

## **Performativity, Performance and Politics: Towards an Evolutionary Taxonomy of Economic Systems**

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### **Abstract**

Most taxonomies of economic systems are dualistic, such as distinguishing between ‘plan’ and ‘market.’ Following Amartya Sen, I argue that these approaches fall into the trap of ‘transcendental institutionalism.’ As an alternative, the paper develops principles of evolutionary taxonomy that closely mirror the standards applied in biological taxonomy. Taxonomical types are approached as trajectories of change demarcated in space and time, and which are ordered in terms of historical sequences and origins. In human institutions, a special phenomenon is the interaction between ideas and institutions, which implies that interpretive activities have to be considered as important forces of evolution. Based on these considerations, I develop a conception of ‘institutional trait’ as the basic unit of taxonomic analysis. I illustrate these principles by means of a short case study on China, taking the example of land property rights in South China as an institutional trait.

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### **1. The Problem of Dualism in Economic Systems Taxonomy**

An interesting methodological phenomenon in economics and political science is the fact that economic systems are mostly classified in dualist terms. As long as the planned economies of socialist countries existed, this dualism was cast into the opposition between planned and market economy, with heated debates about the possibility of a ‘third way.’ After the demise of socialism in Europe, dualistic approaches re-emerged even in the ‘varieties of capitalism’ literature, identifying ‘liberal’ and ‘coordinated market economies’ as the two ideal-typical realisations of capitalism (Jackson and Deeg 2006). Other variants of dualisms originated in the corporate governance literature, stating the polar-

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ity of ‘common law’ versus ‘continental law regimes’ (La Porta et al. 1997; Djankov et al. 2003), and in institutional economics, as the distinction between ‘limited access orders’ and ‘open access orders’ (North et al. 2009).

Dualistic approaches to systems taxonomy are of immense theoretical and practical relevance: they raise intriguing questions regarding the classification of currently existing systems. In this paper, I take China as a workhorse. Scholars debate whether China tends towards a ‘liberal’ or towards a ‘coordinated market economy’ when considering the transition from ‘plan’ to ‘market:’ as we see, this is an example where two different taxonomies are even merged into one explanatory pattern, as researchers may ask the two questions simultaneously, namely how far China has advanced towards the ‘market’ pole, and to which type of ‘capitalism’ she might tend (Zhang and Peck 2014). Evidently, these taxonomic assignments imply certain assumptions about the evolution of institutions. China is seen as a case of gradual transition from plan to market, which also suggests that the system is currently somewhere ‘in between’ those two poles, and that this is a transitory phenomenon by definition. By further implication, China would have to deepen reforms, thus continuing her way towards the market pole. Interestingly, this perspective is even suggested by the Chinese Communist Party in analysing the almost four decades of ‘economic reforms’ since 1978: the Third Plenum of the 18th Central Committee in November 2013 clearly stated that the role of the market as an organizing principle of the economy should be further strengthened, almost using formulae that might stem from an *Ordo-liberal* textbook of economic policy.<sup>1</sup> In late 2016, the European Union did not recognize the status of China as a ‘market economy,’ claiming that she has not yet completed transition, with many legal implications in the WTO context, such as in the context of antidumping procedures.

As we see, the issue of taxonomic dualism is not only of descriptive relevance, but has many consequences for our understanding of evolutionary changes in economic institutions, and even has a strong normative dimension, since evaluations are also often presented about the relative performance of economic systems: For example, the literature on ‘legal origins’ claims that common law regimes are preferable to continental law regimes. On the other hand, it is also evident that real-world economies manifest far more complex institutional regimes than dualistic taxonomies can cover; after all, that was the original point of the ‘varieties of capitalism’ literature (e.g. Berger and Dore 1996). Yet, institutional change is often depicted like a Manichaean struggle between two abstract principles, resulting in the belief that there are strong in-

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<sup>1</sup> The declaration said that it is a ‘law’ (guilü 规律) that the market should determine the allocation of resources, and assigns tasks to the government such as taking care for macroeconomic stability, fair competition or amending market failures (保持宏观经济稳定, 加强和优化公共服务, 保障公平竞争, 加强市场管理, 维护市场秩序, 推动可持续发展, 促进共同富裕, 弥补市场失灵).

herent evolutionary forces that impose directedness on the complex changes in the real world.

In this paper, I discuss the flaws of dualist taxonomies and the need to establish genuinely evolutionary taxonomies of economic systems that would better reflect the historical realities of institutions and the forces that drive their change. My argument proceeds as follows. I begin with a critique of dualism as a form of ‘transcendental institutionalism’ à la Amartya Sen. His alternative way of evaluating institutions—the ‘realisation-focused comparisons’—points towards an evolutionary option in institutional taxonomy. I outline its basic principles and then present a short case study on land ownership in contemporary South China, where rural communities undergo rapid urbanization. Following, I consider this example in light of taxonomic categorization of the case of China and conclude with an outlook regarding taxonomic analysis in economics.

## 2. Dualism as ‘Transcendental Institutionalism’

Why do (political) economists mostly tend towards dualist taxonomies? The most systematic justification was presented by the old German literature on economic systems. Walter Eucken (1939) argued that there are two theoretically possible ‘ideal types’ of economic systems, market economies (*Verkehrswirtschaften*) and centrally planned economies (*Zentralverwaltungswirtschaften*), a view which, in a nutshell, reflects the two alternatives of economic co-ordination between free exchange and hierarchy, a dualism which we also find in entirely different literatures, such as the Coasian distinction between ‘market’ and ‘firm.’<sup>2</sup> Indeed, the planned economy can be conceived as one large firm integrating the entire economy. However, Eucken’s ideal types were not seen as being historically realised forms, but as analytical principles: On the contrary, a ‘real type’ would be an ‘economic order’ (*Wirtschaftsordnung*) that manifests a particular combination of various more specific institutional forms that can be derived from the two ideal types (such as market structures in the market economy).<sup>3</sup> However, Eucken also believed that mixtures of the two

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<sup>2</sup> Tellingly, in the wake of Williamsonian (1985) ‘transaction costs economics’ we also observed many debates about ‘third’ transactional regimes, often designated as ‘hybrid networks.’ This idea also influenced the analysis of entire economic systems, especially when considering the Japanese economy in the 1980s, which, interestingly, also concurred with indigenous perspectives; see e.g. Kumon (1992). The parallelism of the two dualisms is also reflected in the literature on comparative economic systems.

<sup>3</sup> In Herrmann-Pillath (1990) I have shown that Eucken’s methodology can only be properly understood if seen in the light of Husserl’s phenomenology. Eucken only treated the notion of *Wirtschaftsordnung* as an empirically meaningful term, whereas the term *Wirtschaftssystem* is a theoretical term that is used in generating empirical statements about *Wirtschaftsordnungen*.

poles are not stable on the systemic level, thus creating tendencies of convergence towards one of the poles.<sup>4</sup> This was, he claimed, the lesson of the ‘era of experiments’ in economic policy. This dualist convergence hypothesis was later often applied in arguing the instability of ‘third way’ solutions. Indeed, they also lurk in the background of the expectations that China would necessarily tend further towards market reforms, unless she would jeopardize her growth potential, or, on the contrary, arguing that ‘in reality’ China remained a planned economy throughout the reform period (e.g. Young 2000).

The Eucken example shows why economists are inclined towards conceptual dualisms in the first place: dualism is a theoretical proposition. The theory also serves as a kind of measurement device for assessing economic institutions that constantly undergo change: it helps to judge the state of transition in China, claiming, for instance, that certain elements such as state ownership in the banking system limit the applicability of the ‘market economy’ type, in spite of the fact that most prices in China are today set by market competition (with the interest rate remaining one of the important exceptions). This judgement is ultimately based on the ideal type of a competitive market economy à la Eucken (or, for this purpose, the General Equilibrium theorists). No wonder that countries such as Germany, with a strong intellectual tradition of dualism in economics, would question the status of China as a ‘market economy’ in the WTO context, whereas many other countries adopt a more pragmatic approach and have already recognized this status for years.

In his theory of justice, Sen (2009) has called this approach ‘transcendental institutionalism.’ This means, the current state of institutions is evaluated by reference to a theoretical ideal type, thus also allowing for the assessment of the ‘distance’ towards this ideal. This notion was introduced in the context of discussing the concept of justice in relation to institutional arrangements, but I think that it is of more universal methodological value. In fact, the notion of justice is itself a convention about measuring institutions, especially if it is cast into terms of ‘improvement’ when considering institutional change. Sen’s original question was exactly this: how to judge improvements of institutional changes if different people are affected by these changes in different ways. There are basically two alternatives (i.e., another instance of dualism), namely either referring to an exogenously set benchmark, or referring to the internal evaluations of the actors in the economic and social system that is undergoing the institutional changes. I argue that the latter amounts to an evolutionary methodology in measuring institutions.

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<sup>4</sup> This idea was also very important in the German liberal critique of Keynesianism, for example, with the term *Interventionsspiralen* (‘spiralling interventions’), claiming that single (‘punctual’) interventions into the market process would trigger further interventions (for example, in the domain of external economic policies, see e.g. Willgerodt et al. 1975), thus always raising the spectre of falling back into the other extreme of planned economy.

One should add that the exogenously set standard can be derived in two different ways. One is to posit a certain theory, as in the case of Eucken. The other is to collect certain opinions and judgements among a number of participating and external observers of institutional change, and finally come up with what might be seen as a consensual ‘ideal type’ that is not necessarily backed by a systematic and coherent theory. This latter methodology includes the many versions of indicators for economic and political liberties that are being applied in evaluating and comparing economic and socio-political change, such as the Bertelsmann transformation index. Yet, theories might still work in the background. For example, the so-called ‘Washington consensus’ appears to be a list of criteria for assessing workable market economies that was generated by a consensus in a particular epistemic community of predominantly economists, who certainly also transported their theoretical predilections. This is obvious from the recent shift of opinion on capital market liberalisation, revealing the theoretical predilections of the designers of the original consensus. Interestingly, these rankings of institutions do not posit that there are necessary forces of evolutionary change towards a convergence point—because there is no underlying theory—but they impose normative forces in the sense that they create the expectation that countries will ultimately vie towards following the lead countries in the indices, as a response to ‘naming and shaming’ by making the country rankings public.

If we conceive institutional change as an evolutionary process, we need to acknowledge that transcendental institutionalism of both kinds does not observe basic tenets of evolutionary theory and builds on a Pre-Darwinian social ontology, as it either posits the existence of ideal forms that structure the empirical taxonomy of institutions and economic systems, just as Pre-Darwinian biological taxonomies did, or assumes a directedness of change in positing a ranking of systems based on an exogenous standard of measuring progress. One especially problematic assumption is that the real-world forces of institutional change actually reflect this ideal-typical taxonomy, in the sense that they would necessarily tend towards minimizing the distance towards the ideal form, a peculiar form of Hegelian ‘cunning of reason.’ In practice, this assumption implies that the actual designers of institutional change follow the theoretical prescriptions, because only the real-world actors are able to shape the institutions of human societies: if the actors in a market economy maintain the belief that the planned economy is the best institutional regime, for example, there would be forces that keep the economy at a distance from the market economy pole. This view was already emerging in Eucken’s thinking about the ‘era of experiments.’ Eucken argued that economists had learned their lessons, and that now the advanced knowledge needed to be put into practice, even against countervailing forces such as organized interest groups. However, another possible explanation was offered by Hayek’s (1988) theory of group selection, here in the shape of systems competition. In this view, the forces of change do not

necessarily arise from determinants endogenous to the systems considered individually, but from the encompassing competition among many systems (such as in the Cold War setting). Yet even then the diffusion of performance-enhancing institutions has to be supported by the diffusion of ideas and policy frames across systems that guide the internal actors towards implementing new institutions.

This way of reasoning is methodologically intriguing, as it states the performativity of economic theory.<sup>5</sup> Economists often complain about the fact that real-world forces of political economy fail to drive institutional change towards the ideal state, as theorized in the approach of rent-seeking. Thus, the empirical hypothesis of convergence presupposes that economic theory becomes endogenous to the political process, altering attitudes of political decision makers and other affected parties, thus eventually redirecting the forces of institutional change towards the ideal. This view is also wedded to the belief that these changes will also result in improved performance, as measured and assessed by the very same economic theory.<sup>6</sup>

Against this background, cases like China present formidable theoretical challenges to the established taxonomic approaches because the performativity-performance link does not work as it is currently conceived by mainstream theory. Over more than three decades now, the Chinese economy has performed much better than predicted by the theory, as measured by relative GDP growth. The aforementioned notion of performativity suggests a possible interpretation of this phenomenon: what if alternative theories or, more generally, cognitive and conceptual frames of economic action would imply different patterns of performativity, resulting in similar patterns of economic performance, as measured by simple statistical indicators such as GDP per capita or poverty reduction?

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<sup>5</sup> The notion of ‘performativity’ originated in the philosophy of language where it refers to a class of speech acts that are not descriptive but which create the social facts that they refer to, such as declaring a criminal as ‘guilty.’ The term has been introduced in analysing economic phenomena in the context of the economic sociology of finance (MacKenzie 2006 and 2007) where it referred to the performative functioning of theories of finance once these are also applied in financial markets by the actors themselves. This view can be extended to include all cognitive frames and models that relate to economic action (Callon 2007). In Herrmann-Pillath (2013) I have introduced this notion into the analysis of economic systems. For a recent overview on the topic, see the volume edited by Boldyrev and Svetlova (2016).

<sup>6</sup> For example, in Herrmann-Pillath (2013) I consider the emergence of financial capitalism, epitomized in the so-called ‘financialization’ originating in the United States (Krippner 2007). Financialization means that, for example, accounting standards are reformed following the precepts of economic theory (Perry and Nölke 2006), and that, accordingly, measurements of economic performance become geared towards capital markets, as in assessing the performance of companies. Actors’ behaviour is also channelled towards meeting those criteria by incentive systems.

This possibility is immanent to Sen's alternative and preferred approach to judging the performance of institutions in terms of justice, the so-called 'realization-focused comparisons.' This means that improvements are assessed from the perspective of internal participant observers. Sen's point is that the internal perspectives are themselves diverse, thus raising the question how to arrive at a coherent and consistent standard for realization-focused comparisons endogenously. However, as the research on social choice functions has shown, there is no way to construct such a unique standard, even internally.<sup>7</sup> On first sight that means we face a difficult journey between the Scylla of externally imposed theoretical standards of transcendental institutionalism and the Charybdis of incoherent, possibly even conflictual endogenous perceptions of institutional change, which might fail to deliver any standard for assessing institutional change. Therefore, realization-focused comparisons have to be done in practical terms, involving a public discourse about the perceptions about institutional changes and their effects on different groups with different perspectives. This is why Sen ultimately believes that there are certain universal political preconditions for workable and effective realization-focused comparisons, such as the right to free speech and an inclusive democratic polity. That means realization-focused comparisons ultimately rely on a procedural concept of institutional comparisons. However, it is important to notice that Sen argues that in most general terms, inclusiveness of those comparisons is a basic criterion, and that this also refers to external actors.

The important implication of this is that evaluating institutions becomes a political process in essence, so that it is impossible to separate the political and the economic domain. That is also the case when considering transcendental institutionalism, since the alternative approach of defining rankings refers to the perceptions of different concerned actors, thus raising the intricate question whether and how political bias can be avoided (Bitzer and Harms 2012).

Taking China as the example, and thinking in terms of taxonomy, it would result in the following methodological scenario. Whether China is a 'market economy' or not, and whether current institutional changes move towards this direction would not be assessed by means of a theoretical standard imposed exogenously, but with reference to the 'indigenous' perspective in the first place. How do different groups in Chinese society perceive the institutional changes taking place? What is the current status in the indigenous debates, and to which extent do different positions converge to a shared view (for example, perceptions of private entrepreneurs and government officials)? However, this analysis would need to be extended to including the perceptions of external actors, so the view of the EU on China's status matters, too. Finally, according to Sen we can only properly evaluate the results if we also assess the actual institutional setting of all those discourses, namely whether and to which extent

<sup>7</sup> This is a central concern of Sen's prolific work on the Arrow theorem, cf. Sen (2002).



different concerned groups can take part and influence their outcomes. Interestingly, in the Chinese case that would imply considering the relationship between the political system and the economy (Herrmann-Pillath 2015). For example, we might argue that the perspectives of farmers are not adequately included in the domestic policy process, and that therefore the status of market transition and reforms is insufficiently reflected in indigenous debates.

Applying the realization-focused comparisons view to the problem of taxonomy, we would have to eschew universal standards for classifying and evaluating institutions and move to an endogenous view not only on the changes as such, but also regarding the conceptual ways these are measured. This is very radical, as it would give up what most economists regard to be a basic criterion for scientific reasoning, as understood in the natural sciences, and instead would install an interpretive approach of the humanities. Indeed, the two Senian methodologies correspond to the distinction between *emics* and *etics* in anthropology, with the latter referring to the external observers' and universally commensurable point of view, and the former to the participant observers' internal perspectives (Headland et al. 1990). Yet we can also claim that the methodology maintains specific universalist claims related to the meta-level of the institutions that shape the process of realization-focused comparisons, such as criteria of inclusiveness.

This analysis does not yet give us a more concrete notion of the design of a taxonomy of economic systems. We can develop some more specific ideas when we recognize that realization-focused comparisons are evolutionary processes by definition. Against the background of the concept of performativity, we would always need to analyse evolutionary institutional change on two levels: one is the level of institutional change proper that is being perceived by different actors from different angles, and the other level is the trajectory of discursive processes in which institutional change is reflected whereby actors communicate their various perspectives, generating actions that feedback on the first level.<sup>8</sup> An adequate taxonomy would thus combine the different aspects of performativity, performance, and politics, which work together in driving the evolutionary dynamics of institutional change. The Senian critique of transcendental institutionalism leads to the question: what are general principles of evolutionary taxonomy?

### 3. General Principles of Evolutionary Taxonomy

In this section, I will approach the problem of taxonomy from the angle of generic principles of evolutionary analysis. There is a long tradition of wedding

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<sup>8</sup> This view has been developed recently in political science, such as in Schmid's 'discursive institutionalism' (2008 and 2011). For an explicit link with evolutionary theorizing, see Blyth (2011).



institutional theory and evolutionary theory, yet this has rarely, if at all, related to the problem of taxonomy. In fact, many evolutionary thinkers in economics, such as Hayek, maintain a very rigid notion of ‘markets’ which does not differ substantially from mainstream economics, presumably because they tended to mix up descriptive and normative approaches.<sup>9</sup> In fact, even transcendental institutionalism deduces specific evolutionary principles from pure theory, in the sense of claiming forces of directedness. In this understanding, it is a particular kind of evolutionism, wedded with teleological thinking. For example, many economists believe that a private property rights regime is the most efficient one, and that economic evolution therefore is directed towards realising this goal. However, this judgment is not based on establishing a real-world taxonomy of systems, or, more specifically, of property rights regimes in the first place. With that in mind, I think that an important implication in evolutionary economics is to create a systematic evolutionary taxonomy of institutions and economic systems (Herrmann-Pillath 2009).

In biology, the development of taxonomy preceded the development of evolutionary theory, as taxonomic facts are the most elementary units of observation. Especially the concept of ‘species’ is foundational for evolutionary theory. One of Darwin’s revolutionary insights was to eschew the notion of species as immutable taxonomic objects, while at the same time explaining their stability in evolutionary terms. Yet, this further reinstated the role of taxonomy as the observational language of evolutionary theory, namely why and how species evolve.<sup>10</sup> Therefore, if we think about transferring evolutionary theory to the taxonomy of institutions, one important question would be whether a similar notion of ‘institutional species’ would play a role.

How would an evolutionary taxonomy of economic systems look like, in principle, taking biological taxonomy as a benchmark? Looking at the latter, the following characteristic features of biological taxonomy come to mind. First, there is no idea of convergence towards theoretically grounded ideal-types. Even though there are local phenomena of directedness, in the sense of approaching partially optimal solutions relative to a certain environment, there

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<sup>9</sup> This is certainly true for the German-speaking traditions, often wedded with Austrian economics. Anglo-Saxon approaches differ, as these often go along with more left-leaning positions in political economy. Correspondingly, there is more emphasis on the diversity of economic systems, especially with regard to the relationship between government and markets (see, for example, the debate about ‘national systems of innovation’ which was also received in evolutionary economics).

<sup>10</sup> I cannot explore this important point in more detail here. Gould (2002) emphasises that it would be misleading to reduce Darwinian theory to the fact of continuous gradual change, as one of the remarkable facts about taxonomy is *stasis*, that is the stability of species often over extremely long periods of time; *stasis* certainly also applies for certain constructional principles which play a central role in taxonomy, such as the ‘vertebrates.’ There is an intensive and ongoing debate in evolutionary theory about the status of the species concept, for an overview see Ereshefsky (2016).

is no overarching directedness of the entire evolutionary trajectory towards an ‘optimum’ independent from those local contexts. For institutional taxonomy that would mean that we should avoid any notion of historical determinism and directedness, resulting in an alleged *End of History*.<sup>11</sup>

Second, this observation follows from the idea that biological adaptation is local in the sense that particular solutions match with environments that are themselves temporal phenomena, and are thus subject to continuous change. Environmental changes may favour new adaptations, and environmental diversity establishes niches for different forms that may co-exist over long timespans. Economic applications of this thinking may imply that, for example, institutions may manifest different levels of adaptiveness relative to certain developmental stages of an economy, or, relative to particular ecological environments.<sup>12</sup>

Third, in biological evolution local environments include all other living systems that co-evolve, so that selective forces are endogenous to evolutionary change. There are also complex trade-offs in different dimensions of adaptation, in particular relative to the physical environment and the living one, beginning with con-specifics. For example, adaptive performance criteria may differ in respect to natural selection and sexual selection. In institutional taxonomy, this directly relates to systems competition and the diversity of goals that economic activity might pursue.<sup>13</sup>

Fourth, taxonomy reflects a certain status of ecological diversity, both historically and in the present, with ecological diversity itself evolving. Ecological diversity implies that there is no unique type that can be considered as an optimum representing a state of the system in toto. For institutional taxonomy, this means that there are limits to the diffusion of what may be seen as ‘best practices’ of certain lead economies. In particular, one can envisage a principle of ‘institutional comparative advantage’ by which globalization would not impose a ‘one size fits all’ standard on all economic systems, but does exactly the opposite, allowing for institutional specialization.<sup>14</sup>

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<sup>11</sup> See Fukuyama (1992). This reinstates Popper’s (1945) criticism of historical determinism also with reference to economic notions of efficiency when analysing institutions. For example, we cannot assume that the collapse of socialist planning means that ‘capitalism’ as a social formation has been established as a global institutional optimum.

<sup>12</sup> The idea that the efficiency of institutions is contingent relative to developmental stage was first articulated by Friedrich List and has been revived recently by Justin Lin’s (2012) decidedly mainstream explanation of China’s economic performance (for a critical evaluation, see Fine and van Waeyenberge 2013).

<sup>13</sup> An important example certainly is the interplay between economic and military goals in systems competition, especially if the latter results in prolonged periods of military confrontation. It has been often emphasised that the collapse of the Soviet Union was partly caused by overstressing the economic capacities in military competition with the United States. In wartime, there are also distinct advantages for planned economy institutions in mobilizing economic resources.

Fifth, in the biological evolution of species, environmental forces interact with the constraints and potentials that are given in antecedent realizations of the evolving species (sometimes labelled as ‘internal selection’ versus ‘external selection’). These can become important forces of directedness of change (in economics mostly labelled as ‘path dependencies’). Accordingly, in analysing institutions one has to distinguish between ‘diachronic’ and ‘synchronic’ determinants of efficiency, boiling down to the empirical notion that certain pre-existing institutions may favour different institutions independent of certain time-independent theoretical standards of optimality.<sup>15</sup>

Sixth, therefore, the only empirically meaningful criterion in biology for measuring the adaptive performance of a species is reproducibility and sustainability, or, in simplest terms, ‘survival.’ To this one can add the more specific notion of the diffusion of a species in territorial terms, which is another manifestation of differential reproductive success. Applying this idea on institutions, it would imply that those institutions are performing better than others if they are frequently imitated across many economic systems, and if this imitation is persistent over longer timespans.

In a most general sense, an evolutionary taxonomy results in a conceptual order of trajectories of change. In biology, this is the ‘tree of life,’ at the centre of which stands the concept of ‘species.’ That means, a type should not be confused with a concept having a specific definition, based on stable properties independent of time. Evolutionary taxonomies refer to trajectories of change in space and time, using certain criteria that demarcate the different trajectories from each other; at the same time, these trajectories work together as elements in an ecological and in a unified temporal frame.

We can now envisage the evolutionary taxonomy of economic systems as one that identifies certain patterns of institutions that hold for a certain trajectory of change and that locate an economic system in a certain environment as being defined by other economic systems. In other words, an economic taxonomy is comparative in both the diachronic and the synchronic dimension: diachronically, we would relate a system to historically earlier stages, identifying continuities and disruptions that would allow bracketing certain parts of a trajectory as one particular type; synchronically, we would combine this taxonomic work with comparative studies of other systems, also asking how these

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<sup>14</sup> On this idea, see Herrmann-Pillath (2004), which is inspired by Aoki (1996). This includes the possibility that institutions diffuse which are less adaptive, for example, because there can be size effects of a dominant economy, analogous to network externalities in technological evolution. Aoki (1988) had already argued that the Japanese and the United States economic systems might manifest institutional diversity in specializing on particular sectors in the economy (for a related argument, see Grossman and Maggi 2000).

<sup>15</sup> This distinction plays a pivotal role in Aoki’s (2001) approach to ‘comparative institutional analysis.’

systems interact with the system under scrutiny. Thus, the synchronic perspective corresponds to the ecological perspective in biology.

In a nutshell, an economic system in terms of an evolutionary taxonomy would be a certain pattern of economic processes that is institutionalized and that holds for a particular period and a particular territory. In the same way as we identify a giraffe as it is, namely as an instance of the species ‘giraffe’ that exists in a certain environment through a certain period of time, we would similarly claim that there is ‘China 1978-present,’ as long as we can justify that identification by taxonomic work. Of course, we might assign ‘China 1978-present’ to some larger type, in the same way as we identify the giraffe as vertebrate. However, this would not be derived from mere theoretical principles, but would need to be grounded in the analysis of historical processes that would trace back certain generic traits of the Chinese economy to some origins that might be shared with other economic systems.<sup>16</sup> In other words, an evolutionary taxonomy of institutions would eschew all established taxonomic approaches in economics, such as classifying an economic system as ‘capitalist’ or as ‘market economy,’ but refer to instances of historical trajectories in territorial contexts. These trajectories can only be identified with proper names, in the same way as biological species are identified by names. That includes the possibility that an economic system is designated by generic terms, especially in the context of indigenous reflections. In general taxonomy, those terms offer interesting starting points for taxonomic work.<sup>17</sup>

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<sup>16</sup> An example for this is the discussion in Marxist anthropology about an ‘Asiatic mode of production’ which would distinguish the Chinese trajectory from the European one. Such debates are not familiar to mainstream economics, since the notion of market economy has turned fundamentally ahistorical, compared with notions such as ‘capitalism’ which are rarely used in mainstream economics anymore.

<sup>17</sup> A case in point is the German ‘Social Market Economy.’ Although this is intended to be a generic type, in fact it mostly refers to the post-WWII German economic system as a singular case. There is also an ongoing discussion what this term actually means in the course of time (for example, whether it has integrated Keynesian thinking), which we can interpret as making the nature of the type as a trajectory explicit. In Herrmann-Pillath (2016) I have argued in much detail that one central term of the early literature on the social market economy—the ‘economic style’—is a powerful alternative to existing ways of conceptualizing economic systems. I cannot explore this track further here, but wish to point to the possibility that a ‘species’ of institutional taxonomy can be conceived as a ‘style.’ That would establish intellectual ancestry of evolutionary taxonomy in the debates in the wake of the ‘disputes over methods’ (*Methodenstreite*).

#### 4. What Is a ‘Trait’ in the Evolutionary Taxonomy of Institutions?

In taxonomic work on institutions and economic systems, one particularly important question is how we can identify a ‘trait.’ In biology, the descriptive approach to species is based on certain traits that the members of a species share in a unique way. Traits also serve to group certain species together into higher level taxonomic groups that are related in terms of connected trajectories. For example, all vertebrates share certain traits such as the spinal column which go back to phylogenetic ancestors shared by the different branches of the taxonomic order. Therefore, traits are an essential element that makes species descriptions commensurable across species. Traits also serve as indicators of the relatedness of species.

In simplest terms, when referring to economic systems, a trait could be a single institution that can be identified across different systems. This is indeed also what the dualist taxonomies assume. For example, ‘private property’ might be seen as a trait that is a defining element of a market economy; whether ‘state ownership’ is also a relevant trait is often denied in dualist approaches on theoretical grounds, yet in terms of real-world systems, state ownership can be a trait, too. The question that is often emphasised is meaningless in the evolutionary perspective, namely whether it can also be a defining element of the ideal type of market economies. Instead, one asks whether state ownership combines with other traits such as free prices in a particular part of the trajectory of local institutional change in the real world, and whether this combination is reproducible and sustainable. Regarding the aforementioned historical analysis, this would mean that we also look at the historical origins of state ownership. For example, this would indeed entail a broader view that relates China to the Soviet Union diachronically, since important elements of state ownership have been introduced from the USSR.<sup>18</sup> If we eschew the reference to ideal-typical taxonomical terms, we would end up with a list of institutions *qua* traits that can be manifest in different economic systems, and the combination of which in a certain stretch of space and time would define a ‘species’ of economic system. For example, in the global privatization rush of the 1980s, this trait diffused globally, thus entailing a certain convergence of economic systems towards a particular, common combination of institutional traits.

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<sup>18</sup> An anonymous reviewer rightly pointed out that this trait can also be traced back to earlier times, for example referring to mercantilist monopoly enterprises and colonial chartered companies. This shows that the question—whether a certain trait, such as ‘market economy,’ matches with ideal types of economic systems—is indeed irrelevant. In fact, if one considers the larger framework of state formation as a necessary condition for the emergence of capitalism, the trait of state ownership was adaptive during a particular period and a global geographical context, see O’Brien (2014).

Yet there is still the problem of how traits can be compared across economic systems, as we have so far tacitly assumed that we can separate an institution from its specific context in a particular system, in a way similar to how we approach a 'spinal column' as a separate trait in biology. This is where transcendental institutionalism creeps easily into taxonomic work. In the example of private property, most economists refer to certain theoretical conceptions of what private property is by definition. However, in an evolutionary approach we can only refer to either private property arrangements in other systems comparatively, or to earlier manifestations of what is defined as 'private property' within the same system. That is, we deal either with synchronic or with diachronic comparisons. In the case of the historical analysis of state ownership, that means we would have to do detailed comparative work on the actualization of Soviet institutions in China.<sup>19</sup> Evidently, in doing this we need a comparative benchmark, and this may lead us back to transcendental institutionalism. The problem that we face is similar to the problem of translating across different languages: meanings of words may be successfully translated if we can refer to an independent reference point, such as the identical physical objects which those words are referred to in the different languages. In the case of institutions, it is difficult to define such a reference point.

Defining traits in terms of transcendental institutionalism leads to serious empirical difficulties because we need traits in order to describe traits. Private property as a trait can be further analysed into its constitutive traits. However, if we do that, we easily recognize that these traits may actually belong to other institutions. For example, we might regard enforceability as an essential trait of private property rights. But enforceability relates to many other institutions such as the court system or the police. Institutions as single traits always need to be contextualized. This implies, however, that we cannot possibly compare single traits directly across systems. This is the same problem as in the semantics of words: reference is always contextualized.<sup>20</sup> This problem has been generalized in the famous Quine thesis on the indeterminacy of translation, being constitutive of analytical holism in theory formation. Independent from the general validity of the Quine thesis, it certainly applies to our problem of iden-

<sup>19</sup> This was done in the seminal work by Granick (1990) which revealed many and very substantial differences which are not grasped by the mere theoretical definition. These differences were crucial in creating path-dependencies of market transition in China.

<sup>20</sup> As an example, notice the empirical hollowness of the 'legal origin' literature that relates the dualistic taxonomy of 'common law' vs. 'civil law regimes' to the specific institutional arrangements of external finance (see La Porta et al. 1997). As the meticulous empirical research by Siems and Deakin (2010) has shown, all the supposed econometric correlations break down when one considers in detail how specific elements of corporate finance arrangements relate with other elements of the larger legal and political context, and when patterns of systematic interplay between constitutive traits of the two systems are scrutinized.

tifying, measuring and comparing institutional traits across economic systems. A defeatist view might reasonably conclude that because of necessary contextualization, no trait can be compared across systems in the sense of eventually referring to the same trait everywhere, that is, treating historically realised traits just as tokens of the type of that trait.

In addition, what comes into play here is a fundamental difference between biological taxonomy and economic taxonomy: in the latter case, human interpretive activities are involved, so that one important aspect of institutional traits is how they are being interpreted by the participant actors. This relates to the notion of performativity: institutions are performative since they are being interpreted, and economic theory becomes performative if an institution is interpreted along its lines.<sup>21</sup> This phenomenon further complicates the problem of contextualization: every single trait is contextualized via particular combinations with other traits; however, we cannot identify these traits as independent and commensurable traits in turn if, in addition, interpretive activities are involved. In particular, these interpretive activities typically refer to whole ensembles of traits, thus creating units of institutional performativity which may in turn be seen as traits. That means, for example, we may dissect private property into different traits such as usufructus, but also refer these traits to other traits such as institutions of enforcement, while at the same time an ensemble of these traits is interpreted as ‘private property’ in the indigenous perspective, thus resulting in a new trait that is by definition incommensurable across systems.<sup>22</sup>

This is the point where we can establish a systematic connection between Sen’s notion of realization-focused comparisons and evolutionary taxonomy. In the original approach, this relates to differences of evaluating certain institutional changes and their effects. But we can also say more generally that institutions are interpreted differently by different actors, even within the same economic system. In fact, one important aspect of law and legal procedure is to impose certain interpretations on all actors, because otherwise interpretations diverge. But given the lack of a globally integrated legal regime, this does not resolve the fundamental empirical problem that is created by the fact of interpretation tied up with particular economic systems. Interestingly, this analysis

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<sup>21</sup> For example, the trait of ‘private property’ has been extended to intellectual property rights since the 19<sup>th</sup> century, which is today almost taken for granted, but in fact is not. Even in economics, this idea was always disputed, and the diffusion of the ideas was relatively slow and gradual. For example, there is no clear theoretical basis for the shift in assigning intellectual property rights from individuals to corporate entities (Coriat and Weinstein 2005).

<sup>22</sup> An important, though neglected contribution that highlights cognitive aspects in generating institutionalization is the application of *Gestalt* psychology by Kubon-Gilke (1997) and Schlicht (1998). However, these authors concentrate on generic cognitive principles, whereas the approach championed here would add the role of more contingent cultural factors.



results in a methodological correspondence between interpretive and evolutionary approaches: in the latter, we cannot simply refer to an exogenously set and stable selective environment; on the contrary, what is the environment is determined endogenously and with reference to antecedent stages of evolution. Similarly, we cannot relate to universal economic problems in order to align diverse interpretations of institutions, and we need to relate these interpretations to earlier historical stages of institutional evolution.

What does this imply for empirical taxonomic work? It implies that we need to refer to institutions and ideas simultaneously if we relate the former to observable patterns of behaviour. Thus, private property would be seen, firstly, as a certain regularity of behaviour, such as protecting private property or recognizing its claims, and secondly, as a set of ideas that actors maintain about this regularity that play an essential role in determining the observed patterns. This establishes the performativity of institutions. Institutional change (or evolution) is not only driven by ‘objective’ determinants of efficiency and performance, but also (and essentially) by interpretive activities, which result in a process of realization-focused comparisons that drives further changes. The latter is a societal discourse on institutions, which can be connected with the flow of ideas across systems.

In the next section, I continue in greater detail with the example of property and ownership alluded to above, illustrating my theoretical considerations by means of an example taken from China.

## 5. Case Study: Land Property Rights in Rural South China

Property and ownership arrangements have been a defining feature of the Chinese ‘socialist market economy’ since 1994. According to the official understanding, maintaining a significant share of public ownership is an unalienable part of the definition of ‘socialist.’<sup>23</sup> One central element is the ownership regime for land: there are no private property rights on land (with very few exceptions, such as allotments for rural housing). However, the existing ownership arrangements apply the whole range of possible subdivisions of property rights and their combinations in terms of usufruct, etc. in order to approach efficient solutions in designing economic activities. In the rural areas, we can observe institutional changes that seem to approach a fully-fledged private property regime via formalizing individual rights of usufruct, extending their temporal scope.<sup>24</sup>

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<sup>23</sup> Public ownership has constitutional status, enshrined in Article 6 of the Constitution. Articles 9 and 10 establish public ownership for all natural resources, including land, distinguishing between collective and state ownership in the rural and urban areas, respectively.

I suggest approaching the analysis of land ownership in China by starting out from a thick description of ownership arrangements in many Cantonese rural communities which are being transformed into urban districts. This case allows for the illustration of both the role of historical trajectories and of diverse interpretations in shaping the formal public ownership as an institutional trait, and also the transition to a partial private property rights regime. First, I look at the formal institution as defined by the constitution and property law. Here, the Chinese socialist system introduced a fundamental duality of public ownership in the rural areas vs. the urban areas: in the former, it is owned by the collective—in the latter, land is state-owned. In both cases, this allows for various interpretations of who actually represents the respective formal entities. In the rural areas, this relates to the tumultuous history of collectivization, with the ‘collective’ initially being defined as the village, later the much larger People’s Communes, which often corresponded to townships, and during the reform era, referred back to lower levels. As a result, the actual interpretation is open and may refer to hamlets, villages as groups of hamlets, so-called administrative villages or even townships. This ambiguity has immediate consequences for determining who actually exerts the public ownership rights. Theoretically, this is the community of residents of the respective administrative unit, who, of course, might be represented by the leaders and administrators. As is well known, this ambiguity has created many social and political problems, since administrators on higher levels often appropriate what villagers perceive to be their collective rights, resulting in a large number of often violent clashes between villagers and authorities.<sup>25</sup>

In Guangdong province, we can often discern a distinct pattern that is rooted in a peculiar historical trajectory. The central fact is that in this region, many villages are single-surname villages or are at least dominated by one lineage. When collectivization proceeded in the 1950s, these units were effectively transformed into production brigades, while uprooting the internal power structure of the kinship groups, yet without dissolving them entirely. So, when the traditional administrative hierarchy was reinstalled after 1978, in these cases the villages *qua* kinship groups became the unit to which collective land rights were assigned.<sup>26</sup>

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<sup>24</sup> For an overview emphasising the emerging quasi-private nature of rural property rights, see Prosterman (2013).

<sup>25</sup> For an analysis of the legal ambiguities in defining collective land ownership, see Ho (2001). According to the World Bank, about 60 percent of the total number of 100,000 incidents of local protests in the countryside were caused by complaints about mismanagement and irregularities of land ownership arrangements (2014, 206 ff.).

<sup>26</sup> For an extensive case study of socialist transformation in Guangdong villages, see Potter and Potter (1990). These authors analyse in detail the interaction between traditional kinship and property relations and socialist institutions.

In order to contextualize this property arrangement, it is necessary to look at ownership in pre-1949 China.<sup>27</sup> Especially in villages with strong lineages, we can speak of a stewardship conception of private property, often also designated as ‘relative right’ in the historical literature. That means, according to Chinese tradition, the current owner of land was only representing the family line in exerting family-based private property rights. In case of strong lineages, this contextualization was extended to the co-residential kinship group. One important expression of this interpretation is the fact that land, in principle, should only be sold within the kinship group, thus maintaining its collective resource base. There were also specific legal arrangements such as the distinction between ‘surface rights’ and ‘subsoil rights,’ combined with the construct of conditional land sale. That means, for example, in tenancy relations only the surface rights were transferred, and long-term tenants could further subcontract the leases like quasi-ownership, but there remained a claim of regaining the property by the original owner.

Apart from these complex ownership arrangements, lineages typically established lineage estates which were then rented out to tenant farmers, mostly members of the lineage. These estates served to fund joint activities, such as maintaining the ancestral hall, running a school for lineage children and so forth. That means that collectively owned land, though administrated by lineage elites, partly served the production of collective goods; via the tenancy system, however, land usage was organized in individual peasant households. Beyond this, there is also a long tradition of lineages managing certain natural resources as commons.<sup>28</sup>

Against this background, what did collectivization actually imply in case of single-lineage villages? It meant fundamentally that all land in the village was transformed into a lineage estate, though no longer controlled by the traditional lineage elites—i.e. mostly wealthy landowners—but by the new stratum of rural cadres who were recruited from the poor segments of the same lineage. Collectivization, seen in this light, was therefore no radical transformation of the actual ownership regime, as originally relative property rights also implied a certain interference by the village community into the exertion of individual

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<sup>27</sup> Classical studies on traditional ownership conceptions include Kroker (1959), Chen and Myers (1974), Bünger (1983) and more recently Zelin (2004).

<sup>28</sup> Lineages could evolve into quasi-corporate structures which were also active in other business activities than agriculture. Formally, these were organized like stockholding corporations, with membership shares, annual shareholder assemblies, and sometimes even professional managers, see Zelin (2009). One conspicuous example of commons management are the ‘fengshui forests,’ which were maintained by lineages as early as in Song times, i.e. a millennium ago. They combined concerns of geomancy with ecological management of species diversity and sustainability, existing until today. See e.g. Coggins et al. (2012). I am grateful to an anonymous reviewer for pointing out this case.

rights. In the same vein, de-collectivization can be interpreted as a transformation of the ‘surface rights’ regime, but not of the ‘beneath surface rights’ regime, even when gradually the use rights were extended and are currently even further strengthened by allowing for mortgaging, establishing land registries and so forth.

An extremely interesting development in Guangdong was that in the 1990s many villages used the newly established experimental pattern of so-called ‘shareholding cooperatives’ in order to separate economic ownership from political control.<sup>29</sup> That means, factually, the reinstatement of the original public ownership of the co-residential kinship unit, even if other administrative changes were progressing, in particular as it related to the urbanization of rural areas. Transferring property rights to ‘land management co-operatives’ implies that the villagers retain their rights even if the village were to be transformed into an urban district, which in many parts of China implied that land ownership is transformed into state-ownership.

In the case of single-lineage villages, therefore, the kinship group is the owner of the land. That is manifest in many peculiar arrangements, such as excluding non-kin from ownership (such as recently arriving migrants) or limiting the inheritance rights for in-marrying women. Even more explicitly, the villagers refer to the land as being the ‘ancestral land’ of the community, and the proceeds are even partly used for traditional functions, such as maintaining ancestral halls or public services. In fact, the current practices in managing the land use rights follow the lineage customs (or customary law of old China), which therefore clash with modern legal notions, such as the Company Law and the Property Law of China.

This informal arrangement is reflected in important phenomena in urbanization, mostly in the context of so-called ‘urban villages.’<sup>30</sup> Here, we observe a fully-fledged ‘free market’ in operation even beyond the reach of government regulation. The apparent paradox is that this free market is actually enabled by the peculiar public ownership regime. This is because in the urban villages, the collective property rights regime sets the framework for an unregulated urban real estate sector that is dominated by the original village communities, hence often lineages. Whereas the land management cooperatives mostly rent out land to foreign direct investors, the farmers themselves use their private houses to build apartment blocks that offer rental housing for the large number of migrant

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<sup>29</sup> See Trappel (2011) or the case study by Saich and Hu (2012). The most detailed case study of these phenomena, especially with regard to the Potter and Potter thesis of the factual continuity of kinship structures, is Zhou (2014). As indicated in the previous footnote, these structures resemble traditional lineage estates in terms of formal organization.

<sup>30</sup> Detailed studies of this phenomenon, with special reference to kinship groups and land ownership, include Chung and Unger (2013) and Cheng (2014).

workers in search of cheap housing. These buildings do not follow urban zoning regulations and other regulations on architectural standards. The collective income is used for funding public infrastructure that only caters to the needs of the villagers, including even public security, hospitals or schools. In these urban villages there are two classes of citizens, with the villagers remaining partly autonomous within the urban governance structure, and the migrants with limited access to both formal urban services and village services.

Considering this case study, we notice that on the one hand there is a continuous process of strengthening private property rights (especially also via contextualization), revealed in the synergies between the land ownership regime and the dynamics of institutional changes in the labour market and the real estate sector. However, this does not imply that in the indigenous view, fully-fledged privatization is the optimal solution. This is because the current status is contextualized in two different dimensions. One is that it ties up with historical patterns of lineage ownership, which are revived in the identity politics of rapid urbanization. The other is that this perspective, together with the dynamics of demographic change, always raises distributional issues when considering privatization, especially across generations. As a result, many villagers favour maintaining the public ownership regime in order to preserve the possibility to redistribute land use rights in both the individual (i.e., the family) and the collective interest. The current ownership regime, though formally being public, emerges as a transformation of the traditional system of relative private property rights, in which the actual distribution of rights is continuously monitored and re-arranged.

## 6. Case Study: Taxonomic Analysis

This case study is an excellent example of the force of interpretive actions in determining the actual performance of institutions. In some parts of China at least, collectivization was factually molded along the lines of the traditional kinship system, which embedded the formal construct of public ownership into an interpretive frame that differs from Western societies. This has also shaped a peculiar trajectory of de-collectivization. One conspicuous phenomenon is that as a result, farmers may not unequivocally favour a fully-fledged privatization of land.<sup>31</sup> Interestingly, we may observe a similar ambivalence in the enclosure movement in England during industrialization. The upshot is that there are many complex distributional and dynamic aspects of privatization which often are difficult to perceive from the perspective of an external observer.<sup>32</sup>

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<sup>31</sup> After 15 years of de-collectivization, the majority of farmers were still not in favour of full privatization of land, see Kung and Liu (1997). At the turn of the millennium, the factual variety of ownership arrangements was very large across China, evidently partly reflecting adaptations to local conditions and preferences; see Brandt et al. (2002).

Regarding taxonomic classification, most important information would be lost if we just categorized the Chinese land system in terms of the duality of private vs. public ownership. Evidently, if we approach land ownership as a trait, this reveals strong path dependencies which are partly reflecting certain ideas, such as the official socialist ideology or the frames of traditional kinship systems; at the same time, there are complex interactions with other economic phenomena, such as the slow construction of a pension system, so that land ownership, tied to the family as a unit, remains an important asset even for farmers who are long-term migrants. The peculiar hybrid of individual land-use rights and collective ownership allows for complex arrangements with external investors that activate bargaining powers of the collective that also benefit the individual.<sup>33</sup> Thus, the trait in question is a particular trajectory of the evolution of land ownership that reflects historical origins as well as contemporary contexts.

This trait is an important element in determining the taxonomic analysis of the Chinese system as a whole. As should be obvious, the dualist picture of a transition from plan to market fails to cover important facets of the system, especially with regard to the property rights regime. That means simply defining a certain formal institution such as collective ownership in land and comparing this across different economic systems will not identify the actual effects of these regimes on systems performance. For example, in the Chinese case urban villages are a fascinating alternative developmental trajectory as compared, for example, to Brazilian favelas. The complex ownership arrangements imply that the urban villages are a symbiotic part of formal urban governance, while also containing dysfunctional phenomena such as the spread of criminal organizations. Maintaining the public ownership regime is a decisive element in activating the role of former villages—now urban districts—in installing a workable urban governance structure building on the interests of the farmers, thus also containing arbitrary and sometimes corrupt practices of urban administrations.

If we try to condense these observations into a taxonomic notion, one concept looms large that has been used to characterize the historical conditions in

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<sup>32</sup> This corresponds to Kennedy's (2013) general critique of the mainstream view on property rights and efficiency. Kennedy argues that property rights are multi-functional, relating also to general distributional issues, for example, so that efficiency-based analysis and normative judgments may be misleading.

<sup>33</sup> Similar to my short analysis of the symbiosis between markets and public ownership in urban villages, Zhang and Donaldson (2008) show that there are various arrangements in which farmers and villages become part of agribusiness ventures which vertically integrate agricultural production. The land use rights are embedded into collective agreements about production with the urban company, and the farmers get complementary jobs. Retaining collective land ownership with private use rights creates power balances between farmers and urban businesses, cf. Huang (2011).

China, namely the notion of ‘relative property rights.’ Historians have argued that in China the Western notion of absolute property right never emerged, since there was always emphasis on the embeddedness of these rights in particular collective units. As we have seen, this refers to two main observations. First, in the context of the family we can speak of a stewardship approach to ownership. This means that the individual was perceived as exerting actual property rights in the name of the family line, with the strong obligation to preserve and grow family wealth for the next generation. The real owner of land was the family line, not the single individual. Second, and extending on this, the traditional notion of the family included the extended family, especially in co-resident lineage communities. Even though the basic economic unit was the *jia* as a household, this implied that there were further restrictions in using land property rights, such as in the aforementioned case of selling or mortgaging land.

Clearly, the Cantonese phenomenon of maintaining public ownership in the context of newly established business organizations matches with this notion of relative property rights. In fact, the land management cooperative can also be seen as a private organization, as it intentionally separated land ownership from the administrative structure of the collective, even if the members of both organizations are the same. Thus, one could argue that the transition to private ownership in land proceeds via corporatization, and not privatization on individual terms. This special institutional form remains in continuity with the notion of relational property rights.

In taxonomic work on China we may therefore identify a specific institutional trait, that is ‘relational land ownership’ as a specific form of private property rights. This trait represents the confluence of two historical strands, one is the kinship-based notion of rights, and the other is the imported idea of collectivization. As we have seen, the interaction between the two was mediated via interpretive processes by which in Guangdong province the socialist collectives factually became transformations of traditional lineages. Whether this trait is reproducible in the future remains to be seen. As in other parts of China, one simple mechanism is that villagers often agree to sell not only land use rights, but also the fundamental collective rights to urban authorities and the land developers with whom these work together (Wong 2015). Paradoxically, this results in a transformation into state-ownership with land use rights devolved to other actors, including private developers. The resulting arrangements are very complex, but also appear to reproduce a relational concept of ownership (cf. Hsing 2006).

This observation raises an interesting question about the taxonomic categorization of the entire Chinese system. This refers to the fundamental legal, administrative and cultural dualism between rural and urban areas (Whyte 2010b). We notice a systemic bifurcation that might justify defining a separate



taxonomic unit for the rural areas that extends beyond the rupture of 1949. If we begin with considering this possibility, the case study even suggests that we have to include a regional aspect, too, resulting in a large variety of different taxonomic types coexisting and interacting within the larger framework of the political unit of China. There are good reasons for assuming that this taxonomic diversity also applied historically. Indeed, comparing the Chinese case with Europe, we might argue that in Europe we speak of different systems (at least until a certain threshold of further European integration would be achieved) because of the emergence of nation states in historical times, whereas China, in spite of comparable cultural, social and linguistic diversity, maintained the unified structures of Empire, directly transforming these into a nation state. But that implies that systemic variety might be a constitutive feature of the Chinese case (see also Zhang and Peck 2015).

If we approach the case study in terms of realization-focused comparisons, one important question is how different actors perceive the institutional changes and its effects. One of the intriguing observations about China is the fact that on the one hand, external observers diagnose severe institutional discrimination against the rural population throughout the history of the PRC, which is still enshrined in the household registration system today. Yet, at the same time farmers appear to be that part of the population who are most (or at least very) satisfied with the outcome of recent reforms: farmers also expect further improvements of their situation on the average.<sup>34</sup> In this sense, we can say that system performance improved, probably also reflecting the performativity of complex ownership arrangements in the sense of creating incentives for economic productivity and enhancing the potential for welfare-increasing activities.

All of that said, the high frequency of violent conflicts over land rights reveals a fundamental deficiency in terms of villagers' participation in the actual process of institutional change. Evidently, there is a significant political dimension here. In Sen's terms, this means that the current system is lacking inclusiveness, mainly in the sense of actual participation at the local level. This does not primarily mean that the individuals perceive infringements of their rights, but rather the village communities feel infringed by the stratum of government cadres. Paradoxically, the practices of *de facto* appropriation of land by urban business and local governments may have sped up economic growth via lowering the costs of urbanization, so that violations of farmers' rights may be seen as an instance of what has been coined as 'development dictatorship.' This shows that external and internal criteria of valuation might diverge, and a comprehensive judgment is difficult.

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<sup>34</sup> This is clearly the result of one of the most reliable surveys on perceptions of inequality and economic opportunity in China conducted by an international research team led by the renowned sociologist Martin K. Whyte. See Whyte (2010a and 2016).

## 7. Conclusion

In this paper, I have argued that most existing economic approaches to the taxonomy of institutions are flawed because they fall into the trap of transcendental institutionalism. Alternatively, I suggest an evolutionary alternative that is designed along the lines of evolutionary theory in biology, adding the important ingredient that in human societies the effects of institutions are always mediated via interpretations. This means that evolutionary taxonomy reflects the interplay between institutions and ideas explicitly. In my case study, this is evident in the phenomenon that the notion of collective land ownership in China merges traditional conceptions of ownership with imported ideas about public ownership, resulting in further complications if we observe the interaction with modern conceptions of corporate law that have been imported from Western countries more recently. In the case study, these ideational factors are reflected in behavioural patterns, such as distinguishing the rights of the village community from the rights of migrant residents. The complex amalgam results in particular patterns of private and public rights in the evolving system of urban governance and even physical territorial structures, which we can interpret as adaptive phenomena in the sense of emerging solutions to problems of economic coordination, and coping with such challenges as migration or urban infrastructure development.

Performativity, performance and politics work together in creating trajectories of change. I argue that these trajectories are the units of evolutionary taxonomic analysis. Taxonomic work cannot start out from eternal theoretical concepts, but must make historical change and contextualization of institutions explicit. Luckily, economists do not need to start out from scratch in doing so. In the early 20<sup>th</sup> century, when disciplinary segregation had not yet been formalized, scholars such as Max Weber actually did a lot of this taxonomic work. Taking up these strands of thought today will likely be highly productive for economics.

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