Competition among institutions is a wide topic with many different aspects and problems to discuss. The purpose of this paper is to outline an evolutionary approach to the process of competition among institutions. For a more thorough analysis we will draw a parallel between ordinary market competition and the subject of our interest, competition in the realm of institutions. We shall focus, in particular, on two issues. First, the role of the competitive process as a knowledge-creating process. In this respect, we will show that institutional competition leads to the creation and spreading of new institutions. Secondly, we ask what inferences, if any, can be drawn from the nature of this process of competition among institutions to the desirability of its outcomes. Here we will argue that in the same way that competition on ordinary markets has to take place under certain rules, which ensure the desirability of these competitive processes, competition among institutions also requires a framework of rules channelling the competitive processes into desirable directions. Before we begin our discussion on these issues, however, some clarifying comments are in order to narrow down what we mean by ‘evolutionary approach’ and ‘competition among institutions’.

1 CLARIFYING CONCEPTS: EVOLUTION AND COMPETITION AMONG INSTITUTIONS

1.1 Population Thinking in Biological Evolution

Evolution and competition are closely-connected concepts. The notion of competition is as central to evolutionary biology as it is to economics, and in both fields it is directly linked to the notion of scarcity. Yet, the theoretical perspectives that the two disciplines bring to bear on their common subject differ significantly.

In economics the principal interest has been in determining the equilibria that are supposed to result from the competitive process. Furthermore,
it is assumed that these equilibria can be derived from the relevant data of any given situation, and that therefore a detailed study of the workings of the competitive process itself is not a necessary part of such equilibrium analysis. By contrast, the principal interest of evolutionary biology is exactly in the process of competition itself. More precisely, its interest is in examining how this process affects the distribution of characteristics in a ‘population’ over time, a perspective that is called ‘population thinking’. There is no presumption that process can be best understood in terms of predetermined equilibria. Instead, the emphasis is on the continuous endogenous generation of novelty within populations.

Population thinking establishes a connection between competition and adaptation. It argues ‘that if there is a population of entities with multiplication, variation and heredity, and if some of the variations alter the probability of multiplying, then the population ... will evolve so that the entities come to have adaptations’ (Maynard Smith 1987, p. 120). The ‘entities’ of which populations consist are unique individuals, and it is the very emphasis on their uniqueness and diversity that characterizes population thinking. The focus of population thinking is on intra-population competition, i.e. on competition among the individual entities making up a population. And its interest is in examining how differences between individuals’ capacities to secure resources affect their prospects of being represented by their likes in future generations.

When we speak of an ‘evolutionary approach’ to competition we mean an approach that employs population thinking. And our main purpose in this paper is to explore the insights that can be gained by applying population thinking to the study of competition among institutions. The essential ideas that we shall borrow from the biological model are the following:

- There is a population of individual entities who compete with each other for scarce resources/rewards;
- The individual entities differ in their traits and in the strategies that they employ, and these differences influence their relative success in securing resources/rewards;
- Their differential success translates into different probabilities for the respective traits or strategies to be represented, or practiced, in future populations;
- New variation is continuously generated within the population and induces change in the distribution of traits/strategies within the population.

It is the competition-induced change in the composition of a population over time that is meant by the term ‘evolution’.3