



The credibility thesis – A commentary from an original institutionalist position

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ARTICLE INFO

Keywords:

Credibility thesis
Original institutional economics
Intentionality
Endogeneity
Disequilibrium
Form versus function
Spontaneous order

ABSTRACT

This paper delivers an evaluation of the credibility thesis (CT) based on perspectives from original institutional economics. I first ask in what kind of explanation CT is grounded. Emphasizing functionality and denouncing intentionality, may indicate that it adheres to a functionalist type. At the same time, it does not seem to fulfil the criteria for such an explanation. CT explicitly refutes the idea of institutions in equilibrium. Second, I evaluate the proposal underlying CT that function supersedes form. I conclude that such a position cannot be generally defended. Form may even in some cases define what is understood as functional. Third, I therefore ask how to explain what institutions evolve and persist if they neither are chosen intentionally nor stabilized by functionalist mechanisms like an equilibrium. While there is definitive merit to the thesis and the research it has motivated, my analysis points towards a need for some reformulations.

1. Introduction

The aim of this paper is to perform an evaluation of the credibility thesis (CT). The thesis contains three interrelated, core proposals. First, institutional change is understood as endogenous and spontaneous in the meaning of not being designed. Hence, change is non-intentional. Second, it emphasizes function over form and understands persistence of institutions because of their credibility. Third, institutional change is understood from the perspective of dynamic disequilibrium (Ho, 2014, 2017, 2018a).

The credibility thesis is developed as a reaction to the neoliberal thesis/the property rights school, which states that lack of formal, private, and secure property rights will lead to market inefficiencies, economic instability and rent dissipation. A reasonable question to ask is then why countries like China, India, Ethiopia etc. – despite many informal and insecure institutions – have been able to maintain levels of economic growth even above countries more tuned towards the neoliberal doctrine. This question is in many ways what spurred the development of the CT thesis.

The answer offered by CT is that these informal and insecure institutions may still be functional and therefore serve economic development. The institutions formed are, however, in the end not intended. According to CT, actors act intentionally, but institutions form as an

unintended result of social and political processes. In relation to this, Ho (2014) also emphasizes that the credibility thesis avoids normative judgments regarding form. No form is superior as form. Finally, the thesis is concerned with a descriptive analysis of existing institutional structures and shuns any teleological tenets like those of neo-liberalism.

CT represents an important and well-founded critique of neoliberalism. I have no issue with that. The motivation is the broader implications of CT as I find that it also faces some challenges. In this paper I will therefore discuss three issues that I think are important to clarify to strengthen the coherence of the thesis both regarding internal consistency and empirical validity.

First, I ask what it means that function supersedes form. In the literature, it is standard to distinguish between causal, intentional, and functional explanations of societal processes and change. Given the emphasis on function, it is reasonable to ask if the CT adheres to functionalist explanations and what that may imply. This question is especially pertinent as the thesis explicitly denounces intentional creation of institutions.

Second, I ask if it is reasonable to position function over form. The fact that the context independent form advocated by neoliberalism has shown to not produce superior outcomes regarding its main aim – economic growth – is not a proof that form is generally subordinate. One can simply not generalize from one case to all cases. I will argue that

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<https://doi.org/10.1016/j.landusepol.2023.106717>

Received 5 November 2021; Received in revised form 17 March 2023; Accepted 25 April 2023

Available online 7 May 2023

0264-8377/© 2023 Published by Elsevier Ltd.

form is important. It is what we as actors can change. I moreover argue that it is possible to ensure certain functions by defining specific forms of institutions. It happens all the time. This is not to deny that context matters. It just implies that effective design depends on a good understanding of context. Public authorities are typically seen as the origin of designed institutions. CT states that as they are endogenous to 'the game', they do not hold such powers. While I agree that the state or traditional authorities should be treated as endogenous, they nevertheless hold a specific authority – what may be termed third party authority² – as endogenously defined. Given this, collective intention *may* succeed in establishing certain forms that cater for specific outcomes or functions. By excluding intentionality and design as a possibility, the credibility thesis may do 'too much'. While it rightly criticizes the use of dichotomous concepts like private/non-private, secure/non-secure and formal/non-formal, it may seem to make a similar error itself regarding intentionality/non-intentionality and spontaneity/non-spontaneity.

Third, I return to a specific aspect of the first question raised: How does the credibility thesis understand endogenous change? The thesis embraces spontaneous order and comes in that sense close to the work of Hayek and Aoki etc. One 'confusing' observation is that Hayek is maybe the most eloquent scholar that neoliberalist thinking leans on. More fundamentally, this tradition bases its explanatory power in the concept of equilibrium. The credibility thesis is, however, explicitly advocating that change is not based on equilibrating forces. One must therefore ask what is then the 'mechanism' that makes any institution come into being.

My analysis is inspired by insights from what has been termed original institutional economics (OIE). This tradition was initiated by the writings of Thorstein Veblen (e.g., [Veblen, 1898, 1919](#)) and developed in distinct ways by authors like John R. Commons (e.g., [Commons, 1924, 1931, 1934](#)). Important recent expositions are found in e.g., [Hodgson \(1988, 1999\)](#), [Schmid \(1987, 2004\)](#) and [Bromley \(1989, 1991, 2006\)](#). I say 'inspired', as OIE is neither a homogeneous nor 'static' set of literature. It may even be claimed that it is split on a key issue discussed in this paper – intended vs. spontaneous order – cf. how these concepts appear in the writings of Commons and Veblen (see [Vatn \(2005\)](#); [Papageorgiou et al. \(2013\)](#)); also noted by [Ho \(2017\)](#)). In this paper I especially draw on the role of volition and how intended institutional change is understood by e.g., Commons and Bromley. I will also put emphasis on the role of institutions in forming actors – a perspective emphasized by Veblen, but also embraced by Commons. My contention is that the difference between these two scholars, to a large extent, depends on a difference in focus.

2. Some conceptual clarifications

There are several key concepts in the discussions that I enter in this paper which need clarification. It regards the concept of an institution, as well as the core concepts of the neoliberal argument: formal, private, and secure. I will anchor my exposition in the definitions found in the CT literature. While being clear on definitions is important. I note that my issues with CT are not about how these concepts are defined, as I generally agree with them.³

([Ho, 2017:9](#)) defines institutions as "a set of rules". Later he specifies

² meaning that the state has the legitimate power to decide over its constitutions – e.g., creating and controlling legal provisions. It is a 'collective superior' to equate [Commons \(1931\)](#).

³ This section is added due to requests by reviewers. Originally, I did not observe a need to add definitions exactly because I have no issues with the way CT understands the concepts defined in this section. It still seems like my arguments regarding the three issues raised in this paper may have caused uncertainty on this very point. Moreover, as the involved concepts are differently defined across the wider literature, I agree that it is important to specify to enhance clarity.

that "a formal law or right of ownership is an institution inasmuch as informal, customary law..." (ibid.:11). There is no disagreement on this point. While Veblen seems to emphasize the informal aspect of institutions (as "settled habits" ([Veblen, 1919:239](#))), Commons referred to "collective action in control, liberation and expansion of human action". His emphasis was therefore more on the formal rules like the law. Personally, I side with Ho that both the informal (conventions and norms) and formal (legal) aspects are important elements of institutions (e.g., [Vatn, 2005](#)).

Regarding the core concepts of neoliberalism, ([Ho, 2020:3](#)) makes the following clarifications:

- Formal = described in law or other official regulations
- Private = owned by an individual who can exclude others from its use
- Secure = long term and free from external intervention

The main argument of neoliberalism is that informal (and insecure) institutions are inefficient compared to the formal (and secure) ones. [Ho \(2020\)](#) notes moreover that the neoliberal position conflates 'ownership' with 'private'. Hence, the security assumed to follow from (formal) ownership is recognized only with respect to the 'private' form. However, as we know, there is also state/public and common property ([Bromley, 1989; Ostrom, 1990](#)). So, forms of ownership and security are two different issues. The first does not determine the second. More specifically, security may be obtained both informally and formally. While the neoliberal argument rests only on formalized security, CT argues that it can also be established through informal arrangements. I agree and note that the issue of security and what level of security different forms can offer is also a contextual one. Moreover, local communities can offer informal systems of security that may even outperform the formal ones – e.g., personal and trust-based relations. Still, local communities may revert to third party authority in the form of formalized village rules when facing certain types of conflicts ([Ostrom, 1990](#)). The more personalized security mechanisms involved at the local level may, however, fall short especially in contexts like impersonal markets (e.g., [North, 1991; Greif, 2008](#)). Finally, I find it important to distinguish 'formal' from 'written'. Certainly, written law is less 'fluid' when it comes to interpretation and gradual change than unwritten. Nevertheless, the main distinction is about the form of authority. Formal regulations – whether written or not – are based on third party power – be it traditional or state-based. On this point, there may actually be disagreement. The CT literature seems to demand that formal institutions are written – e.g., [Ghorbani et al. \(2021\)](#) – and in some cases traditional authorities are not seen as the source of formal institutions – e.g., [Tzfadia et al. \(2020\)](#).

3. Form vs. function – are we encountering a functionalist explanation?

Turning to the first of the three issues defined for this paper, I note that the general proposition of CT is that "*function supersedes form*" ([Ho, 2014:15](#), emphasis by the author) or "form follows from function" ([Ho, 2018b:642](#)). In combination with the emphasis on evolution and non-intentionality, such formulations may imply that the credibility thesis is based on a functionalist type of explanation ([Elster, 1983](#)). Such an explanation demands:

- (1) Y is an effect of X;
- (2) Y is beneficial for Z;
- (3) Y is unintended by actions producing X;
- (4) Y or the causal relation between X and Y is unrecognized by actors in Z; and
- (5) Y maintains X by a causal feedback loop passing through Z ([Elster, 1983:57](#)).

The epitome of functionalist explanations is found in biology and the evolution of species. As soon as one moves to the social sciences, it becomes more questionable what place functionalist explanations should have. Elster is very critical, arguing that most functionalist explanations do not satisfy the above structure. What we mostly see is – according to him – a combination of intentional and causal explanations. Individual choice or action is mostly intentional, while social processes may be causal antecedents with respect to what the individual prefers. At the societal level, intentions may moreover interact, and that way result in/cause a specific outcome. Douglas (1986) argues, however, that functionalist type processes play a more important role in societies than Elster seems to acknowledge. She builds her arguments on empirical research in anthropology and sociology as well as a reformulation of e.g., Durkheim and Merton. She nevertheless agrees with Elster that functionalist explanations demand great caution.

The credibility thesis seems formulated in a way making it difficult to conclude whether it fulfils the demands of a functionalist explanation or not. Let me use one of the cases emphasized in the credibility literature to illustrate:

- (1) High level of economic growth (Y) is an effect of informal institutions (X);
- (2) High level of economic growth (Y) is beneficial for the people of China (Z);
- (3) High level of economic growth (Y) is unintended by actions producing informal institutions (X)
- (4) High level of economic growth (Y) or the causal relation between informal institutions (X) and high level of economic growth (Y) is unrecognized by actors in China (Z); and
- (5) High level of economic growth (Y) maintains informal institutions (X) by a causal feedback loop passing through the (actions of the) people of China (Z)

The credibility thesis seems to embrace point 5. The informal institution survives due to its effects – the functions it produces. In the analyses of how people got there, CT favours an archaeological strategy emphasizing the specificities of time and space (Ho, 2018b). It includes methodologies like the Conflict Analysis Model, the Formal, Actual and Targeted (FAT) institutional framework, the CSI Checklist and modelling (e.g., Ho, 2016, 2017; Yang and Ho, 2019). These methods lay the ground for establishing systematic and rich insights about institutional developments, their acceptability and level of conflict in both single and comparative case studies. More recently also agent-based modelling has been applied to study how form (may) follow from function (Ghorbani et al., 2021).

These are all good merits of CT, but does it get us around the fundamental problems of explanation; or differently formulated: Does it guard against the fallacies of functionalist explanations? I note that intention – according to CT – plays a different role at different stages of creating institutions. While it is the non-intended result of human action, their persistence is the result of an ongoing evaluation – the credibility of the institution – which I take to be based on intention. While this breaks the functionalist chain, two issues pertain. First, disregarding intention and design when explaining the formation of (new) institutions, one still seems to demand a trial-and-error process to get to 5. That may take very long time as many inferior solutions typically need to be weeded out as non-credible.⁴ That is counter to observation. Second, why is intentionality only decisive in the stage of accepting institutions – credibility – and not in the formation stage? Stated differently: How can people agree on any effected function if they have different intentions in the first place that they are incapable of realizing?

Two things seem missing – a focus on communication and on

authority. People communicate and the institutions developed may be the result of a process where arguments are tested, and a collective decision is made on what institutions should pertain. I say, ‘may be’, as I see no reason to rule out that institutional change may be accidental or casual in the meaning of a non-intended result of different intentions, as also emphasized by Elster. My argument is that by not including communication and deliberation – processes that may produce a majority decision and, in some cases, even a common intention – one is forced back to a functionalist explanation of trial-and-error-elimination. The focus of Commons on ‘rationing transactions’ (Commons, 1931, 1934) is exactly about how what he termed the ‘collective superior’ may influence the conditions for individual action. Commons emphasized how such decisions were done to protect certain interests following from a process of argumentation via public deliberation. The literature on common property is similarly full of examples of how collectives in the form of communities through communication have been able to create institutions that make their management of common resources sustainable (e.g., Ostrom, 1990, 2005).

Regarding authority, communities and nation states are commonly organized following hierarchical principles implying delegation of the power to decide. While we are “all in the game” (Ho, 2017:92) – change is endogenous – the need for making collective decisions, has prompted systems based on authority. Assuming that such authority is legitimate – e.g., the aspects of participation, transparency and accountability (Bäckstrand, 2006) – it offers valid grounds for decisions on institutional change that may be credible – not only due to functionality, but also because the decision-making process itself is seen as “good”. Certainly, the common authority – at the local or state level – may be influenced by interest groups of different kinds. The final decision may represent a politically based ‘balancing’ of the arguments and interests involved. However, it is intended, and it is designed (Commons, 1924, 1934). Scholars of institutions and institutional change could list innumerable examples. Regulations following Covid 19 is a recent and strong example – also in the Chinese case (Yan and Zhao, 2020).

Certainly, an institution may sometimes not work as intended. The theory behind it’s expected functioning may be flawed. People may operate outside the law or the law may be differently interpreted, signalling that the power of the involved authority is limited. There may also be competing authorities (e.g., local vs. central; legal pluralism (Griffiths, 1986)). However, if the law is broken, and it goes unnoticed, one needs to evaluate if that happens because the state does not have the capacity to police the law or if it accepts the ‘local adaptation’ as good, or a mix thereof.

The CT seems to equalize the role of different actors when it comes to power. Individual actors, the community board or state parliament/government are all one among ‘equal participants of the game’. However, the power that actors hold to make decisions and make them materialize vary. The state has monopoly on legitimate use of physical force, giving the state a specific position in institutional change. This is so even if states are unequally strong both regarding legal and fiscal power. Not observing the specific type of capacity of third party authority as distinctively different from the ‘authority’ found in e.g., the trust between equals, unduly limits our capacity to understand.

The above also raises the issue of what it means that an institution is credible. According to CT, evaluations should be limited to local people’s perceptions. It is the function that is important, and it is stated that “... any institution fulfils a function once it *persists*” (Ho, 2013:1096; emphasis in the original). This could be understood as a mere circularity. However, by defining what makes an institution non-credible, this fallacy is at least to some extent avoided. Non-credible institutions are those that are “heavily contested or merely exist on paper as an ‘empty institution’” (ibid.). It is moreover emphasized that understanding functionality demands an analysis of how institutions evolve over time and space – including a focus on conflicts. This may help protect against circular reasoning.

However, does the non-existence of conflict necessarily deem an

⁴ Note also that it takes time before one can see the impacts of an institutional change.

institution credible? That depends on the reason for lack of conflict. The Indian caste system may pass the credibility test. It existed for a long time without being contested and it was not at all 'empty'. Hence, power structures – in this case producing a classification of people that they themselves internalized – 'naturalized' the system and internal conflict became effectively oppressed with no visible external force being used. Lukes' understanding of power – his so-called three-dimensional view – is helpful to make sense of this. Commenting on the position of [Dahl \(1957\)](#) and [Bachrach and Baratz \(1963\)](#), he noted that "A may exercise power over B by getting him to do what he does not want to do, but he also exercises power over B by influencing, shaping or determining his very wants" ([Lukes, 2005:27](#)). We may expand to include shaping her/his self-understanding. This is an insight found also in Veblen – cf. the concept of conspicuous consumption ([Veblen, 1899](#)). So, while CT may still be agnostic on form, it may need to develop external criteria for the evaluation of credibility – note [Bernstein's \(2005\)](#) distinction between mere acceptance and an explicit justification of the qualities of an institution. Simply concluding that what is, must be credible, is problematic. As noted, CT goes beyond this by looking in-depth at the conflicts involved. However, it is unclear what that implies beyond acknowledging them as part of measuring the level of credibility. More specifically, the methodologies used seem to imply that a 'lack of action' or (low) conflict is seen as a sign of credibility.⁵ As indicated, lack of action may have historic-institutional reasons. To understand inaction, one needs to look explicit not only on the trajectory of institutional development, but on if and how certain interests may have been marginalized, silenced etc. I miss a clear/explicit focus on this in the CT methodologies.

4. What about form itself?

Following from the above, one needs to ask what it means that form is subordinate to function. I do not disagree that different forms may produce largely similar outputs regarding economic result, distributional effects etc. Similarly, the same form may cause different results in different contexts. This is well documented in the CT literature and has a strong theoretical backing (e.g., [Ho, 2017](#); [Easthope et al., 2020](#)). CT does not state that form is unimportant, and it does not reject certain institutions simply because of their form (e.g., [Ho, 2017](#)). Still, form is subordinate. So, what does this mean? In an article applying the credibility thesis to the issue of property rights, it is stated that

what ultimately determines the performance of institutions is not their form in terms of formality, privatization, or security, but their spatially and temporally defined function. In different wording, institutional function presides over form; the former can be expressed by its credibility, that is, the perceived social support at a given time and space ([Ho, 2014:13–14](#)).

The emphasis is on formal, private and secure institutions – e.g., what is emphasized by the neoliberal stand. To repeat, I do not disagree with the critiques offered by CT proponents of that position. However, showing that economic development may be well fostered in situations where this form of institutional structure does not prevail, does not prove that function trumps form. Certainly, no institution operates in vacuum and the outcomes – the function – is an emergent property of the way a new institution interacts with other institutions in place. That is

⁵ A recent example that may seem to fall into this 'trap' is a paper by [Goyal et al. \(2022\)](#). The authors state that "The skewed land distribution in India with high land Gini coefficient remaining immutable over time is likely (also) because the endogenous tenancy institutions are functional, and thereby credible" and next "It is the functional nature of customary tenancy which has the potential to explain the dominance of small and landless farmers in India" (p. 7). So, the landless prefer to be landless as it is functional? Functional for whom one may ask.

obvious – even if not observed by wholehearted neoliberals. It does not, however, elevate function over form.

([Bromley, 2006:56](#)) states that "[w]hen I acquire a property right ... it means that I can rely on the authority system of the polity in which I live to protect my claim to that benefit stream – to my property." This is what distinguishes a property right from mere possession. It is how a collective tries to handle the issue of conflict over benefit streams. It is by having third party authority that property comes into being. It defines who has the right and who has a duty ([Hohfeld, 1913](#)). As already mentioned, third party authority can be of different forms. It may have a local or state basis. It may be traditional or based on power created through e.g., election systems.

The neo-liberal thesis assumes that secured private rights are necessary for anyone to invest in the property – to advance its qualities and hence facilitate economic growth. However, the neo-liberals make several errors. They overlook what alternatives that exist to private property and what strengths and weaknesses each have. They do not understand the importance of context, and finally, that security may obstruct 'development' if those owning do not have the entrepreneurial skills and/or the will to sell. Then changing property rights by e.g., eviction or expropriation and next selling or leasing the properties to those having the capacities to develop may foster necessary investments. The Chinese experience of the last 30 years offers ample evidence. The level of conflict following this process (e.g., [Pils, 2016](#); [Ho, 2017](#)) makes the institutional structure non-credible according to CT methodologies. It may, however, be very effective in facilitating growth. This raises issues about credibility as a criterion – in essence – what and whose functions or interests are we talking about in a layered political system.

Moreover, the above does not prove that form is necessarily subordinate to function. It seems rather that the combination of strong state power and willingness to expropriate is the basis for a very speedy development. In the 'western hemisphere' where security for present owners holds a stronger position, shifting property rights is slow. People may not want to sell, even if reallocation may offer more income to them. Acquiring land for a large project like an airport may take many years as expropriation is typically a means of 'last resort'. The Chinese system makes such reallocation much quicker. So, while the Chinese experience clearly disproves the neo-liberal thesis – that a specific form is always 'best' – it does not prove that form is a secondary issue.

Forms other than private property like state and common property are important in land/resource management. Their 'functionality' varies. As private property and markets tend to imply higher transaction costs than land allocation via state and common property ([Bromley, 1991](#); [Vatn, 2015](#); [Fan et al., 2019](#)), the latter forms may be especially favourable for land that has lower potential for generating an economic surplus. While common property may be effective in ensuring sustainable use of some types of natural resources (e.g., [Ostrom, 1990, 2005](#)), they may not always be a success. Ostrom's design principles summarize what seems necessary for such systems to operate well (*ibid.*). They are about forms that are important for creating well-functioning common properties. Such properties are typically governed by traditional leadership or by locally elected councils. Tanzanian villages, as an example, manage village forests through collective definition of rules of access for the villagers and devoting resources to control. These rules are decided in general assemblies of the village as well as in village councils/nature management committees. One of the biggest challenges for these villages has been that the forests have not been clearly delineated towards neighbouring villages. Hence, there has been a quest for formalization to avoid disputes and create a necessary basis for avoiding 'the tragedy of open access' ([Vatn et al., 2017](#)).

In a paper on land management in Chinese villages, [Ho](#) points out that land rights are very insecure (e.g., [Ho, 2014](#)). At the same time, the argument is that insecure land rights enable security of livelihoods as the system reallocates access to land based on an assessment of needs. These are all good observations. However, the fact that the village has secure collective rights in the land – form – is fundamental for the

establishment of this flexibility. Moreover, flexibility as a need-based rule is also a form/an institution that despite being developed over time, can hardly be seen as not designed. At least design is a possible hypothesis that I do not find disproved by the CT literature. Generally, action cannot be on function, but must be on form. It is by changing forms that change in outcomes – functions – can come about. This is acknowledged in parts of the CT literature itself (e.g., Ho, 2014; Pils, 2016; Arvanitidis and Papagiannitsis, 2019; Lo, 2020), but it is unclear what it means given the CT.

As indicated above, the polity may be of different form and capacity. Some states are strong, others are weak. Their legitimacy is territorial and built on certain principles regarding how power is granted to them as a third party. While one may argue that state power is legitimate only if based on democratic rule (e.g., free elections), being an authority structure does not demand such rule. Third party authority may sometimes be unclear and customary law may sometimes look more like a norm – i.e., something that should/should not or must/must not be done, while the rule is not backed by third party sanctioning (Crawford and Ostrom, 1995; Vatn, 2005).⁶ The observation that people may trade in ‘property’ or ‘use rights’ that are not backed by a third party – i.e., they do not have a formal right – may seem confusing in light of the above. Such trades abound – e.g., Ho (2013, 2018a); Mengistu and van Dijk (2018); Zeuthen (2018); Zhou and Yau (2021). Who would buy something that they may lose by the stroke of a pen?

I will propose a couple of explanations that include form as an important element. First, what does the existence of (informal) trade of ‘use rights’ to land by rural immigrants in urban fringes as is observed a lot in China (e.g., Zeuthen, 2018) imply? It may not be that risky for the buyer to enter such contracts. The state may not have the capacity to control all trades and the payment may be small compared to buying a flat in the formalized market. The state may even accept this illegality as it eases ‘development’ by making it easier for people to move to the cities. Does this imply that function trumps form? I would rather say that the informal market is also a form that is accepted by the state as it – in this case – facilitates the overall aim of ‘development’. It simply does not need to use its third party power to design anything different.

Second, in some cases trade in use rights may be supported by norms rather than formalized power. So, the parties to the trade seem to trust that it will not be disputed. Historical evidence may sustain such beliefs. Moreover, local government may also formulate rules that are contradicting national law. This says more about political culture and the position of the central government than lack of intentionality and that function trumps form.

Let us think about the alternative that there is no functional third party. It is hard to think that complex, modern societies could even evolve. A society based on possession could not develop to such a level. State power with its capacity to design is fundamental to avoid continuous fights over resources. Also, the field of environmental policy illustrates the point. It has implied a move from polluters’ to victims’ rights (Vatn, 2015). This has been designed, even if e.g., industrial interests have fought heavily against the change. The weakness of international environmental agreements illustrates the same. The lack of third party power seems to be an important reason for slow progress.

Moreover, institutions are also fundamental to the creation of the individual and the different roles s/he may occupy. This was key to Veblen (e.g., Veblen, 1899). Hodgson (2007) uses Veblen to interpret findings in modern experimental economics and game theory showing that our motives are influenced by the institutions. While these latter traditions grew out of standard rationality theory, Hodgson concludes that “[b]oth ... have revealed the limitations of all-purpose,

⁶ Note the way Crawford and Ostrom (1995) distinguishes between types of institutions dependent on ‘what is’, ‘what should be’ or ‘what should be or/else’. ‘Or/else’ refers to third party sanctioning. Vatn (2005) defines these institutions as conventions, norms and legal rules, respectively.

context-independent rationality and pointed to the institutional influences on rationality itself’ (ibid.:329). This implies that ‘function’ is a result of ‘form’ in the sense that institutions influence who we become and therefore what functions we find credible.

This element of social construction is crucial to understand as it implies that what is considered rational to do is strongly influenced by the institutional context which we act within. Institutions like private property and the market favour individual rationality. Community institutions and the institutions that form basis for a family have strong elements of social rationality where the interests of the individual are balanced against that of the group. The case of village reallocation of land in China is a good example (Ho, 2014). So, what is seen as functional – what have priority and what works – is to a large extent influenced by how institutions form us and our expectations (Vatn, 2015).

Based on all the above, I see no other way than accepting that function and form are two sides of the same coin. While some formal rules are not followed at all – are empty (Mengistu and van Dijk, 2018; Nor-Hisham and Ho, 2018; Zeuthen, 2018) – this does not imply that it is the destiny of all formal rules. That the power of a third party – e.g., the state; community leaders – is limited, does not entail that intention and form are secondary. It just means that certain forms are not possible to establish in certain contexts. Finally, and maybe even more important, if institutions influence who we are as actors – our interests and capacities – form impact what we see as ‘functional’. In that respect, one may even argue that form trumps function as it forms what we are after.

5. Endogenous change⁷

Regarding the last topic – CT’s understanding of endogenous change – I will delve into two issues. I start by discussing if there are any differences between CT and other evolutionary theories. I conclude that it deviates from most of these because it does not adhere to the idea of an equilibrium, I next ask what kind of explanations can then be used to substantiate that institutions are non-intended outcomes of political processes.

5.1. In what way does the credibility thesis differ from other evolutionary theories?

The literature on institutional change is, as noted, complex and sometimes confusing. While e.g., North (1981, 1990, 2005) and Ostrom (1990, 2005) focus on collective-choice and emphasizes intention, there are others who emphasizes endogenous, functionalist explanations as defined in Section 3 – e.g., Hayek (1973, 1988), Nelson and Winter (1982) and Aoki (2001). Regarding the latter authors, the idea of equilibrium plays an important role. This is not the place for evaluating these traditions. However, a couple of comments are important for our analysis as their writing seem to come closest to the credibility thesis in the sense that they emphasize endogeneity, spontaneity, and unintentionality in similar ways. At the same time, and to the extent that especially Hayek is a key reference for neoliberal policy, I note that it is these kinds of positions that the credibility thesis is also attacking.

⁷ While I find the CT argument that institutional change is endogenous to be sound, I note that the IMF/World Bank was able to push for privatization in many countries in the South – based on the neoliberal Washington consensus. Still, whether this policy produced the expected outcomes, is a very different issue. Here CT perspectives have a lot of validity. Moreover, to understand how the external push for privatization materialized in different outcomes in different contexts demands a study of endogenous processes – seen as processes at national or local level. The example moreover raises the issue of how to define what is exogenous and what is endogenous. I will not enter a discussion about that issue, just note that authors – also within CT – often (implicitly) delimit what is endogenous using political borders like a nation state, local political level etc. Doing so, one follows the delimitations of the third party power, which could actually be seen as giving a special status of such powers.

For Hayek the interest in spontaneous order seems largely driven by an ideological interest in minimizing the role of the state. [Hodgson \(1996\)](#) moreover argues that while Hayek adheres to a functionalist explanation, he does not clarify the selection mechanism. Nelson and Winter are more explicit in that respect as they refer to biological analogies in their model (e.g., institutions as ‘genes’, and new institutions as ‘gene mutations’). Aoki is like Hayek critical of the idea that institutions can be designed. He defines institutions as stable and shared systems of beliefs⁸ regarding the expected behaviour of other people. Hence, according to him “statutory law or regulations may induce an institution to evolve, but they themselves are not institutions” ([Aoki, 2001:20](#)). The issue of design is simply ‘circumvented’ by the way institutions are defined. While this seems to be a rather blunt strategy to avoid emphasizing the role of collective actors like the state, I note that Aoki is consistently building on results from non-cooperative game theory, excluding third parties and communication in institution building.

Generally, this literature tends to focus on *equilibrium* or *punctuated equilibria* to establish a basis for non-intentional outcomes. That seems logical given that the authors see institutional change as spontaneous and non-intended. CT also points out that institutional change is spontaneous and precludes intentional explanations/design. More precisely “... institutions derive from an endogenous, spontaneously ordered development in which actors’ intentions in establishing or changing institutions are reshaped into something unintended in the interaction with other actors. In other words, institutions as resulting from human action but not from human design” ([Ho, 2018c:872](#)). Moreover, a theorem on dynamic disequilibrium is proposed: “Put differently, it conceptualizes institutional change as an endogenous, ever-changing and conflicting process in which no stable status is reached, yet, by which the rate of change differs” (*ibid.*:863; emphasis in the original).

So, we may conclude that CT differs from other evolutionary theories by stating that there are no equilibria to explain. What we observe is a continuous process of change, albeit at different paces. ([Thelen, 2002:110](#)) observe that the variation in speed may be substantial:

“What we instead often see is, on the one hand, a remarkable resilience of some institutional arrangements even in the face of huge historic breaks, and, on the other hand, ongoing subtle shifts beneath the surface of apparently stable formal institutions that, over time, can completely redefine the functions and political purposes they serve”.

The observation that there is variations in speed (see also [Ho, 2017](#)), is important. There is, however, still change, and one must ask what may explain endogenous change if we exclude both equilibrating forces and intention.

5.2. How to explain form: The role of intention and communication

The answer CT delivers to this question is, as we have seen, credibility. What does that then mean? ([Ho, 2018a:5](#)) states that “Credibility is ... the collective expression of the functionality of institutions, or, more specifically, the reflection of actors’ cumulative perceptions of endogenously emerged institutions as a common arrangement.” Further he specifies that “we are dealing with perceptions at *aggregate* level”. So, there is focus on a collective process of forming perceptions. What is needed, I think, is a clarification of what concepts like ‘collective expression of the functionality of institutions’, ‘common arrangement’

⁸ To avoid confusion, As emphasized by one reviewer, it is important to note that also North puts emphasis on ‘shared mental maps/beliefs’. He does, however, not revert to non-cooperative game theory to explain the development of institutions. Hence, given my focus on what ‘mechanisms’ explains the development of an institution, he belongs to a different tradition to that of Hayek and Aoki.

and ‘aggregate’ mean. More specifically, there is a need to specify the elements of processes that leads to such common perceptions.

My analysis has moreover shown that CT does not follow a functionalist explanation. At the same time, CT explicitly states that intention does not play a decisive role, either. Yes, people have intentions, but the outcomes are not the result of any specific intention. Then we are left only with casual explanations. However, how can one explain that institutions may at all settle – for longer or shorter time – if it must be explained only in terms of cause and effect.⁹ I have serious problems with finding a way to limit explanations this way. Certainly, the CT proposal is elaborate. There is circular causality/that cause-and-effect relationships are mutual (e.g., [Ho, 2013](#)). Nevertheless, there are issues.

To be precise, my point is not to deny the role of causality. Certainly, if some actors push for a particular institution and others for another, one may observe results that are caused by the combined influence of the two intentions. Moreover, two forms (and functions) may exist in parallel establishing what is named ‘legal’ or ‘institutional pluralism’ – as we often find in countries with dual authority structures like in many former colonies. This may cause specific, non-intended results. Institutions are often the result of compromises; are blends of old and new etc. (e.g., [Ho, 2018c](#); [Arvanitidis and Papagiannitsis, 2019](#); [Easthope et al., 2020](#)). Still, does this preclude intention and design? Isn’t rather the presence of compromises a proof of their existence?

In his study of Chinese institutions for urban property in the period 1949–1998, [Ho \(2018c\)](#) documents several processes not least showing internal disagreement in the government on a field riddled with conflicts. It moreover shows that the state had limited powers to force certain changes. This does, however, not imply that the results were (by necessity) unintended. Despite the specificities given by the Chinese political culture at the time, it shows what is standard to political processes where different arguments as well as failed initiatives result in adaptations and compromises. My point is that these adaptations and compromises are not non-intended outcomes of intentional action. They are better understood as intended outcomes formed by actors that learn and that may change strategy – at least partly – based on what they observe as politically possible as well as effective. Limited power to design certain solutions does not imply non-intentionality, but that actors must evaluate what space for action there is and form one’s intentions on that basis to be successful.

Illustrating my point by focusing on institutional change driven by the state, one can envision two (extreme) situations where the state can design without compromising. First, one may envision a situation where it has absolute power and there is no serious internal disagreement within the state itself. Second, one may have a situation where also all citizens agree. Such situations may be very, very rare. In practice most – if not all – situations lie somewhere between these extremes. So, actors must negotiate solutions. The analyses therefore need to focus on how these negotiations go about and how arguments and political pressures tilt the result in one or the other direction. That is communication based on intentions with outcomes accepted through evaluations of what is possible given one’s intentions.

There is a large literature on communication, deliberation, and communicative rationality that one can draw on here – e.g., [Habermas \(1979, 1984, 1996\)](#); [Elster \(1998\)](#); [Dryzek \(2002\)](#). A key element in that literature is how the evaluation of arguments form political decisions at different levels of society. While Habermas is well known for his reasoning around the force of the better argument and much of the literature discusses what could be the basis for consensus, focusing on communication is similarly relevant in cases where there are non-solvable conflicts. By illuminating the context – e.g., existing

⁹ There is also the issue regarding the relationship between institution and economic activity – how one may understand changes in outcomes from changes in institutional structures. While an important question, I will have to leave it aside here.

institutions (including political system) and socio-political dynamics – and by studying the argumentation behind specific proposals and how a concrete institutional change takes form, one can establish what intentions have won and/or how arguments and intentions were possibly balanced against each other. In such processes, the discussions will by necessity concern form and the arguments will focus on specific functions that a form or set of forms may produce. Certainly, the resulting outcomes may be different from the ones expected from choosing a certain form. The problem may not be fixed. So, while intentionality and various power balances – i.e., a combination of intentional and causal mechanisms explains the chosen form – the fact that the form fails to produce what was intended, typically lends itself to causal explanations.

The above concerned decisions by a political authority and will vary between political systems – i.e., the institutional context for formation and change of institutions. Still, what the processes involved have in common is reasoning, maybe deliberation, resulting in a purposeful choice of what form is considered the best achievable. This does not preclude that there also are processes where institutions form non-intentionally. Norms and conventions in a society may have such a basis. The conventions of a language seem to be a core example. It has developed gradually over time and while the construction of a new word is intentional, whether it is picked up and becomes part of the language depends on the response by a multitude of uncoordinated actions. However, isn't the explanation then based on equilibrating forces. An equilibrium is established when the use is normalized – i.e., many 'enough' use the word – and it becomes difficult to express oneself if not using it. So, I think it is wrong to exclude even functionalist explanations of social phenomena. One just must carefully assess if one cannot better understand the outcome based on intentional or a combination of causal and intentional explanations.

One could also see the informal institution of a norm as an equilibrium in functionalist terms. Still, norms differ from conventions as they protect certain values (Crawford and Ostrom, 1995; Vatn, 2005). Therefore, it seems more reasonable that they have both been intentionally formed and spread through argumentation. Certainly, when well established, they do not necessarily need to be argued for. They are just how one should behave (Berger and Luckmann, 1967; March and Olsen, 1995). Even many conventions are the result of design – think about rules like on which side of the road to drive, measurement scales of length and weight, the time convention etc. These are practical 'devices' to facilitate coordination in society, and they depend on common agreement (conventions) or sometimes formal solutions including an element of force. So, while I accept that informal institutions may be the non-intentional results of intended actions, there is ample empirical evidence that it is erroneous to exclude intentionality even when understanding the formation and change of such institutions.

Finally, what about the formal institutions – the law? Certainly, CT is right in emphasizing that a law may sometimes be or become 'empty'. But this is not a good description of much of the law. It is rather the opposite, and I find it impossible to deny that when a parliament formulates a law, it is not going through a process of design. The law may be changed – possibly due to experience or changes regarding who is in power. Still there is design.

6. Conclusion

The credibility thesis has merit. I find much of the critique of neoliberalism valid. I also find the emphasis on endogeneity to be convincing. The same regards the methodological emphasis on in-depth analyses of institutional change as a form of archaeological process. There are, however, also several issues that need further clarification. These may imply that the thesis itself need some reformulation.

The key proposition that function trumps form, seems to go too far. The fact that the form advocated by neoliberalism – formal, private, and secure property rights – has shown to not produce superior outcomes regarding its main aim of economic growth, does not prove that form is

subordinate. Rather, one may argue that function cannot exist independent of form. Certainly, different forms may produce similar outcomes and vice versa. However, it is form that is chosen and form – the institutions of a society – even influences function by affecting our interests and perceptions. They form what we see as functional.

Many institutions may evolve spontaneously in the meaning that one cannot point to a specific intention behind them. However, there is also design. I agree that political actors – be it the state, local or traditional authorities – are best understood as endogenous to the 'game'. At the same time, one must note that such actors hold third party power. This is a strong – but not the only – basis for designed change. It does, moreover, not imply that design is always successful. States may not be able to establish what they intend – e.g., 'empty' institutions. Sometimes, outcomes are different from those intended; sometimes states accept deviations from a designed rule as they evaluate these as preferable. Anyway, excluding design as a possibility seems not well founded.

Emphasizing function and evolution may be taken as a sign that the credibility thesis is based on a functionalist type of explanation. It does not seem to fully qualify. First, no trial-and-error process is specified. Second, the equilibrium mechanism so fundamental to functionalist explanations is explicitly denounced. The alternative solution where outcomes are understood as the result of a 'mix' of intentional and causal factors is moreover denied by emphasizing that outcomes defy intention. Left is pure causal explanations. While pure causality can explain certain institutions, it fails in many well documented cases. I advise a more thorough assessment of the position the credibility thesis has taken with respect to how change is explained. Many of the cases studied may be better understood by combining intentional and causal explanations.

In relation to this, CT could be strengthened by also accepting that there is credibility not only of functions, but also of forms. In the (political) process of choosing between forms, different interests in society and within the state will argue for specific forms as they want to create certain outcomes. In the process towards a final decision – a moment of design – different arguments are voiced and evaluated. That is the case even if the process is not a societally open one but takes exclusively place within the decision-making bodies themselves. The outcome is still a weighing of arguments and interests. The new or changed institution is designed even if it is the result of a compromise between these arguments and interests.

CRediT authorship contribution statement

All work of this paper is undertaken by the author.

Declaration of Competing Interest

The author declare that he has no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data Availability

No data was used for the research described in the article.

Acknowledgements

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors. The author thanks two anonymous reviewers in a pre-evaluation process for the special edition of LUP "VSI: policy credibility" for very helpful comments and advice.

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