

## How did the meaning of an institution get distorted?

Anna Kuryшева<sup>1</sup>, Andrei Vernikov<sup>2</sup>

<sup>1</sup> Southern Federal University, Rostov-on-Don, Russia, e-mail: [vesta11@list.ru](mailto:vesta11@list.ru)

<sup>2</sup> Institute of Economics RAS, Moscow, Russia, e-mail: [vernikov@inecon.ru](mailto:vernikov@inecon.ru)

Conference Section: **Economic Methodology**

We follow up on the perennial discussion about the meaning of an *institution* and its various definitions and interpretations. There is hardly a more essential concept in institutional theory than that of *institution*. Originally, however, there were two different terms, namely *institution* and *institute*. Both words came from Latin. Pragmatist institutionalists used to distinguish between them. The notion of *institution*, derived from *instītūtīo*, refers to a custom or practice of a community, or commonly accepted and shared ways of thinking and doing. By contrast, *institute*, which is a noun of state from *īnstituō*, relates to an outcome of such a practice or an established social organization behind it. Charles Peirce [1934] associated the origin of the conception of reality with the notion of a community. The German Historical School of Economics, whose understanding of social processes was largely consistent with the institutionalist tradition, also observed a difference between *institution* as the order of community functioning, on the one hand, and an organ arising from it, on the other [Schmoller, 1920]. John Commons in his paper *Institutional Economics* [1936] points out that all economic theories draw a distinction between activity (e.g., “production”) and the objects created by that activity (e.g., “product”). Thus, *institution* is designated explicitly as collective action in control of individual action, whereas *institutes* are interpreted as the products of that control.

From a social constructionist perspective, which stems from the same ontology as pragmatist philosophy, institutionalization is essentially a reciprocal typification of habitualized actions withing particular communities. Thus, shared typifications of habitualized actions constitute institutions [Berger and Luckman, 1991]. Manifested in the form of unorganized custom and organized going concerns, collective action not only controls and restrains individual action, but liberates and expands it as well [Commons, 1931]. Socio-economic processes are, therefore, viewed as socially constructed, rather than predetermined by “natural” order or imposed on actors exogenously. Qualitative epistemic techniques are essential part of economic inquiry [Mirowski, 1987], as much as they are accepted in sociological studies.

Both terms—*institution* and *institute*—peacefully co-exist in some other Slavic languages (*instytucja* and *instytut* in Polish, *інституція* and *інститут* in Ukrainian, *інстытуцыя* and *інстытут* in Belarussian). Conversely, in Russian academic discourse only one of them—*институт* (*institute*)—survived. The term and the concept of *institution* have all but disappeared,

leaving a wide gap in the conceptual framework. Starting with Soviet textbooks on the history of economic thought, and reiterated in subsequent Russian translations of Coase, Commons, Eggertsson, Furubotn, Galbraith, North, Richter, Veblen and Williamson, *институт* became a widely accepted proxy for *institution*. In a way, the Russian discourse just followed suit to the Anglo-American one which had earlier reduced the complexity of two terms down to just one. Ironically, the Russian discourse adopted the wrong one, because the meaning of word *институт* largely relates to *institution* and not *institute*. A brave attempt by Oleg Inshakov [2007] to reintroduce the original distinction between the two largely fell on deaf ears. It was, unfortunately, rejected by Russian academics on the basis of the allegation that “*институция*” is archaic and sounds obsolete [Gaidai, 2006], and that it presumably multiplies entities. A lock-in effect occurred in scholarly discourse.

The confusion around the meaning of *институт* grows each time a mechanistic metaphor or a “new” definition is launched into scholarly discourse, thanks to the flexibility of Russian language. A contract gets transformed into an “institutional agreement”, for no clear reason. Laws and normative regulations become “formal institutions”. Commonly shared beliefs and values appear as “rules of behavior”. Social control in case of deviance from accepted and conventional norm, custom or tradition re-emerges as “enforcement mechanism”, essentially exogenous and perceived as a means of punishment and sanctions. A core conception of habitualization which implies that the latter makes it unnecessary to tackle each situation of the same kind anew, degenerated into transaction cost minimization principle. Within this pattern, the term *институт* and its numerous derivatives do not reflect habitualized practices, which *institutions* actually are, but rather pertain to *ad hoc* norms that are “chosen” by agents on the grounds of efficacy and vested interest.

We argue that it is instrumental to treat *institution* as practice of a particular community, culturally and historically located and context-specific. Such a perspective solves at least four tasks:

- a) resist the segregation of the moral, ethical, cultural and legal from economic research;
- b) legitimize qualitative research methods;
- c) cut scholastic dispute on “formal” and “informal” institutions;
- d) opt out of reductionism and econometric technique for its own sake.

We believe that restoring the original meaning and spelling of *институция* (*institution*) might clarify controversial theoretical and methodological points. It is about rectification of names, in order to clarify the discourse of economists and sociologists, at least in Russian.

**Key words:** pragmatist institutional economics; scholar definitions; social research discourse; institution; institute; rectification of names

**JEL codes:** A20, B15, B25, B41, B52