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Some reflections on the death of Douglass C. North (1920–2015)

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The death of Douglass North, who won the Nobel Prize for economics in 1993 for his work on developing the New Institutional Economic History (NIEH), will certainly be felt in all disciplines associated with economic research. Once he had shed his early attachment to econometric methods in economic history – the so-called Cliometrics approach – and his even earlier Marxism, North became a byword for the most creative and influential work in extending the boundaries of the New Institutional Economics. His contributions to this extension straddled many disciplinary divides of the academic world: he both took inspiration from and inspired work in economic theory and global economic history, but also in evolutionary biology, cognitive science, politics and anthropology.

In the early stages of the development of his NIEH research programme, most notably in his collaborations with Robert Paul Thomas on the ‘rise of the West’, his method and conclusions still hewed close to the mainstream of economic thought at that time. The emphasis of his work was on understanding the specific institutional structures, economic and political, of medieval and early modern societies in the ‘West’, and they did so by examining them as the efficient outcomes (given initial conditions) of a form of social contract. Even in this stage, however, his interest in New Institutionalism guaranteed that no facile assumptions about the extent or significance of modern markets were smuggled in, but that rather the constraints imposed by transaction costs, uncertain property rights and limited information were to be seen as central to understanding the characteristics of the ‘typical’ feudal manor. As a result of criticisms, most notably in a number of papers by Alexander Field, North abandoned this ‘efficiency approach’ in later work. From the publication of his 1981 book *Structure and Change in Economic History* onwards, his approach took a more radical turn, at least vis-à-vis the economic mainstream. Rather than assuming institutions could only come about – and persist – as locally efficient outcomes of a social contract-like process of institutional formation, North now came to argue for the *inefficiency* of many institutions from the point of view of the reduction of transaction costs, and therefore of modern economic growth. This

confronted him with the question of how, within the NIE framework, such institutions could be accounted for (if they were not simply substitutes for private contracting, as the neoinstitutional paradigm of “markets versus hierarchies”, associated with the work of Ronald Coase and Oliver Williamson, would suggest).

His search for an answer to this question spanned over three decades and several major monographs. It led him on a trajectory that can perhaps best be described by Thrainn Eggertsson’s term “successive endogenization”: that is to say, the incorporation of ever more subject matter normally left to other social scientists as variables in the institutional model. (This same process has led critics to see his work as an exercise in ‘economics imperialism’.) For North, institutions were ‘rules of the game’, and individuals and organisations (including firms, but also unions, political parties, and so forth) were the ‘players’. This provided him with a clear framework for translating his social contract approach into a framework implicitly reliant on game theoretical and public choice models of cooperation and coordination. But the more North abandoned the efficiency approach, the more social phenomena suddenly seemed essential for understanding how this process actually worked at a social and individual level, and how it could so often appear to be sub-optimal from a modern economist’s viewpoint. This entailed the study of varying political structures in the premodern world, the nature of the state throughout history, the importance of belief systems and ‘mental models’, the formation and persistence of shared norms, values, and cultural markers, and ultimately even the evolution of human cognition. All this he sought to capture under the moniker of ‘bounded rationality’, a concept derived from the work of Herbert Simon.

He subsequently in his latest works placed this ensemble into an evolutionary framework. In North’s last vision, a Lamarckian process of institutional inheritance and change determined the structure and performance of markets and other forms of exchange in societies. Institutions in this view serve to mediate the bounded rationality of individuals, the given transaction costs imposed by previous institutions and technology, and the norms and values of society, thereby shaping the structure of the political economic order in which the ‘players’ play their ‘game’. But despite forays into cognitive science, paleoanthropology and political theory, North never quite solved the problems he set for himself. His attitude to rational choice economics always remained ambiguous: he wrote many papers attacking it for its lack of realism and its neglect of the importance of rules and norms, proposing instead a bounded rationality approach, and yet he was never able to demonstrate just how beliefs and values were to be incorporated into a different concept of rational action without giving up the microeconomic foundations of the New Institutionalism, in which rational self-interest remains the explanatory benchmark for the ‘choice’ between markets and other allocation systems. His evolutionary framework remained incomplete and he never reconciled the centrality of prehistoric evolution to his account of cooperation and limited information with his vague and

underdeveloped notion of evolutionary competition between institutional orders, a concept he maintained to explain the evolution of 'order' in our more recent recorded history.

The fundamental tension in his work derives from his two contradictory impulses. On the one hand North's work was driven by his search for a more unified social scientific approach that incorporates much of the traditional domain of anthropology (and perhaps sociology as well), namely values, habituation, mental models of the world, noneconomic hierarchies, and so forth. On the other hand, he was unwilling in the pursuit of this aim to acknowledge the tradeoff: namely the requisite abandonment of the microfoundations of mainstream economics, based on utility maximization, rational self-regard (if not self-interest), and the conceptual reduction of all psychology and culture to the instruments of 'beliefs' and 'preferences'. North sought to have both, and therefore ended up with a wildly inconsistent theory of individual action, veering between a constrained rational choice approach and a more anthropological rejection of any a priori rationality concepts altogether.

For the REALEURASIA project, North nonetheless has relevance. Most importantly because, as only few commentators on North have fully appreciated, one of the main inspirations for his research programme was what he in a 1977 paper called 'the challenge of Karl Polanyi'. Polanyi is a major figure in the 'pantheon' of the project, and it is therefore all the more remarkable that North's 1977 paper is in large part dedicated to acknowledging the validity of Polanyi's critique of the practice of economists in studying (premodern) markets and market behaviour. In the years after Polanyi's death and before the start of the 'Polanyi revival' of the late 1980s, North, almost alone among the intellectually leading figures of economic thought, saw the merit of Polanyi's critiques and the necessity to formulate an economic answer to them. Polanyi was right, North argued, to point to the limited and embedded nature of markets in premodern societies. He was right that simple neoclassical models could not do justice to the great differentiation in economic systems in the past, and that nonmarket allocation systems, such as the famous *kula* trade, needed to be accounted for by a convincing and appropriate model. And he was right that 'economistic' historians had failed to examine how and why premodern societies were so different in the profit and growth orientation of their economic practices from the moderns. It was this Polyanian challenge that drove North to ask the question: how can this be explained without giving up, as he stressed, the tools of microeconomics and choice theory?

Even if North failed ultimately to meet the challenge of Polanyi, it is striking to observe how over the course of his long career, his project of 'successive endogenization' forced him into a degree of engagement with economic anthropological topics almost unheard of among economic historians. One may even observe a certain convergence with Polanyi's own positions, in particular in the emphasis on historical specificity, nonmarket forms of allocation,

and the economy as an instituted process. This can be seen as the result of the indeterminacies and inconsistencies of North's own attempt to square the circle, but also a tribute to North's willingness to abandon economic orthodoxies when they did not serve his historical explanatory purposes.

Given this fact, it is odd how unwilling North was directly to confront and engage with the economic anthropological literature. Even Polanyi himself eventually disappears as an explicit reference point. For North, anthropology was about the problem of cooperation in small-scale societies, essentially a branch of behavioural economics, and he remained bibliographically safely ensconced within the domains of New Institutional economics, economic history, and public choice theory, with an occasional foray into the New Economic Sociology. This is a remarkable lacuna given the subject and direction of North's work. Now that his life work is completed, there is an opportunity for people with a knowledge of both institutional economics and economic anthropology to reconnect the two literatures, and to show what the anthropological side has to offer in overcoming the serious conceptual problems of North's approach. The significance of Polanyi himself rests perhaps primarily on such a union of anthropological insight with economic historical (and occasionally theoretical) orientation. Answering his challenge as a contribution to the problem fields of contemporary social science will require a similar (re)unification.