

DOES HISTORY REALLY MATTER?

A critique of the institutional economic history of Douglass C. North

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“History matters. It matters not just because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society’s institutions. Today’s and tomorrow’s choices are shaped by the past. And the past can only be made intelligible as a story of institutional evolution.”

D.C. North (1990 p. vii)

Introduction

Douglass North is arguably one of the most influential theoreticians within the NIE camp. Not only is he important and recognized because of his Noble Prize in 1993 but more importantly for our purpose, he has since more than 25 years been a key figure within New Institutional economic history. For the purpose of this thesis at large; an analysis and a critique of North’s positions and theories is of utmost importance. This critique builds mainly upon the three most important books by North, published over the 25 years period. In addition some articles between 1970 and 1994 form a basis for the following analysis. We will deal with North by first looking at the thesis on the transition from feudalism to capitalism and growth in *“The rise of the Western World”*. Therefrom we go to an overview of North’s grand theory of history as such. Before we conduct our critique head on, I present the later developments of North’s institutional program. Special attention is given to North’s recent analyses of institutions, organizations, property rights, the state and transaction costs; and how these move North away from neo-classical orthodoxy. Thus ends section I.

In order to avoid any misrepresentation of North’s ideas, I have chosen to give quite extensive quotations from him, in the decisive areas of his thought. I do this, both because I think that the quotations are quite revealing, but also in order to make the criticisms I have more understandable to the reader. Hence, the extensive usage of the quotes in the following presentation of North’s ideas.

Section II consists of the over all criticism that can be launched upon North’s theoretical system.

I. The institutional Economic History of Douglass North

The rise of the western world

In this path-breaking book North and his co-author Thomas tried to explain the rise of the west-European economic growth from the 900:s to the daybreak of industrialization in 1750. As such it could be seen as an alternative to the conclusions reached in the Marxist transition debate of the time.

Methodologically it marks a breaking up time in North's thinking. On one hand one could claim that the book is in the cliometric tradition of neo-classical economic history; yet on the other, in the light of North's subsequent theoretical developments, one can trace some influences and suggestions to his recent institutionalism. The book also marks the beginning of North’s long time interest in trying to explain economic growth and its prerequisites.

North/Thomas start by criticizing the theory of growth of traditional economic history and theory for missing the important point: “The factors... (innovation, economies of scale, education, capital accumulation) are not causes of growth; they are growth... Growth will simply not occur unless the existing economic organization is efficient.” (North/Thomas 1973 p. 2)

The challenge put forward by North/Thomas is hence to explain the prerequisites for economic growth, rather than saying what is economic growth. They find the answer to this question in the establishment of efficient property rights.

Starting from the world of the tenth century, North/Thomas try to explain the basis of the change, the transition from feudalism, from the manorial system, into capitalism: i.e. the rise of the western world.

The over all theses from North/Thomas can only be grounded in a thorough analysis of feudalism itself.

On feudalism

Feudalism was preceded by slavery. So we must start by answering the question why feudalism is not slavery, and why serfdom replaces it. The explanation offered in the book shows itself to be typical. They argue: “In short, slavery was not the most efficient system when (1) the costs of enforcement were high, and (2) the cost of supervision was high relative to the alternative of serfdom.” (North/Thomas 1973 p 20)

In this early analysis North tended to hold the view that the “most efficient” property rights were established in response to the exogenous changes. Feudal property relations were therefore the best possible ones at the time of the middle ages, whereas capitalist property rights were the best response to subsequent changes in population and markets. This line of efficiency argument is prevalent throughout the book. And we will return to this issue later on. So North/Thomas the feudal manor was an “efficient” economic arrangement. As North has later summarized it:

The absence of a market made labor dues the most efficient form of economic organization, despite the incentives to shirk, which were entailed in such arrangements. Shirking costs were reduced by the customs of the manor (laws) specifying the amount of labor time for various tasks, establishing a manager to oversee the serf's efforts, and providing for the fining of detected shirkers.” (North 1981 p. 129)

The translation of the logic of feudal system into the language of neoclassical economics is the very basis for the theory advanced by North/Thomas at this stage. This strengthens the impression of functionalism in their account. Not only was feudalism as rational system, explicable in orthodox economic terms, it was also perceived as the best possible system by the actors themselves. Hence feudal arrangements were “chosen”: They were in effect (at least implicitly) contractual arrangements. Here is a most telling quote:

Against this background, the contractual arrangement of the manor can now be seen as an efficient arrangement for its day. The obligation of the serf to provide labor services to his lord and protector, an input-sharing arrangement, was chosen because given the constraint of high transaction costs involved in trading goods, it was the most efficient. The almost total absence of a market for goods, plus the existence of a rudimentary market for labor, ensured that inputs could be shared with lower transaction costs than would be involved in other contractual arrangements... The ‘quaint’ organization of the classic manor is therefore understandable as an appropriate response in the general absence of a market economy. (North 1973 p. 32)

Even further, in the model of *the rise of the western world*, even the oppression of the serfs is hidden in a translation of feudal relations to a problematic explicable in standard economic terms. Feudal relations are the consequence of the provision of a public good which brings forward the problem of free riding and shirking among the peasants themselves. It was unavoidable. The explanation goes:

Individuals with superior military skills and equipment were urgently needed to protect the peasants who were unskilled in warfare and otherwise helpless. Here was the classic example of a public good, since it was impossible to protect one peasant family without protecting the neighbors. In such case coercion was necessary to overcome each peasant's incentive to let his neighbor pay the costs, and the military power of the lord provided the needed force. (North/Thomas 1973 p. 30)¹

The engine of change

As with any idea of a functional system, the way feudalism is described above, we need to trace a variable of change: an exogenous "chock", which threatens and ultimately changes the system at hand. North/Thomas do trace such variables in their book. They are to be found in population change, the expansion of markets and in changes in military technology.²

Although these engines of change will have an economic basis, according to North and Thomas, and although the effect of population growth is economic, in the sense, that markets and relative prices change, and the technology changes, the greatest explanatory stress is upon this exogenous variable. But population growth and market expansion has to be connected in the model for it to work. North/Thomas take the short cut, since they maintain that population growth "itself tended to widen the market" (North/Thomas 1973 p. 52)

To integrate the explanation to neo-classical economics North/Thomas conduct an analysis of the land/labor-ratio and the subsequent changes in their relative costs due to population change. Hence they come close to the theories of neo-Malthusianism (North/Thomas 1973 pp. 59-60). The general theory is furthermore applicable to the actual history of the Middle ages. On the development of the 12th and 13th centuries they maintain that the value of land rose relative to the value of labor due to the growing population, whereas in the 14th and 15th centuries the logic went the other way around. Hence property rights were altered.³

North/Thomas claim to achieve both a revolutionary and traditional result in their analysis (1973 p. vii). The revolutionary aspect is to bring the analysis of the development of

¹ North later concedes that this view is over simplified, because: "...carrying over the modern-day notion of contract to the serf-lord relationship is imposing a modern-day concept which is misleading. The serf was bound by his lord and his actions and movements were severely constrained by his status; no voluntary agreement was involved. Nevertheless, it is crucial to reemphasize a key point of our analysis; namely, that it was the changing opportunity cost of lords and serfs at the margin which changed manorialism and eventually led to its demise. (North 1981 p. 131)

² "In capsule form: we suggest that a growing population was the exogenous variable that basically accounts for the growth and development of Western Europe during the high middle ages. An expanding population in a local area would eventually encounter diminishing returns to further increase in the size of the labor force. Part of the increased labor force would as a consequence migrate to take up virgin land in the wilderness, thus extending the frontiers of settlement. However, the destiny of habitation would still be greater in the old areas than on the frontier, and this differential, resulting in a variation of land-to-labor ratios between areas, when coupled with regional differences in natural resource endowments, would lead to different types of production. Such variances would allow profitable exchanges of products between regions. We submit, therefore, that the development and expansion of a market economy during the middle ages was a direct response to the opportunity to gain from the specialization and trade made feasible by population growth." (North/Thomas 1973 p. 26)

³ (North 1981 p. 133), (North/Thomas 1973 p. 75)

feudalism and its transformation to capitalism in accordance with mainstream economics. The latter is the traditional element. In response to population growth and changing relative prices of the factors of production, both the developments of property rights, markets, the state and the demise of feudalism are explicable. Furthermore, North/Thomas claim to trace the reasons for the divergent paths of growth in Europe in the success or failure to transform the economy into a basis for an efficient and prosperous society of well-defined property rights and a well functioning state. The prime examples at the time of success in these regards were the Dutch and English economies in comparison with the decline of Spain. (North/Thomas 1973 chaps. 10-12)

North's account of history

With his book from 1981 North makes an even more ambitious attempt to theorize economic history by the tools of mainstream economics. This is North's first attempt of grand history the neo classical way. However, now also begins the journey away from standard neo-classical economics by North. Yet in the 1981 book his early institutionalist economic history is taken to some of its more telling conclusions

Let us start with North's account on the pre-history of man. In his own words:

Prehistoric man employed his labor in conjunction with natural resources to produce his living. The natural resources whether animals to be hunted or vegetation to be gathered, were initially held as common property. This type of property right implies free access by all to the resource. Economists are familiar with the proposition that unconstrained access to a resource base will lead to its inefficient utilization. This inefficiency as the demand for the resource increases eventually leads to the depletion of the resource... This instance is an example of incentive failure caused by cultural or institutional (property rights) inadequacies (North 1981 p. 80)

Unlike in the earlier work of North, the focus is now entirely on conceptual history, as we can see. This is evident in North's attempt to translate the development of the prehistoric economy into the famous the tragedy of the commons problem of orthodox game theory.⁴

Continuing our journey through history with the Northian framework we come to the rise and decline of the ancient world and slavery. The explanation has the same flavor:

The decline of slavery reflected its declining profitability. When slave prices rose high enough it became profitable to substitute free labor as evidenced in the first two centuries of the Empire. Conversely when the price of free labor fell or the demand for agricultural products declined with the disruption of trade in the late Empire, the transformation of slaves (and free labor) into *coloni* was a rational response." (1981 p 119).

Having already accounted at some length for feudalism and the pre-industrial development, North now hints his theory of the industrial revolution. True to his belief of the continuous, evolutionary development of human history North actually downplays the revolutionary aspect of industrialism. He simply contends that the industrial revolution "was not the radical break with the past that we sometimes believe it to have been" (North 1981 p. 162).

⁴ cf. "Let us examine the situation where several bands compete for the same commonly held migratory animals... The band then has the incentive to exploit the resource to the point where the value of the last animal killed is equal to the private costs of killing it. The collection will continue until all of the income the scarce resource would have earned under private property is dissipated. That is, in a competitive situation no band has any incentive to conserve the resource, since the animals left to reproduce probably would be taken by the rivals. The stock of animals thus could be place in danger of extinction. The crucial element causing this inefficiency is the lack of any barrier to the exploitation of the commonly owned resource base... The result is too many hunters" (North 1981 p. 81)

One of the reasons for this conclusion of North, is what he chooses to focus on. Unlike for Marx and Polanyi for instance, the development of wage-labor: and the social revolution entailed therewith get an explanation that not even remotely echoes the descriptions from classical political economy. There is no mentioning of the enclosure movement, no mentioning of proletarianization, other than in passing. Hence, it is all rather smooth:

"From handicraft to putting out system to the factory system spans more than three centuries: the key to explaining the transformation is growth in the size of the market and problems of quality control (that is, measurement of the characteristics of the good). In the course of the transformation in economic organization wage labor developed... (North 1981 pp. 167-168)

After this journey through history with North as the guide, we are now ready to account more generally for his recent developments of his institutional theory.

North's institutional theory

North's further development of his institutional economics has led him in a somewhat different direction, and to some extent further away from standard neo-classical economics.

In his Nobel Prize lecture from 1993, which is a very good summary of his positions, North declares at the beginning that the aim of his research has been to create an analytical framework of economic change, if possible the ideal would be one "comparable in precision to general equilibrium theory". (North 1993 p. 1). But already on the next page North comes to one of his hardest attacks on NCE ever; he calls it "...simply an inappropriate tool to analyze and prescribe policies that will induce development..." and he goes on to: "How can one prescribe policies when one doesn't understand how economies develop". (North 1993 p. 2). Yet again, already on the next page, we're back in line when North declares that his: "...analytical framework is a modification of neo-classical theory" (North 1993 p. 3).

So, it should be clear that North still is stuck in the preoccupations of NCE, and that he views his framework as merely an extension of it. He in the end sticks to the comment he made already in 1978 that "to abandon neoclassical economics is to abandon economics as a science" (North 1978 p. 974). North's theory is hence only a half-hearted refutation of NCE.⁵

But there are significant deviations from NCE in North's institutional economics, which merit attention.

First of all North claims that "efficiency" cannot be defined without reference to the "institutional framework" at hand. Neo-classicists and cliometricians who therefore define "efficiency" in light of a "pure market" are simply out of line. Above all the Pareto-criterion seems indeed inappropriate for the task. (North 1986)⁶

Since efficiency, hence, cannot be defined out of context, it cannot simply be assumed that the "market" will by itself create "the best of *possible* worlds". Instead it has to be

⁵ Cf. "From the viewpoint of the economic historian this neo-classical formulation begs all of the important questions. The world with which it is concerned is a frictionless one in which institutions do not exist and all change occurs through perfectly operating markets. In short, the costs of acquiring information, uncertainty and transaction costs do not exist. But precisely because of this nonexistence, the neo-classical formula does lay bare the underlying assumptions that must be explored in order to develop a useful body of theory of structure and change" (North 1981 p 5).

⁶Still one cannot help but noticing that North does not always stick to this opinion. Especially in his idea that "efficiency" arises as "approximations of the world without transaction costs".

explained why growth has been so absent, rather than present, in the economies of the world. This is the challenge for the economic historian, argues North.

North acknowledges that neo-classical economics cannot explain or analyze the evolutionary aspects of the economy, since its basic tools are static (preferences, ideology, hedonism, knowledge etc.). Instead one has to define all these characteristics in the light of the "institutional framework". Hence North wants to fully integrate institutions into the conception of the economy.

So it is to further develop, yet preserve the basic tools of standard economics, North adds his analysis of "institutions" as a complement. Institutions, defined as "the humanly devised constraints that shape human interaction" (North 1990 p. 3) are responses to changing transaction costs within the economy. Transaction costs are in North's own words: "the costs of defining, protecting, and enforcing property rights..." (North 1990, p. 28.).

The reason why human beings devise institutions is to reduce uncertainty and facilitate exchange in the presence of these transaction costs. These transaction costs and institutions are the keys to explaining economic growth and also the lack of it.⁷ The theory of transaction costs can be said to have found its birth when Ronald Coase published his *Theory of the Firm* in 1937. Coase pointed out that firms exist because there is *a cost of using the price mechanism*. (Coase 1993). But, although transaction costs are always present North also declares:

Efficient markets are created in the real world when competition is strong enough via arbitrage and efficient information feedback to approximate the Coase zero transaction cost conditions and the parties can realize the gains from trade inherent in the neo-classical argument. (North 1993 p. 4)

Institutions are necessary "constraints" to human action on two levels (i) *informal constraints* (basic habits, culture, incentives etc.) and (ii) *formal constraints* (the state, law, property relations etc.).

North recognizes the determinate effect previous informal institutions have on the ones of today. At times North comes close to providing a cumulative account on human behavior, where human behavior is constrained by institutions, yet at the same time these institutions are "humanly devised" (North 1993 p. 4). This leads to the theory of path dependence, which we will come to further down.

Also important in North's recent theoretical development, is that he now distinguishes "institutions", which are the rules of the game, from "organizations" which are the actors, or players in the game. Hence, according to North: "It is the interaction between institutions and organizations that shapes the institutional evolution of an economy" (North 1993 p.7). The organizations are reflections of opportunities provided by the institutions. Institutional change takes place in modifications of and changes in contracting, eventually leading to new "rules". This all happens "because individuals perceive that they could do better by reconstructing exchanges (political or economic)." (North 1993 p. 8).

But as North himself recognizes, he fails to mention which are these individuals who perceive this and he also fails to explain where these changes in perceptions come from. They are mainly exogenous to the model. (North 1993 p. 8).

But why do people follow the rules of the game, the institutional framework? The real mystery for orthodox economic theory is why we obey rules and why we do not free ride,

⁷ Transaction costs are defined for the first time on p. 93 in (North/Thomas 1973).

although it would be in our hedonistic interest to shirk and free-ride. The answer to North is that we devise ideology to constrain such behavior. (North 1981 p. 11).

So what North's institutionalism set out to explain is the function of ideology to constrain "the fundamental dilemma of the free-rider problem", as a precondition for the institutional stability. (North 1981 p. 47)

Ideology and enforcement of rules is hence at the very heart of North's current institutional economic history. From this logically follows another major preoccupation of North's institutionalism, the need for a theory of the major agent of ideology and enforcement: the state. This is a theoretical development of utmost importance to North's institutionalism, Hence, two key sections are worth quoting in full:

A theory of the state is essential because it is the state that specifies the property right structure. Ultimately it is the state that is responsible for the efficiency of the property right structure, which causes growth or stagnation or economic decline (North 1981 p. 17)

The conflict over the control of the state led to the diverse results of creating both states that produced relatively efficient forms of economic organization and states that in relative or absolute terms declined. The relative bargaining power of rulers and constituents was decisive in these results. (North 1981 p. 66)

This is a logical conclusion from North's reasoning so far. Since there are significant transaction costs within the economies of the world and since efficiency cannot wholly be defined without reference to the institutions of an economy, it is not enough to rely on the market and "getting prices right" in order for economic growth to come about. The state indeed must play a significant part in establishing "efficient" property rights and institutions, which factually are the key to economic growth.

The realization of bargaining power, ideology and the state as decisive to economic performance has entailed that the Panglossian aura of the earlier writing from North is gone. He now maintains that: "Institutions are not necessarily or even usually created to be socially efficient; rather they...are created to serve the interests of those with the bargaining power to create new rules:" (North 1993 p.6)

So the absence of economic growth is no mystery anymore, because: "It is polity that defines and enforces property rights and in consequence it is not surprising that efficient markets are so exceptional." (North 1993 p.7).

But, if the institutional setting and the state are bad for the economy, why don't the individuals in society just change the institutions for the better?

The answer to this problem from North is that institutional change is *path dependent*.

In North's theoretical framework, the informal constraints and the mental models inherent in individuals and societies, are the main reasons for "path dependence". Path dependence explains why economies get stuck in an institutional framework that *does not* induce economic growth. It is the story of how past knowledge and culture influences the present. Or in North's own words:

Institutions, together with the standard constraints of economic theory, determine the opportunities in a society. Organizations are created to take advantage of those opportunities... The resultant path of institutional change is shaped by (1) the lock-in that comes from the symbiotic relationship between institutions and the organizations that have evolved as a consequence of the incentive structure provided by those institutions and (2) the feedback process by which human beings perceive and react to changes in the opportunity set. (North 1990 p. 7).

Path dependence is linked to the idea that it is problematic and “costly” to change paths. This is what North has in mind when he starts his institutional program with the credo: “history matters”.

The problem in the economic history, according to North, has been that few "incentives" to acquire "pure knowledge" have been present in most economies of the world. The exception is the western world, where property rights have come to give both reward and punishment (incentives) as regards to "pure knowledge". North now places the search for "pure knowledge" as the prime mover of economic change and performance.

This has had the consequence that North has become increasingly critical of rational choice theories. Instead of *Homo economicus*, acting in some sort of vacuum, North wants to replace it with an individual acting within institutional frameworks of which he has only limited knowledge. North, hence, stresses the importance of culture, ideology etc.

NIE can therefore, as North's says in summation, contribute with a theory that "...deals with the links between institutional structure, belief systems and the incentives and disincentives to acquire pure knowledge. A major factor in the development of Western Europe was the gradual perception of the utility of research in pure science". (North 1993 p 16).

North's institutional program is ambitious and wide-ranging. And he himself recognizes that it is just starting to develop, and that there are some major challenges ahead for it. But North does believe in the institutional program: “The promise is there”, he declares. (North 1990 p. 140)

II. A critique of the institutional Economic History of Douglass North

One could perhaps then view the development of North's thought from the neo-classical economic history of *The rise of the Western World* to his current institutionalism as a steady paced move from the preconceptions of orthodoxy. As a heterodox economist one may applaud this move, but I venture to say, that all this makes North's framework somewhat of a paradise for the eclecticist.⁸

Therefore his work has become confusing and inconsistent. From a theoretical point of view, North has lost in rigor and consistency, what he has gained from marking his distance towards NCE. Whereas one could applaud the latter, one must conclude it to be sad that the price in the former instance has been so high. But, as I hope to show, there is some logic to this development in North's thinking.

Ahistory

So, if we start from the formulations of economic history from North there are some very general criticisms to be made:

The first thing we can do is to question an enterprise of economic history, which uses ahistorical analytical tools.

⁸I cannot help but noticing that the partial concessions towards an "institutionalist" analysis from a neo-classical economists has been accused of being eclecticism before in history. This was for instance Veblen's ultimate appraisal of the economics of Marshall, who, like North, tended to give great concessions as to the limits of NCE, yet keeping it as a basic framework anyway. See: (Dorfman 1934 p. 246.)

In the early model of *the rise of the western world* this problem is explicitly highlighted by the fact, that the economic system is described in a functionalist, almost Panglossian manner, (somewhat close to an equilibrium state).

The efficiency argument to economic institutions and property rights however is close to vacuous (as I believe North would agree to today) The explanation goes for everything – and hence it explains nothing. It boils down to this: “The market is there because it is efficient – and if it is not there, it is because that is efficient too...”. In such a functional account, as said, the engine of change is exogenous to the economic system (population change, widening of markets etc.). Personally however, I do not think a dichotomy of exogenous or endogenous change is particularly helpful.⁹ Population growth or decline cannot in any circumstance be seen as exogenous to the economic system, nor can trade and markets.¹⁰ The problem is rather somewhat different for North’s model. The main question is how do we account for the widening of markets themselves? To North/Thomas’s simple model this is merely assumed to arise with population growth. But more people does not by itself lead to a bigger and widening market, unless some other economic preconditions are accounted for, mainly in production, technology and infra structure, but also in income distribution and “effective demand”.

The simple idea of North/Thomas, that institutional change and changes in property rights are consequences of price changes can also be challenged. Price changes are not only the cause of changes in property rights and technology, they are equally important effects of these institutional changes.

The problem in this early model of North is hence not that he takes *some* variable as exogenous to the model, the problem is that he ends up assuming some of the variables that in fact he should have explained if he wants to explain capitalism.

This leads us to the over all problem of economic history in North’s fashion. All the institutions and human characteristics that are specific to capitalism have to be assumed to exist even when capitalism is not at hand. Otherwise the model does not work. Standard economic theory is not sensitive to this issue; it simply does not care. But North does care, being an economic historian he truly wants to understand the historical evolution of the market and its institutions. But if we acknowledge that markets and capitalism evolve, we cannot assume them from the start. North does not explicitly do this, but in order for the explanation to work *the economic logic* of the market has to be described as present, anyway. This is due to the fact that in the model institutions evolve as rational responses to relative price changes, by, albeit “constrained”, capitalist micro-rational economic men. But the “economic man”, the isolated individual, cannot be taken as the starting point of an analysis of the market when it is its main result; calculating on what to buy only makes sense when

⁹ North has been criticized from both angles: one that he takes the engine of change to be exogenous and unexplained. The other one is put forward by Field (Field, 1979, 1981). His main argument is that the attempt to endogenize all variables in institutional change leads to impossible infinite regressions. Thereby North/Thomas have to willy-nilly leave some variable exogenous to the model. Most specifically this relates to the institutional outset of the model, and the characterization of the individual.

¹⁰ R. Brenner in (Brenner 1976) has questioned North/Thomas’s model exactly on the questions on population change and market expansion. His main idea is that these explanations are unwarranted since a comparison between western and eastern Europe shows that similar developments in population and markets lead to diverse paths of development: in the west to capitalism, and in the East to increased serfdom. This point is well taken in so far that North/Thomas have not accurately explained how these changes lead to capitalism. But Brenner over exaggerates his point to the effect that he seems hold the view that population change in itself has no explanatory value in the model. But I venture to say that changes in population like the Black death and the 30 year war etc. must have some economic repercussions, exactly on the land/labor ratio.

there are commodities on the market to buy. These calculations cannot be the cause of the market for these commodities.¹¹

This procedure is implicit, and sometimes explicit, in North's theory. Most strikingly this is shown when North analyzes individual traits. Traits like egoism, free-riding, shirking and micro-rationality are to North obvious and ubiquitous. Hence they simply need no explanation. The real trouble and mystery to North's model is why people cooperate, and do not free ride. But we might argue historically, but equally important, theoretically, that the problem is put upside down in North's model. It is the "free" individual that is the result of capitalism, rather than the other way around.

Either way, an institutional explanation to capitalism calls for an institutional and evolutionary account of both the individual and the institutional setting in which he/she acts. Otherwise the individual is taken as exogenous and immutable. Then, the problem of NCE is not solved at all. It is inherited. All the criticisms that have been launched against methodological individualism, hence, apply equally well to North.¹²

There are numerous examples of this procedure in North, as the quotations above show. The examples of free riding and the "tragedy of the commons" problem even among pre-historic hunters, are particularly comic attempts to translate the pre-historic economic system to the capitalist one of today. The very idea of that there eventually were too many hunters because of common property of the game in pre-historic time, is the product of a futile exercise not worth taking seriously.¹³ To some extent North has also moved away from these excesses.

Worth taking more seriously is the land/labor ratio explanation in the description of the transition from feudalism to capitalism. But ultimately the problem remains the same. No doubt, population changes and a changing land/labor ratio will have effects on the economic system, and its underlying logic. But these changes cannot be *mediated* as price changes and micro economic choice, they way North/Thomas describe it, unless land and labor (or rather labor power) are commodities! But if they are, then we already have capitalism!

North/Thomas know that in the *definition* of feudalism labor and land are not commodities. Although it exists, it does so only in exceptional cases. And this is especially so in the rural areas. We cannot have it both ways: either capitalism came from some different economic system, or else it is ubiquitous. In the first case, we have to describe the economic logic of the preceding system in its own right. In the second case economic history does not explain capitalism. Rather it assumes it. If this second case is true, well might we ask what is the fuzz with North's model; we might as well remain ahistorical neo-classical economists!

North/Thomas try to solve this dilemma by using words like "implicit contracts" or maybe some idea of implicit prices. But the question is, how could the people of the feudal era, who supposedly chose the most efficient property rights, make these calculations on implicit information? If there was no market, how could they visualize it, and economize on it?

A telling instance of this problem for North/Thomas, is how they support, empirically, the notion of price changes in labor and land. The case is supported by a graph (North/Thomas

¹¹There are numerous critics of on these conceptualizations, though not altogether addressed to North, I think they apply to him as well. See above all: (Brenner 1977) which to my mind is one of the most revealing critiques of the "Smithian legacy" to economics.

¹² This criticism can be extended to the whole of NIE, no matter if they assume full, limited or bounded rationality. Rationality is not at stake, but the individualistic micro-rationality of standard economics. This is not solved by mellowing it; but only by acknowledging its social and historical character.

¹³ See the analysis of (Demsetz 1967) for further details on the tragedy of the commons problem.

1973 p. 74), which shows real wages for "builder's wage rates" in England from 1261 to 1500. And although wage labor was not uncommon in these trades at the time, we still don't know how this information tells us anything about the economic system of the manor and the (non)-wages of the feudal serfs. In pp. 106-111 and 116-119 the argument of the 16th century is supported by similar graphs of wages prices and rents. Yet again we have no clear picture how these graphs tell us anything about the situation of the manors.

The only way for this evidence to work is to assume strong market integration between builder's wages and the economic conditions of the lords and serfs. But such an assumption is indeed very questionable for the pre-capitalist economies of the western world, to say the least.

These ahistorical assumptions and explanations is a red thread in North's work, although they are mellowed a bit in his later institutionalism. Still, ubiquitous scarcity, prices, competition, free rider problems etc.: problems that arguably are specific to commodification and private property are quite recklessly transported to any economic system in North's model. Even the ones he knows are not capitalist. North ends up, willy-nilly, analyzing these systems "as if" they worked under these principles although he knows they don't. The "as if-strategy" for economics was introduced by Friedman (1953). His basic idea was that orthodox economics could be defended as the main tool for correct *prediction* because the economic system produces results that show that it works as if the theory were true (although in a sense it is not). But one inescapable aim of historical research is to find out how it actually was. Not to predict on the basis of how history could have been, but really was not. So we cannot do "as if-economic history" unless we assume that history is "as if"!

The way North brings in history most clearly is in his idea of path-dependence.¹⁴ But it can be argued that the idea of path-dependence can equally well be used in the service of discarding history from economics (Lawson 1997). But since history and institutional evolution must be considered as open ended, in the sense that at least more than one solution is possible, we cannot be satisfied by having shown that once a system is in place it has a tendency to endure. This begs the important question, how the institution actually came about in the first place. Also, as can be pointed out, path dependence is only all determining in the total absence of counter tendencies of novelty and of social conflicts. This condition is seldom present in social life. But even if this state of affairs were the case, the absence of alternatives is equally merit of an explanation, than the presence of the path-dependence.¹⁵

Ironically North in his latest book mentions social historian Alan Macfarlane's highly controversial book on *the origins of English individualism* (Macfarlane 1978) as an account of the importance of path-dependence in history (North 1990 p. 115). But if we assume that Macfarlane's argument is correct, then it just shows that capitalism as a historical fact is a much more contingent and specific phenomenon, than we previously have thought.¹⁶

¹⁴ The classic account on path-dependence is (David 1985)

¹⁵ My worry is that, without due care to the way it is presented, the approach defended allows, or perhaps even encourages, the inference that once an account is provided of how a form of social organization or a technology became established, this is more or less the end of serious enquiry, or anyway to the contribution of history. It facilitates the view that once a technology or social structure is in place then it can be treated as locked-in for good; that the past is not only ever present but also all determining. (Lawson 1997 p. 251)

¹⁶ Accounted for in another part of this thesis: But in short, Macfarlane means that capitalism in England was based on the fact that the culture of individualism and private property was present already from the days of recorded history (from the 1200's and onwards).

Because Macfarlane's basic point is that England was very specific in relation to the rest of Europe, *because* of its individualism, law, and property relations, because it was never a peasant society. It is precisely because of this *specific* heritage (which we really do not know where it came from) that England was capitalist even from at least the 1350:s and onwards, argues Macfarlane.

But this strikes right back at North's model. Because if individualism and capitalism is a peculiarity and specificity in history, then our model of history cannot build upon these peculiarities as being general features of any economy!

In summation, the logic of North's program for economic history *assumes* the presence of the capitalist market and its "human nature" but does not explain them.

I conclude from this, that North hence comes into trouble, because the validity of his model hinges upon the fact that the history of capitalism *does not* matter to its development. (So "history does not matter"). But once we concede that capitalism has a history, and comes from a qualitatively different economic system, feudalism, then the concepts we use to explain how capitalism arose out of the preceding system, cannot be the capitalist ones themselves. North's position is paradoxical: He is too much of an economic historian to buy fully the ahistoric formulations of equilibrium theory, yet he is too much of an orthodox economist to sell out the basic framework in full. In the end he does not escape the problem, he just highlights it even further.

These theoretical problems put North in a long tradition of liberal political economy. A branch of economics, at least from the days of Adam Smith, that does not mainly want to explain *why* capitalism and its market system are there. No, rather they do the opposite, they first want to explain *why they are not there*, and then to show that once "the constraints" are removed this seed of capitalism that implicitly always was there, it finally comes into full bloom. In North's case this is evidenced by the fact that whenever he analyzes an institution or organization, which is not market or capitalist, he always describes this state of affairs as "the absence of markets". Consequently all other institutions and organizations are viewed in relation to this only one, the natural haven of being: the market. This is the problem of North's procedure of history at large. In order for the explanation to work, at least one institution has to be taken for granted, in order for an explanation to the others to work. The fact that this institution is the market, rather than say reciprocity or gift giving, and the fact that the individual trait chosen is self-interest rather than altruism, shows the ideological bias of North's model. It also shows that the attempt to make endogenous all institutions to economic analysis, in North's method is a dead end.

All in all, the problem of transition is not really solved in North's model. It is dissolved. *Conceptually*, there was no transition to capitalism; capitalism was not born, it was only constrained for a long while. In this view of history, capitalism is like the sleeping beauty, which has finally woken up from the 1000 years of sleep. This rather primitive version of economic history from North has to be abandoned. This has become apparent even to North himself, as is evident in his later works. But can he abandon it fully? The answer as far as I can tell, is no.

The myth of the "constraint"

We can see that these underlying conceptualizations in North's model remain to this day. They come clearly to surface in his theory of institutions itself. To him institutions are exactly "constraints"

The general failure of North is, hence, that he cannot hold the promise of making institutions an integrated part of his analysis. This is due to the fact that North takes the market and its logic as a natural rule, as the starting point of analysis as well as its result. Conceptually institutions are brought in as a sort of "market failure" in real life: as a response to transaction costs. They are glued on to the logic of a theoretical fiction of a pure market, "a zero transaction cost world". This is why North (and Coase) dub institutions "constraints".

But what is the basis for this procedure:

First of all, in this procedure, markets themselves, cannot be taken as institutions, the general equilibrium result of the zero-transaction cost world is an "institutionless datum of exchange".

Yet again we see the problem of the starting point in North's explanation: he has to explain institutions from a state of affairs with no institutions at all.

But as North recognizes this is not the way the world is. The world is full of transaction costs and to reduce these costs, to overcome problems of uncertainty, asymmetric information, and knowledge, human beings devise: culture, habits and other informal institutions, as well as formal institutions like law, state etc.

But North conceptualizes these institutions, culture and habits as "humanly devised" *outside* the individual, instead of seeing them as inevitable constituents of the individual: almost *inside* the individual. He says: "Mental models are the internal representations that individual systems create to interpret the environment; institutions are the external (to the mind) mechanisms individuals create to structure and order the environment." (North 1993 p.13).

But surely "mental models" would be impossible without "institutions"; it would not be possible for man to "represent and interpret" the environment without institutions like culture and habit.¹⁷ The subject is indeed impossible without the object, thought is impossible without language, and language is impossible without social interaction. In short "institutions" are not solely humanly devised constraints *outside* the individual but also present *inside* the individual (where they are not "devised" but rather "shaping"). This is also the main reason for why the abstraction of "the pure market" without transaction costs seems to be an impossible state of affair, even as a thought device. In such a hypothetical world there would, strictly speaking, be no *individual agents* at all to create the optimum of efficiency. Hence, it could be maintained that the Coasean world of zero-transaction costs, as it is perceived in the theory, is not impossible because the individuals and economies in the world are imperfect, no, rather so because in this Coasean dream-world, there would simply be no human individuals at all, acting in society at all.¹⁸ Hence North comes close to ending up in a

¹⁷ The ubiquity of habit as well as it being a precondition for rational thought is convincingly argued for in (Hodgson 1996)

¹⁸I haste to add that one must be careful in applying this criticism of mine; mainly because it is unclear what the Coase theorem actually means. In a strong version it means what I criticize, namely that without transaction costs there would be only market and no institutions. (Cheung 1983). In a weaker version the Coase theorem would say that "efficiency" in a world without transaction costs would come about, regardless of the institutional setting. (North 1990 p. 28). Although I believe this weaker version to be better than the strong one, it seems inconsistent with the Coaseian and Northian explanation of the *origins* of institutions. If institutions are present even in a world without transaction costs, then surely transaction costs cannot be the cause of institutions. I

position where he has to explain capitalist society from the abstraction of no human society at all. North ends up here, because he will not take the help from where his model could possibly be saved: exactly, history.

Therefore the procedure is built upon an erroneous view of the place of institutions in social analysis. Institutions are an *integrated* part of human existence and social life. Take away these "constraints" and you will not get the Walrasian equilibrium, or the "pure market", you will get no human, social life at all!¹⁹

There is also an over all confusion in the explanation of "institutions" as such. I believe you cannot have it both ways. If you say that institutions arise out of transaction costs, then, as said, you would have to envisage the market as a sort of "institutionless datum of exchange" (and all the problems that entails). But if you on the other hand admit, like sometimes North seems to imply, that the market is an institution giving rise to transaction costs, then the *origin* of the market institution cannot be the *result* of transaction costs. If so, North has to account for what was the preceding system of economic exchange that gave rise to the transaction costs, which the market institutions have evolved to solve. Furthermore, the phrase "the cost for using the price mechanism" already assumes the market. The only way out of this dilemma is to have a more qualified view of different modes of circulation and exchange in society. All in order for it to be possible to *explain* the market, rather than just assuming it. But North seems not aware of this problem, since to him any contractual exchange is a market.

Even in the model of North it is hence rather meaningless to say that "in a world without transaction costs..." because there is no such thing, and there could never be such a state of *human society*, even in theory. Therefore, it also makes little sense to say that "efficient markets" are "approximations to the non-transaction cost condition". North has already elsewhere declared that such a definition is not viable for its purpose, because he himself recognizes that efficiency cannot be defined outside the institutional framework.

You cannot have it two ways: either institutions matter to the definition of efficiency or they do not.

Yet, in a world of complete information, North reasons, the institutions of the market would work to induce the individuals to correct their institutions according to the "efficient" economic outcome. Men, however, do not have complete information and therefore institutional information and constraints cannot help us reach the "efficient" solution as depicted in NCE (North 1993 p.5-6). I believe this is a strange way of trying to preserve the core of neo-classical economics. North still hangs on to the neo-classical paradigm, but mainly because he seems to hold the view that it is men and their reality that are imperfect, not the neo-classical theory in itself. And furthermore, the neo-classical core can only be saved if we go back to the trap of an institutionless definition of efficiency; the very one North wants to avoid.

Power and state

An undeniable merit in North's theory in relation to NCE, is that he has come to point to the need for a theory of the state and bargaining power. Indeed, he goes as far as to say that the

believe this would mean that even in the abstraction of the "pure market" there would have to be institutions that shape human beings. But if the "zero-transaction cost world" entails institutions, then its efficiency cannot be described regardless of these institutions. So the Coase theorem does not hold either way.

¹⁹ The reasons for, and problems of, such an approach will be shown in relation to Williamson's dictum "in the beginning there were markets" (Williamson 1975 p. 20)

efficiency and inefficiency of property rights, yes, even economic performance depends on the workings of the state in his current version of institutionalism.

But North still ends up as somewhat of an agnostic. North concludes that we know very little on how paths of development are developed and, even more crucially, changed. "It is not that rulers have been unaware of poor performance", North maintains, "Rather the difficulty of turning economies around is a function of the nature of political markets and, underlying that, the belief systems of the actors." (North 1993 p. 20)

But although North points to an important problem he fails to analyze "winners" and "losers" in different "institutional settings" and therefore his model does not help us very much as far as explanations go. It is also very possible that some people gain more from upholding a status quo than changing it, even though this status quo does not promote economic growth. And it could actually also be the case that some people lose very much in an economy that has succeeded in lowering transaction costs, and in specifying property rights. The evidence on the proletarianization process until at least the 18th century indicates clearly that this may be the case (Levine 1984) (Seccombe 1991).²⁰ It is therefore not a question of realizing problems or reversing "mental representations", it is a question of "making them matter", i.e. of power and rule. And a throughout going institutional program would of course analyze the institutional and economic *preconditions* for power rather than vice versa.

But even further, North description of the state and bargaining power implicitly assumes that there always is a possible road of institutional change that is good and efficient for everybody involved. Hence his description of power and state is at bottom entirely consensual, and leave very little *analytical* room for social conflict and antagonistic social relations. But, contrary to this, power itself is based on the property relations of society, which furthermore may be very contradictory and antagonistic indeed. North has to concede at least to the possibility of this state of affairs, because in one way or another, the concepts he uses have to be seen as class concepts i.e. social relations in production and exchange. But social power does not give rise to these property relations, social power is a consequence of them.²¹

Hence another major problem in arises in North's account of bargaining power. In accounting for institutional change and the functioning of the market, North envisages the *market* not as a system of power and social relations (in short he does not see it as an institution), but rather as an arena where players play a game. The state and power relations indeed have to be analyzed in North's model, but his own attempts to do so have a clear *ad-hoc* character, since power only arises *outside* the pure market as a result of transaction costs and asymmetric information. So, although institutions "are created to serve the interests of those with the bargaining power to create new rules." (North 1993 p. 6) according to North, this power does not emanate from the market or capitalism in itself, but from the fact that "individuals typically act on incomplete information and with subjectively derived models that are frequently erroneous; the information feedback is typically insufficient to correct these subjective models." (North 1993 p 5).

²⁰ This problem in North is also highlighted by Gustavsson (1996 p. 12). He says: "These observations confirm the importance of the notion of 'class-efficiency' and distributional concerns in general in explaining both why institutions are abolished and introduced and how they influence economic agents". See also Knight (1992).

²¹ This is an extension of an argument of Bo Gustavsson (1996 pp. 15-16 and p. 20). Gustavsson concludes that North has inherited the preoccupation from political economy and Marx but that he "turns Marx upside down". I would hence argue, that in the matter of the relationship of state, power and the economic sphere there is a great divide between the arguments of North and Marx.

To North power mainly becomes an information problem. If you have information, then you have bargaining power. In the end North only has a theory of individual power not of social power arising from institutions and property relations.

But arguably this reverses the whole issue, because information and knowledge is surely itself a consequence of the social power relations individuals have: on the market, in production and in the state. It is not that unequal information and knowledge gives rise to classes and the state. It is the class society, and the social positions people enter into, which give rise to different information, knowledge and power. Individual knowledge is not possible without the institutions and organizations inherited from the past. History matters here too. This is rather self-evident if one comes to think of it. It would also be a logical conclusion from North's own preoccupation. But, although he can acknowledge the problem he cannot fully deal with it.

As is evident, in recent years North has tried to widen the institutionalism of his model to create a more realistic view of the world. Hence his model has become all the more ambitious, which tries to incorporate everything from culture to law and the state. But *viola*, Pandora's box is opened for North.

Now North has taken the standard economic tools to where they did not belong. It becomes all the more obvious that he has moved so far away from the neo-classical paradigm that the tension is unbearable. Following his own logic North has come to see the determining effects of economic growth or decline as being in the informal constraints, and the state, and in his idea of path dependence. The key to understanding differences in economic performance lies here and not in the economic sphere. So the further North goes along this road, the more the economic sphere disappears in his model. The economy is no longer the cause of development and growth, it is rather the consequence of "constraints".

The simple fact is that in the recent developments of North's thinking, the economic sphere is sterile as an explanatory variable. It is all other relations - culture, habit, "mental models", and the state - that explain different economic systems and their performance. And North has no coherent analysis as to the origins of these other institutions. North can only succeed in saving the core of neo-classical economics by making it almost superfluous to the explanations in the model.

This is no wonder. It is a logical conclusion of North's enterprise, and intellectual development. Once you see that equilibrium economics is not suitable for explaining how economies develop, and if this neo-classical economics is the only conception of the economic sphere you have, then the economic sphere will ultimately have no value in the explanation.

This all the more pressing dilemma is clear to North. He provides half-hearted attempts to deal with these all the more apparent problems by a rather hesitant version of concept imperialism. The problem of explaining the economy with institutions is then reversed into the one of giving the institutions a neo-classical economic explanation. Therefore North tries to talk about the state and policy in terms of standard economic modeling ("political markets", voting as "the cost of expressing your conviction" etc.). But he does so in a very cautious manner because taking this logic too far would be to go into the camp of Public Choice or even Becker's "economic point of view". And North does not want to take his institutionalism there.

Concept imperialism, and a neo-classical explanation to institutions is not salvation for North's theory, it is the dying breath. North cannot do away fully with the barren burden of his original economic paradigm. The result is that where he has taken it, this theory becomes increasingly empty in content.

Thus far North, within the confines of NIE. But we cannot stop here.

A tale of two Norths

Until now I have described the institutional economics of North, as it rests within the confines of NIE and orthodox theory. The criticism has been launched as a conceptual critique in relation to (i) the historical development of the institutional framework we call capitalism, and (ii) Theoretical consistency.

Whereas the critique of the first part remains intact, North has after his Nobel Prize in 1993 moved even further away from the previous preconceptions of his thoughts.

In an article (North/Wallis 1994) North and his co-author try to integrate technical change and institutional change in economic history.

There are numerous theoretical points in this article, which strongly deviate both from North's earlier positions, as well as NIE at large. While North seems willing to grant these differences, he is also unwilling to see the far reaching consequences of these differences to the transaction costs approach and NIE at large. And although North in his latest development definitely gets some things right which he before did not, an acceptance of these position definitely lead away not only from NCE but from NIE too.

Although North still claims adherence to the basic tradition of Coase and Williamson etc. he now finds a flaw in their approach. He points to the fact that Coase's formulation holds true given a specific level of technology. But since technology actually is not given it too has to be chosen alongside institutional arrangements: "Then the rule of thumb proposition that institutions are chosen to minimize transaction costs is demonstrably false. Institutions will be chosen that minimize total costs, the sum of transformation costs and transaction costs, given the level of output" (North/Wallis 1994 p. 610).

This new insight leads to a further complexity. So now North declares: "Rather than viewing institutional change as a way of implementing technical change, our framework allows for institutional change to be an important and independent source of growth. Technical change also has a broader impact, sometimes changing transformation costs, but sometimes changing transaction costs more directly (ibid. pp. 610-611).

North hence ends up correcting the initial formulations of his project, as well as the transaction cost project at large. Because now it logically follows that institutions are not solely created because of the presence of transaction costs: "*institutions do not exist to minimize transaction costs*", declares North (ibid. p 622, emphasis added). But if this is the case, as I have argued above, all this mumbo-jumbo of "zero-transaction cost efficiency" has to go full scale. Will North concede to this? And will the rest of NIE be that subversive in relation to NCE?

The other major change of focus in North relates to the question of transaction costs themselves. As said, Coase's original formulation presupposes the market and prices. Furthermore we have argued that in order for this theory to be coherent with orthodoxy:

methodological individualism and choice, these transaction costs have to be visible as costs or prices for the actors.

North now concedes very simply that “many transaction costs are not observable” (ibid. p. 612). Secondly North now concedes that “transaction costs are transaction costs whether they are incurred inside or outside of the firm” (ibid. p. 613). In a footnote North actually gives away the whole problem that I have pointed to in relation to TCE at large:

This whole approach skirts a critical problem: if we cannot measure the absolute level of transaction costs associated with two types of contracts how can we tell that the transaction costs are higher in one contract than another? There is no obvious *empirical* ability to tell whether transaction costs are higher or lower under one contract than another (North/Wallis 1994 p. 615).

So now not only is Pandora’s box open, it is explosive to the fundament of the whole system. North now concedes that most of the transaction costs are not visible even for the researchers who investigate into them. But how could they then be visible for economizing by the rational agent?

This far North will not go. It is mined territory. He still maintains that agents try to reduce all costs (not only transaction costs). But he skips the question how this is possible given the assumption that at least some very significant transaction costs are not visible and quantifiable.

Some remaining problems

There are further concessions in North’s latest writing that are increasingly problematic in relation to above all his 1990 book. For instance, if there are transaction costs within the firm, and transaction costs are defined as “the costliness of exchange”, the logical conclusion within that framework itself is that *not all contractual exchange takes place within a market!* If we grant this the whole enterprise of NIE, TCE and property rights theory is undermined from within its own ranks. The very idea of firm superceding the market approach seems rather useless.²²

North of course will not go here either. He gives undue credit to Coase and Williamson, and gives the air that his corrections are minor ones. But they are not!

Furthermore, in relation to the efficiency problem in North, this remains the same. Either we assume that actors by way of competition reach an institutionless efficiency, or we have to specify the institutional setting for efficiency, and then the Coase theorem has to go either way. North’s position is really the second one, but he will not concede to this. As said, that would undermine the whole enterprise.

The last problem relates to how transaction costs are actually integrated in institutional economics. North/Wallis try to, in accordance with an earlier article by the two (North/Wallis 1986) indicate that measurable transaction costs are the lowest benchmark for these cost in an economy. But they remain in trouble since they concede that many are not measurable. Even further, they skip the fact that the problem they have pinpointed to strikes right back at their own framework. Like they themselves say:

Under that assumption [transaction cost are not measurable] theories that propose an important role for institutional change in explaining the development of economies must necessarily be content with making assertions that can rarely be confirmed or falsified, since the economic variable they rely on, transaction costs, is unobservable. (North/Wallis 1994. p. 622).

²² We’ll deal with this problem in relation to Coase’s original formulation as well as the theories of the firm within NIE

If this statement is true, what can NIE do from here? And whatever they do, how is this compatible with orthodox price theory, methodological individualism, choice and efficiency?

North's position has become even more untenable now that he has moved it away from his own earlier institutional analysis. So untenable that, of course, he will not recognize the tension.

Conclusion

The merit of the "early North" lies in his consistent appeal to the economic logic of the system: prices, land/labor ratio etc. The problem is that this economics is the static neo-classical one, and hence inept for the purpose of explaining historical and institutional change.

The merit of the "later North" lies in the fact that he has recognized the demerits in the equilibrium model, and the need to conceptualize some social aspects of the economic system such as market institutions, the state and power. The problem is that in doing so he has made the economic sphere analytically sterile and superfluous. Now it is almost all other relations (remaining unexplained) that explain the economic development.

North's references to standard economics are now more of a ceremonial logic, a declaration of faith, rather than warranted for theoretical purposes.

The development of North's theory over the last 25 years provide for an ambitious "greatest hits-compilation" of economic thought, ranging from neo-classical orthodoxy to some far reaching concessions to institutionalism; and now ultimately away from its own basics. We may feel free to pick and choose what we like. North's theoretical apparatus is a paradise for the eclectic. But for the one, who wants theoretical consistency and economic explanations, it is becoming increasingly problematic.

The last development from North, his subversive attack on transaction cost theory, (which is actually to a large degree "away from the North of NIE") is his "greatest hit" so far. We add it to the compilation. But then we must inevitable change the tune!

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