

“Endogeneity, Disequilibrium and Functional Informalities”

2nd Session on Institutional Credibility and Function

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This Call for Papers describes the 2nd Session on Institutional Credibility and Function to be held during the annual EAEPE (European Association for Evolutionary and Political Economy) conference. The 1st Session was successfully held at the 24th Annual EAEPE conference in November 2014.

Keywords: credibility, economic history, Lamarckian theory, disequilibrium, emergentism, endogenous development

Introduction

One of the vexing questions in a neo-classically inspired view of institutional change is why overtly inefficient institutions and “perverse” property rights arrangements tenaciously persist, despite allegedly inhibiting growth and development. In this regard, one might think of the persistence of in-transparent institutions that facilitate rent-seeking and corruption; ill-protected intellectual property rights that offer leeway for illicit copying and theft of knowledge and technologies; or insecure, ambiguous tenure that opens up the way for indiscriminate expropriation and forced evictions.

It is posited that the key to understanding the persistence of so-called inefficient, “perverse” institutions might lie in a refocusing of our analysis from form to function, detached from any normative, ideological or theoretical assumptions about institutional appearance. In other words, the form (private/public, formal/informal, secure/insecure) of institutions is subordinate to their function (actors’ temporally and spatially accorded meaning of institutions). The argument starts from the “Credibility Thesis”, i.e. the hypothesis that once institutions “persist” they fulfill a certain function for social actors and economic agents, regardless their level of formality, privatization or security. In this reading, institutional structure is *not* the result of intentional design by which institutions can be “wrongly” or “rightly” engineered. Instead, it springs forward from a spontaneous, ***endogenous*** order.

Critically, this reading also implies that institutional change is not characterized by (dynamic) equilibrium or an equilibrium path, yet, by disequilibrium.

Papers and submissions

Against the backdrop above, this session aims to bring together papers that describe, analyze and conceptualize the endogenous, evolutionary change of property rights and institutional arrangements over time and space. In this context, the sector, disciplinary focus or issue is not relevant – regardless whether that touches on land or water; technology or energy; housing or urban planning; banks, firms or finance; or Intellectual Property Rights and infrastructure. What matters for this session – which pools people from economics, political science, sociology, anthropology, law, geography and planning – is the approach and an interest in notions of credibility, endogeneity, disequilibrium and institutional function rather than form.

Please send your abstract for consideration to p.p.s.ho@tudelft.nl. The abstract should clearly mention (i) the title of the paper, (ii) name of the author(s) and full address of the corresponding author and his/her email address, (iii) the aim and the main argument of the paper, and (iv) keywords or the relevant JEL codes. The abstract should be 250-300 words.

The session already has a group of 10-15 confirmed participants, yet, there are still a few places open. Abstracts should be submitted before 1 May. Papers should be submitted to the session organizer before 1 October 2016.

References:

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Chang, Ha-Joon (2007), *Institutional Change and Economic Development*. Tokyo, New York, Paris: United Nations University Press

Grabel, Ilene (2000), "The political economy of 'policy credibility': the new-classical macroeconomics and the remaking of emerging economies" *Cambridge Journal of Economics*, 24 (1), pp. 1-19

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Confirmed participants and abstracts

1. Changing credibility of institutions: How Household Registration Systems (Hukou) in China and Taiwan define immigrants' social benefits

Dr. Shih-Jiunn SHI (National Taiwan University)

Hukou is one of the enduring institutions that defines social citizenship of the residents/immigrants in China. While much discussion focuses on the Chinese case, still little attention is paid to the system in Taiwan, let alone a comparison of the both. This article

seeks to enrich the discussion of the two hukou systems in terms of their functions in determining the access of cross-strait immigrants to the social benefits of the respective host countries. Drawing on the “credibility thesis”, the analytical locus is placed on the continuity and change of institutional functions the underlying apparent persistence of institutional forms. When granting/withholding immigrants the access to local social benefits, hukou systems fulfil several functions: firstly, the symbolic dimension, in which immigrants from both sides are (artificially) regarded as citizens of a divided nation rather than two separate countries; secondly, the substantial dimension that defines the scope and extent of social benefit entitlements granted to the immigrants in concern; and finally, the management dimension that allows room for considerable administrative discretion in adaptation to various circumstances arising from the unsettled cross-strait relations. Often times, realization of these various functions is compounded by conflicts in identity politics, with repercussions for the generosity/rigidity of social inclusion for the cross-strait immigrants. Evidence underpinning the theoretical elaboration stems from the analysis of legal documents regulating the social rights of immigrants in China and Taiwan, supplemented by the historical traces of the politics of cross-strait migration. The final findings should shed light on the mechanisms facilitative/restrictive of the hukou regulations in China and Taiwan, highlighting the puzzling phenomenon that the both hukou systems are gaining in significance in steering the cross-strait migration in a time when their functions in regulating domestic migration are changing, if not weakening.

2. Institutions in India’s Urban Water Governance: Examining Reform and Privatization Through the Prism of the 'Credibility Thesis'

Syed Mohib Ali Ahmed, MPhil Researcher, School of Economics, Univ. of Hyderabad

Vivek N D, PhD Research Scholar, Dept. of Political Science, University of Hyderabad

In the discussion on privatization and regulation of urban water governance and policy, various studies narrate and provide a disparate assessment of the ongoing regulatory reforms in developing economies including India. While the emerging Public Private Participation (PPP) models are aimed at improving service delivery mechanisms and making the institutions involved more efficient and accountable, this paper aims to better understand and explain the legislative changes and evolution of the urban water sector and its accompanying institutions in India through the prism of the 'credibility thesis'. After the opening up of the Indian economy and the adoption of ‘good governance’ principles, a series of reforms were undertaken in a number of federal states in India to make the sector more efficient in allocation of drinking water among different constituencies, financial sustenance and accountability of the urban local body (ULB) and improved delivery of the resource. In analyzing the experiences and the outcomes of different policy changes and their impact on citizens and other stakeholders of two 'Tier-II' cities - Kolhapur in Maharashtra and Dharwad in Karnataka, this paper attempts to draw attention to the absence of convergence in institutional forms. This finding contradicts one of the central implications of new-institutional economic theory, of the necessity for convergence in institutional forms and performance over time, which follows from the assumptions of scarcity and competition within a system. More significantly, the findings show that the water sector in Kolhapur, despite being inefficient on several parameters such as quality and quantity of water supplied, etc., is paradoxically, considered to be a credible institution by the local residents. On the other hand the privatized water system in Dharwad, despite being efficient on the

same parameters is considered less credible and inspires little confidence in its long term plans among the stakeholders. This apparent paradox and the existence and continuation of perverse or inefficient institutional forms necessitate an alternative explanation for their existence. The credibility thesis offers that explanation considering the fact that an institution is credible because it has survived and continues to serve different purposes which are endogenous in nature. The paper concludes by questioning the top-down approach to reforms and criticizes institutional theory for its singular emphasis on efficiency and ignoring the endogeneity of decision making while disregarding other values such as democratic practices and civic participation and proposes the credibility thesis as a robust explanatory framework for institutional analysis.

3. Chinese state-owned commercial banks in reform: Inefficient and yet functional?

Dr. Godfrey Yeung, University of Singapore

For institutional economists, state-owned commercial banks (SOCBs), with their ambiguously defined property rights and inefficient operations, are regarded as a stumbling block for economic reforms in China. After the initial public offerings of SOCBs in 2005-10, the transformation of the property structure blurred the conventional boundaries between public and private property while the state continued to play an important role in the regulation and operation of this 'hybrid property': a mixed public-private ownership structure that has been adopted for previously wholly SOCBs. The perceived lending bias against private enterprises could be a rational decision made by SOCBs, partly due to the high transaction costs of risk evaluation and the lack of formalized channels to mitigate the credit risks of such loans. The hybrid nature of SOCBs property rights maintain credibility as a convenient channel for the state to provide counter-cyclical lending to contain the exogenous (economic) shocks and long-term financial support for development purposes in the transitional economy and thus contribute to socio-economic and political stability in China, i.e., SOCBs serve specific socio-economic functions for economic agents, from lending to SOEs to co-financing local governments' massive infrastructure projects during the 4 trillion yuan (US\$586 billion) stimulus plan. Instead of an unsustainable operation, as posited by conventional institutional analysts, the undefined property rights of SOCBs and favourable lending practices to SOEs could actually contribute to their profitability and thus the persistence of hybrid property and their credibility in China.

4. Global Migration and Re-Construction of the State

Prof. Ali Modarres, University of Washington Tacoma

Global labor migration theory and ethnic literature have historically devoted a lot of attention to immigration policies, often focusing on either immigrant disempowerment or innovative engagement with the policy environments of host nations (e.g., ethnic entrepreneurship as an alternative path to economic integration). Over the last few decades, a growing body of literature has shifted from a focus on immigrants as objects to subjects of history with significant levels of agency. While the role of the state and its influence in defining citizenship and the production of political subjects is debated from a legal perspective, little has been done to engage with political theories of the state (i.e., the legacy of the enlightenment project and its focus on the importance of property ownership) and what it means to immigrants. Furthermore, there has been a lack of theorizing about the

ways informality has been deployed by immigrants to deconstruct the structures of the formal state and reproduce its functions at the local level through non-governmental organizations, to replace national citizenship with social citizenship and create alternative hybrid spaces of in/formality. Through a close examination of immigrant-led non-profit organizations in Los Angeles, a city well-known for its large foreign-born population, this paper offers a theoretical lens through which the production of these parallel structures or endogenous forms of governance can be examined. I will further illustrate the role of immigrants in the production of boundless states, where 'scale' is used to reshape multiple manifestations of formality and informality through the functional spaces of everyday life in diaspora.

5. Rethinking Labour Market Institutions in Indian Industry: Forms, Functions and Socio-historical Contexts

By Satoshi Miyamura, SOAS, University of London

The emerging literature on institutional functionalism opens opportunities for historically- and socially-sensitive analysis of institutions, especially if it is complemented by a material understanding of institutions and their location within the wider social structure. We engage constructively with the 'credibility' thesis (Ho, 2014) in institutional economics and apply it to labour market institutions (LMIs) in Indian industry. Empirical observations collected from field research in various industrial sites in India show that LMIs take diverse forms, but that institutions with the same form may function differently depending on their political economic contexts. Changes to institutional forms are observed often involving industrial relocation and almost always struggles over the labour process, but roles played by bargaining agents and the ways in which these institutions function have undergone modifications even in cases where their forms appear relatively stable over more than a decade. It is argued that both forms and functions of LMIs are to be understood within the wider process of industrial development and capital accumulation. The implication is that the ongoing debates in India focusing on policies that attempt to exogenously engineer institutional change may be misguided and ineffective.

6. Assessing the Endogenous Relationship between Law and Economic Growth in China

Dr. Linda Yueh, University of Oxford

An enduring paradox of China's remarkable economic growth is the lack of a well-established legal system. This paper proposes that legal and economic reforms give rise to, and reinforce, the other and the market is underpinned by evolving institutions that are shaped by the expectations of the actors in the economy. A comparative examination of the US at a similar stage of legal-institutional development to China provides support for an evolutionary, endogenous process. The institutional analysis will focus on key issues of economic legislation more in particular: corporate law, patent law and securities. The complementary processes described here can explain the paradox of strong growth within an under-developed system of law with potential, critical ramifications for developing countries.

7. Change and Institutional Function: Managing peri-urban water access during urban transitions in Bangladesh

Sharlene L. Gomes, PhD candidate and Dr. Leon M. Hermans, Delft University of Technology

Urbanization in the Ganges delta in Bangladesh has brought numerous challenges for the management of water resources. The impact of this is felt most in peri-urban villages like those situated in close proximity to expanding Khulna city, where access to water is a concern for local users. Here, access and water use is governed by a set of formal and informal institutions. These institutions provide the rules for actors in selecting their strategy in a social dilemma. Institutions may also be changed if actors feel they restrict them from reaching their desired objective. The credibility thesis describes institutional credibility to emerge from the functions these institutions provide to actors in society (Ho, 2014). Yet, when a rapidly changing context puts new demands on the functions provided by institutions, how does institutional change occur? This research explores these mechanisms of institutional change in peri-urban Khulna. The study demonstrates how local water users improved water access through the creation of informal rules. Their location and existing networks limited their influence to the informal arena. Formal rules continued to perform some function with both institutions working in parallel to bridge the gap in access. In the future, a change in formal rules will result from the urban transition process that will once again impact the function of existing institutions. The research highlights the need for a new approach to managing urban transitions away from a traditional urban-rural divide. It also shows that in situations of rapid change, interim solutions are likely to be needed. In this case, informal institutions provided more flexibility to enable temporary solutions but function against continuing formal settings. This confirms that institutional function is more relevant than form in peri-urban areas, given the limited abilities of peri-urban actors and the evolving nature of the context itself.

8. After form: Incredible property and some polyrational functionalities of land

Prof. Benjamin Davy, School of Spatial Planning, Dortmund University of Technology

According to the 'credibility thesis' (Ho 2014), the nature of institutions is determined by being endogenous, ever-moving, and resulting from disequilibrium. But does this also apply to the institution of property in land? After all, almost all legal systems worldwide acknowledge '(private) property' as an institution that, by form, is preordained by natural law, ubiquitous, and firmly rooted in an equilibrium of justice and efficiency. A closer view on property, however, displays a different story. Property in a home is different from property in a public street. Property in a community garden is different from property in a retail chain. Incredibly, many legal systems accommodate such different functionalities of land, yet fail to recognize that property rights in land are being endogenous, ever-moving, and resulting from disequilibrium. Take, for example, the rights of tenants. Constitutional property can vary substantially from private law property (van der Walt 1999 and 2005) and, among other things, protects the use rights of tenants (BVerfGE 89 [1993] 1—*Besitzrecht des Mieters*). How can courts justify the 'credibility' of property with regard to rights that clearly are *not* property rights under common, private, or civil law? Courts have engaged in 'transformative property,' like the concept of 'new property' (Reich 1964), and have found proprietary interests in unlikely places, such as informal settlements (Davy and Pellissery 2013). Yet, courts also had to grapple with predatory property demands by 'locusts' in the financial markets, and failed to confirm their demands (European Court of Human Rights, 10

July, 2012, *Dennis Grainger et al. v. United Kingdom*, Application no. 34940/10). Following the ‘credibility thesis’, no exogenous, overarching plan commands that property rights be developed in this or any other direction. Social justice, environmental protection, economic efficiency and other claims would be merely labels concealing the emergence of – *in situ, inter partes* – claims to use, exploit, and –sometimes–overexploit the land. A constant flow of various rationalities (Davy 2014) perhaps helps explain which contributions to disequilibrium are essential for the creation of (in)credible property.¹

9. Patient capital and hybrid institutional complementarity in the old and new American company networks

Adam Dixon, University of Bristol and Daniel Haberly, University of Sussex

In comparative capitalisms analyses of corporate finance and governance, “patient capital” is typically understood in opposition to “market-based” ownership by footloose investors. It is also usually assumed to be less stable than, and prone to decay into, the latter. Here we question these ideas. Conceptually, we dispute the “twin peaks” model of institutional diversity, in which like institutions at one end of a spectrum complement one another. We rather advance a “one peak” model, in which dilemmas permeating the corporate finance-governance nexus tend to be (incompletely and temporarily) resolved through middle-ground, hybrid institutional configurations that combine market, hierarchy, and network-based elements. This challenges assumptions about the function of institutions based on institutional form, while advancing the so-called “credibility thesis” in that these hybrid institutional configurations form and persist to fulfill a certain function for economic agents and social actors. Empirically, we do not dispute the recent decay of bank-centered patient capital networks in “coordinated market economies” such as Germany. However, we argue that the evolution of corporate finance and governance in these has paralleled more than diverged from “liberal market economies” such as the United States. In the late 19th and early 20th centuries, a complementary combination of managerialism, liquid securities markets, and bank-centered company networks developed in both the US and Germany. Despite radically different regulatory treatment, the US bank-centered network survived nearly as long as the German, with its unraveling occurring in the early-1980s as opposed to late-1990s. Subsequently, neither economy has moved towards purely market-based ownership; rather, this has come to operate in conjunction with new forms of managerialism and patient investing.

10. A Useless Flowerpot? The “Perverse” Functions of the Chinese People’s Consultative Conference

Prof. Andrew Wedeman, Georgia State University and Woodrow Wilson International Center for Scholars

The Chinese People’s Political Consultative Conference (CPPCC) has been described as being a like a “pot of flowers” – pretty to look at but functionally worthless. Despite lacking any real power, it seems to have actually gained prominence in recent years. Moreover, the

¹ See also: Davy, Benjamin / Sony Pellissery (2013) The citizenship promise (un)fulfilled: The right to housing in informal settings. In: Benjamin Davy, Ulrike Davy & Lutz Leisering (guest editors). Exploring global social citizenship: Human rights perspectives. *International Journal of Social Welfare*, Volume 22, Supplement 1: S68–S84; Davy, Benjamin (2014) [Polyrational property: rules for the many uses of land](#). *International Journal of the Commons* 8 (2) 472–492.

“democratic parties” which are represented in it, have not only survived the decades in which the CPPCC was in eclipse, but seem to have been able to regenerate themselves by attracting new and younger members. In fact, the CPPCC has attracted many of China’s new business elite as members. Why would economically powerful individuals want to participate in what would seem to be a powerless institution? My answer is that the CPPCC serves as an institutional to integrate China’s new economic elites into the CCP-dominated party-state and co-opt them. Co-optation is, however, a two-way street and the seemingly powerless CPPCC has in fact become an important factor into the transformation of China’s political system into a plutocracy in which political power has become allied with economic power to form an new alliance based on shared desire to advance and protect the shared interests of China’s elite, including the pursuit of rents and other corrupt gains. That alliance, however, suffers from internal contradictions centered on the desire of the current core political leadership to consolidate its grip on the party-state at the expense of new alliance of the entrenched bureaucratic interests and the emerging class of wealthy elites.

11. How professionalization led to a loss of credibility; the case of Dutch social housing

Prof. Marja Elsinga, Faculty Architecture&Built Environment, Delft University of Technology

Social rental housing in the Netherlands covers almost on third of the housing market. This sector was developed by combining bottom up initiatives with government policy. Due to the huge housing need after the second world war and the need for urban renewal in the 1960 and 70’s there was large societal and political support for these private organisations that contribute to the public interest. This supported the growth of the sector over the decades up to a maximum of 42% of the stock in 1989. Since the 1990 however, the sector was not only topic of marketization and privatisation but also of discussion. This discussion of the position of the sector and in particular cases of fraud and mismanagement led to a parliamentary enquiry in 2013-2013. This inquiry made clear that the sector lost credibility. This paper unravels the history and makes clear how a focus on form completely failed to pay attention to the function of the social housing sector.

12. The Credible Slum: Informal Settlements and Urban Governance in India

Yue Zhang, Associate Professor, Dept. Political Science, University of Illinois at Chicago

As the largest democracy and one of the most vibrant emerging economies in the world, India is experiencing rapid economic growth hand in hand with urbanization. A major challenge facing Indian cities is the expansion of squatter settlements, so called “slums”. In Mumbai, the financial capital and most populous city of India, sixty percent of the population lives in slums. Why are informal settlements so prevalent and persistent across urban India? How does the state respond to the informal housing sector? And, what explains the outcomes of state intervention? The paper argues that informality must be understood not as the object of state regulation but rather as produced and institutionalized by the state itself. It is often the rational choice of the state to reserve the informal settlements as they fulfill certain political and economic functions. In Mumbai, the expansion and persistence of slums is primarily a function of failed housing policies combined with other political factors. These policies have dismantled the rental market and disincentivized the private sector in housing construction. Over years, slums have become “vote banks.” Politicians periodically provide services to slum dwellers in exchange for votes.

The exchange through electoral politics stabilizes existing slums and provides incentives for the creation of new ones. While the government has launched slum redevelopment in recent years, the project is primarily driven by the need to increase local revenues and provide opportunities for the private sector. The process of slum redevelopment is rather slow and contested, which has to be understood in the complex urban governance structure of India. By explaining the prevalence and persistence of slums in India, the paper demonstrates that informal settlements are “credible space” in that they fulfill the political and economic purposes of the ruling elite. As a reflection on the function, rather than merely the form, of urban space, the paper reveals the limits in the dichotomy between the formal and the informal. It suggests that informality has become the new normal in emerging cities, and that urban policy should reflect this notion in order to create more livable and inclusive cities.

13. Ambiguity of property rights of real estate in urban China: The perspective of institutional functions

By Zheng Ying, PhD researcher and Prof. Peter Ho, Delft University of Technology

The real estate market has developed rapidly since the commercialization of the land use and of the housing in China; however, property rights of the real estate have remained ambiguous in terms of control, income and transfer. This article tried to unfold the seemingly developmental paradox based on the theory of institutional functionality. It firstly examined the ambiguities of property rights in urban China since the reform, and then identified the institutional functions from the perspective of the social actors' perceptions. The study consisted of in-depth interviews in three cities, namely Guangzhou, Wenzhou and Rizhao, with the governmental officials, the developers and the urban residents. The results showed that the perceptions of the ambiguities differed among the groups and among the cities. It is concluded that institutional ambiguity is likely to persist when its function outweighs the drawback to the rest actors, where the context matters. It suggests that the economic function becomes more significant than the social function when the level of marketization rises.

14. Mining-induced Land Subsidence and Resettlement in China: Endogenous Institutions and Local Practices

By Xiuyun Yang, PhD researcher and Prof. Peter Ho, Delft University of Technology

Mining-induced land subsidence has displaced millions of peasants in China. Through institutional analysis, we argue that the negative impact is inevitable, as the institutions that facilitate the production of mineral resources could rally social support. It is illustrated in: first, there is a lack of ex ante preventative approach, instead compensation for damage in a passive and ex post approach. Second, the national laws have a preferential treatment in favour of mining companies. However, the function and credibility of institutions is temporally and spatially determined. As our empirical investigation finds, the institutions pertaining to mining-induced resettlement do not fulfil the functions it should perform in the perception of affected persons. The affected persons do not have any options until damages appear. Affected persons have to take several courses of popular actions and face tremendous obstacles, so as to claim due compensation. Under the pressure of popular action, the local government have to take ad hoc and ex post remedy to deal with

community grievances. In this sense, it is the function of institutions, not form, that determine the performance of institutions.

15. Between informal and illegal: Noncompliance with planning and building laws

By Prof. Rachelle Alterman, Technion – Israel Institute of Technology

Today, most countries have planning laws, at least in their books. The entire enterprise of land-use and development control is predicated on the assumption that the public and government institutions will comply with the regulations. But in most countries around the globe – even among some OECD countries - this assumption does not hold. The gap in institutional credibility and function is huge, and largely unexplored. In the discourse about developing countries, there is great attention to informal (or irregular) settlements where land tenure is not regularized, but much less attention to compliance with planning and buildings laws. In reality, the degree of illegal / informal/ irregular development varies across counties. The largest differences are of course between the global north and global south. In the south, the reasons are often basic human needs for food or shelter. Land occupancy is usually not formal. Among the advanced economies, illegal construction usually occurs on one's legally owned land. Why is it so difficult for governments to achieve compliance with planning laws? The discussion of noncompliance usually neglects a key player: the structure of the planning laws and institutions. Institutional credibility is a major factor. I will argue that planning laws are not “innocent” or neutral regarding degrees of compliance. Their format and contents may be contributing factors in the degree of non-compliance. The paper will provide a cross-national comparative analysis and examples of non-compliance with planning laws.

16. Rethinking Informality in Economics: Towards a contextualized Theory of Function and Credibility

By Peter Ho, Delft University of Technology

Property rights in developing and emerging economies have been frequently criticized for lack of security, formality and transparency. Yet, paradoxically, rapidly emerging economies such as China, India and Brazil have sustained these apparently “perverse”, inefficient and “second-best” institutions throughout their economic boom. Contrarily, it is here posited that institutional development could be better understood through the “Credibility Thesis”, which holds that the persistence of institutions simultaneously points to their functionality, and thus, also their credibility in the aggregate perceptions of social actors and economic agents. Credibility is essentially structured around three postulates: i) institutions are the result of an endogenous, unintentional development; ii) institutional change is the result of disequilibrium; and iii) institutional Form is subordinate to Function. The presented paper consists of two parts. The first part presents a theoretical review on institutional credibility and function, putting forward its defining parameters and postulates, while discussing the concepts against which it is positioned. Apart from furthering the theoretical foundations on credibility and institutional function, this article also aims to develop its methodology and empirical study by taking China as a case-study, with particular reference to informal housing and insecure land tenure. It will be demonstrated that the existing institutional arrangements for both informal housing, as well as for insecure, rural land tenure play a critical function in providing social welfare and security.

17. The Credibility Thesis and the Informal Economy in India

By Dr. Smita Yadav, University of Sussex

The paper proposes to use the credibility thesis to study India's labour market and the informal economy. It will be applied in the Indian context of informal labour contractual arrangements where the current assumption amongst social developmentalists is that labour-capital arrangements should be state-centric and formalised for accountability and transparency. However, significant number of people in the global south like in India find employment in the informal economy, according to the International Labour Organization(2015). It will focus on how such labourers informally negotiate oral work contracts. This demonstrates their bargaining power to demand both the desired wages as well as the desired forms of work and is more secured and reliable than the formal institution of employment in rural India, National Rural Employment Guarantee Act(NREGA) which was introduced in 2005 by the government of India which has been overlooked by social developmentalists. Thus, it will operationalise the credibility thesis by studying the impact of the informal, verbal, and contractual arrangements, focussing on labourers (the Gonds in this research) , to show how they value it and why is it considered more secured than formalized institution of employment and economic security- the welfare state or its specific employment policy of NREGA.

18. Endogenous institutions and the Credibility thesis: a mutual aid society before its time in Mexico 1895-1900

By Prof. Juliette Levy University of California, Riverside, USA

Using an original set of documents, this paper explores an incipient effort among the employees of the Mexican Finance Ministry to create and maintain a mutual aid society. This paper highlights evidence of formal financial cooperation among employees within one company/ministry 50 years before the existing literature says mutual aid societies began in Modern Mexico. It also suggests that there was significant cooperation and risk mitigation across the employee base, which is quite contrary to a very different literature on cultural and social history in Mexico. The paper and its supporting evidence uncover the temporally and spatially determined context in which endogenous institutions emerge, evolve and eventually vanish.

19. Managing common-pool resource: a model of emerging endogenous institutions

By Amineh Ghorbani,^a Giangiacomo Bravo,^b Ulrich Frey,^c Insa Theesfeld^c

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Common-pool resources (CPR), i.e., natural or man-made resource (e.g., forests, fisheries) that are shared among users, are today chronically overused as a result of competition among beneficiaries. Research shows that their degradation or destruction which is referred to as the "Tragedy of the Commons" can be avoided by designing endogenous institutions.

The process that leads to the emergence of these institutions is often difficult to study. This is mainly due to the fact that these processes occur in long time scales and that there are high number of interconnected factors that make lab studies for such processes difficult. These limitations can be addressed with agent-based models (ABM). In this research we present an abstract ABM of a CPR system to verify and further explore the theoretical foundations of the emergence of endogenous institutions for managing CPR systems. The institutions in the model emerge endogenously as a results of agents actions and interactions. This ABM is validated using existing empirical data on “classical cases” of long-enduring institutions. The validation is conducted by estimating and consequently comparing complex data models of the simulation output and the empirical dataset. We use partial least squares principal component analysis (PLSPM) to estimate paths between variables. Although not all the empirically relevant paths were reproduced by the simulation model, the systematic comparison of the two data models allowed to better understand the crucial elements explaining the success or failure of CPR management institutions such as institutional stability, rule enforcement and rule compliance. In line with the Credibility Thesis, our model shows that institutional change is based on a dynamic disequilibrium. In cases where institutions emerge, the resource and the agents are in high state of “well-being”, yet, these institutions are not constant and gradually change over time although not instantly. Our model also confirms the assumption that Institutional Function supersedes Form. While a form of institution may function and result in the well-being of the resource and its appropriators in one scenario (i.e., simulation run), the same form may not function in other cases. Therefore, this suggests that the success of an institution depends on its functionality in a given context rather than its form.