



Institutional Studies in Relation-Based Business

Institutions: The Case of Pranab Bardhan

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Abstract:

The paper provides a comprehensive understanding of the concept of institutions and highlights the importance of state intervention and formal institutional structures in reducing transaction costs, increasing economic stability, and ensuring social welfare. The paper contributes to the literature on institutional economics and provides insights into the challenges of formal and informal institutional structures in developing economies.

Understanding Micro-level Institutions

The opportunities in a society are determined by institutions along with the norms of economic theory (North, 1990). Institutions reduce the transaction cost to increase the output, decreasing the tedious human tasks to perform an activity which results in stability and augments the production cycle. The state plays a major role in enabling the institutional functionality through bringing various reforms acts, to increase productivity. Institutions are often shaped by the informal constraints (North, 1990) such as distinction based on caste or sex lines, conventional codes and behaviours which have been adhered by the sacred text/manuscript following old age traditions. State tries to devise the institutions to break these barriers and provide economic stability. As discussed by Pranab Bardhan the intervention of state or other agencies by providing access to irrigation facilities will vary positively towards the incidence of the tenancy (Bardhan P., 2016). Whereas, it would vary negatively when there is uncertainty present- for example uncertainty in rainfalls. The likelihood of associated labour varies favourably with signs of labour shortages, employer-provided credit, land concentration, seasonal salary peaks, and with better rainfall in the region or irrigation facilities. Institutions cannot act on their own. Institutions are shaped by conditions, and institutions merely convey these conditions' causal effects (Przeworski, 2004). In the several studies it is found that there is inefficiency of the overall resource utilisation in the method of sharecropping (Shaban, 1987; Bell, 1977). By giving rights to the tenancy and bringing some sort of reforms to tenancy acts have resulted in positive and increased yield in the production (Banerjee, Gertler, & Ghatak, 2002; Bardhan & Mookherjee, 2011), this clearly shows that the enabling institutional setup provides the economic mobility, stability, and economic efficient system. For instance, Factors for productivity had

significantly increased due to the de-collectivization of agriculture after 1978 in China and major factors for increased productivity includes granting land use rights to the farmers under the responsibility system through institutionalised structures.

Miso-level Institutional Studies

Communities have played a crucial role in the structuring of institutions, in the history of institutional structure and organisation- the informal constraints have played a major role in shaping the institutions. Communities have played like a role of externalities (both positive and negative) in shaping the institutions. In the context, there has been a role of communities in the business institutions which are majorly relation-based. The caste-based system is honoured because it had been practised (Ambedkar, 1916) in India for a long span of time. Customs, despite being portrayed as values, are essentially of a means-oriented character (Ambedkar, 1916). There have also been many caste-based occupations which are result of long based caste-based roles in India. This results in the dysfunctional operations of a formal institutions which do not have factors like caste, race, religion embedded in them. The major reason for this dysfunctionality is due to the formal institutions which are different from the informal institutions, in a way it has the caste-based associations as pre-occupation which has acted as the barrier for the establishment of formal institutions or in a way the informal constraints get embedded in the formal institutions. For example, in China the clan-based lineage has substituted the formal institutions by resolving various issues like property through mutual-aid arrangements (Greif & Tabellini , 2015). This is due the pressure of the informal constraints on the formal institutions which hampers the functionality of the formal institutions and thus weakening the formal institutions.

The foundation for the widespread indigenous banking networks in Southeast Asia mainly in India with the significant portion of south India was through the caste panchayats which had many customary sanctions (Bayly , 1983). Social networks with caste-inspired design assist in accumulating surplus markets for a specific community, caste, and clan (Prakash, 2015). The caste and clan-based organisations have the negative externalities, like an individual out of the caste or clan does not have the scope to develop, resulting in the welfare of only specific clan or caste as a result there is resource segregation to one caste ignoring other castes and clans. This increases the transaction cost, as there is form of discrimination in the market (Prakash, 2015), which is form of negative externalities in the markets. It also results in tunnelling of resources and exploitation of minority shareholders in the pyramids of caste structure (Bertrand, Mehta, & Mullainathan, 2002) in Indian context, thus weakening the welfare of the socially disadvantaged groups. Markets often are the mirrors of the social hierarchy which are present in the civil society (Prakash, 2015). Gail Omvedt supports free markets because she believes that continued globalisation has the potential to create a wealth of opportunities for the less fortunate as there is dissemination of information and access to the markets and co-insurance (Omvedt, 2001)ⁱ. The present of formal institutional structure like severe punishments for the discrimination in the market will result in the disseminating of information, so that the access to the information is reached to all the strata of the society will lower the transaction cost. In the way, it is the state intervention through the formal

institutional structure which lowers the authority of informal constraints results in the positive externalities which eventually decreases the transaction cost.

Understanding Micro-level institutional structures in perspective of Corruption.

Power tends to corrupt; absolute power corrupts absolutely.

By Lord Acton (British Historian)

The mismanagement in the system and lack of governance due to the corrupt practices have led to deterioration of an institution. This result in major lacuna in the governance which has to be majorly discussed. The power-holders tends to corrupt to remain in the position of power or abrupt use of power to benefit themselves. The institutions have to be reformative and re-imagined to check and control the corruptions in the contemporary times. This can be done through analysing the major loopholes in the system. Some reformative actions have already been taken to stop the practice of corruption.

The freeze in the transfer of police staffs had led to increase in the political effectiveness (Banerjee, Chandrasekhar, Duflo, & Jackson, 2013). The political authority and institutions are the independent bodies, interference of one authority over another will result in the corrupt practices. Decentralisation of the public services is an important tool to stop the practices. This helps in the dissemination of information and access it through various means. The Right to Information act by the government which acts as the monitoring agency is an effective tool to fight against the corrupt practices of a power beholder. The institutionalisation of the RTI act, has somewhat brought the checks on corruption practices, but it must be reformed in the way so that the corruption practices have some checks. It is through the proper mechanism to disseminate the information about the resources allocated to fight against corruption.

Conclusion: Comparative studies of North and Bardhan

Doughlass North has defined institutions globally in the context of organisations and the externalities in the form of constraints both formal and informal. This has helped to understand, reform, reinvent and re-imagine the institutions. In the context it can be said that Pranab Bardhan has re-imagined the idea of institutions in contemporary times. Douglas North has enlighten the concept of behavioural assumptions with neo-liberal concepts of economics, while Bardhan worked on the concepts of informal constraints which increases the transaction cost in the developing countries like India and China. Bardhan talks about the community, caste and clan concepts in his work while North has developed concept like transaction cost in both formal and informal in a way to devise them in a global context. Doughlass North tells about the informal constraints as non-observable factors (North, 1990), whereas Pranab Bardhan has devised the role of informal constraints like caste and clans, which are the observable factors (Bardhan P. , 2016). It would be difficult to understand Bardhan's concepts of institutions without the background of the North's background. Doughlass North has written much

work on institutional change and the economic performance while Bardhan's has limited his study to Institutions and development, the North's work has been theoretical, Bardhan's work has involved of case studies and specifically economic perspectives. Both have devised and imagined the concepts of the institutions differently in a way to understand the humanly devised constrained, and similarly in the way to understand.

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ⁱ Accessed the website on 5th April 2023.