Rational Choice and the Problem of Institutions

A Discussion of Rational Choice Institutionalism and its Application by Robert Bates

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Summary:

The paper discusses and reviews various directions within *new institutional economics.* A central question of concern is whether theories of institutionalism based within rational choice reasoning provide a theoretical basis for understanding institutional formation and change. The paper presents what is perceived as core elements of rational choice theory, and focus is on new institutionalism in particular. General perspectives are compared to the works of Robert Bates. By way of concluding, the paper questions whether rational choice theory, as it evolves to include an increasing number of factors such as institutions, ideology, norms and culture, may lose its parsimony and strength.

Contents

Introduction

Rational choice theory has over the last two decades acquired a central place within political sciences and economics. However, as a theory aiming to predict social outcome, rational choice has produced some unconvincing results when subjected to empirical testing. While the theoretical advancements within the school of rational choice have been impressive, successful empirical applications of rational choice models have been scarce (Green and Shapiro 1994). In attempts to increase the explanatory powers of the theory, a number of rational choice proponents have sought to extend the theoretical agenda and modify the original presumptions of rational choice theory. The developments within rational choice theory and the extension of the theory's agenda in the last decade is in particular related to the way *institutions* are perceived. In the original neoclassical rational choice theory, institutions were taken as given and studies of institutional origin and change were perceived to be exogenous to the theory. Over the last two decades, however, a new school within economics and economic history has evolved which has sought to endogenise institutions to rational choice analyses. Although diverse, these new theoretical developments have been identified as *new institutional economics*. Originating in economics, these theories have also acquired a central position within political science where the new theoretical developments within a rational choice framework have been identified as *new institutionalism.*

A central question of concern here is whether theories of institutionalism based within rational choice reasoning provide a theoretical basis for understanding institutional formation and change. My research project (Dr. Polit dissertation) concerns the interconnections between economic and political liberalisation in Southern Africa (Zambia). A main task when confronting development issues in general and the question of political and economic reforms in particular is to explain why in some cases efficient institutions are established under the authority of development oriented governments whereas in other cases government intervention produce inefficient institutions hampering economic growth and resource allocation. An indirect aim of this presentation is therefore to consider the advantages of rational choice institutionalism as a methodological approach for my own dissertation project. Based on these considerations it may be appropriate to designate this presentation a review essay. The aim is to discuss the evolvement and expansion of the rational choice research paradigm to include the study of institutions, institutional origins and change.

It can be argued that whenever a concept is packaged as new, social scientists should be cautious! (Koelble 1995: 231). Concerning the concept of new institutionalism, further clarification is necessary as a number of seemingly opposing theoretical directions are making claims to the term. In this presentation I shall focus on a direction *within* rational choice theory emphasising the role institutions play in structuring individual choices. Focusing on the issue of transaction costs, limited information and collective action, institutions are perceived as both expanding individual choice by influencing the availability of information and choices (Ostrom, Feeny & Picht 1993) and as constraining individual actors scope of choice (Moe 1990, North 1981, Bates 1989). What is important to note here is that contrary to historical institutionalism, organisational institutionalism and sociological institutionalism, *rational choice institutionalism* insists that individuals and their strategic calculations ought to be the central concern of social science and thus the basic unit of analyses[1]. To rational choice institutionalists, institutions thus constitute an intervening variable capable of affecting an individual's choices and actions but not determining them (Koelble 1995: 232). Contrary to other theoretical schools emphasising the significance of institutions, rational choice institutionalists are not rejecting the core elements of the neoclassical rational choice logic. Rather, its proponents are attempting to include institutions and the question of institutional change and origins into the explanatory models of rational choice.

According to Lakatos, a research programme may be divided into the programme's hard core and its variable protective belt (Lakatos 1970). A modification of a research programme takes the form of readjusting the protective belt, whereas an alteration of elements in the core represents a shift to a new research programme. The theoreticians under focus in this presentation all claim to adhere to the core principles of rational choice. Sometimes referred to as positive political economy (Alt and Shepsle 1990, Bates 1988, 1990), new institutional economics (North and Thomas 1973, North 1989, Ruttan 1989) or just new institutionalism, the school has already acquired a central position within schools of economics and political

[1] Sociological institutionalism holds that individual decisions are "embedded" in cultural and institutional "sectors" which determine the very concept of self-interest and utility (Granovetter and Swedberg 1992). March and Olsen, however, claim the title "new institutionalism" in their monograph *Rediscovering Institutions* (1989) arguing that both the behaviourial approach and the rational choice school has eliminated the role of institutions in policy-making. Basing their work on Herbert Simon's (1947, 1957) concepts of bounded rationality and satisficing, the organisational institutionalism of March and Olsen should be distinguished from rational choice institutionalism as they deny the concept of utility maximation. Historical institutionalism has imprecisely been labelled political science institutionalism. These works borrows from the notion of bounded rationality explored by March and Olsen (See Steinmo et al. 1992). While there is an on-going debate within social sciences regarding "who owns the institutional flag" this question will not figure centrally in this presentation.

science (Cook and Levi 1990; Moe 1984,1989; Ostrom 1986; Shepsle 1989) and is gaining ground within development studies (Nabli and Nugent 1989; Ruttan 1989; Bates 1988, 1989). Nevertheless, while seeking to modify the original premises of rational choice theory by extending the agenda to encompass the role of institutions and the issues of institutional change and origin, the question is whether the new institutionalists are transgressing the boundaries of rational choice theory in their efforts to increase its explanatory power.

The significance of this question is highlighted when discussing the works of Robert Bates. Bates is one of the leading proponents of the rational choice approach within political economy and development studies. Furthermore, he is perhaps the most cited social scientist working on Africa in general. Bates scholarly work over the past two decades is both voluminous and exceedingly varied in terms of topics addressed. When studying Bates' scholarship it is possible to detect an evolutionary trend which is closely associated with some of the main theoretical debates within political science and economics. Like many political scientists working within a rational choice framework, Bates has moved from a narrow economic concept of rational choice to include issues such a the independent role of politics and institutions to the theoretical agenda. A focus on his applications of rational choice and new institutionalism to African studies therefore promises to illuminate the strengths and weaknesses of the paradigm. Moreover, it enables an evaluation of the applicability of these theoretical tools to a non-western political and economic setting.

The presentation is divided into three parts. Starting with a brief presentation of what I perceive as the core elements of rational choice theory, the discussion moves to the new institutionalism within rational choice theory which has emerged within economics and political science over the last decade. In part two the general perspectives of part one is sought clarified and discussed in more detail when compared to the works of Robert Bates. By way of concluding, part three questions whether rational choice theory, as it evolves to include an increasing number of factors such as institutions, ideology, norms and culture may lose its parsimony and predictive strengths. More concretely; when Bates localises his rational actors in specific historical contexts and focuses on the role of cultural specific topics such as norms and symbols, has his research then exceeded the limits of rational choice theory and come full circle back to interpretive cultural analyses?

Rational choice theory and the role of institutions

The core elements of rational choice theory

Rational choice cannot be presented as one single theory as most practitioners of rational choice agree to some, but not all, features present in a definition of rational choice theory. However, some theoretical features are generally shared by all rational choice theorists and may therefore be described as *the core* elements of rational choice theory. The proponents of new institutionalism within rational choice all claim to adhere to the core principles of rational choice. A discussion of this scholarly direction should therefore commence with a characterisation of these core elements.

The main identifying character of rational choice theory is its adherence to the *individual as the unit of analysis*, in other words, methodological individualism. Based on an abstract description of goals in terms of interests, utilities and preferences, rational choice theorists aim to explain a variety of human behaviours. Collective outcomes are explained by references to the maximising actions of individual agents. To illustrate this point, Buchanan and Tullock argue that collective action is nothing more than the actions of individuals when they choose to accomplish purposes collectively rather than individually (1962:13). Social patterns are thus explained as aggregative consequences of the rational actions of a relatively large number of participants given the circumstances of the natural and social environment within which they deliberate (Green and Shapiro 1994:16).

Rational choice theory further require a certain *consistency* of choice as part of the definition of rational action. In other words, as a theoretical requirement it must be possible to rank order the available options of an agent (Green and Shapiro 1994:14). This preference ordering within rational choice theory is further supposed to be transitive which again implies that if A is preferred to B, and B is preferred to C then A must be preferred to C. There is further widespread agreement among rational choice theorists that rational action involves *utility maximation*. In other words, when confronted with a range of options, an individual actor will choose the one she finds will serve her objectives best (Green and Shapiro 1994, 14). The concept of utility is used as a basis for comparing heterogenous benefits and costs and to provide a common measure of a variety of goods (Little 1991: 45). However, while individuals are guided by self-interest when making choices, self-interest need not imply selfishness. If an individual finds fulfilment in helping the poor, charity may be the best way for that person to pursue self-interest. Adhering to a "thick" concept of motivations, altruism need therefore not be excluded from a definition of self interest (Riker 1990, Little 1991). Maximation assumption only requires that some schedule of preferences is maximised, it does not specify any particular goals.

Based on the core principles of the individual as the unit of analysis, utility maximation, consistency and rank ordering, rational choice theory constitutes a relatively simple model of explanation. Given a social phenomenon, what is needed in order to explain its origin are the strategies that rational prudent persons would pursue in those circumstances, and the aggregate effects of those strategies (Green and Shapiro 1994, Little 1991, Bates 1983). Social phenomena are thereby the result, often unintended, of the purposive actions of a large number of rational agents. Rational choice theorists finally seem to agree that their theories apply equally to all persons under study and that decisions and rules are stable over time. This assumption of homogeneity is usually justified on grounds of theoretical parsimony (Przeworski and Teune 1970: 17-21). From these basic assumptions the school of rational choice takes a number of directions based on the position of the various theoritisians within the school on subject such as the robustness of assumptions of human goals, the amount of relevant information agents can be assumed to posses and act on, and the universality of the explanatory enterprise of rational choice theory[2].

While it can be argued that the basic premises of rational choice theory have been present within the field of economics from the very beginning, rational choice theorising and market analogies saw its way to contemporary political science in the late 1950s. As such, studies of politics based on the actions of large numbers of utility maximising individuals is a relatively new field. However, the flaws of the rational choice theory when applied to 'real life' politics and economics soon became apparent[3]. One of the most significant weaknesses of rational choice theory when applied to empirical data and testing, relates to the problem of aggregating from micro-level observations to macro-level social output.

2 For a useful review of the debates and conflicting views on these subjects within the school rational choice, see Green and Shapiro (1994 ch.2) and Little (1991 ch. 2 and 6).

3 One of the most debated aspect with respect to the fallacies of rational choice theorising in politics relates to the paradox of voting. Starting with Anthony Downs (1957) rational choice theorists have characterised voter turnout as a collective action problem in which individuals are asked to sacrifice time and transport costs on behalf of a public good, the election of a party or candidate. Many scholars view voter turnout as a case in which rational choice theory has failed empirically. See Brennan and Buchanan (1984) and Green and Shapiro (1994) for an excellent review of the paradox of explaining voter turn out within a rational choice paradigm. For a further discussion of the limits of the neoclassical rational choice paradigm in terms of understanding social outcome, see James Scott (1976) and Samuel Popkin's (1979) critique of Scott relating to the problem of aggregating from micro levels of analysis to macro level social outcomes.

Researchers working within a narrowly defined rational choice paradigm have sought to account for collective behaviour by showing that it is consistent with the rational behaviour of the individual preferences of a large number of people. As a result, the problem of aggregation lying between individual preferences and social outcome was largely left unresolved by rational choice analysts. The lack of attention to the issue of aggregation may be the main reason why the theory did not prove robust in empirical tests of political action[4]. In an attempt to solve the problem of aggregation and to increase the explanatory powers of rational choice theory a number of scholars turned to the study of institutions.

The new institutionalism within rational choice theory

The focus on institutions within the framework of rational choice theory emerged in the late 1970s as a critique of the narrowly economic rational choice approach which many proponents came to believe did not provide an adequate predictive theory of action as it failed to answer the question of how preferences come about and why they vary from person to person (Cook and Levi 1990, Koelble 1995). According to Shepsle (1989) the rational choice notion of economic man as a purposive proactive agent maximising privately held values came to be regarded as an unnecessary impoverished concept. Perceived as an atom unconnected to the social structure, Shepsle finds that the narrow economic concept of rationality lacked a notion of a"glue" holding the atoms of society together (Shepsle 1989: 134). Finding that the neoclassical rational choice paradigm failed to account for the fact that politics takes place in context, a number of proponents of rational choice theory came to the conclusion that the question of institutions could not be considered as exogenous to social theories.

The school within economics which have attempted to bridge the gap between economic theory and the `real' world in which institutions play a decisive role, has loosely been labelled new institutional economics (NIE). The NIE method can briefly be described as one which integrates institutions into the analysis of economic change from the very beginning. Institutions are supposed to interact with other forces and to be part of processes of economic change. According to one of its main proponents, Douglass North:

> "It is institutions that provide the key constraints and therefore shape incentives, and it is the interaction between institutional framework and the organisations that are a

[4] The issue of aggregation from individual-level processes to social causation is naturally also related to a broader debate within social science theory, namely the issue of methodological individualism. Rational choice theory is based on the concept of methodological individualism as one of its core premises is that social explanations must be grounded in facts about individuals. For a discussion of the controversy surronding the issue of methodological individualism, consult Alexander et. al (eds.) 1987, Little 1991 and Elster 1985.

response to that framework that shape the evolution of economics" (North, quoted in Gunnarson 1991: 49).

Within the framework of new institutional economics, institutions are the outcome of repeated interactions between utility-maximising individuals. Furthermore, institutions are perceived to reconcile rationality on the part of individuals with rationality on part of society. Institutions may therefore be considered as means to solve problems of aggregation and collective dilemmas arising when choices are made by rational individual that no one prefers (Bates 1988b, Koelble 1995).

New institutional economics or new institutionalism as its parallel within political science has been labelled, is new in the sense that these scholars attempt to *combine* the study of institutions with neoclassical economic analyses. Rather than abandoning the concept of rationality, the new institutionalists seek to *modify* the rational choice approach. Contrary to the `old' institutionalism associated with Torstein Veblen, historical and sociological institutionalism, the new research programme within economics and political science aims to generalise micro economy while retaining the core elements of rational choice theory[5]. As equilibrium theories, the new institutionalism within rational choice theory aims to describe the strategic context in which optimising behaviour takes places by laying down the rules from which, players are identified, prospective outcomes and alternative modes of deliberations are determined (Shepsle 1989: 135). The equilibrium theories of new institutional economics thus attempt to explain characteristics of social outcome on the basis of agent preferences and institutional features (Shepsle 1989: 135). Individual agents maximise an objective function albeit subject to constraints. The constraining `variable' is institutions. However, rather than determining choice, institutions within the rational choice paradigm are regarded to provide certainty under conditions of uncertainty and thereby help to foster cooperative an habitual behaviour (Koelble 1995: 241).

The consensus among economists and political scientists which have emerged over the last decade concerning the centrality of institutions in order to understand the degree of stability in competitive political and economic settings, economic growth and development have not been matched by one on its definition. The large variety of definitions applied vary according to the degree to which institutions and organisations coincide and whether to include both formal and informal aspects of institutions. As a result of these deviations, the common

[5] Torstein Veblen's (1898) attack on conventional economics became a central source of a school of institutionalism which developed within economics at the beginning of this century. The institutional school associated with Veblen is usually referred to as "old institutionalism". However, as institutional economics came to be regarded as a empiristic and anti-theoretical, it did not pose a challenge to the neoclassical hegemony within economics. See Gunnarson (1991) for a good review of the old-institutionalists.

understanding of what the term institution entail is rather wide and all-encompassing. The definition of Ruttan and Hayami is illustrative as according to these scholars (1984: 204) institutions are...

> "the rules of society or organisations that facilitate coordination among people by helping them form expectations which each person can reasonably hold in dealing with others".

Similarly, North defines institutions as rules and the enforcement characteristic of rules, norms and behaviour that structure repeated human behaviour (North 1989: 1321). Despite the variety of definitions, however, the main characteristic of institutions figuring in most analyses stress their effect as *constraining and limiting* the individual choice-set, thus *governing* the behaviourial relations among individual or groups and as a result institutions become a major *stabilising*, or equilibrium, force in society (Nabli and Nugent 1989).

The focus on institutions within rational choice theory has evolved over the last decade and as a new research programme it is in constant development. To present new institutionalism as a homogenous body of knowledge is therefore neither feasible nor correct. Nevertheless, two broad approaches within the study of new institutional economics can be identified, namely the theory of collective action and transaction-cost economics. While these two directions have developed separately, they are also related and dependent upon each other in many ways. Both the collective action and transaction cost approaches are based on the notion of rational utility maximising individuals constituting the basic unit of analysis. However, the two approaches differ on the extent to which the issue of institutional change and formation is sought endogenised to the theory[6].

Collective Action Theories of New Institutionalism

As argued above, the neoclassical rational choice paradigm did not address the issue of aggregation as in the original models social outcome was simply perceived to be the result of the choices of a large number of self-interested utility maximising individuals. However, following Mancur Olsons seminal work *The Logic of Collective Action* (1965) and Buchanan and Tullock's equally path

6 While emphasising the scholarly directions of transaction costs and collective action theory when aiming to describe the evolvement of the new institutionalist research programme, some may argue that important developments within game theory is left out of the discussion. The theoretical developments wit8hin game theory which attempts to endogenise important structures such as institutions, preferences, norms and culture have been significant. (For an elaboration of these subjects, see Sen 1979, 1987, Margolis 1982 and Regan 1980). I will nevertheless argue that game theory should be considered theoretical tools applicable to a number of theoretical directions within rational choice, rather than a particular scholarly direction of new institutionalism in and of itself.

breaking work the *Calculus of Consent* (1962), the notion that there is no reason to expect social outcome to be systematically related to individual preferences was made evident. Focusing on the dilemma of public goods and free riding, attention was put to the problem of aggregation. The key concern in the works of Olson, Buchanan and Tullock was to explain the likelihood of the success or failure of a set of self-interested individuals in undertaking actions that may benefit them collectively. The collective action theory evolving from these pioneering works focused on the issue of public goods. Arguing that the self-interested individual may find it preferable not to participate in the provision of a public good due to its non-exclusionary character once established, the theory of collective action not only identified non-cooperation, but also how cooperation could be achieved. The role of interest groups, issues related to the nature of the group and the role of selective incentives are main concerns in Olsons work (1965, 1982). The large and influential school of public choice analysing non-market decisions and institutional interaction, should be regarded as descending from these theoretical perspectives (Mueller 1979).

Focusing on interest groups and the behaviour of special interests, the collective action theory is essentially a bottom-up approach in the sense that emphasis is placed on how groups affect the behaviour of the state and governing institutions. The state is in turn perceived as a passive agent merely responding to interest group demand. Thus, the view of the state within collective action reasoning is largely negative as the state is seen as an exogenous redistributionary force employed in the benefit of special (group) interests. This lack of consideration of a potential independent role of the state has been one of the main criticisms of the collective action approach. By focusing on interest groups and conceiving the state and state institutions as largely responding to demands of interest groups, the collective action approach has been criticised for "modelling government as nothing more than a gigantic form of theft and redistribution (North 1989: 1323). The collective action approach and the school of public choice descending from it have not made any real attempt to endogenise institutions to their models of explanation (Gunnarson 1991). The question of how institutions come about and which factors cause institutional change further seems to be regarded as exogenous to the theoretical approach and thus taken for given.

The theoretical insights deriving from the school of public choice have greatly influenced the debate within developing economics in the last two decades. Emphasising the negative impact of government involvement in the economy, the call for "less government" and the need to "get the prices right" have been brought to the fore both by development scholars and the international financial institutions (World Bank 1981, 1989; Lal 1984; Nelson 1990). However, while it may be argued that these theoretical contributions have been able to portray interest group behaviour, they have failed to account for the fact that in developing societies, government actions as often as not *precede* interest group behaviour which often evolves in *response* to state activities (Bates 1990). It may therefore be argued that the independent role of politics has been largely ignored in collective action approaches.

Transaction-costs theories of New Institutionalism

Transaction theory can to a certain extent be regarded as a response to the collective action approach and its lack of explicit theorising on the role of the state. A concern of the transaction-cost approach is to explain why some states produce and enforce institutions which lower the transaction costs while others fail to do so. Contrary to the collective action theories, the transaction-cost theories explicitly aim to endogenise institutions into economic theory as the state is regarded as an actor in the market (Gunnarson 1991). The general hypothesis is that institutions are transaction cost-minimizing arrangements which may change and evolve in concert with changes in the nature of transaction costs (Nabli and Nugent 1989).

Ronald Coase's work on firms and the problem of social costs (1960) may be considered the main pioneering work within this direction of new institutionalism. Posing the question of why economic agents in real economic contexts tended to arrange themselves hierarchically, Coase criticised the neoclassical economic model for not taking account of transaction costs. Coase argued that exchange by no means is costless as institutions became a significant factor in terms of lowering the costs of transaction. He thus found that rational individuals would willingly let go of some of their freedom of choice in order to reduce the costs of information and transactions. The new institutionalism descending from the pioneering works of Coase has focused on the contractual nature of organisations and institutions, costs of transactions, individual explanations and rationality. Within this perspective institutions are designed to stabilise exchange relationships, induce cooperative behaviour among self-interested individuals and to minimise transaction costs between the parties (Koelble 1995: 239)[7].

[7] The theoretical direction focusing on transaction costs contains several interrelated fields: The role of transaction costs in economic organisations as described above, the property rights approach associated with the law and economics literature and the issue of incomplete and asymmetrical information here under the problems of "moral hazard" and "adverse selection". For a useful debate of these issues, see Nabli and Nugent (1989).

As one of the main proponents within transaction-cost theory, North aims to explore the role of institutions in promoting economic growth (North and Thomas 1973; North 1981, 1989, 1990). According to North, institutions origin in the efforts of economic agents to promote exchanges unattainable in markets. The interaction of individuals involves transaction costs, which are the key to the performance of economies (North 1989). Risks and costs of information are two important elements explaining why individual agents would see it in their best interest to create institutions to regulate market transactions rather than to leave it to the market. According to North, institutions arise and evolve because of rising specialisation and division of labour in society. Institutional change in this perspective is therefore regarded as a result of changing prices which provide an incentive for those within institutions to renegotiate terms of participation. Changes in relative prices result from population change, technological change and changes in cost of information (1989: 1324). It may therefore be argued that the transaction-cost approach within new institutionalism seeks an economic theory of institutions to account for the origins of institutions which again enable individuals to transcend the limits of decentralised decision making and instead behave in a way that enhance collective welfare (Bates 1988).

Institutional change and origin within new institutionalist theory

Regarding the theoretical developments within rational choice institutionalism, it is evident that, so far, the questions of institutional formation and change are relatively underdeveloped in explicit theorising. The reason why such important questions have received so little attention may lie in the fact that as equilibrium-theories, the school of new institutionalism has emphasised the notion of institutions as stabilising forces (Steinmo and Thelen 1992: 15). When focusing on institutions as mainly constraining individual choices and thus expecting continuity rather than change, the issue of institutional change has remained outside the scope of much theorising within new institutionalism of rational choice.

It is only within the direction of transaction-costs that the issue of institutional change and origin is explicitly sought endogenised to the theory. As evident in the above, the concept of institutional origins and change within transaction cost theorising is perceived in terms of market analogies. From markets, rational behaviour leads to various forms of contractual arrangements because, due to costs of transaction and information, rational actors find these institutional arrangements more efficient than markets (Moe 1984: 759). To the extent that the theories of rational choice institutionalism have attempted to endogenise the issues of institutional formation and change, the theorising adheres to a *contractarian* concept of institutional origin and change. References are made to a state of nature comprised of autonomous decision-makers, and questions concern the kinds of social agreements individuals would voluntarily agree upon (Moe 1984: 759).

How well does this contractarian paradigm of institutional origin and change transform to the study of political processes? Although a lot of promising work has been carried out, Moe finds it problematic that politics is sought understood as if it were an extension of economics. Moe adheres to the view that political institutions *mitigate collective action problems*, particularly commitment and enforcement problems and thus allow various political actors to cooperate in the realization of gains from trade. However, contrary to the market, not all decisions arrived upon within the realm of politics are based on voluntary actors, as institutions may also be weapons of coercion (Moe 1984). Echoing Moe, Shepsle (1989) argues that politics is afflicted by special problems that lend distinctive features to structural choice and political institutions. Politics is distinguished by what they vote about, namely the determining of how public authority will be exercised.

To a certain extent it can be argued that the notion of coercion and the non-voluntary character found in political exchange-relationships is incorporated in the collective action approach. Yet, it may also be held that institutions are not sought endogenised in collective action theory. Lacking an explicit theory of the state and state institutions, the collective action approach is therefore not very constructive in it self in terms of explaining institutional origins and change. As the brief discussion of the transaction cost approach above has indicated, a mainstream direction within this approach perceive institutions in market and contractarian terms. The emphasis on institutions as inducers of efficiency, however, fails to explain the formation and sustainability of *inefficient* and dysfunctional institutions. Based on a notion of transaction costs, the contractarian theories of institutional change and formation is able only to account for efficiency, hypothesising that the economically efficient institutions survives and supplants inadequate exchange relationships.

It may therefore be argued that the most convincing answers to these theoretical puzzles so far are found in approaches which seek to *combine* the perspectives of collective action and transaction cost reasoning. Founded on an extensive empirical material, North finds that contrary to theoretical hypotheses, inefficiency has been the rule rather than the exception through history. North attempts to solve this theoretical dilemma by combining the perspectives of the collective action approach with transaction-cost theorising by introducing the notion of an agent, or third party to make change possible (North and Thomas 1973). In the framework of North, the main supplier of institutions is the monarch who in his own desire to maximise revenue works for institutional change. However, North finds a tension to exist between social efficiency and the rulers desire to maximise revenue (1981). Arguing that the state (monarch) will favour influential interest groups which pose a potential threat to the regime in power, North echoes Olson finding economic inefficiency to be the rule through history (North 1981, 1989).

By introducing a third party agent as the initiator of change and emphasising the tension between social efficiency and the individual rulers desire to maximise his own fortune, North seeks to account for the existence of economically inefficient institutions. However, while the introduction of third party agents goes some way to solve the dilemma of institutional variance in terms of efficiency, it does not provide a satisfactory answer to the question of why some agents act benevolently and are willing to pay the cost of organising socially sound economic institutions while others may not. Questions regarding why some agents set aside their private incentives to maximise revenue in order to produce a social good, while other rules chose to behave in kleptocratic manners and why some rulers are better able to isolate themselves from the demands of special interests are not accounted for in this approach. It may therefore be argued that the third party agent perspective do not provide an inclusive and satisfactory answer to the question of variation among nations and institutional efficiency. As evident in the discussion above, most proponents of new institutional economics understand institutional change, or demand for such, to be induced by technological change which affect resource endowments (Ruttan 1989: 1375). By referring to technological change, institutional change is given an exogenous determinant. North, however, in an attempt to solve the dilemma of variation, emphasises an additional source of disequilibrium and institutional change, namely changes in decision rules of society. By arguing that changes in norms influenced by the evolution of ideas and ideology may bring about institutional change, North brings in an extra-rational factor of change (North 1989: 1323). Emphasising cost benefit calculations, North argues that institutional change may be initiated by a ruler who wishes to pursue policies of change with no direct relation to demands from specific groups or existing relations of production. This factor is referred to as ideology (North 1981). However, North does not develop any clear ideas of how and why ideology evolve or how variance in the preferences of a ruler or agent can be accounted for. At one point he asserts that ideology matters when it is relatively costless. In other words, the lower the cost entailed by ideology determined choices the more ideology will matter (North 1989: 1323 and Gunnarson 1991: 62). It is interesting to note, however, that so far North has not developed this perspective any further, despite of repeated claims to the need for a better understanding of ideology

(North 1981, 1986, 1989). It may therefore be argued that, at this point, ideology is a residual category not explainable in the contractual perspective based on the transaction-cost perspective applied by North.

According to Moe, the studies founded in the institutional context involves multiple agents, diverse individual goals and obvious constraints on choice (Moe: 1984: 772). While it for analytical purposes may be legitimate to assume away as many of these constraints as possible, it may not be possible then to grasp behaviour, variance and even less to predict future behaviour (Moe 1984). Thus, according to Moe, in the interplay of theory and data, contractual models may produce complex theories of dynamic political processes which limits the value of the analytical tools of micro economics. The issue raised here brings forth the question of whether it is possible to actually endogenise institutions to models of explanation without extending the boundaries and damaging the fabric of neoclassical theory all together. In order to explain variation in institutional performance, formation and change institutions must be endogenised into theory. However, it is then possible to run the risk of presenting institutions as the explanation of everything and nothing. As equilibrium theories, institutions are considered the main stabilising force and the main explanation of political outcomes in periods of stability. However, when institutions change, or break down, they become dependent variables determined by political conflicts (Steinmo and Thelen 1992). Referring to the works of North, Gunnarson finds that attempts to endogenise institutions pose a fundamental problem to all forms of institutionalism. If institutions are endogenised to theory they are taken to influence and be influenced by other variables and thus given a role as a determinant factor. This being the case, it is as difficult for the new institutionalists as it were for the old institutionalists to assess the exact importance of institutions and thus determine the driving forces of economic change (Gunnarson 1991:60). According to Gunnarson, it is not possible to endogenise institutions to the models of explanations while still adhering to the core elements of rational choice theory of utility-maximising individuals as the unit of analysis (1991: 52). Claiming that in the real world, it will not be possible to find two historical cases were preconditions have been identical, he finds that "historical circumstances as well as preferences structures.... will always tend to influence the outcome of each specific case" (Gunnarson 1991: 66).

The argument put forth above is of importance when now turning to the works of Robert Bates as it relates to the question of what significance ought to be given to empirical data versus the parsimony of theory and method. The literature reviewed so far is overwhelmingly theoretical. To the extent that theory is tested against empirical data, the empirical data are almost exclusively drawn from a Western democratic context. With respect to this, the works of Robert Bates is of great interest. As the main proponent of rational choice theory and institutionalism in African studies, Bates is one of the few theoreticians within the school of new institutionalism to apply the theoretical assumptions and methods outside the locus of Western democracies. Moreover, unlike the great majority of the new institutionalists, Bates assigns a fundamental role to empirical data in terms of assessing the relevance of a particular theoretical approach. Turning now to specifically discuss the works of Robert Bates, the aim is to highlight some of the main strengths and weaknesses of the new institutionalist school of rational choice and its applicability to analyses of non-Western empirical areas.

Rational choice and development studies: An analysis of the political economy of Robert Bates

Bates and rational choice

Robert Bates labels his approach to the study of development political economy. His work is, nevertheless, clearly based in the public choice tradition. (Bates 1983, 1990). Following the school of public choice, Bates adheres to the premise of rational decision making and the method of equilibrium analysis (Bates 1983, Olson 1965, Buchanan and Tullock 1962). However, more so than many public choice theorists, Bates assigns an autonomous and important role to politics and political institutions.

Writing against the interpretations prevailing at the time, in the mid-1970s Robert Bates' work on African agricultural policies adopts methodological individualism, emphasising economic reasoning and choice (Bates 1976). By focusing on cattle-holding as a non-cultural phenomenon, Bates criticised the cultural interpretation which held a hegemonic position within development studies at the time[8]. The power of culture demonstrated in these studies made the value of economic reasoning seem limited when applied to developing areas. However, Bates found that whereas the behaviours of the cattle holders had been interpreted as a result of tradition, it could also be interpreted as a result of choice, albeit made under constraints (Bates 1983, Bates 1990). Discussing the methodological quality of culture theories, the school of modernisation and the dependency school, Bates holds that all these theoretical directions have failed to recognise the

[8] The work of Herskovitz (1926) on the so-called cattle-complex provided a key illustration of the power of culture in agrarian societies and thus became a major inspirational source for a great number of students of agrarian economies.

scope for *choice* in the third world. The emphasis on choice in analyses of African political economy may arguably be one of Bates' greatest contributions. According to one observer,

> "[b]y insisting that Africans be seen as rational actors, Bates and other social scientists have helped to counteract ethnocentric stereotypes of African peasants as backward and African governments as inherently corrupt and incompetent and channelled the discussion in a more fruitful direction..." (Berry 1993:1055)

It is interesting to observe the evolutionary character of Roberts Bates' scholarly work. Moving from a modernisationist framework in his dissertation work on the mine workers in Zambia (Bates 1971), the application of rational choice theory and a market oriented approach becomes evident in his study of rural responses to industrialisation (1976). However, the problem of aggregation, which figures so centrally in his later works, is not present in this study. Focusing on rural dwellers in Zambia, he traces pre-independence rural protest to the impediments of the local population to economic opportunity arguing that the local population joined in the struggle for independence because it was in their economic interest to do so (Bates 1976). A shift towards an emphasis on collective action dilemmas and problems of aggregation is evident in his highly regarded monograph from 1981, *Markets and States in Tropical Africa.* Bates here studies African governments' choices of agricultural politics and the impact of these choices on economic performance and policy change. One of the central questions posed in this monograph (which also figures centrally in Bates later work) is why people abandon markets and turn to political institutions. Bates argues that African governments choose agricultural policies on the basis of political rather than economic rationality. Examining why African governments intervene in markets by lowering the prices for agricultural commodities while at the same time increasing prices farmers must pay for consumer goods, Bates provides a forceful analysis of how economically irrational decisions may be considered perfectly rational political actions (Bates 1981,1983).

The question remains, however, *why* African governments get away with policies that are adverse to the interests of most producers? It is when Bates turns to an examination of interest group responses that his analysis becomes particularly forceful. Clearly inspired by Mancur Olson (1965) and the public choice tradition, Bates finds that the rural population in Africa, rather than calling for collective benefits of higher prices, has tended to demand political spoils and divisible benefits based on ethnic ties. Rather than labelling these actions as irrational, Bates finds that the collective action theory provides an alternative interpretation by stressing that organisation is costly which helps to account for the attractiveness of narrow appeals made on ethnic lines (Bates 1990: 42). Bates argues that in Africa, authoritarianism has created a particularly negative form of interest group activity in which urban interests are protected by the state due to political considerations, whereas rural producer interest are marginalised due to their lower costs of organisation. Reflecting on the logic of collective action, he finds that as agricultural producers constitute a large populace, spread over vast areas, the costs of organisation are considered too high. Reversely, urban interests consisting of labour, business and bureaucrats, constitute small and closely knit groups, which again means that the incentives for organisation and the ability of urban associations to influence government policy is high.

Similar to the collective action theory, Bates' analysis developed in Markets and States (1981) is clearly a bottom-up approach as it focuses on interest groups and their influence and control over the state and governing institutions which largely is regarded as a redistributive organ. The perspectives put forth by Bates, among others, developed into a more general theoretical assumption regarding state and interest groups relations in sub-Saharan Africa, which was identified as the theory of urban bias. The theory of urban bias greatly influenced the thinking of international donors as well as development scholars in the 1980s. As the economies throughout sub-Saharan Africa continued to decline, both researchers and donors began to argue that in order to achieve sustainable economic reform, it was necessary to alter the dominant coalition of workers, industrialists, consumers and government in order to bring agricultural producers, and particularly export interests, to centrality. The economic restructuring measures introduced by the international financial institutions in the 1980s were therefore regarded as a remedy of urban bias and the skewed development between urban industries and agriculture in much of sub-Saharan Africa (World Bank 1981). However, as Bates himself later acknowledged, the early literature on urban bias failed to take into account the significance of public bureaucracies and political institutions. Bates finds that as these works (including his own) neglected the study of institutions which structure political competition, they also failed to explain why financial institutions in some countries provide effective agencies of constraints but not in others (Bates 1993a: 226-27).

Bates' application of new institutionalism within rational choice theory

Analogue to developments within the public choice tradition in American politics (Ostrom, Shepsle 1979, Shepsle and Weingast 1981, Moe 1984), Bates works in the 1980s moves from focusing on interest groups and organised economic interests to include studies of institutions. Like North and Thomas (1973), Moe (1986, 1989) and Shepsle (1989), Bates now argues that the collective action approach is too limited as it does not does not consider the impact of political forces, such as politicians and the institutional incentives that motivate them and the institutional structure of politics (Bates 1990: 44). However, while clearly inspired by the theoretical contributions deriving from the school of new institutionalism based on experiences in western democratic societies, Bates, acknowledges the limitations of these theoretical insights when applied to fragile institutional settings in the developing world. Nevertheless, he claims that positive political economy, or rational choice institutionalism, has great advantages for constructing explanatory theories explaining how in developing societies choices of rational individuals result in collective outcomes. According to Bates, the very impermanence of political institutions in developing areas underscores the degree to which these institutions are chosen. He therefore finds that the study of developing areas face a subject that stands at the very frontier of the field of political economy, namely the problem of institutional origins (Bates 1990: 48).

Bates defines institutions as both broad structures and formal organisation as he understands institutions as forms of hierarchy in which sanctions are employed to make self-interested choices consistent with the social good (Bates 1988b: 387). In this he echoes Alt and Shepsle and the mainstream of new institutionalism within rational choice theory who argue that :.."positive political economy is the study of rational decisions in a context of political and economic institutions" (1990: 2). Bates holds that institutions aggregate individual preferences in ways that typically reduce positive transaction costs and enhance social benefits (Bates 1990b). The inspiration from the new institutionalism of transaction costs, seeing institutions as means of dealing with risk in uncertain environments, is here evident.

However, whereas Bates' work clearly is inspired by the school of new institutionalism within rational choice theory, he criticises the work that has been carried out within this theoretical direction so far for its inability to account for institutional origins (Bates 1988b). Characterising the new institutionalism as a form of contractarianism, Bates contends that the new institutionalists may have confounded the analysis of the role of institutions with a theory of their causes. The new institutionalism being contractarian in spirit holds that institutions are demanded because they enhance the welfare of rational actors. However, argues Bates, while this explains why institutions are demanded it does not explain why they are supplied. In other words, the contractarian perspective fails to account for why someone will be willing to pay the cost of supplying institutions. (Bates 1988b: 393). Bates acknowledges that these dilemmas are of concern to new institutionalists, and points to the proposed solution of North to focus on the role of political entrepreneurs who for their own purpose create institutional forms. However, argues Bates, the introduction of third party agents creates new dilemmas centring around the motivation of the agent. Why would a third party be motivated to act benevolently? Bates here points to a problem which is left unresolved in North's work, the fact that the classic providers of institutions, monarch, sometimes provided institutions that were welfare enhancing but they also provided institutions that led to economic decline. As discussed above, North suggests that ideology may constitute a major determinant of institutional change but so far North has not developed an explicit theory of how ideology determine institutional change.

Bates "solution" to the dilemma of explaining institutional origins and thus the residual categories left unresolved by North, is to maintain a rational-choice perspective but applied as a "softer" approach. Arguing that phenomena studied by sociologist rather than economists may offer greater insights into the resolution of collective dilemmas than do the contractarian solutions proposed by the new institutionalists, he claims that an alternative approach which is also based on the premise of individual rationality but resting on "soft" phenomena such as symbols and community rather than on "hard" phenomena such as incentives and coercion may yield greater insight (Bates 1988b: 397). Bates points to game theoretical analyses of prisoners dilemmas involving uncertainty, expectations and signalling which seem to indicate that uncertainty of the preferences of actors promotes behaviour that resolves collective dilemmas (Kreps et al. 1982). According to Bates, this significance enables an understanding of the power of symbols, and the other player may calculate her best strategies according to the symbols supplied by the first player. This again may provide an understanding of the power of communities, badges and regalia which enable like minded players to locate others of their kind. According to Bates these findings hint towards an alternative theory of the origins of institutions. Rather than being founded on notions of contracting, coercion and sanctions, this notion is instead based on concepts such as community, symbolism, and trust. Thus:

> "Driven by a concern with institutions, we reenter the world of behaviouralists. But we do so not in the protest against the notion of rational choice, but rather in an effort to understand how rationality on the part of individuals leads to coherence at the level of society" (Bates 1988b: 399).

The arguments presented here are drawn from Bates' article "Contra Contractarianism" published in 1988. In this article Bates rejects the contractarian paradigm applied by rational choice institutionalists as it fails to explain why anyone would see it in their interest to supply institutions. Based on this, it can be argued that Bates himself, while still adhering to rational choice perspective, disassociates himself from the mainstream theoretical direction within rational choice institutionalism which is based on a contractarian framework. Based on the arguments put forward in this article it is evident that Bates goes one step further than North in attempting to endogenise institutions and institutional change to his explanatory model. By suggesting a shift of focus to models found in behaviourial sociology and to locate the origins of institutions in symbols and community, it seems valid to ask whether or not Robert Bates has extended the limits of the rational choice paradigm all together?

Bates' scholarly production ranges from purely theoretical work to empirical analyses based on African data material. However, the theoretical hypotheses developed regarding the study of institutions, institutional origins and change is only carried out in one empirical analysis so far. In *Beyond the Miracle of the Market* (1989) Bates traces Kenyan agricultural politics from the independence struggle through Arap Moi's first period. Here he focuses on the importance of political institutions, as opposed to markets, in channelling competing private interests into the formulation of public policies. This throughout empirical analysis of the question of institutional origins puts Bates in a class of his own within the school new institutionalism. It is therefore useful to discuss this monograph in relation to the theoretical frameworks put forth above. Is Bates in this analysis able to apply the theoretical framework proposed? Further, does he provide an alternative to the contractarian perspectives of the new institutionalists?

An empirical test of new institutionalism: Beyond the miracle of the market

Beyond the Miracle of the Market (1989) seeks to reveal the political and institutional roots of the food crises 1983-84. The broader agenda is, however, to cast light on two major deficiencies in the neoclassical market theories: first the failure to adequately deal with institutions and second its failure to analyse politics (1989: 1). Following Myint (1987) Bates argues that the benefits of free trade available to developing societies is limited by their lack of suitable institutions. The inspiration from the economic historians and the transaction costs theory is evident as Bates point of departure in his Kenya study is to explore the role of institutions in promoting economic growth. Furthermore, and in line with the reasoning of new institutional economics, Bates aims to explain social outcome according i) group size, ii) access to land, iii) physical location and iv) preexisting institutions (Bates 1989: 4). However, while following the theoretical perspectives of North, among others, in arguing that political preferences are dictated by material factors, Bates nevertheless criticises the contributions of the economic institutionalists for missing the political aspects of the story (Bates 1989: 47). By explaining shifts in the physical proportionality of factors as the main catalyst of subsequent adjustment in institutional structures, Bates finds that the economic institutionalists fail to advance a political interpretation of institutions. Based on his analysis of changes in Kikuyu agriculture in the post World War II period in Kenya and the subsequent institutional creations evolving from these events, Bates argues that it was not any diminishing physical quantities of land that led to the restructuring of old tribal institutions among the Kikuyu but diminished access to land *rights*. Bates concludes that the changes in access to land rights imposed on the Kikuyus by the settler farmers underscores the political element of economic institutions as politics determined who possessed those rights (Bates 1989: 35).

Regardless of the criticisms posed above, Bates analysis of Kikuyu agriculture adheres to the economic theory of institutions in principle by claiming that institutions originate in efforts of economic agents to promote exchanges unattainable in markets. Despite his criticism of the contractarian perspectives of the new institutionalists, it is evident that Bates himself sets out with a contractarian perspective when seeking to trace the creation of agrarian institutions in post World War II Kenya. On this issue, the main difference of Bates and the economic institutionalists appears to be a matter of principle, he differs with them on their failure to incorporate the autonomy of politics into the explanatory model. However, Bates analysis takes an other and more significant departure from the institutionalism associated with transaction costs economics. Analysing the creation of the agrarian marketing boards in Kenya, Bates forcefully demonstrates that while the creation of institutions enhance the efficiency of markets, institutions then become public goods. Following collective action reasoning, he finds that an agent motivated by economic welfare would have to loom large in a market to be willing to pay the cost of organising the new institution. Thus, combining the transaction cost approach with a collective action approach, Bates uncovers the political story behind the economic one finding that big interests will advance their own interests through institutions. His Kenyan material suggests that institutions emerge in various times and in each instance the founding of the institution occurred when some small group of political entrepreneurs saw a socioeconomic need that was not being fulfilled, and thus took steps to convince other individuals. These conclusions are consistent with the transaction cost literature associated with scholars like North, as they confirm that those interests are most likely to form institutions which have the lowest bargaining costs. However, from here on Bates takes a step out of the contractual paradigm of new institutionalism. His study of Kenyan agrarian institutions indicates that the large investors of capital creating the institutions are *not* the most successful in the political struggle due to the economic immobility of large investors. Bates finds that the power of large scale economic interests in developing societies are eroded by forces originating from their political environment (Bates 1989: 91). Due to preferences structures and the forms of institutions structuring political competition, Bates finds that economic institutions thus become political institutions:

> "While formed to secure greater gains, they provide arenas for subsequent distributional struggles....Institutions, once created, promote processes that take on a life of their own" (Bates 1989: 91).

Regarding his analysis of the institutional origins of Kenyan agrarian politics, Bates seems to end up with an economic theory of the origins of institutions, in so far as he argues that people design institutions in order to make transactions allowing a higher level of welfare (150). His empirical case, however, suggests that even if institutions were created for the purposes of economic growth, a compelling component of redistributive gain also motivated their formulation, thus there was also a political element. From this observation, Bates is persuaded to conclude that institutions are partially autonomous from economies (153). Bates finds that economic theories of institutions cannot explain why institutions continue to exist when they cease to function in economically rational roles or even harm the interests that established it. Based on this information, and by combining the transaction cost and collective action approaches of new institutionalism, Bates may be regarded to have moved "one foot" out of the contractarian paradigm.

Regardless of his criticisms of the contractarian nature of the new institutionalist theory, Bates nevertheless employs the same methodology when analysing the institutional origins of Kenyan agricultural institutions. When tracing the changes in Kikuyu agricultural institutions and later the marketing boards, he focuses on economic incentive structures and changes in property rights. Combining the insights of transaction costs literature and the collective action approach, he points to the importance of special interests and large agents in order to explain why rational actors are willing to pay the cost of organising. Nowhere does he employ concept such as culture or symbols to trace the origins of the agricultural policies of post-war Kenya. Thus, like North, it may be maintained that Bates has located elements which he cannot explain within his theoretical framework. Whereas institutions were created for advancing economic incentives of the most significant economic actors, his analysis indicate that these economic interest later becomes immobilised in the political struggle. In other words, at some stage political processes take the centre stage over economic interest and following his earlier analyses of African agricultural policies, political rationality seems to triumph over economic rationality in Kenya as well. How can these political processes be explained? Bates analysis does not answer these questions in depth. His study demonstrates the limits of the new institutionalists paradigm, but, I will argue, it does not provide a forceful theoretical alternative. It therefore seems evident that Bates calls for an inclusion of "soft" elements such as symbols and culture to the theory new institutionalist economics falls in the same category as North's elaboration on the role of ideology: They appear as residual variables which are important, but not possible to fit into the theoretical framework applied.

Bates analysis of Kenya's agrarian institutions is published in 1989, whereas his article "Contra Contractarianism" in which he presents his criticisms of the contractarian nature of new institutionalism/new institutionalist economics, is published a year earlier. Nevertheless, it is tempting to speculate that the 1988 article is written *after* the Kenyan study. If the 1988 article is perceived as a *response* to the limitations discovered in his empirical analysis of Kenya, the article may be regarded as an attempt to adjust his theoretical agenda based on the limits experienced when applying the theoretical framework to a "real world analysis". As reiterated throughout his work, Bates claims to adhere to the core principles of rational choice. However, reflecting upon the core premises of rational choice theory and the more formalised models of rational choice theory also associated with many proponents of new institutional economics (part I), it is evident that Bates does not apply the formalised methodology of rational choice in any strict sense in his empirical analyses. Rather it may be argued that Bates applies the theory in a heuristic sense as he relates his theorising to the core elements of rational choice theory as a mode of thinking, rather than through the use of formal models. The absence of formal modelling in his empirical analyses is partly related to the nature of his empirical area of interest, as the nature of statistical data in developing societies is both limited and of an ambiguous character. But, as indicated in the discussion above, it is also a reflection of his methodological openness in terms of seeking to combine theoretical insights from a number of fields. Throughout his work, Bates argues against the notion of rational choice theory, or any other theory, holding a universal explanation for all social outcomes. Further, Bates argues that institutional endowments and incentives structures must be studied within the historical context of the country in question. Bates' emphasis on the need to establish empirical foundations for theoretical assumptions puts him in a rather unique position of contemporary work within the school of rational choice and new institutionalism as so far the methodological and theoretical innovation seems to have priority over empirical testing and fact finding (Green and Shapiro 1994). It can therefore be held that Bates, having sought to apply the theoretical tools presented by new institutionalism within rational choice to his Kenya material and found it to leave important questions open, has started searching for alternative methods. Seen in this light, his 1988 article becomes interesting and illuminating. By suggesting a focus on symbols and norms, Bates, like North, may be extending the rational choice agenda beyond studies of economic reasoning and rationality. As Bates localises his rational actors in specific historical contexts and focuses on the role of cultural specific topics such as norms and symbols, has his research come full circle back to interpretive cultural analyses?

Toward a Conclusion: Has the theory come full circle?

The presentation has focused on the internal developments within the rational choice research programme to include the study of institutions to its research agenda. Emphasising the problems encountered when attempting to apply rational choice theory to empirical analyses, the discussion has shown how the initial core presumptions of neoclassical economics have been modified through the inclusion of institutional concerns. Holding that institutions impose some form of coercion which forces individuals to choose in accordance with socially desirable outcomes, the new institutionalist research programme represents a step forward from the original neoclassical rational choice theory in terms of bridging the gap between micro and macro level analysis. Perceiving institutions as the "social glue" and thus a way for solving collective action dilemmas, theories of new institutionalism has also developed convincing theoretical tools for understanding institutional stability.

However, as the discussion above has indicated, at this stage the questions of institutional origin and change pose some difficulties to the theory. Adhering to a contractarian perspective of institutional origin and change, new institutionalism presupposes an economic theory of institutions. Yet, when sufficing to maintain that dis-equilibria and thus change originates in technological changes effecting prices, theories of new institutionalism have been unable to account for why institutions in some instances evolve and act in ways that promote economic development while in other instances they do not. In attempts to explain such institutional variance, scholars like North and Bates have attempted to incorporate extra-rational variables such as ideology, norms, symbols and culture to their explanatory models. When seeking to extend the limits of rational choice theory, the question is whether Bates then returns to the position he originally retracted from, namely models of interpretive understanding aiming to fathom a particular social setting rather than developing predictive hypotheses about future social outcomes.

The first general answer to this question relates to all scholarly attempts to endogenise institutional concerns. The term implies that institutions will influence and be influenced by other variables and thus given a role as determinant factors.

This again suggests that institutions may determine and effect individual preferences and choice. Based on this, I will argue that it is not possible to fully endogenise institutions while at the same time adhering to the core premise of rational choice theory insisting on the individual being the sole unit of analysis. Returning to Lakatos' perspective on the evolvement of research programmes presented initially, a successful attempt to endogenise institutional concerns to the explanatory model would imply an alteration of elements in the core and thus represent a shift to a new research programme. Nevertheless, as indicated in this presentation of the evolvement of new institutionalism within rational choice theory the dividing line between modifications of the research programmes' protective belt and actual extensions of the core is far from clear. Some scholars will argue that North by seeking to include ideology to his explanatory models have left the rational choice perspective. Bates call to include such variables as norms, symbols and culture to the explanatory models may similarly represent a detachment from the core premises of rational choice.

However, the discussion above concluded that so far neither North nor Bates have been able to fully include the origins and predictive powers of ideology, norms and symbols to their theoretical frameworks. Regardless of his criticisms of the contractarian nature of the new institutionalist theory, Bates employs the same methodology when analysing the institutional origins of Kenyan agricultural institutions. Nowhere does he employ concepts such as culture or symbols in his actual empirical work. I will therefore argue that based on the actual analyses conducted, none of the authors referred to here have departed from the core elements of the rational choice research programme. If Bates is able to fully endogenise the issues of norms and symbols to his explanatory models to the extent that these variables are given an independent role capable of affecting choices and individual preferences, it seems evident that he then will not only have modified the protective belt of the rational choice research programme, but also transgressed its original core presumptions. Nevertheless, this does not necessarily imply that his research has come full circle back to the interpretive tradition he originally wrote against. While Bates has discovered limitations when seeking to apply the new institutionalist perspective to empirical analyses and seen the need to incorporate "soft" or non-economic variables to the study of economic policy and change, important components of rational choice reasoning still remains. While Bates, among others, have come to conclude that culture, norms and ideologies may constrain and shape individual preferences and choices, the emphasis on individual choice remains the core aspect of theorising. This important aspect distinguishes it from cultural, or interpretive theories, as well as sociological and historical directions of institutionalism, seeing individuals as "embedded" or even "trapped" in their cultural contexts thus not being able to offer a convincing prediction about change. Furthermore, while seeking to modify the neoclassical assumptions about rational man and to extend the rational choice agenda beyond the narrow focus on individual utility maximation, Bates remains convinced of the desirability of formal theories in order to generate predictive and deductive hypotheses about social outcome.

This last issue relates to the overall question of choice between deductive and inductive methods of reasoning. When the theory of new institutionalism is rejected on the basis that it is not possible to provide a generalised portrayal of institutional change as this is determined by historical circumstances and preference-structure in each specific case (Gunnarson 1991), it becomes a rejection of deductive approaches and formalised methods in general more than a fatal blow to the theories of new institutionalism within rational choice in itself. It may be argued that discussions of methodological choice may not yield particularly productive results when confined to the level of theory. One of the problems of the development of new institutionalism within rational choice theory is so far that it has been overwhelmingly theoretical. Arguably, Bates greatest contribution to the theoretical debate is the fact that he goes beyond the theoretical agenda and attempts to apply the theoretical foundations to new empirical grounds. Recognising the limits of the rational choice approach, Bates has found that other methodological approaches must be added in order to grasp the full extent of a social phenomenon. With respect to this, he rejects the notion of rational choice being a universally explanatory theory as he argues that it should be understood as a single perspective among several. Seen in this light, new institutionalism within rational choice theory should possibly be considered a *framework* not a theory as it is not possible to construct a single theory which explains all institutions and institutional formation at all times[9]. The search for institutional origins will no doubt continue both theoretically, within African studies and development studies. Within the last the theoretical works will undoubtedly have to be related to throughout fieldwork and empirical data. It is possible that answers will be found within the parameters of rational choice. But it is also conceivable that the search for institutional origins and change will extend the boundaries of rational choice and possibly develop a competing paradigm which provides more powerful explanations.

[9] By arguing for methodological pluralism, and thus denying the universal explanatory powers of the rational choice paradigm, Bates does not entirely abandon universalist ambitions. As he argues that rational choice explanations are successful in some, but not all, domains of political life he seems to adhere to a position of segmented universalism. See Green and Shapiro (1994: 22-29) for an elaboration of the conflict over the issue of universalism within the school of rational choice.

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