and “common (social) values,” whereas anti-ideologies are a set of ideas that challenge the prevailing social norms and common values. Not surprisingly, most of the privileged classes in an existing institutional system legitimize, if not idealize, the system, whereas the disadvantaged masses question and even challenge the system (Dahrendorf 1958: 176). The shifting position of Christianity on the question of social inequality before and after it became a religion in power has been one of the more illustrative examples.

Anti-ideology or class consciousness for the disadvantaged class is indispensable for mobilizing individuals within the class to join collective actions for changing the existing institutional system. Only if there is an effective anti-ideology can a possible attempt of institutional change by the disadvantaged class get off the ground. The opposite side of anti-ideology, mobilization, and collective action is ideology, obedience, and maintenance of the existing order. The immediate function of ideology is to prevent the rise of anti-ideologies or at least to make the rise of effective anti-ideologies difficult by rationalizing, if not idealizing, the existing institutional system.¹⁷

When individuals of the disadvantaged class internalize the privileged class’s ideologies – whether under coercion or inducement (Marx and Engels 1932; Gramsci 1992–6 [1926–37]; Althusser 2001 [1970]) – they acquire a false class consciousness. Two immediate results follow. First, the cost for enforcing the institutional system is lower: ideologies smooth the enforcement of existing (formal) institutions, and the institutional system becomes more stable (Lanski 1966: esp. 50–60; Etzioni 2000). Second and more importantly, the whole institutional system (including the power behind it) becomes “legitimized,” “masked,” “sanitized,” and thus “legitimate” (Foucault 1980; 1990 [1976]).¹⁸ When this is the case, anti-ideologies have difficulty taking root among individuals of the disadvantaged class. When there is no anti-ideology that can effectively counter the dominant ideology, overcome the problem of free riding, and mobilize enough support for change, institutional stability is maintained – by default.¹⁹

Because institutions inevitably generate winners and (more importantly) losers, there will always be contradictions, tension, and eventual conflicts between the existing institutional system and some of its subjects. With struggles for the subjects’ hearts and minds between the two types of

Table 4.2 Ideology versus anti-ideology in institutional change

| | <i>Ideology</i> | <i>Anti-ideology</i> |
|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Other labels with a political undertone | For the ruling class: social norms, common values For the ruled class: false (class) consciousness | For the ruling class: anti-social, rebelling, or radical ideas For the ruled class: class consciousness |
| Political attitude toward the existing institutional system | <i>Conservatism</i> : the system is basically fair and fine, and it does not need significant changes. Individuals have to “adapt” or “conform” to the system | <i>Reformism</i> : the system needs some (significant) changes, but no violent and drastic changes; or <i>Radicalism</i> : the system needs a fundamental overhaul |
| Functions | To indoctrinate or socialize individuals, especially individuals from the under-privileged class (i.e. make them accept a false consciousness) | To wake the ruled class to their suffering thus their true class consciousness |
| Impact on existing institutions or institutional system | Legitimization and rationalization | Delegitimization and de-rationalization |
| Impact on individuals' actions | Internalization for obedience: obedience as culture | Alienation from the existing system: disobedience as rights |
| Orientation of individual actions | Defending the status quo | Rejecting existing institutions, and mobilizing for collective action |
| Outcomes at the institutional level | Stability with the institution or the institutional system | Instability and possible institutional change |

ideology at their core, these contradictions, tensions, and conflicts inevitably drive social changes.

In sum, in light of the general theory, many diverse theories or notions centered upon ideology, anti-ideology, class consciousness, and collective action deal with the fundamental problem of institutional stability and change from the perspective of collective action, although often with different class consciousnesses (Table 4.2).²⁰ By bringing these different theories under a unified framework, the general theory achieves theoretical unifications of specific theories.

***Economic inertia, disaster, and miracle:
power, state, and institutional change***

The general theory can also unify theories of systemic inertia (e.g. Genschel 1997; Mokyry 1992; Olson 1982), theories of economic disasters and miracles (e.g. North and Thomas 1973; Scott 1998; Wade 1990; World Bank 1993), and theories of dramatic or transformational economic changes (e.g. Polanyi

2001 [1944]; Nee 2000). According to the general theory, these specific theories deal with the two sides of the same dynamic; they all operate on the principle that only (very) powerful interest groups, often the state itself, can prevent necessary changes or impose dramatic changes for good or bad.²¹

The general theory emphasizes a crucial cause for the persistence of bad institutional arrangements. Because an institution often has a distributional effect, it inevitably produces a privileged group and a disadvantaged group. As such, the privileged group employs power to defend an institutional arrangement *even if* it reduces social welfare, especially the welfare of the disadvantaged group. This willingness of the privileged group to defend a welfare-decreasing institutional arrangement with political power is a major cause for the persistence of bad institutional arrangements.

Many have noted that resistance by vested interest groups to change due to economic and political reasons may have been a major cause of many episodes of resistance to technological change and thus inertia and stagnation in economic history. Sometimes, it may be the whole ruling class (essentially the state) that is resisting. When this is the case, society is in a systemic inertia and generally resists changes even when facing an imminent crisis (Gershenkron 1963; Olson 1982).

The state can also engineer economic disasters in another way by pursuing large-scale or wholesale social engineering, usually guided by a utopian ideology (Scott 1998). There are two critical and related reasons why grand social engineering has often led to disasters. The first is the incompleteness of our knowledge. We simply cannot know with certainty whether an institutional arrangement – not to mention a whole system – will improve social welfare unless it is tested in the social system. Our arrogance in believing that we can design a perfect system thus lies behind every grand disaster we have made. Second, the systemic nature of an institutional system means that it may not be easy to copy good institutions from one society to another. Some institutions that seem to produce welfare-enhancing outcomes in the former may not be compatible with existing institutional systems of the latter and thus have difficulty surviving after transplantation.

When the state defends or imposes a welfare-decreasing institutional system, the state inevitably becomes “the sources of man-made economic decline” (North 1981: 20). Yet, the state can also be the cause^o of man-made economic miracles. The British state was instrumental in paving the way for industrial capitalism (Polanyi 2001 [1944]). More recently, the fabled “developmental state” was instrumental in engineering the East Asian miracle (Wade 1990; see also Amsden 1989; Evans 1995; Haggard 1990; Johnson 1995; World Bank 1993), and the Chinese state has deployed all its power to move the country from a planned economy to a market economy (Nee 2000).

The general theory thus makes it clear that despite their seeming unrelatedness, all the aforementioned theories are dealing with the same dynamic: the critical role of power, especially state power, in institutional change (Chang and Rowthorn 1995; Chang 2003; Gershenkron 1962; Polanyi 2001

[1944]; Thelen 2004). In light of the general theory, phenomena as diverse as Britain's growth after the Glorious Revolution, the economic disaster produced by the Soviet Union's planned economy, China's great leap forward under Mao, the economic disaster produced by the policy of simply "getting the price right" after the collapse of the Soviet Union, and the "East Asian Miracle," all speak of the same logic. Without the power to back existing institutions or impose systemic institutional changes at the center of institutional change, these phenomena will have to be explained by different mechanisms. In contrast, the general theory unifies existing specific theories into a single coherent meta-explanation.

Finally, in danger of stating the obvious, the central role of state power in imposing systemic institutional changes explains why many, if not most, (institutional) revolutions have been preceded by the usurpation of the state apparatus, usually through violent means.

Concluding remarks

In this chapter, I have attempted to demonstrate that the general theory outlined previously not only achieves theoretical unifications but also provides more explanatory power for the basic facts of institutional change. Moreover, it provides a robust explanation for a key meta-fact of human society: human progress. As such, this general theory should have a solid claim to being a good general theory of institutional change.

5 Power/institutions and society

If institutions are the foundation of social life and institutional change is a fundamental force of social change, then the general theory of institutional change previously outlined must have profound implications for our understanding of human society in general. In this chapter,¹ I shall highlight some of the potential implications of the theory on some of the most fundamental issues in social theories. Although I do make some definitive statements on some issues, the main purpose of this chapter is to outline some directions for future research.

I focus on three issues. First, I shall show that the general theory provides a resolution of the so-called “duality of structure” problem in the social sciences. Second and partly built on the first, I shall address the various forms of utopianism that seek to escape from power in society and underscore why they are utopian. I then defend a subject-centric approach toward justice, which actually entails a redefining of the role of intellectuals in society.

Duality of structure and duality of power

When structure is understood narrowly as the institutional system of society, the general theory developed here can at least partially resolve the long-standing agency–structure problem in different fields of the social sciences (Giddens 1979; 1984; see also Granovetter 1985; North 1981; 1990; Sewell 1992; Wendt 1987) by unifying two theories that may seem miles apart: Anthony Giddens’ theory of structuration and Michel Foucault’s genealogy of power.

Before I proceed further, a clarification is in order. Giddens has been the most vocal in emphasizing the duality of agency–structure. With his popularity and persistence, however, Giddens might have confused many. For Giddens, agency is action, thus equivalent to *intentional* behavior (1979: 55–6; 1984: 5–16), and he surely has used agency and action (sometimes, practice) interchangeably. When this is the case, there is no need for the concept of agency. As such, the much hyped agency–structure problem is really an *action–structure* problem: how agents’ actions shape structure and how structure shapes agents’ actions.²

For Giddens, the duality of action/agency–structure has two key aspects.³ The first aspect is that action/agency and structure mutually constitute each other. In his words, “structure is the medium and outcome of the conduct it recursively organizes”; “the structural properties of social systems are both the medium and the outcome of the practices that constitute those systems” (1979: 5, 69).

Contra to the impression imposed by much spilled ink (e.g. Archer 1982; Sewell 1992), this aspect that action/agency and structure mutually constitute each other cannot be a serious puzzle. Marxism has long solved it, when it emphasizes that (supra)structure affects agents’ actions and itself is constructed by agents’ actions.⁴ Once agents and structure are taken as two components of the system called human society, agents, agents’ actions, and structure must interact with – and thus mutually constitute – each other: this is simply system dynamics (Jervis 1997). Specifically, although only agents through their actions/agency can create institutions (as components of the structure), institutions once created can have lives of their own: they shape agents and their actions and subsequent institutional/structural changes directly or indirectly, overtly or covertly (Commons 1934: 635–6; Manicas 1997 [1980]: 10–11; Hodgson 2006: 6–8). Hence, the information flow between agent and structure is an enclosed loop: agent and structure mutually constitute each other and are thus essentially inseparable. As emphasized in Chapter 4 above, this enclosed loop between agent and structure is a critical cause behind the prevalence of path dependence in institutional change in particular and in social change in general.

The second aspect of Giddens’ duality of structure is that structure is both “rules and resources” or that structure “both constraints and enables” agents in their choices of behaviors (Giddens 1993 [1976]: 121; 1979: 49–95; 1984, 17, 25–8, 374, 377; see also Hodgson 2006: 2, 6–8). Despite repeatedly emphasizing that structure both constrains and enables agents’ actions, however, Giddens has never offered an adequate explanation for why structure both constrains and enables other than some general statements and sporadic illustrations (e.g. Giddens 1979: 65–95; 1984: 16–28), and many after him have either lamented this aspect of the duality problem (e.g. Campbell 1998: 382) or dismissed the whole problem of agency versus structure altogether (e.g. Collins 1992).

Yet, Giddens came awfully close. When criticizing Lukes’s treatment of power and structure (Lukes 2005: 21–2; 1977: 6–7, 18), Giddens argued that “power must be treated in the context of the duality of structure” (1979: 91; see also 1979: 69).⁵ Moreover, Giddens seemed to grasp that power and institutions are virtually inseparable, noting, “Power can be related to interaction in a dual sense: *as involved institutionally in processes of interaction, as used to accomplish outcomes in strategic conduct*” (1979: 88; emphasis in original). Giddens failed to resolve the second aspect of the duality problem only because he took power as “a relational [rather than a dispositional] concept” even though he defined power as “transformative capacity” (1979: 88, 91–2). By defining

power as a relational rather than a dispositional concept, Giddens could not have taken the decisive step of admitting that power can be a property of the structure in the sense that the structure can virtually hold and exercise power. As such, he could not fully resolve the second aspect of the duality problem. This is simply because structure can constrain and enable agents *only if* it can virtually hold and exercise power.

The general theory previously developed can easily explain this second aspect of the duality of structure. It is just another dialectic fact of institutions: that is, institutions both constrain and enable. Institutions can certainly constrain because most of them are made and backed by power in its various forms, and power usually constrains. At the same time, however, institutions can also enable because they can reduce transaction cost, facilitate information, and reduce uncertainty. More importantly, institutions enable precisely because they constrain or limit agents' choices, thus inadvertently enabling agents to select their behaviors more readily. *Institutions constrain precisely because they enable, and institutions enable precisely because they constrain*, all because most institutions (thus the whole institutional system or structure) are backed by power and power is usually embedded within institutions.

The crucial link in the second aspect of the duality problem is thus power. Structure, consisting of institutions, constrains and enables largely because it is made and backed by power most of the time. The structure of a society is fundamentally a fossil of power in history: structure is mostly a power structure (for a more detailed discussion, see Tang n.d.-b).

This understanding of the second aspect of the duality problem also allows us to synthesize Foucault's genealogy of power and Giddens' structuration theory into a single framework, thus achieving a more holistic understanding of agents, structure, and power.

Foucault repeatedly emphasized that power both represses and produces. For him, power too has duality (1980: 94–5, 119; 1990 [1976]: 93–8). Once we admit that institutions are made and backed by power most of the time, it becomes apparent that Giddens' duality of structure and Foucault's duality of power are really talking about the same thing. Moreover, these two notions cannot operate without each other: structure has duality because power has duality and vice versa.⁶

By looking into social domains in which we least suspect the presence of power, such as sexuality, clinic, asylum, and knowledge, Foucault made it clear that power in its various forms permeates society. More importantly, Foucault showed that this permeation is accomplished through the process of institutionalization in history. As power becomes institutionalized or structuralized, it also becomes legitimized, thus softened and sanitized.⁷ The net result is that power and institutions/structure become thoroughly enmeshed and essentially inseparable during the course of social evolution. A major impetus behind this whole institutionalizing process is "*those who seize power by force [or struggle for power] find it advantageous to legitimize their rule once effective organized opposition is eliminated*" (Lenski 1966: 52; emphasis in original).

Because institutions/structure and power have become so thoroughly enmeshed and essentially inseparable, it is no surprise that, when one has duality, the other also has duality. Power both constrains and enables because institutions both constrain and enable. Institutions both constrain and enable because power both constrains and enables.

Specifically, as power becomes institutionalized or structuralized, the exercise of power also becomes institutionalized or structuralized: power is now mostly exercised under and through structure, and structure facilitates the exercise of power. Essentially, the exercise of power also becomes structural, thus indirect, covert, unintentional, and subconscious. The net result is that structural power becomes “capillary”: it penetrates our bodies and consciousness without us ever noticing it (Foucault 1980; Digeser 1992).

Precisely because structure and power become so thoroughly enmeshed and essentially inseparable, structure/power constrains and enables us seamlessly. By constraining agents’ potential choices without agents ever noticing it, “social constraint becomes self-constraint” (Elias 1994 [1939]). The structure reduces agents’ space for calculation, thus enabling agents to make available choices more readily. Because structure facilitates agents’ arriving at certain choices so seamlessly, it also seamlessly limits agents’ choices, again without agents ever realizing that they have other choices. In this fashion, power, once institutionalized or structuralized, not only disciplines and punishes but also “traverses and produces things” (Foucault 1980: 119).

Finally, because most institutions are made and backed by power, the structure of a society is essentially the power structure of the society. In other words, the structure of a society largely reflects the society’s power relationships through time. Consequently, when institutions evolve, the (power) structure of a society – the institutional system that legitimizes, exercises, and facilitates power – must also evolve.⁸

As will become clear immediately below, this understanding that structure as a system of institutions and power can both constrain and enable agents and their actions is critical for arriving at a realistic understanding about power and freedom in society.

Power/institutions: no escape

Society, by definition, requires an institutional system or a structure to exist and operate. The general theory developed here underscores that institutions are products of politics, thus power: most institutions are made by power and backed by power. At the same time, institutions solidify, legitimize, sanitize, and soften power. Institutions become a sort of source of power and, more importantly, the instruments and facilitators of the (overt or covert) exercising of power. Indeed, power often operates under the cover of and through different institutional arrangements, as Foucault demonstrated beyond any reasonable doubt (1980; 1990 [1976]; 2000; see also Giddens 1979: 88–94).

As such, although power and institutions are ontologically distinct (and power has ontological priority over institutions),⁹ the two are essentially inseparable in society.¹⁰ Consequently, there is really no escape from power in society because there is no escape from institutions. Quite simply, without power, there will be no institutions, thus no society. When this is the case, it becomes apparent that three prominent approaches toward power and institutions (thus the society) are fundamentally flawed because they all want to idealize or escape from power, although to various degrees and via different routes. Because the fallacies of the first two approaches are well understood, I shall focus on the third approach, which has become quite fashionable recently in several forms.

Two utopianisms: complete idealization of or escape from power

The first approach is represented by Durkheim–Merton–Parsons' functionalism in sociology and the Dahl–Polsbyian pluralist approach toward power in political science in particular and the harmony approach in general. This approach is a utopianism because it idealizes the existing distribution and exercise of power in society, sometimes by definition. It asserts that power in society is exercised and has been exercised for the benefit of social welfare (e.g. Parsons 1957: 139–40; 1963b; Dahl 1961; 1967). By necessity, this approach also implicitly and explicitly asserts that the existing pattern of power in society reflects the spontaneous or natural evolution of the society: those more powerful are more intelligent and hardworking, thus deservingly occupy the powerful positions they now occupy (Davis and Moore 1945).¹¹ Because power is exercised justly and the pattern of power has evolved naturally (thus also justly), the power structure or institutional system, which reflects the historical and present distribution of power, must also be just. This approach is essentially a static utopianism toward power/institutions and thus society.

The second approach is a pseudo-dynamic but ultimately static utopianism. This utopianism denounces the power structure and the institutional structure of the existing society but then idealizes the power/institutional structure of a society in the future or in the past that one imagines and thus desires. This approach essentially seeks to escape from bad power to a paradise without bad power.¹²

There are two variants within the second utopianism. The first variant is forward looking because it idealizes the power/institutional structure of a society in the future. This variant is prominently presented by socialist and communist thought, either utopian or scientific (Engels 1974 [1892]).¹³ In contrast, the second variant is backward looking because it idealizes the power/institutional structure of a society in the past that one misses. This variant was prominently represented by Plato and Confucius: both mourned the passing of a golden age.¹⁴ Fundamentally, though, these two variants are the same: both denounce the power/institutional structure of the present but

then believe or hope that a utopia in which the exercise of power is completely just can be (re-)erected.

Looking even more closely, there is really no fundamental difference between the first two utopianisms. Both want to escape from the negative impact of power by idealizing a power structure; both refuse to admit that there is no perfect power structure (because power is usually deployed to serve agents' self-interests). Ultimately, they want human society to stop somewhere. The first approach wants to stop society now because the present society is (almost?) perfect, whereas the second approach wants to stop society after we move one step forward or backward into an (almost?) perfect society.¹⁵

The third utopianism: compartmentalizing power

The debate between the harmony approach and the conflict approach in the 1960s and 1970s in sociology and political science devastated functionalism and pluralism as forms of the first utopianism, whereas the dark side of socialist and communist rule totally discredited communism as a form of the second utopianism. As a result, the first two utopianisms toward power and society became too untenable too evidently.

Yet, men (or, more precisely, intellectuals) perhaps cannot resist the temptation of utopia and utopianism, and have reinvented a third and more sophisticated utopianism. Because this third utopianism seems to occupy a middle ground compared to the first two utopianisms, it has become the new darling of intellectuals. Essentially, the third utopianism tries to compartmentalize or bracket power, insisting that we can separate institutions from power and thus prevent power from penetrating some social domains. In other words, this utopianism insists (or wishes) that there are some social domains that power does not operate.

A major variant of the third utopianism is market fundamentalism as preached by Milton Friedman (1962) and Thomas Friedman (1999).¹⁶ Although these market fundamentalists understood that the human society as a whole cannot get away from power and institutions, they insisted that *the* market can and should, at least largely. These market fundamentalists believed that the economy *was* great when the market was able to self-regulate, until the rise of "big" government came to ruin almost everything. They thus asserted that everything could be great again if only we simply let the market regulate itself again.

Market fundamentalists forgot that the market cannot operate without the power and institutions that govern the market (Granovetter 1985). Moreover, they failed to mention that the self-regulating and free market that functions effortlessly without power has never existed. Certainly, market fundamentalists have never shown us that a genuinely free market has ever existed. In reality, the exact opposite is true: time and again, the state has had to create and enforce the market (Polanyi 2001 [1944]; North and Weingast 1989; Nee 2000). Worse, a genuinely free market as desired by these market fundamentalists

will most likely produce a hellish world just as the nonmarket (i.e. planned) economy has (Polanyi 2001 [1944]; see also Stiglitz 2001).¹⁷

A more recent and highly influential variant of the third utopianism is that of Jürgen Habermas. This variant is developed in two steps.

The public sphere as a power-free domain

In *The Structural Transformation of the Public Sphere*, Habermas (1989 [1962]) argued that there is a public sphere in which private individuals, participating as equals, discuss public interests.¹⁸ According to Habermas, in the public sphere, neither status nor tradition but only reason via communication proves to be the ultimate winner. Essentially, Habermas argued that inequality – hence, power – can be bracketed (Fraser 1990).¹⁹

Habermas was able to imagine his public sphere only by separating power from institutions. Yet, the public sphere cannot be separated from power because it is an institution. The public sphere in which reason has a chance to win has been and will always be backed by power, although perhaps sanitized power. As Eley (1994: 319–25) forcefully argued, “The public sphere was always constituted by conflict,” thus by power and struggle for power. Habermas simply neglected the role of power struggle in the institutionalizing of the public sphere in history so that he could laud that the state has retreated from his cherished public sphere.²⁰ He did not seem to realize that without first wresting against the Church and then erecting and backing a public sphere in the first place, the bourgeois state could not have retreated from the public sphere (Bourdieu 2000 [1997]: 65–6). Habermas thus committed the fallacy of dehistoricalization by neglecting the power origin of the public sphere to fit into his utopian imagination (Eley 1992: 292), just as market fundamentalists did with the market.

Moreover, it is doubtful that the state has really retreated from the public sphere, even in liberal democracy in which freedom of speech is protected. When even knowledge is produced under a power/institutional structure (Foucault 1980), how can the public sphere ever get away from power? Is it not much more plausible that power has simply become more sophisticated by hiding behind the benign face of social institutions (Foucault 1980; 1990 [1976])?

Fundamentally, the public sphere is just another domain in which the competition among ideas that can potentially produce different institutional arrangements takes place. As such, the discourse in the public sphere cannot possibly be about reason alone; it must also involve interest, conflict of interest, and actual struggle for power to make the rules with ideas. Habermas thus ignored, if not denied, the possibility that power and struggle for power permeate his cherished public sphere. He seemed to believe that the competition among ideas in the public sphere is *purely* about debate about high ideals and has nothing to do with the possibility of setting institutional arrangements that reflect the preferences of the winning side in the competition among ideas.

Unfortunately, power cannot be bracketed from the public sphere because power has been thoroughly enmeshed with institutions and thus is everywhere. To begin, unequal individuals, with different power behind them, cannot engage each other *as if* they are equal (Fraser 1991: esp. 62–5). The notions that unequal private individuals can engage each other on matters of public interests *as if* they are equal and that only reason matters whereas status does not in the public sphere are utopian illusions at best, or sheer myths created by propaganda from creative intellectuals under the long but hidden reach of the bourgeois state at worst (Foucault 1997 [1984]: 298).²¹

Finally, Habermas forgot that the notion that individuals should submit to reason and not let power and interest dictate their participation in discourse itself is a *norm* (or rule) that was institutionalized after the Enlightenment and requires the backing of power. Yet, once this norm itself, which is indispensable for the public sphere (and practical reason), is backed by power, Habermas's whole enterprise collapses because he banked the foundation of his enterprise on a past that never existed.²²

Habermas's imagination and then idealization of the public sphere fundamentally reflects a Parsonsian functionalism approach toward political institutions, retaining all the utopianism of Parsons' functionalism approach toward power and institutions (Somers 1995a; 1995b). Habermas admitted:

I can imagine the attempt to arrange a society democratically only as a self-controlled learning process. It is a question of finding arrangements which can ground the presumption that the basic institutions of the society and the basic political decision would meet with the unforced agreement of all those involved, if they could participate, as free and equal, in discursive will-formation.
(1979 [1976]: 186; emphasis added)

Habermas's logic, which explicitly denies a role for power and conflict, is virtually indistinguishable from Parsons' scheme of system integration (Parsons 1951; see also Chapter 2).²³

"Lifeworld" as a power-free domain

In *The Theory of Communicative Action*, Habermas (1984–9) expanded his desired power-free zone in society from the limited domain of the public sphere to a much larger domain, the Lifeworld. Habermas argued that society can be divided into two (sub)domains: system and the Lifeworld. The former is formally organized or rationalized and is thus norm free. The latter is communicatively structured, thus power free. For Habermas, the two social domains were decoupled during the course of social evolution; this decoupling contributed to social welfare by facilitating communicative action. Habermas complained, however, that the increasing rationalization by bureaucracy (or state power) and money colonized the Lifeworld. The solution was to go back to the previous uncolonized Lifeworld.²⁴

Habermas's scheme of the Lifeworld is just another attempt to compartmentalize power. Even if we admit that the Lifeworld is governed mostly by norms (more broadly known as culture) – which are informal rules such as taboos, conventions, and habits – it cannot be power free.

To begin, norms are knowledge and ideas, yet all knowledge and ideas are produced under power (Foucault 1980). More importantly, norms as informal rules are often backed by formal rules: “Political economy [i.e. formal rules] enforces structurally what culture accomplished informally” (Fraser 1990: 65).²⁵ As such, many, if not most, norms are simply sedimentations of institution-backed sanctions and propaganda (or, more euphemistically, education). To paraphrase Foucault (2003 [1974–5]: 50), norms are elements “*on the basis of which a certain exercise of power is founded and legitimized*” (my emphasis). It is impossible to talk about norm as part of culture – be it political, civic, or economic – without taking into account the history through which power and institutions have left their profound imprints upon culture (Somers 1995a; 1995b).

Take “linguistication of the sacred,” which is central to the coming of the Lifeworld, according to Habermas, for example. Anyone with an elementary knowledge of the history of religion recognizes that what is sacred is fundamentally shaped by the powerful. In primitive human societies, the individual who commands the secular and the individual who commands the sacred belong to the same class, if they are not the same individual. Bourdieu (1990 [1980]) demonstrated that almost all sacred habits and rituals are forms of domination: linguistication of the sacred must therefore rest on power. As such, norms as informal rules are shaped and often backed by formal rules and thus power. Fundamentally, norms are power or knowledge that has successfully masked itself and is thus more tolerable (Foucault 1990 [1976]: 86). Because power and norms as codified ideas cannot be really separated, even the Lifeworld has been constituted with input from power.²⁶ The power-free Lifeworld in Habermas's imagination has never existed in reality (Honneth 1991: esp. chap. 9). To hold that norms can form and operate independently from power and that social integration (through norms) has been power free is again to commit the grave fallacy of dehistoricizing power that Foucault so ruthlessly attacked (1980; see also Elias 1994 [1939]).²⁷

Finally, if human society before the separation of the Lifeworld and system (or the emergence of the system) was morally better than the world in which the two have separated and the system has morally corrupted the Lifeworld by colonizing it, the logical conclusion must be to return to the lost society in which Lifeworld and system were separate. Yet, this conclusion will completely invalidate Habermas's belief in enlightenment because enlightenment has been essentially a process of gradually limiting the domain of the sacred (i.e. religion, myth, and superstitions) while expanding the domain of scientific reason. Like Plato and Confucius before him who longed for a return to the Republic and the Western Zhou Dynasty, respectively, Habermas could not resist the nostalgia of returning to a society in which everything is governed by ritual, be it

ancient Greece, Rome, the Western Zhou Dynasty, or somewhere in the seventeenth or eighteenth centuries, where there is perfect “*sensus communis*,” “worldness,” “communicative ethics,” “consensus,” and “rituals” (Villa 1992: 717)!²⁸

In sum, while admitting that it is impossible to escape from power completely, adherents of the third utopianism toward power nonetheless believe that it is possible to carve out or recover some power-free sanctuaries for their ideals by insisting that they can separate some institutions from power. Fundamentally, however, the third approach still seeks to escape from power – however partial the escape may be. As such, it is still utopian.

Unfortunately, the structural or fourth face of power is inherently subversive for any attempt to escape from power,²⁹ a fact that is especially impalpable for traditional liberals and utopians who essentially define liberty, freedom, liberation, and emancipation from power. By examining areas that most people do not think about in terms of power (e.g. sexuality, knowledge, clinic, asylum) and revealing that power permeates even these social domains, Foucault made apparent that power is really everywhere; there is no escape from it: “Power is co-extensive with the social body, there are no spaces of primal liberty between the meshes of its network” (1980: 142); and, “*The thought that there could be a state of communication which would be such that the games of truth could circulate freely, without obstacles, without constraints and without coercive effects, seems to me to be Utopia*” (1997 [1984]: 18; emphasis added).³⁰ A seemingly power-free interaction (even if interpersonal) may look power free precisely because it operates under a power structure (often with the state as the ultimate Leviathan) or because power operates *structurally* in its fourth face.

Not surprisingly, Habermas had little use for Foucault’s work.³¹ In *The Theory of Communicative Action*, he mentioned Foucault’s work only twice and did not even touch upon Foucault’s most fundamental contribution on understanding power. In his most direct engagement of Foucault’s work, Habermas (1987 [1985]) attacked Foucault’s genealogy of power/knowledge solely on the potential normative danger that it may pose but did not touch the essential empirical validity of Foucault’s work. Habermas rejected that power has its fourth face as structural power because the fourth face of power nullifies the possibility that social actions can be truly free from power. Only by making sure that communication action is power free *via definition* could Habermas really shield his cherished Lifeworld or public sphere from power.

Fundamentally, Habermas’s scheme was just another attempt to resurrect and patch Parsons’ notion of social (i.e. norm-based) integration versus functional (i.e. rationality-based) integration (Parsons 1937; 1951). For Habermas, the fundamental problem of Parsons’ scheme was that Parsons could not really provide a foundation for the reproduction of social integration; Habermas thus sought to rectify the problem by relying on communicative action-derived rationality. Yet, as stated in Chapter 2, in addition to his arbitrary categorization of social domains, which provided the foundation for his bracketing power artificially, Parsons’ fundamental problem was his denying roles for power and conflict in social evolution (which subsumes social integration).

For Parsons, social integration must necessarily be a power/conflict-free process. Failing to recognize Parsons' fatal weakness, Habermas was doomed to retain the same weakness and thus continued to believe that there may still be a power-free domain in social life.³²

Summary

Over the course of history, the three utopianisms toward power and institutions have repeatedly been reincarnated in various forms. Unfortunately or fortunately, any human groups beyond the most primitive hunting-and-gathering societies have required an elaborate web of rules or institutions to gel individuals together. As such, there is no escape from institutions: there will be no human community or society without institutions: "The sedimentation of institutional forms in long-term process of social development is an inescapable fact of all types of society" (Giddens 1979: 7). Not surprisingly, without a single exception in history, humans have erected a new power/institutional structure after destroying an old structure.

With the coming of institutions, escape from power, however partial, becomes impossible because "no society, culture, or practice possibly could be free of power," literally (Bevir 1999: 66; see also Foucault 1980; 1990 [1976]: esp. 92–8; 2000). It is futile to try to escape from power in human society: all attempts to escape from power, as imagined and preached by the last two of the three utopianisms in various forms at various historical periods, are doomed to fail. More often than not, attempts to escape from power bring illusions, suffering, and disasters.

For many utopians, an ideal society or social domain can exist only if it is power free. Because no society or social domain can be power free, however, no ideal or social domain can ever exist. Even if we think *against* a power structure and thus assert our autonomy, we do so *under* it. We are doomed to admit that there is really no escape from power and institutions: the only viable way is to live with power and institutions, *without necessarily accepting their legitimacy*. By admitting the desirability of the existence of power and conflict in society, we can then search for sensible (i.e. non-utopian) ways to live with power and institutions.

Finally, an ideal society by definition cannot change and thus can only be static. Yet, change is inevitable only if conflicts of interest, power, and actual conflict exist (Dahrendorf 1958). Thus, instead of detesting a world with power/conflict and attempting to escape from it, we should celebrate it even in democratic market societies (Hirschman 1944). Only a world with power and conflict as permanent features has a future because only such a world can change.

A subject-centric approach toward justice

The social evolutionary approach toward institutional change and social change in general identifies artificial selection as the main driver of social evolution

and the guarantor of human progress: subjects' calculations of their welfare under a particular institutional arrangement or system are the main source of selection pressure in institutional change and social evolution. From this notion, we can derive a *normatively and empirically* more sound approach toward justice. After all, "a theory of justice is a theory about the kinds of social arrangements that can be defended" (Barry 1989: 3). A theory of justice is thus inherently tied to a theory of institution and institutional change.

The social evolutionary approach toward institutional change suggests that the only defensible approach toward making normative judgment over institutions (hence power and exercise of power in society) must be a mostly subject-centric approach. More concretely, if subjects under a power/institutional relationship deem the relationship essentially conducive or inimical to their welfare, thus largely just or unjust, then this power must be accepted as largely just or unjust by all bystanders.³³ This principle must be defended even if some bystanders (e.g. critical intellectuals) are convinced that subjects are unfairly exploited or dominated. In other words, ultimately, only subjects governed by an institutional arrangement have the right to judge the institutional arrangement. This notion should be the first principle of justice and thus should also be the starting point for any theory of justice.

In this section, I first defend a subject-centric approach toward justice. I then address the proper role of intellectuals in a subject-centric approach toward justice. I leave the task of developing a more sound theory of justice to later work.

Why a subject-centric approach?

There are three relevant parties for any institutional arrangement or system: power holders (backers of the institutional arrangement), subjects (individuals under the institutional arrangement), and bystanders (we can take intellectuals as typical but not the only possible bystanders).

Obviously, a power holder-centric approach toward justice is normatively and empirically indefensible. Power holders under a particular institutional arrangement almost inevitably deem the institutional arrangement just because they are privileged and their interests are advanced under the institutional arrangement. Because their normative judgment is essentially pre-ordained, their exercise of making normative judgment is no longer an empirical exercise. Normatively, a power holder-centric theory of justice fundamentally violates the key normative implication dictated by the theory of institutional change.

A purely bystander-centric approach cannot be normatively and empirically defended either.³⁴ Normatively, there are two reasons why this is so. First, there is no guarantee that bystanders will not be co-opted or corrupted by existing power holders (because power holders have more resources to bribe), thus making bystanders "fake bystanders." Second, even if bystanders are not

co-opted by existing power holders, bystanders become a separate class of power holders *if* they are allowed to be the arbitrators of others' sense of justice. Either way, privileging bystanders fundamentally violates the core normative implications dictated by the theory of institutional change.

Even if bystanders are incorruptible and they do not become power holders, a bystander-centric approach toward justice cannot be defended empirically because it poses an almost insurmountable methodological problem. Specifically, while both bystanders' and subjects' normative judgments of an institutional arrangement or system necessarily involve a significant subjective exercise, bystanders cannot arrive at a more objective judgment on the impact of subjects' welfare of the institutional arrangement or system than the subjects. This is simply because bystanders cannot possibly relive the lives that the subjects have lived and thus cannot possibly recapture the objective reality that the subjects have experienced (see the section below). As a result, bystanders' judgment cannot have the same foundation in the objective world as the subjects' own judgment. Yet, a subjective judgment must be grounded in the objective world because the objective world holds ontological priority over subjective judgment.

Denying the defensibility of both a power holder-centric approach and a bystander-centric approach toward justice leaves a subject-centric approach toward justice as the only defensible approach. Empirically, under any given circumstances, subjects are more likely to know about their own welfare better than any bystanders. Normatively, a subject-centric approach toward justice is consistent with the cardinal principle of social evolution: subjects' calculations of their welfare under a particular institutional arrangement or system are what ultimately drive social evolution.

Bystanders, especially intellectuals who have genuine concern for overall social welfare and individuals' justice, may argue against a subject-centric approach toward justice. Such a counterargument cannot stand, however, because it must necessarily come down to two notions, neither of which is tenable.

The first notion is that subjects are dissatisfied with an existing institutional arrangement or system but feel powerless to initiate changes; they thus pretend that they have judged the existing institutional arrangement or system as just and refrain from challenging it.³⁵ When intellectuals admit that subjects are dissatisfied with an existing institutional arrangement or system and are merely refraining from taking concrete action to push for changes, however, intellectuals are already accepting the subjects' assessments. Here, the challenge for subjects is how to achieve the desired changes rather than how to arrive at a judgment over the institutional arrangement or system. Obviously, the two challenges are fundamentally different.

Subjects bear the consequences and costs of their actions if they decide to seek changes to (i.e. to challenge) the existing institutional arrangement or system: when struggling against the power behind an institutional arrangement, subjects will bear the brunt of possible reprisal from the power holders.

Consequently, their assessment must be allowed to hold priority over that of anybody else. When subjects decide not to challenge the existing institutional arrangement or system, their decisions must be respected. This does not eliminate the possibility of institutional change, however. Under certain circumstances,³⁶ subjects will decide to challenge, although their challenges may not succeed every time.

The second notion is that subjects have been duped and thus have acquired a false consciousness. As a result, subjects cannot recognize their true interests or the fact that their true interests have been violated or at least inadequately advanced. This possibility seems to leave the demanding (and righteous) task of ridding subjects of their false consciousness (so that they can reassess their welfare correctly) to intellectuals.

This stand based on false consciousness still faces great difficulties, which can be nicely illustrated by a counterfactual exercise offered by William Connolly (1979: 447–8). Suppose there is a subject who is a blue-collar worker. He works hard and obeys his boss but gains dignity by being the provider of his family and thus is *quite* happy.³⁷ Now suppose that the subject meets an intellectual, and the latter informs the former that he has been in a very unjust situation. The intellectual further informs the subject that he should make more and enjoy more leisure time and can even become his own boss, if only he is willing to join a movement to change the existing institutional arrangement into a new one that the intellectual pictures, usually with some kind of “scientific” theory.³⁸

To go one step further than Connolly has, now suppose the subject’s wife is almost totally dependent upon her husband. The wife too is quite happy because her husband is nice and treats her with respect; she is raising their kids, and the whole family also depends on her hard work as a housewife. Now, suppose the wife meets a feminist who questions the wife’s dependence on her husband. The latter asks the former why she cannot see that she is being dominated by her husband and that she has been duped by her husband into a false sense of happiness. The feminist further informs the wife that she should join the feminist movement in demanding equal rights and that she can achieve far more in life if she only stops being a docile housewife.

The key point in going through the two counterfactual exercises is to determine, when a bystander and a subject have two different assessments of the subject’s welfare, whose judgment should hold ultimate sway. In both cases, most intellectuals would perhaps admit that the subject and his wife should have the final say over their welfare because intellectuals cannot be absolutely sure that their judgment is correct.³⁹

The problem is that intellectuals do not do these counterfactuals from the subjects’ point of view consciously and systematically enough, presumably because intellectuals tend to believe that they have more insight into reality, especially of the subjects’ welfare, than the subjects. I shall show why this is not so most of the time.

How subjects arrive at their judgments

In this section, I underscore the subjects' general procedure for arriving at judgments of their welfare under an institutional arrangement or system. This exercise reinforces the position of adopting a subject-centric approach toward justice: it shows why intellectuals usually cannot understand justice from the subjects' point of view *even if* they try.

Subjects arrive at their assessments of their welfare under an institutional arrangement through a comparative exercise that has two dimensions: horizontal and vertical. The horizontal dimension is about the present (thus static), whereas the vertical dimension is about the past and the future (thus dynamic).

Horizontally, subjects compare their own welfare with that of others around them in terms of income in the material market and in terms of position, status or prestige in the positional market (Tang 2010d). The horizontal comparison has been singled out by thinkers from Socrates and Confucius to Thorstein Veblen (1967 [1899]), Fred Hirsch (1977), and Robert Frank (1988). Vertically, subjects compare their welfare today to their welfare yesterday. The vertical comparison has been underemphasized, if not neglected.

The two dimensions interact to provide subjects with some idea about their welfare today and what they can expect tomorrow. The horizontal exercise usually provides some kind of guide for the vertical exercise, whereas the vertical exercise provides a kind of discounting factor for the horizontal exercise.

Specifically, the relative stand of my welfare versus others' welfare (the horizontal comparison) serves as a signpost for my endeavor to improve my welfare (i.e. "to keep up with the Joneses"). At the same time, however, others' improvement of their welfare also allows me to gauge the feasibility and probability of my chance in succeeding in improving my welfare. If other individuals' welfare has improved, I have more reason to hold optimism about my future: if they can make it, I can make it too.⁴⁰ If, however, others' welfare has not improved, then it is more likely for me to conclude that my welfare may not improve much in the future either, *even if* my welfare has improved somewhat (assuming I am not a power holder). This interaction, partially captured by the "tunnel effect" noted by Alberto Hirschman (1973), suggests that subjects usually give an institutional arrangement or system some benefit of the doubt (i.e. that they will benefit from the arrangement and system), but this benefit of the doubt can be sustained only if some real benefits can be gradually delivered to the subjects or individuals around them: subjects need to see some light at the end of the tunnel to maintain hope about the tunnel.

Unfortunately, intellectuals have mostly underappreciated the vertical dimension and thus also the interaction between the two dimensions through which subjects arrive at their judgments of an institutional arrangement or system. This is because appreciating the importance of vertical comparison requires one to relive subjects' lives and intellectuals cannot really do that. This negligence has several important consequences, the most important one

being that intellectuals are likely to underestimate the probability that, although subjects may not be totally satisfied with the existing institutional arrangement or system, they may believe that life is better or will become better and thus have reason to anticipate that life will get even better. When this is the case, subjects may be perfectly willing to argue that the institutional arrangement/system is largely just, or they are at least willing to give it more time to become more just.

Can an intellectual forcefully counter this assessment from the subject? The answer is largely *no*. First, because intellectuals cannot possibly relive subjects' lives, they cannot possibly reason as subjects do, *even if* intellectuals do the vertical exercise. Second, because intellectuals cannot possibly relive subjects' lives, intellectuals inevitably rely mostly, if not exclusively, on the horizontal comparison and neglect the vertical dimension in arriving at their judgments; thus, they cannot formulate a holistic understanding of the subjects' welfare. Because both the horizontal dimension and the vertical dimension are indispensable for subjects to arrive at their judgments of institutional arrangements/systems and because the two dimensions interact with each other, it is illogical to use the intellectuals' horizontal comparison to discredit the subjects' vertical assessment.

As such, ultimately, only the subjects can make normative judgments regarding a particular institutional arrangement/system (or the power structure that backs it), even though subjects may not (and often do not) get things right at any given time. As Gilles Deleuze put it, "Only those who are directly concerned can speak in a practical way on their own behalf" (Deleuze, as quoted in Foucault 1977 [1972]: 208).

The role of intellectuals in society

Intellectuals have often implicitly rejected a subject-centric approach toward justice because such an approach seems to render intellectuals no real role in society. This is incorrect: a subject-centric approach toward justice actually desires some crucial services from intellectuals, although it does exclude one role for them.

Intellectuals have a long tradition of appointing themselves the ultimate arbitrators of social justice, ever since Plato's *Republic*.⁴¹ Nietzsche attempted this self-coronation most forcefully: "*Genuine philosophers are commanders and legislators: They say, 'thus it shall be'. They first determine Wither and For What of man ... Their knowing is creating, their creating is law-giving, their will to truth is – will to power*" (Nietzsche 1990 [1886]: 136/#211, emphasis in original).

Letting intellectuals be the ultimate judges of social systems (i.e. power structures and institutional systems) brings two insurmountable difficulties, even if we assume that intellectuals are incorruptible under any social system (i.e. that they would not intentionally distort their judgments of social system). The first difficulty is empirical; it is simply the possibility that intellectuals

can be wrong: if subjects may be subjected to the dominance of false consciousness, cannot intellectuals be subjected to the dominance of *false* knowledge? When intellectuals cannot exclude the possibility that their knowledge may be false, how can they demand subjects simply to submit to their more “sophisticated” interpretations?

The second difficulty is both logical and moral and is thus more devastating. Logically, intellectuals cannot be social critics when they themselves give laws and command. Critical theory or practicing social critique is to think *against* an existing power structure, *despite and precisely because intellectuals live under a power structure*. Theory (or practicing theory as practice) is thus “a struggle against power, a struggle aimed at revealing and undermining power where it is most invisible and insidious” (Foucault 1977 [1972]: 208). Thus, “the philosopher, being *of necessity* a man of tomorrow and the day after tomorrow, has always found himself, and *had* to find himself, in contradiction to his today: his enemy was ever the ideal of today” (Nietzsche 1990 [1886]: 137/#212; emphasis in original).

If one is the commander and lawgiver, however, one can no longer be a man of tomorrow – or, more precisely, tomorrow’s tomorrow, because one cannot criticize the order one has just erected or at least will hesitate to do so: one cannot be a commander and lawgiver and a critic of the order at the same time. One can be a genuine social critique *only if* one engages in “*perpetual struggle*” against power *today* (Connolly 1993: 374–5).⁴² If intellectuals are to shoulder the task of performing social critique, they must *always* stand, together with the subjects, opposite power.

Morally, suppose that subjects do submit to intellectuals’ interpretations. Are intellectuals not engaging in domination over subjects? When this is the case, what is then the difference between intellectuals and the ruling class?

So what role does a subject-centric approach toward justice leave for intellectuals if not that of (self-appointed) ultimate arbitrators of social justice? Should intellectuals not make normative judgments about social facts at all?⁴³ No, the answer is exactly the opposite. Although intellectuals should refrain from imposing their judgments, they should not hesitate to make normative judgments according to their best judgments. More specifically, intellectuals should shoulder five key tasks.

The first task is to provide tools (i.e. empirical and theoretical knowledge) for subjects to understand their conditions so that subjects can obtain “true consciousness” and thus recognize their true interests. As Marcel Proust put it, “Treat my book as a pair of glasses directed to the outside; if they don’t suit you, find another pair; I leave it to you to find your own instruments, which is necessarily an instrument for combat” (as quoted in Foucault 1977 [1972]: 208).⁴⁴

Because injustice will always exist, the second task is to provide direct social critique of existing institutional arrangements or systems without imposing the critiques upon the subjects. Needless to say, these critiques can potentially become the anti-ideologies for future bottom-up (i.e. subject-initiated)

institutional changes to address existing injustices.⁴⁵ Here, the political motto for intellectuals must be “to criticize the working of institutions which appear to be both neutral and independent; to criticize them in such a manner that the political violence which has always exercised obscurely through them will be unmasked, so that one can fight them” (Foucault, quoted in Flyvbjerg 1998: 102) As such, “all social sciences should be some kind of critical theory” (Giddens 1979: 6), and all social scientists must fundamentally be critical theorists. In Sartre’s powerful words, “An intellectual exists in order to draw attention to the principles of revolution” (quoted in Kirtzman 1988: xiii).

The third task is to convince the ruling class that reform is in its own (and the subjects’) interest and assist the ruling class to reform when necessary. Here, intellectuals must resist the temptation of a simplistic rejection of reform (e.g. Deleuze, quoted in Foucault 1977 [1972]: 208–9).⁴⁶ *Supporting reform is not conservatism, if conservatism is to mean resisting changes.* At the same time, supporting changes is not radicalism.⁴⁷ Social critique does not mean that the only way forward is through revolt and revolution because social welfare can be improved by reform, including top-down reform; and top-down reform should be preferred because it is generally less costly than bottom-up revolt.

If the ruling class resists changes demanded by the subjects, intellectuals must be ready to team up with subjects to push for changes and be ready to become revolutionary if necessary. When revolution becomes absolutely necessary under certain circumstances, it is no longer enough for intellectuals just to draw attention to the principles of revolution yet remain as aloof “glasses-providers.” Instead, intellectuals must lend all their energy to the service of the social movement by providing the movement with not only anti-ideologies but also political entrepreneurship and leadership if called upon. At the same time, however, intellectuals must also be ready to criticize the movement they support when the revolution does not seem to improve the welfare of the subjects either because it has become too excessively violent or because it has been usurped by a clique for its parochial interests. This is the fourth task for intellectuals.

Finally, intellectuals themselves are subjects. As such, they must also make normative judgments about their welfare under a particular power structure: is the power relationship facilitating or hindering the pursuit of knowledge? After all, it is in the interest of society (both the ruling class and the subjects) to have intellectuals, if only to provide an understanding about society, although the ruling class and (sometimes) the subjects, more often than not, do not really believe that intellectuals are worth having.

Fulfilling these five tasks is a tall task because intellectuals can be tempted and intimidated. The ruling class will try to buy the voices of the intellectuals with power, money, fame, and prestige. The temptation for intellectuals to claim that they alone hold the ultimate truth, usually by claiming that they have uncovered the iron law and/or foreseen historical inevitability, will

also be strong. Then there is the simplistic view – often implicitly held by followers of the conflict approach – that all exercises of power (i.e. all existing institutions) are bad for subjects' welfare (and thus the welfare of the whole society). Finally (and perhaps the most depressing of them all), there is the prospect of being rejected by both the subjects and the powerful. True intellectuals, however, have no choice but to take on these five sometimes hard and unwelcomed tasks if they are to remain true intellectuals.

In lieu of conclusion: understanding social change

After demonstrating the explanatory power of the general theory for a wide range of social phenomena in Chapter 4 and highlighting the wide implications of the theory for a wide range of major issues in social theories in Chapter 5, I am now ready to conclude this book, extremely briefly. I shall merely stress three broad points.

First, the general theory calls for a paradigm shift for understanding institutional change and social reality in general. At the minimum, we have to overthrow the domination by the harmony approach in many mainstream quarters of the social sciences. At the same time, however, we have to resist the fashionableness of radical Marxism, postmodernism, and post-structuralism as extreme variants of the conflict approach in some marginalized quarters of the social sciences. Instead, we have to synthesize the harmony approach and the conflict approach if we want to arrive at a decent understanding of social change. More broadly, we need to bring agent, idea (including ideologies and anti-ideologies), conflict of interest, power, conflict, social movement, rationalization/legitimation, and artificial selection into a single framework if we want to adequately understand social change.

Second, institutional change is a fundamental force of social change, and the two-way interaction between men and institutions (as its own creation) is a fundamental driving force behind the evolution of human society. A general theory of institutional change thus provides us with a powerful tool for understanding social change. Indeed, as the discussion in Chapters 4 and 5 shows, the general theory developed in this book can be readily deployed for understanding the underlying causes of diverse phenomena in diverse fields, from the role of institutions and institutional changes in driving economic history to the systemic inertia and collapse of states, revolt and revolutions, and social movements.

Finally, the social evolution paradigm (SEP) achieves organic synthesis of different foundational paradigms for understanding social phenomena and offers an adequate understanding of institutional change. Indeed, just as the biological evolution paradigm makes all exogenous explanations unsatisfactory and,

more importantly, unnecessary for explaining the wonders of life, SEP too makes all exogenous explanations for social phenomena unsatisfactory and, more importantly, unnecessary. I hope this book, by illustrating SEP's power, can encourage social scientists to apply the paradigm for understanding other social realities.

Appendix I: The fallacy of treating institutional change as bargaining games

Methodologically, the NIE approach within the harmony approach often implicitly, if not explicitly, treats institutional change as (repeated) bargaining games in which cooperation and coordination are agents' preferred, if not the only, means for resolving their conflict of interest (and thus realizing collective benefit). This practice is often misleading – if not utterly wrong – under most circumstances.

To begin with, most institutional changes are not *repeated* bargaining games. Rather, as becomes clear in Chapter 3, most institutional changes have five phases or stages in which different stages have quite different dynamics.¹

More importantly, most institutional changes are not bargaining games in which cooperation and coordination are agents' preferred, if not the only, means for resolving their conflict of interest.

According to Osborne and Rubinstein (1990: 1), for a process to qualify as a bargaining game, it has to satisfy three conditions: “1) individuals ... have the possibility of concluding a mutually beneficial agreement, 2) there is a conflict of interest about which agreement to conclude, and 3) no agreement may be imposed on any individual without his approval.”

Clearly, in the phase of struggle for power to set rules in institutional change, the first condition usually cannot be satisfied. In this phase, the struggle for the power to set rules is essentially zero sum, with force or threat of force being a real option in some cases, unless there is a higher monopoly of force (i.e. the state) that enforces the rules for agents to struggle and bargain with peaceful means.² Moreover, in the phase of setting the rules for many cases of institutional change, neither the first condition nor the third condition can be satisfied. The side that won the struggle for power can indeed impose a solution (i.e. an institutional arrangement) upon the side that lost the struggle, and the imposed solution usually will not benefit both sides.³

In sum, it is misleading – if not utterly wrong – to treat *most* processes of institutional change as bargaining games of cooperation and coordination. Bargaining games of cooperation and coordination can only be special cases of institutional change, but not the norm. By modeling institutional change as (repeated) games of cooperation and coordination, the harmony approach has assumed away most processes of institutional change and the most critical ingredient (i.e. power) in the process.

Appendix II: The role of intellectuals

This appendix illustrates the role of intellectuals with concrete scenarios.

Assuming intellectuals get the objective situation, which includes the objective social welfare under an institutional arrangement and subjects' (subjective) assessment of their welfare under the arrangement, always right,¹ the intellectuals assume different functions in the four different scenarios (Table II.1).

In the first scenario (upper left quadrant), subjects' welfare has been objectively advanced and subjects recognize this. In this happy scenario, the institutional arrangement is *doubly just*, and intellectuals should happily accept.

In the second scenario (upper right quadrant), subjects' welfare has been objectively advanced but subjects fail to recognize this (i.e. subjects' judgment is false). The institutional arrangement is *subjectively unjust but objectively just*. In this scenario, while intellectuals should respect subjects' judgment, intellectuals actually have to defend an institutional arrangement/system, although indirectly, by providing subjects with the necessary knowledge for achieving a correct assessment of their welfare correctly.

In the third scenario (lower left quadrant), subjects' welfare has not been objectively advanced, but subjects' judgment of their welfare is positive (i.e. subjects' judgment is false). The institutional arrangement is *subjectively just but objectively unjust*. In this scenario, intellectuals should correct subjects'

Table II.1 The role of intellectuals in different scenarios

| | |
|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| <i>Scenario I</i> Welfare objectively advanced Subjects' judgment of their welfare is positive (subjects' judgment is true) | <i>Scenario II</i> Welfare objectively advanced Subjects' judgment of their welfare is negative (subjects' judgment is false) |
| <i>Scenario III</i> Welfare objectively not advanced Subjects' judgment of their welfare is positive (subjects' judgment is false) | <i>Scenario IV</i> Welfare objectively not advanced Subjects' judgment of their welfare is negative (subjects' judgment is true) |

judgment directly by criticizing the existing institutional arrangement/system. Intellectuals should also encourage the ruling class to address the social injustice, even if subjects have yet to recognize it.

In the fourth scenario (lower right quadrant), subjects' welfare has not been objectively advanced, and subjects know that (subjects' judgment is true). The institutional arrangement is *doubly unjust*. In this scenario, intellectuals accept subjects' judgment and criticize the exercise of power. Intellectuals should first encourage the ruling class to address the social injustice. When the ruling class refuses to change, however, the intellectuals must then support subjects' revolution/revolt by becoming revolutionaries.

Notes

Introduction

- 1 I define or at least differentiate all these terms in the section below.
- 2 Some followers of OIE have labeled OIE as “evolutionary economics.” Yet, as I elaborate elsewhere (Tang n.d.-a), their understanding of social evolution is naive at best.
- 3 Although I focus on institutional change in this book, assessing the impact of institution on human welfare must also be a central task for the social sciences. Unfortunately, although institutional economics has consistently paid attention to this task, the effort by political sciences and sociology has lagged.
- 4 There exists a voluminous literature with some evolutionary flavor in the social sciences. Unfortunately, existing discussion of social evolution does not explicitly state what social evolution is and what a proper social evolution approach toward human society should look like. In a separate work (Tang n.d.-a), I elaborate on the social evolution paradigm (hereafter, SEP) in more detail; but some of its characteristics will become clear below. For my earlier brief discussion, see Tang (2010c). For my earlier applications of SEP to international politics, see Tang (2008; 2010a).
- 5 The generality of a general theory is thus relative rather than absolute – it claims its generality over more specific theories. In the philosophy of science, theoretical “unification,” which sometimes is also called theoretical reduction, is a critical measurement of the explanatory power of a theory (Kitcher 1981; Nickles 1974; Thagard 1978). I prefer “unification” over “reduction” because reductionism has a bad name.
- 6 Unless specified, “institutions” here thus denote both formal and informal rules. Keohane and Nye (1989 [1977]: 5, 19, 21) used to label (international) institutions as “regimes” but have since converted to “institutionalism” (Keohane and Martin 2003). Unfortunately, Keohane and Nye (1989 [1977]: 54) also labeled “international organizations” as international institutions.
- 7 For a good review of the different definitions of international institutions, see Duffield (2007).
- 8 On the same page, Young (1982: 277) also seems to define regimes as rules. In another place, Giddens (1984: 24) too seems to define institutions as “rules and resources,” stating “the most important aspects of structure are rules and resources recursively involved in institutions.”
- 9 As Haveman and Rao (1997: 1606n2) put it, “Organizations ... are ... carriers of institutions.” They, however, immediately argue that “formal organizations

have become institutions themselves.” Hodgson (2006) insists that organizations are special forms of institutions, mostly because he fails to grasp that organizations are underpinned by institutions. Furthermore, societies are (big!) organizations. As such, if we admit organizations as institutions, there is no longer any logical necessity to differentiate society from institutions and structure – and this will contradict Hodgson’s position that society and structure are different.

- 10 Apparently, when society is explicitly acknowledged as a system, the “emergentist perspective” in the sociology literature is essentially a systemic perspective, although a narrow one (e.g. Elder-Vass 2008). After all, one of the hallmarks of system dynamics is the presence of emergent properties – properties that individual parts of the system alone or unconnected by interactions do not exhibit (Jervis 1997). For the definition of system, see Jervis (1997: 6). Perhaps not coincidentally, in *Sociology and Modern Systems Theory* (1967), one of the most cited texts in the “emergentist” literature, Walter Buckley deployed “general systems theory” as its main analytical framework.
- 11 Elder-Vass’s (2008) emergentist formulation that defines structure as structure-as-whole may have a similar undertone.
- 12 Giddens (1993 [1976]: 128; 1979: 3; 1984: 377) also explicitly differentiates structure from society (or the social system), although not always consistently (e.g. Giddens 2006: 1012, 1036).
- 13 Apparently, Frederick A. Hayek’s “social order” is roughly equivalent to “social structure” here (Hayek 1967: 66–81; 1973: 19, 35–6, 43).
- 14 For general discussions on structure in sociology and anthropology, see Manicas (1997 [1980]), Porpora (1998 [1989]), and Elder-Vass (2008). I will come back to this problem when discussing the problem of agency and structure. Randall Collins’ definition of structure as people’s repeated behavior is similar to the definition of institutions as repeated behavior (Collins 1981: 995). Fortunately, Collins’ position is not shared by most sociologists (Porpora 1998 [1989]: 340–1).
- 15 For Foucault, institution apparently means organization.
- 16 As such, their understanding of structure can be labeled an “embodied” definition of structure, which defines structure as capacities or competencies that enable agents to produce structure by acting in organized ways (Lopez and Scott 2000; Elder-Vass 2008).
- 17 Such a definition of structure also is unnecessarily narrow because structure restricts systems of human relationship to those among vertically differentiated social positions. As such, this definition neglects the horizontal aspect of social structure. In contrast, according to our definition, social structure has both horizontal and vertical dimensions.
- 18 For some of the most important texts on power, see Foucault (1980), Lukes (2005), Mann (1986; 1993), and Digeser (1992). For earlier entries, see the selections in Lukes (1986).
- 19 I elaborate on human nature in more detail in Tang (2010c). Here, I am merely pointing out the components of human nature that are absolutely necessary for a theory of institutional change.
- 20 Egocentrism is a product of evolution, thus morally neutral. Egocentrism is one of the most fundamental drivers of human behavior: it is essential for our survival (Sedikides and Skowronski 1997). Here, egocentrism does not mean rationality in the neoclassical economics sense of complete information or “bounded rationality” under incomplete information and inability to process information.

- 21 As Commons (1934: 6) noted long ago, this scarcity of resources provides a fundamental rationale for institutions to exist: when resources are abundant, institutions will be scarcely necessary.
- 22 This definition of human progress is purely material. Avoiding a moral definition of human progress – be it liberty, emancipation, or other things – makes it possible for us to have a universally applicable definition of progress: a materialistic definition is objective, whereas a moral definition is ideational, thus subjective. As many have argued, sometimes, if not often, it is impossible and often counter-productive to offer a moral definition of human progress (e.g. Foucault 1995 [1975]; see also Hoy 1986 [1981]: 138–9). To state that there has been human progress and to explain that progress, however, is not to predict progress all the time: at any given time and location, both retrogress and progress are possible outcomes.
- 23 Young labeled this problem “the surplus of bargainers,” thus implying that all institutions are made through bargaining. I reject this implication and use the more neutral term “agents.”
- 24 This problem is somewhat similar to states’ concern for relative gains from cooperation and coordination, as recognized (although somewhat overemphasized) by realism in international politics, which is a form of the conflict approach (Waltz 1979; Powell 1991; Grieco 1988). Soltan (1998: 53) noted that several phases of institutional change can be interpreted with the realism approach in international politics without noting the concern for relative gains.
- 25 Here, it must be noted explicitly that Avner Greif’s notion of *endogenous institutional change* is very different from the notion of *endogenous* theories of institutional change here. Greif (2006: 15) took *self-enforcing* and *endogenous* as equivalent; he defined endogenous institutions as *self-enforcing* equilibriums. *Thus, his theory is really about changes of self-enforcing institutions rather than endogenous institutional changes.* Due to his restrictive definitions and reliance on the NIE approach, his theory of institutional change cannot be really endogenous; and his theory certainly cannot be a general theory.
- 26 Many have recognized the dialectic nature of institutions, although to a limited extent. See, for example, Dahrendorf (1958: 174–5) on equilibrium and disequilibrium and Calvert (1998: 146) on the problematic and constraining nature of social order.
- 27 Some have labeled the former “evolutionary” and the latter “revolutionary” changes (e.g. Moore 1966). This is misleading because evolution does allow abrupt changes.
- 28 Such a theory will then explain why some societies are better off than others, at least partly.

1 Two major approaches toward institutional change

- 1 I reserve “paradigms” exclusively for the foundational paradigms of social sciences (Tang 2010c). I use “schools” or “approaches” to denote things that are derived from combinations of the foundational paradigms. I shall not go into the question of whether Kuhn’s paradigms and Lakatos’s “research programs,” which have faced persistent doubt since their birth, are anywhere related to “paradigms,” “schools,” or “approaches” here (Kuhn 1970; Lakatos 1970). My discussion can proceed without their labels.

- 2 A so-called fourth strain, “discursive institutionalism” (Schmidt 2010), merely emphasizes the role of ideas and discourses more and thus does not constitute a genuinely different approach. This strain is closer to the harmony approach. There have been other attempts to categorize the various approaches toward institutional change, usually under different labels (e.g. Baldwin 1978; van den Bergh 1963; Collins 1994; Hayek 1967: chap. 6; Hoy 1986 [1981]: 124–8; Keohane and Nye 1989 [1977]: chap. 3; Knight 1992: 4–13; Lieberman 2002; Mahoney 2000: 517–526; North 1981: 21–2, 59–63; Soltan 1998: 51; Thelen 2003). More recently, Weyland (2008) banked on prospect theory as the (micro-) foundation for constructing theory of institutional change. While I admit that psychological factors such as loss aversion are important for decisions, macro-level factors (i.e. power, competition) underscored in the pages that follow are far more important. Moreover, Weyland, by banking on behavioral economics, is still firmly within the harmony approach. My framework subsumes the harmony approach. See also the discussion in Chapter 5.
- 3 All theories of institutional change also combine some other foundational paradigms of social sciences. As such, I use the harmony approach versus the conflict approach to denote them. I discuss the foundational paradigms of social sciences that make up the variants of these approaches in Tang (2010c). The label of conflict approach has been fairly accepted in the literature. The dichotomy of harmony approach vs. conflict approach thus better captures the essential divide between the two basic approaches than other existing dichotomies. Both Dahrendorf (1968; 1958) and Klein (1980: 871, 882–3) implicitly favored the dichotomy of harmony approach vs. conflict approach. Some scholars have noticed, in passing, that historical institutionalism tends to emphasize power (e.g. Hall and Taylor 1996: 940–1).
- 4 Theorists within the harmony approach, however, often admit that there is some, if not significant, conflict of interest among agents because the assumption is untenable in light of the inherent selfishness of human nature (as dictated by biological evolution). For a more detailed discussion, see Tang (2010c).
- 5 I adopt Lewis Coser’s definition of conflict: conflict is a struggle in which the aim is to gain objectives and simultaneously to neutralize, injure, dominate, or eliminate rivals (Coser 1956: 8).
- 6 By implications, the conflict approach sees many, if not most, occasions of seeming cooperation and coordination at least partially caused by coercion in the sense that a Leviathan monopolizes violence and dictates some code of conduct among agents (e.g. Weber 1978, 50–51; Granovetter 1985; Foucault 1980; 2000).
- 7 The pluralist approach toward power and politics in democracy is another major variant of the harmony approach (e.g. Dahl 1958; 1961; 1967). I leave out the pluralist approach here because it is better understood when discussed with power. For a good discussion of the pluralist approach in studying social movement, see McAdam (1982: esp. chaps. 1 and 2). Social movement is usually a means of institutional change (see Chapter 4 below).
- 8 Knight (1992: 4–13) also noted the similarities between the three variants, and many others have noted the similarities between the neoclassical economic approach and functionalism (e.g. Granovetter 1985). Many tend to equate the neoclassical approach with rational choice, but this is misleading. Rational choice as a theory of strategic behavior is consistent with both neoclassical and non-neoclassical approaches, including the conflict approach (MacDonald 2003).

The neoclassical approach is more than just rational choice; it is individualistic, materialistic, rational, and harmonious.

- 9 Some mainstream neoclassical economists and many of their rational choice theory (RCT) followers in political science do study conflict (e.g. Schelling 1960; 1966; Hardin 1997; Hirschleifer 2001), but they do not address the role of power and conflict as an integral part of institutional change (see below). Rather, they are interested in an economic or RCT understanding of conflict.
- 10 This line of research has generally been focused on changes in one or two aspects of institutions when trying to explain economic performances through time. The question of whether some other and perhaps more important institutional changes have been driving economic changes has not been seriously raised.
- 11 In addition to the variants reviewed here, there is a new variant, the “new NIE (NNIE)”. Although NNIE uses more sophisticated models (or quasi-models), it squarely falls in the NIE terrain. I thus treat NNIE and NIE as alike. For a recent critical review of NNIE, see Spiegler and Milberg (2009).
- 12 For exceptions that bring the two approaches together, see Lin (1989) and North (1990).
- 13 This efficiency assumption is most evident in Williamson’s work (e.g. Williamson 1975: chap. 1; 1985: 26–30) and game theoretical studies of institutional changes (e.g. Aoki 2001; Greif 2006; Schotter 1981). Some definitions of institution explicitly assume that institutions are efficient (e.g. Lin 1989: 3, 8, 14; North 1981: 201–2; Ruttan and Hayami 1984: 204). As Knight (1992: 10) pointed out, there are two versions of this efficiency assumption, a naive one and a more sophisticated one; and they differ on how fast agents can get to the Pareto frontier: the former fast, the latter slow.
- 14 Institutions that are “socially efficient” must be Pareto superior for some agents and may even be Pareto optimal for some agents. For a detailed discussion, see Knight (1992: 34–5).
- 15 Spencer and Durkheim were, of course, following the steps taken by August Comte.
- 16 Hence, functionalists sometimes also call their approach “structural analysis” (Merton 1976) or “system analysis” (Parsons 1951). This is misleading because functionalism is only one form of structural analysis, as Merton admitted later (1976: 125n42). Conflict approach can also be a systemic approach or structural approach. System consists of agent and structure, thus subsuming structure.
- 17 Hence, Keohane now prefers the label of “institutionalism approach” (Keohane and Martin 2003). Neoliberalism’s functionalism logic is widely recognized (e.g. Haggard and Simmons 1988: 506–9; March and Olson 1998: 958; Sterling-Folker 2000: 100–13). See also Keohane and Nye (1989 [1977]: chap. 3). The late Ernest Haas (1958) labeled his explanation for European integration as a neo-functionalism explanation, but he was not interested in institutional change.
- 18 In his later years, Merton was moving away a bit from functionalism, admitting that “strain, tension, contradiction, or discrepancy ... may be *instrumental* in leading to changes in that system. *In any case, they exert pressure for change*” (1968: 176–7; emphasis added). Unfortunately, he never pursued this further.
- 19 Smith’s affinity for functionalism was evident in his understanding about the possible impact of conflict between individuals and institutions (1979 [1759]: 234).
- 20 For a good treatment of Hayek’s intellectual roots, including his libertarian roots, see Angner (2002), Hodgson (1993: chaps. 11 and 12); Knight (1992: 4–13 and chap. 4). Contra Calvert (1998: 133), Hayek’s social order (1967: 66, 71–2;

1973: 35–6) is different from Parsons' "social system" (1951). For Parsons, social system is the whole institutional and normative system of a society. In contrast, Hayek's order is "pattern of action." Hayek's spontaneous order merely captures a way through which a possible order can emerge. Much confusion originates from our failure to clearly differentiate social order from an institutional arrangement or a pattern of behavior. For instance, neither Calvert (1998) nor Elster (1989) explains the emergence of social order per se, but merely patterns of behavior, despite the title of their works suggesting otherwise. A theory of institutional change theorizes the emergence of individual institutional arrangements (i.e. building blocks of the order), whereas a theory of social order theorizes the merger of different institutions into a system or order (see Chapter 1).

- 21 This represents a major progress over NIE, which is inspired by neoclassical economics, which is in turn inspired by physics rather than biology.
- 22 For a more detailed discussion on good and bad adaptationism in social sciences, see Tang (n.d.-a: esp. chaps. 1 and 2). For debates on adaptation in biological sciences, see the references cited there.
- 23 Indeed, Hayek's other famous formulation that "competition as a discovery process" can stand *only if* we allow intentional design to operate. Hayek's misunderstanding is similar to that of Alchian (1950), who insisted that random selection without intentional adoption leads to good technological innovation.
- 24 Hayek had been inconsistent (comparing Hayek 1967: 68–74, 86 and 1973: 78, 250). The misunderstanding that spontaneous must mean "natural" or "without human intervention" has been widespread. For instance, R. C. O. Matthews (1993 [1984]: 183) insisted on the invalid dichotomy of spontaneous order vs. artificial selection. Likewise, Knight (1992: 84–7) took "spontaneous emergence" and "explaining alternative by chance" to be evolutionary whereas intentional design was "un-evolutionary." In social evolution, although the outcome of a particular institutional change can be understood as a spontaneous order because the outcome is beyond the control of any individual agent, it cannot be spontaneous in the sense that the outcome does not represent the outcome of human effort; spontaneous order in social evolution can only be possible with human intelligence (Polanyi 1941). I clarify many areas of confusion regarding biological evolution and social evolution elsewhere (Tang n.d.-a).
- 25 In this sense, Menger had a more sophisticated understanding of spontaneous emergence than Hayek did. Menger did not make any moral judgment about "organic origin" or "inorganic origin" either. In biological evolution, the fact that order emerges out of nonpurposive actions is, of course, well established. Evolution is thus a "blind watchmaker" (Dawkins 1996 [1986]).
- 26 Hayek's position on social policies was even more conservative than Durkheim's. Whereas Durkheim in principle allowed piecemeal social engineering (1982 [1895]: 35–6; see also Coser 1967: chap. 8), Hayek rejected even piecemeal social engineering.
- 27 These theories are developed with game models within the neoclassical paradigm, thus suffering from the same deficiencies associated with the NIE paradigm (see previous discussion).
- 28 Of course, conflict of interest does not automatically lead to actual conflict. Cooperation is another means for coping with conflict of interest.
- 29 There is no doubt that the Marx–Engels theory of communism contains a glaring self-contradiction: it claims that a society (or utopia) without conflict of interest (and thus actual conflict) is ultimately possible!

- 30 Unfortunately, some of Veblen and Commons' followers have generally neglected the conflict component of their work and become adherents of functionalism (e.g. Bush 1987: esp. 1079–81).
- 31 More recently, realism has bifurcated into two major variants: offensive realism and defensive realism (for details, see Tang 2010b). For our discussion, we can take realism as a single approach because the two realisms' difference on institutional change is marginal. Elsewhere, Soltan (1998: 53) also noted that the process of institutional change may be interpreted with the realist models of international relations.

2 Toward a general theory of institutional change

- 1 In Granovetter's words, the Hobbesian question (i.e. the question of law and order versus all-against-all violence) was watered down or eliminated. The pluralist approach toward power and politics in democracy also explicitly takes the position that all conflict of interest will be resolved via negotiations. For instance, Dahl (1967: 23) asserted, "Whenever a group of people believe that they are adversely affected by national policies or are about to be, *they generally have extensive opportunities for presenting their case and for negotiations that may produce a more acceptable alternative*" (emphasis added).
- 2 This is so despite their sometimes mentioning the n -person prisoner's dilemma game. The technical difficulties of modeling more than three agents in any game model might have been a major cause behind this practice. For instance, while Schotter (1981) started out with an ambitious agenda in which institutions are dynamic and in nonequilibrium, he eventually settled with a stable equilibrium approach; most of his cases were "myopic, dynamic adjustment based on stage-game preferences" (Calvert 1995b: 261n2). The harmony approach is guilty of allowing the means of modeling institutional change to dominate the end of understanding institutional change. Needless to say, if an institution must be a rule with which every agent agrees according to Schotter (1981: 9), it is possible only among a very limited number of agents.
- 3 I am not suggesting that path dependence is the property of the harmony approach. Path dependence is consistent with both the harmony approach and the conflict approach. Neither am I suggesting that path dependence is not important for understanding institutional change. See Chapter 4 below.
- 4 Not surprisingly, North's backsliding toward shared mental models is almost identical to Parsons' emphasis on value consensus (e.g. Parsons 1951).
- 5 Interestingly, Keohane and Martin (2003) also acknowledged that many of realism's criticisms against the neoliberalism approach are valid.
- 6 To obviate the necessity for studying conflict and violence, Durkheim simply labeled the monopoly of voice by the state as the "muscular system" of the organism! This trick of assuming away a problem or a component seems to have been a favorite trick of theorists within the harmony approach.
- 7 These cases may include the evolution of social conventions/norms and a few formal institutions such as primitive market. My category of institutional arrangement in fundamental areas roughly corresponds to Mirowski's bootstrap rules and evolutionary regularities, while institutional arrangements that are not in fundamental areas roughly correspond to Mirowski's natural rules. Mirowski (1993 [1986]: 260) too argued that neoclassical economics and game theory can only

explain natural rules. In a different context, Boland (1979: 969) noted that “neo-classical analysis should be recognized as a very special case.”

- 8 In addition, in the harmony approach, agents have only superficial roles in institutional changes. They are atomistic – anonymous and impersonal: most of the time, agents are just Players A, B, C, and D in a game model. Yet, as Hannah Arendt (1958: 180–1) put it pointedly, “Action without a name, a ‘who’ attached to it, is meaningless.” To understand institutional change adequately, we need to bring agents’ names, and thus their desires, emotions, and actions, back in.
- 9 Coser’s interpretation largely reflects his functionalist approach toward social conflict.
- 10 Weber did not really explain how the Protestant ethic came to be a force, and he perhaps did not get the most critical impact of the rise of Protestant ethics right. I elaborate on this subject elsewhere.
- 11 Today, neoclassical institutional economics and neoliberalism in international politics are perhaps the only two domains in which the harmony approach still retains a significant following.
- 12 Note, however, that state and law themselves are institutions that need to be explained!
- 13 Both Levy (1994: 297–8) and Holsti (2002: 629–30) made the same point against realism in international relations, and their criticism is broadly applicable to the whole conflict approach. The attractiveness of an idea should not be confused with “ideological or normative power,” which the conflict approach has consistently emphasized, at least since Marx, Lukacs, and Gramsci (Poggi 2001: chap. 4). The latter is the product of the combination of attractiveness of an idea and the power that backs it, and the conflict approach inevitably weights on the power behind an idea while slighting the attractiveness of the idea.
- 14 Lenski, however, was too attached to the functionalism approach, as he defined social institutions as “durable answers to important and persistent problems” (Nolan and Lenski 2004: 43). He even implied that the purges under Stalin had a (good?) function to perform (Lenski 1966: 25n1)!
- 15 Notable recent examples in this tradition include those of Haveman and Rao (1997) and Sommers and Block (2005).
- 16 I discuss SEP in great detail elsewhere (Tang n.d.-b). Many have used the term “social evolution” without ever defining it and what constitutes a social evolutionary approach (e.g. Bush 1987: 1076); many more have gotten social evolution and the social evolutionary approach wrong (e.g. Veblen 1898: 353). Still, many take a social evolutionary approach to mean simply that change is historical or process driven (e.g. Zouboulakis 2005) or the spontaneous emergence of functionalism and the Austrian approach (e.g. Knight 1992: 9–13, chap. 4).
- 17 I discuss the problem of gene and phenotype in social evolution in detail elsewhere (Tang n.d.-b). Taking ideas as genes and institutions as phenotypes is also consistent with this notion that ideational genes in social evolution are quite mutable whereas phenotypes are less so. Taking ideas as genes is also consistent with the individualistic foundation of our theory: ideas ultimately rest among individuals.
- 18 Alchian (1950) emphasized the uncertainty of the utility of an innovation in the context of getting “correct answers” in technological change. In this sense, the

process of institutional change is similar to the process of technological changes: both are social evolutionary processes.

3 A general theory of institutional change

- 1 This is similar to the notion of induced technological innovation (e.g. Rosenberg 1973; Nelson and Winter 1982). In biological evolution, mutations can also be induced. For instance, an increase of ultraviolet radiation in the atmosphere induces more mutations. The important difference is that mutations in the biological system are randomly generated, whereas mutations in institutional changes are not generated randomly in the sense that ideas are generated by human intelligence.
- 2 Knight (1992: 87) noted that whether alternative ideas are sharply distinct or continuously distributed can affect selection and the speed of evolutionary change.
- 3 McAdam (1982) labeled his model a “political process model.” This may be a misnomer because every phase of social movements (as a means of institutional change, see Chapter 4) is a political process, but his model only captures the phase of political mobilization in social movements. Bueno de Mesquita and his co-workers’ “logic of political survival” (2003), with “winning coalition” at its core, spoke of roughly the same logic, but they were mostly interested in how political entrepreneurs use resources under existing institutional systems to build coalitions to sustain their grip on power. In our framework, this act is subsumed under political entrepreneurship.
- 4 Thus, whether an idea is acceptable or advantageous constitutes only one of the many reasons an idea will spread or be forgotten (Hallpike 1986: 48–50).
- 5 At the very beginning of human society, initial power was perhaps simply physical strength and intellectual prowess.
- 6 If the conflict ends in a draw, agents can continue the conflict or enter into a compromise.
- 7 Violent struggles for power to make rules have become rare in modern democratic societies only because modern democracies have not only monopolized violence but also institutionalized channels for institutional changes via peaceful means. Of course, modern democracy as a meta-institution itself is a product of institutional change, and violent struggle for power had played a critical role in its birth.
- 8 In other words, the motivation of the winning side to bargain with the losing side, which can be understood as a form of self-restraint (Ikenberry 2000), is not altruism but strategic calculation based on selfishness. This can be partly due to the losing side still possessing some power: its minimal bargaining power is noncooperation, including the possibility of future rebellion.
- 9 Even here, however, cooperation or coordination among agents does not necessarily lead to welfare-improving outcomes. Of course, agents can also choose to continue the struggle for power.
- 10 Fedderke *et al.* (1999) and Bush (1987) have labeled this phase “rationalizing” and “encapsulating,” respectively.
- 11 Thus, the question of whether heroes or the masses make history is a false one: history is made by both heroes and the masses, although we remember heroes more because the masses have no names.
- 12 One can also label this situation as one group being colonized by alien institutions.
- 13 These incompatibilities are contradictions in Marxist thinking (e.g. Marx and Engels 1848; Giddens 1979; 1984). For instance, because slavery is incompatible

with the overall democratic institutions of the United States, the Civil War and the civil rights movement can be understood as moves to resolve these incompatibilities (Lieberman 2002). Of course, not all incompatibilities will be resolved, at least in the short run. A new institutional arrangement can also eliminate or limit potential changes in some other areas of the whole institutional system. I shall have more to say on this later. This category of immediate cause subsumes “cultural endowment-induced institutional changes” (Ruttan and Hayami 1984) because culture is part of the (informal) institutional system.

- 14 For example, the Industrial Revolution, preceded by the Scientific Revolution, was a dramatic example of technology shock for the West and then non-Western societies on a grand scale, but the revolution can also be understood as an endogenously generated event when looked upon from the perspective of long-run economic growth. Likewise, while the 1994 Mexico crisis and the 1997 Asian financial crisis can be understood as exogenous shocks to many countries that were directly affected, the two crises and institutional changes in global financial regulations afterward can be understood as endogenously driven by the globalization of the capitalism system.
- 15 Defining stability is no easy matter. Here, stability is defined as the lack of (obvious) change. For a discussion on how to define stability, see Jervis (1997: 94–8).
- 16 This implies that imperfect knowledge can be a source of both change and stability.
- 17 In Marxist terms, subjects have acquired a “false consciousness,” usually under the propaganda of the dominant class (Gramsci 1992–6 [1926–37]; Lukacs 1971 [1920]; Althusser 2001 [1970]; Lukes 2005).
- 18 Culture enters the picture here, if habit is understood to be part of culture or inertia is produced by culture.
- 19 Political entrepreneurs often want to detect openings or opportunities before they initiate attempts toward institutional change. Of course, no opportunity is real without actual political mobilization. Hence, what constitutes an opportunity for political entrepreneurs is perhaps mostly a subjective question. As Kurzman (1996) pointed out, much of the existing literature on political structural opportunity in social movement has tried to assess the outcome with objective opportunity, thus running the risk of ad hoc-ism and tautology. A change of heart in the right direction is evident when one compares Tarrow (1994: 17–18, 189) with Tarrow (1998). See also Kurzman (2004).
- 20 In other words, the institutional system always limits the ability of society to make changes; otherwise, the system will be too unstable. For a general statement on system effects, see Jervis (1997).
- 21 These nonevents or nondecisions are difficult to observe, but they do constitute part of our social reality, as Bachrach and Baratz (1962) noted. See also Pierson (2003).
- 22 Abrupt changes are usually called revolution and transformation; whereas slow changes are evolution, reform, and so forth. These labels are more heuristic than we normally assume because evolution does allow abrupt and revolutionary changes.
- 23 As Lieberman (2002) noted, the existing institutional system (endowments) after the Civil War limited the possibility of obtaining a complete solution in one stroke (i.e. abolishing slavery and extending equal rights to the Blacks) to the “Negro issue” at that time. Hence, sometimes, one change relieves some

tensions but cannot do it all, and circumstances may delay further and more profound changes.

4 Assessing the general theory

- 1 “One of the great attractions of phylogenetic (i.e. evolutionary) explanations is that very little is left to exogenous events” (Knudsen 2001: 125). Likewise, Hans Mayer noted, “A casual-genetic explanation does not depend upon exogenous stimuli to power further changes” (quoted in Hayek 1937).
- 2 Hierarchy contributes to more effective war-fighting, at least partly by expanding the capabilities of human society and accelerating economic accumulation (Miller and Cook 1998).
- 3 In this sense, the coming of the primitive market can indeed be understood as the product of spontaneous emergence. The coming of money, however, could not have been a case of spontaneous emergence as Menger (1892) suggested. The market must be fairly developed for money to appear: some regulation of the market (usually some sort of property rights) must exist before money can be institutionalized. Consequently, the institutionalization of money could not have been a product of spontaneous emergence. Instead, the institutionalization of money must be based on some consciousness of design, consensus, or dictation by (state or community) power.
- 4 Hence, “what appears to be bad policy often is good politics” (Bueno de Mesquita *et al.* 2003: 19). Bueno de Mesquita and his co-authors focused on autocracies. One should go further, contending that even politicians in democracies often pursue bad policies for good politics. Otherwise, how can we explain the all too prevalent patronage (i.e. pork-barrel politics) in democracies?
- 5 There is no progress in biological evolution in the normative sense; the only form of progress is an organism’s relative adaptation to its environment. An important point to emphasize here is that selection in social evolution does not necessarily mean the elimination of welfare-decreasing institutions. At any given time, any human society may harbor numerous welfare-decreasing institutions. Even in biological evolution, selection does not mean the total elimination of less fit phenotypes.
- 6 Nature was perhaps more important in the early stages of human civilizations, especially regarding technologies (i.e. whether a technology can solve a practical problem in a given natural environment).
- 7 John Commons made the first coherent argument that social evolution is fundamentally an artificial process through artificial selection rather than a natural process as understood by Veblen (e.g. Veblen 1898). Vanberg (1997) labeled Commons’ theory as “theory of institutional evolution through *purposeful* selection.” I believe that artificial selection is more fitting because it better conveys the sense of intervention by human action. Note that the harmony approach does not need a selection mechanism because all institutions are assumed to be welfare-improving equilibriums. Human intelligence thus provides not only the ideas (mutations) but also most of the selection pressure in social evolution.
- 8 Peaceful spreading of ideas across communities became relatively more common only after World War II (Zacher 2001; Fazal 2004; Tang 2010a).
- 9 As Pierson (2000a: 252–3) noted, there are two definitions of path dependence: a narrower version that emphasizes positive feedback or increasing returns and a broader version that merely states that history matters. The explanations for path

- dependence offered here can accommodate both versions. I thus do not differentiate the two versions. See also Mahoney (2000: 507).
- 10 Earlier, Skocpol noted that institutional arrangements “affect the capabilities of various groups to achieve self-consciousness, organize and make alliances” (Skocpol 1992: 47). Although extreme forms of social closure are more likely to exist in autocracy and illiberal democracy, less extreme forms are virtually everywhere. This holds even in a liberal democracy: otherwise, we will not have essentially “silent” masses even though they can vote.
 - 11 In light of this, North’s position that organizations are not institutions because organizations are players of the game but not rules of the game needs a different justification (North 1990: 4–5). I have provided such a foundation in Chapter 1, “definitions.”
 - 12 For example, Schotter’s theory can only apply to simple coordination and cooperation (Schotter 1981).
 - 13 For a more detailed discussion of these foundational paradigms, see Tang (2010c).
 - 14 The general theory gives more weight to conflict of interest and conflict in driving institutional and social changes due to our evolutionary understanding of human nature and society. See Tang (2010c; n.d.-a).
 - 15 Contra North (1990) and Zouboulakis (2005), North never did give up the efficiency assumption; it always lurked beneath the surface. For instance, in 1991, North asserted, “Through history institutions have been devised by human beings to create order and reduce uncertainty in exchange” (1991: 97).
 - 16 According to North, ideology is “intellectual effort to rationalize the behavioral pattern of individuals and groups” or “an economizing device in which individuals come to terms with their environment and are provided with a ‘world view’ so that the decision-making process is simplified” (1981: 48–9). North came very close to the right direction toward a sound theory of institutional change; he even flirted with the idea of combining Marxism (the conflict approach) with his neoclassical approach (1981: 21–2, 59–63). Unfortunately, he could not pursue this further because his NIE approach fundamentally rejects power and conflict; even his theory of the state, which monopolizes violence, is based on the harmony approach (1981: chap. 3). Olson also neglected the possibility of bandwagoning in collective action: when individuals believe that a collective action is well on its way to succeeding and there is something to be gained from its success, they are more likely to join for fear of being left behind. For a good review of the rational choice approach toward collective action, see Lichbach (1994).
 - 17 Some sociologists and followers of OIE have called this process “encapsulating” (e.g. Bush 1987; Fedderke *et al.* 1999).
 - 18 As Althusser (2001 [1970], 95–100) Bachrach and Baratz (1975: 900) and Lukes (2005) pointed out, a major face of power is to exercise control over people’s minds, either covertly (e.g. through education, which also requires the backing of power) or overtly (e.g. through threat of sanctions or actual sanctions).
 - 19 Of course, subjects’ (obvious) internationalization of the false consciousness can also be false (Scott 1990: chap. 5; Kuran 1995). Otherwise, one would not expect to see any revolution. The general theory thus points to a general theory of rebellion or revolution as institutional change on a massive scale. Tsou (2000) provided a splendid outline for constructing a general theory of rebellion and revolution, and his outline contained almost all the important features underlined in the discussion here.

- 20 Not surprisingly, North's more recent work on shared mental models or ideologies is strikingly similar to Marx and Engels' earlier work, reaching back into class consciousness and Parsons' emphasis on common value systems (Denzau and North 1994; Marx and Engels 1848; Parsons 1951).
- 21 Cortell and Peterson (1999) emphasized the role of state bureaucrats in engineering (gradual) institutional change. The general emphasis on the state was apparent in Evans *et al.* (1985).

5 Power/institutions and society

- 1 Obviously, the title of this chapter was inspired by Foucault's power/knowledge. Interestingly, Foucault admitted that he had only come to recognize that he was really talking about power (and little else) when he was doing *The History of Madness* and *The Birth of the Clinic* (1980: 115). Foucault could not have developed a more general theory of power and institutions, even if he had not had an untimely death, because he rejected theorizing – grand or not – in the positivist and modernist senses.
- 2 For an incisive critique of Giddens' romanticization of agency or free action and the agency–structure problem, see Collins (1992). I disagree with Collins' dismissing the action/ agency–structure as essentially the same as the micro/macro problem.
- 3 The two aspects certainly interact with each other, and Giddens has not elaborated on this interaction.
- 4 Not surprisingly, Giddens' definition of structure, especially his emphasis on this aspect of duality of structure, overlaps with that of Marxism, although the former is ideationalistic whereas the latter is a bit more materialistic (Porpora 1998 [1989]: 343–5).
- 5 For an earlier discussion on the connections between Lukes and Giddens, which also notes Giddens' link with Foucault, see Clegg (1989: 14–15).
- 6 Giddens (1979: 88–9) actually talked about dualism of power, but the dualism he talked about actually reflects two approaches toward agent and behavior, behavioralism and structuralism (i.e. action vs. structure). I discuss these two fundamental approaches in the social sciences in greater detail in Tang n.d.-b.
- 7 Norbert Elias's studies of civilizing processes are fundamentally similar to Foucault's genealogies of power: they are historical narratives of changes in various subsystems of institutions under power. This is especially true for "State Formation and Civilization" in Elias's *The Civilizing Process* (1994 [1939]). For a comparison of the two authors, see Smith (1999) and Spierenburg (2004). Both Giddens and Lukes failed to engage seriously with Foucault's understanding of power and thus failed to recognize that Foucault's genealogy of power provides the crucial missing link for resolving the second aspect of the duality problem.
- 8 Here, it is easy to grasp that social order (as many functionalists (e.g. Parsons) would like to put it) cannot be adequately understood without an understanding of institutional change, and this inevitably undermines analysis that starts with structure but neglects power. Without an adequate theory of institutional change in which power is an integral part, there cannot be adequate understanding of social order. Barnes (1988: chap. 2) recognized the problem but could not resolve it because he followed Parsons too closely. Of course, the structure is usually far more resilient than individual institutions: even if an institutional arrangement

or a sub-institutional system were overpowered, the overall structure as a much larger system might still stand. The evolution of (power) structure also drives the evolution of distribution of power among agents in society, again through the mechanism of variation–selection–inheritance. Simply put, when some agents choose to back a particular idea and that idea eventually wins the struggle for power and becomes institutionalized, these agents become more powerful. If agents back the wrong horse (i.e. somebody else wins the struggle for power), however, they become less powerful.

- 9 This is because power has some material input whereas structure (as the institutional system) is purely ideational and material forces hold ontological priority over ideational forces (Searle 1995: 55–6; Tang 2010c).
- 10 Thus, it is often misleading to discuss power and institutions separately: power analysis and institutional/structural analysis should and can be synthesized.
- 11 Pushed to its logical limit, this utopianism thus has to fall back on social Darwinism and racism.
- 12 As Berlin so eloquently argued, these attempts are usually based on some kind of belief in discovering iron law through reason and then imposing the law via education, if not brutal force (Berlin 2002: 191–3).
- 13 There can be no scientific utopianism: no utopianism can be truly scientific because reason or logic has to stop somewhere for all utopianism. Mannheim (1936) was perhaps the first to point out that two strains with the two approaches (i.e. functionalism and communism) are both utopianism.
- 14 For Plato, it was the *Republic*. For Confucius, it was the Western Zhou Dynasty as imagined in *Li-jie* (The Rituals) and *Lun-yu* (Analects).
- 15 Interestingly but not surprisingly, Parsons (1957: 140), a follower of the first utopianism, charged Mills (perhaps a follower of the second utopianism) of being utopian.
- 16 The intellectual lineage can be traced to Adam Smith, who preached free market against mercantilism in his time, thus seeking to limit power in the economic domain. The problem of market fundamentalists can also be understood as a problem of forgetting the historical context of Smith's position. Although libertarians (e.g. Nozick 1974) may support the stand of market fundamentalists on the market, not all market fundamentalists are libertarians. For a good discussion, see Freeman (2001).
- 17 The recent subprime lending crisis in the United States is the latest example of outcomes that can be generated by a “self-regulating” financial market.
- 18 I do not deal with Hannah Arendt's public realm (1958), which is fundamentally similar if not identical to Habermas's public sphere, partially because Arendt was less than consistent. For earlier discussions on the fundamental similarity between Arendt's and Habermas's schemes, see Benhabib (1994), Bernstein (1983: 182–223), and Villa (1992). For wide-ranging and penetrating critique about the utopian element inside critical theory, see Benhabib (1986) and Wellmer (1985).
- 19 Here, inequality is political and economic. Fraser (1990) criticized Habermas mostly from a feminist perspective. Sharing Habermas's utopianism, however, Fraser also called for eliminating inequality.
- 20 Interestingly (but not surprisingly), however, Habermas later complained that the state (or the system) had “colonialized” the “Lifeworld.” See the discussion below.
- 21 For a devastating critique of the myth of public sphere and creative intellectuals, which do not seem to engage Habermas, see Poggi (2001: 100–2). Tellingly,

when Habermas was pointedly asked by Fraser whether his public sphere was a utopian imagination, he replied that he would have to “get over the shock to answer such a question,” and he never answered. See the exchange between Fraser and Habermas in Calhoun (1994: 466–9).

- 22 Habermas’s imposing an ideal imagined was perhaps predetermined: unless he could somewhat convince himself (and us) that discourse in the public sphere could approach the ideal discourse situation in which the discourse ethic of impartiality, which requires subjects to forget their interests and ignore each other’s power, must rule, his whole intellectual enterprise of reaching consensus/truth/knowledge/reason through communicative action had no foundation.
- 23 Habermas thus can indeed be called a “leftist Parsons.”
- 24 Habermas’s colonialization is equivalent to Marx’s and Lukacs’s reification and Arendt’s “rise of the social.” All insisted that this is a capitalist disease and is reversible. Yet on the question whether it is possible, or even desirable, to reverse the process, none of these authors provide a convincing answer other than asserting the process has been morally degenerative.
- 25 See also the discussion on the interaction between culture and institutions in Chapter 4.
- 26 Note that Habermas wanted to separate power from ideas. In contrast, the general theory developed previously seeks to integrate the two factors.
- 27 In a similar exchange in post-World War II Japan, Maruyama Masao noted that “politics is latent throughout all realism of culture,” countering Nanbara Shigeru’s call for making a distinction between the individual pursuit of truth, beauty, good, and beliefs in the scared, on the one hand, and politics, which he defined as a collective enterprise aimed at creating community and putting the principle of justice into practice (Tadashi 2008 [2006]: 126–30). Here, Maruyama is like Foucault, whereas Nanbara is like Habermas. Indeed, our norm of deference to scholars like Habermas was partially shaped in history by an institutional framework that has provided priests and, much later, scientists with high social status.
- 28 Also, one cannot fail to detect the similarity between Arendt and Habermas. Arendt (1993 [1961]), in expressing her nostalgia for the age of authority couched in tradition, expressed the same feeling of going back, this time to ancient Greece.
- 29 Peter Digeser (1992) labeled Foucault’s “structural power” as the fourth face of power.
- 30 In this sense, Foucault’s work is “*a sustained critique of public realm theory and its normative presuppositions*” (Villa 1992: 417, emphasis added), and this is why Foucault chose to examine those areas that most people do not think of in terms of power (e.g. sexuality, clinic).
- 31 Steven Lukes, another utopian, also rejected Foucault’s genealogy of power mostly on normative grounds: Foucault’s work made liberation and emancipation (i.e. escape from power) impossible (Lukes 2002: 492–3; 2005: 91–2, 98). As I shall show elsewhere, this is based on an erroneous definition of freedom/liberty, especially the Berlinian negative definition of liberty (Berlin 2002).
- 32 Parsons can be understood as the modern “godfather” of bracketing power. His post-1960 work can be understood as an attempt to limit force/power to politics while excluding power from the economy, society, and the fiduciary subsystems (Parsons 1963a; 1963b; 1967). For a good account of the intellectual lineage from Parsons to Luhmann and Habermas on theorizing the problem of social differentiation and integration via media, see Chernilo (2002).

- 33 Of course, subjects usually judge the power relationship from the effect on their welfare incurred by the exercise of power under the relationship. In his *Pascalian Meditations*, Bourdieu (2000 [1997]) also advocated for a subject-centric approach toward making normative judgment, although only implicitly. Through his microphysics of power and power relationships, and by repeatedly emphasizing local and individual resistance, Foucault also implicitly advocated for a subject-centric approach toward justice: judging any power relationship or institutional arrangement must be a local and subject-centric thus empirical exercise rather than an abstract endeavor. Foucault's problem was that, by emphasizing only local and individual resistance, he essentially denied or at least neglected the possibility of collective action toward institutional change, not to mention dramatic institutional changes. I dismiss power holders' judgment because they usually judge their exercise of power as just. See below.
- 34 Lukes's discussion on consensual authority and domination and whether there is any injustice associated with the two terms (2005: 35–8, 85–7) revealed the difficulty of making normative judgments for subjects by philosophers' abstract reasoning alone. For an earlier criticism of Lukes's bystander-centric approach toward power, see the concise but penetrating discussion by Hay (1997: 45–50).
- 35 In other words, subjects are feigning their submission to the existing institutional arrangement or system (Kuran 1995; see also Scott 1990); this generally leads to nondecisions (Bachrach and Baratz 1962).
- 36 Thus, when subjects decide not to challenge the existing institutional arrangement or system, they may just be waiting for a strategic opportunity (see Chapter 4).
- 37 No one can be *perfectly* happy.
- 38 More often than not, the intellectual will later inform the subject that the subject will then have to heed the guidance (a.k.a. command) of the intellectual or the scientific theory espoused by the intellectual.
- 39 It is highly possible that the sense of dignity and happiness of the subject and his wife will be shattered if not totally destroyed when they question their happiness as posed by the two bystanders. I refrain from exploring the implications of this possibility further here.
- 40 Of course, if my welfare has already improved, this gives me further confidence in my future.
- 41 Not surprisingly, all utopianisms toward institutions and justice demand an elite-centric rather than a subject-centric approach toward justice: no utopian theorists have ever considered letting subjects judge their own welfare. Thus, Durkheim (1984 [1893]) talked about anomic and pathological division of labor and lamented the conflict (and conflict of interest) between employer and employees as anomic pathologies. But his solution for differentiating what is abnormal from what is normal is not science as understood by scientists (Durkheim 1982 [1895]: 86–7). Likewise, Habermas talked about allowing subjects to discuss justice in the public sphere, apparently without bothering to note that many working-class citizens do not have the luxury and power to be in the public sphere. Finally, Marx and Engels identified the proletariat class as the only arbitrator of social justice for all other working classes.
- 42 Nietzsche thus would be hard pressed to reconcile the two positions for intellectuals he prescribed.
- 43 Some apparently believe so. Thus, often one of the most lethal charges against a theory or theorist has been that the theory or the theorist has made a normative

judgment. See Hay (1997; 2002), Lukes (2005), and Heyward (2007) for an interesting debate.

- 44 In light of this, Foucault was indeed guilty of not providing “normative criteria for distinguishing acceptable from unacceptable forms of power” (Fraser 1989: 33; see also Bevir 1999: 71).
- 45 Ruttan (1984) noted that one of the major tasks of the social sciences (for Ruttan, economics) is to provide knowledge for institutional change, although he perhaps had mostly top-down reform in mind.
- 46 Here, Deleuze somehow twisted the meaning of reform and revolution.
- 47 Sadly, intellectuals often resort to this labeling to discredit each other’s work. Thus, Habermas (1981) and Walzer (1986: 55) respectively labeled Foucault a “young conservative” and a “reformist.”

Appendix I: The fallacy of treating institutional change as bargaining games

- 1 If institutional change is a process with several stages and different stages may have different dynamics, then only “dynamic staged games” can really model the process. Yet, modeling dynamic staged games with multiple players with different ideas (e.g. five players with different ideas playing the game) will be extremely complex, and the model may be totally intractable. As such, we should doubt that game models in general can adequately understand institution change.
- 2 If we were to retain the misleading bargaining metaphor, this phase of the institutional change would be “bargaining for the power to set the rules” that is partially captured by “bargaining for future bargaining power” (Fearon 1996).
- 3 Even for cases in which the distribution of bargaining power among agents (in the phase of setting rules) is roughly equal, if it had undergone a phase of struggle for power to set the rules, it is misleading to treat the whole process of institutional change as a bargaining game toward the Pareto frontier. This is simply because the phase of struggle for power has important implications for later phases of institutional change.

Appendix II: The role of intellectuals

- 1 This is why denying there is an objective (but not necessarily purely material) reality out there inevitably cripples any social critique, a crucial point that many radical relativists have so far failed to appreciate.

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