



제도경제 브리프

Institution and Economy Brief
Current Issues and Institutional Implications

KIEA (사) 한국제도·경제학회

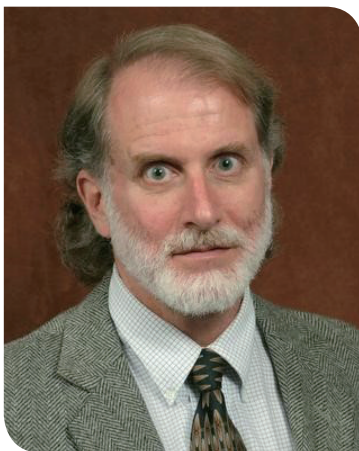
2021년 6월 11일, 제9호

Institution matters!

The Relationship Between Power and Institutions

(힘에 대한 이해 없이는 제도를 완전히 이해할 수 없다!)

Randall G. Holcombe (DeVoe Moore Professor of Economics, Florida State University)



“Institutions” are the formal and informal rules that structure political, economic, and social interaction. They are humanly-devised constraints on people’s interaction with each other.

Without institutions to structure interpersonal interactions, life would be, to use the words of Thomas Hobbes, “a war of all against all, and life would be nasty, brutish, and short”. Institutions provide a framework within which people can work cooperatively. If institutions are constraints that channel individuals’ actions in certain ways, the only way they can be enforced is if there is some power

behind them—power that can sanction those who attempt to violate those institutional constraints.

Informal institutions have no outside enforcement mechanism, whereas formal institutions are enforced by a third party outside enforcer. Power clearly underlies government institutions, because government imposes costs on those who do not comply—who do not pay their taxes or abide by its laws and regulations. Informal institutions are enforced by those who participate in them. For many rules of interpersonal interaction, disapproval of others is sufficient to enforce them. People behave in certain ways toward others because they are expected to, and risk the sanction of disapproval if they violate social rules.

Market institutions work through voluntary exchange, but underlying those institutions

is the force of government that defines and protects property rights, sanctions fraud, and enforces rule of law. All institutions must have some mechanism of enforcement, so **power lies at the foundation of all institutions**, whether it is the power of social disapproval or the strong arm of government.

Productive institutions channel people's behavior away from predation, toward production and mutually beneficial exchange. They design arrangements that lower transaction costs to facilitate mutually beneficial interactions among individuals. Viewed as constraints that channel individual action in certain ways, they can only be effective if those institutional rules can be enforced. Some type of power must stand behind all institutions to get people to comply with them.

While everyone benefits from productive institutions, **destructive institutions** obviously require force behind them, because some are harmed by them. Rent-seeking is an

example of institutional action that has costs greater than its benefits, and can only take place if those who have costs imposed on them are forced to pay those costs.

A complete understanding of any institution requires an understanding of the power that stands behind its enforcement. Why do people conform with institutional rules? The answer is, at least in part, because they will bear a cost if they do not, whether that cost is disapproval from their peer group or a prison sentence enforced by government. Those who have the power to enforce institutional rules have the power to design or modify them. If the power to enforce institutions breaks down, the institutions themselves will collapse. **Institutions cannot be fully understood without understanding the power** that stands behind them.

발행처 : (사)한국제도·경제학회

발행인 : 김승욱

편집책임자 : 이성규

편집위원 : 이상학, 김행범, 송정석, 김영신

연락처 : (휴) 010-9800-7211, (이메일) skl62@hanmail.net