

From Principle of Pricing to Pricing of Principle: Rationality and Irrationality in the Economic History of Douglass North

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1. INTRODUCTION

The current intellectual climate is marked by a dual retreat, faltering and uneven, from the excesses of neo-liberalism and postmodernism. First, the idea that the world is, and should be made as far as possible, like a perfect market, virtualism for Carrier and Miller (1998), is losing ground, giving way to an understanding organized around the more-or-less pervasive presence and influence of market imperfections and the need for the non-market to correct them. Second, obsessive interpretative and relativist deconstruction of the world associated with the cultural turn across the social sciences is increasingly conceding to a renewal of interest in material culture—how reality is both construed *and* created. Over the past decade, the extraordinary rise to prominence of two concepts in particular has symbolized these developments. In the lead, serving as a filter for a highly diverse range of approaches and topics, is globalization.¹ Close behind in timing, weight, and scope is social capital, the counterpart in most respects to globalization at the national or lower levels of community.²

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¹ For brief overview, see Fine (2002a, ch. 2; 2002b).

² See Fine (2001) for a comprehensive and critical account.

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For ideological and intellectual reasons, rational choice has prospered during the period governed by the strange co-existence of neo-liberalism and post-modernism. It has been complicit with neo-liberalism, both feeding and feeding upon it. Yet, because of its general lack of interest in, and capacity for, deconstruction, rational choice is essentially incompatible with postmodernism. But the latter has at least tolerated rational choice, not least in view of its own pre-occupation with subjectivity (of a different type, admittedly, as identity comes to the fore), and its abandonment of the economic field for those who have cared to claim it. Rational choice, neo-liberalism, and postmodernism have thrived together.

These generalities aside, what are the prospects for rational choice as it loses its erstwhile bedfellows? An answer depends upon another major development across the social sciences, the growing success of economics imperialism. As argued elsewhere, economics is currently colonizing the other social sciences as never before.³ There has been a proliferation of new fields in and around economics, potentially appropriating the subject matter of other disciplines—the new institutional economics, the new household economics, the new economic sociology, the new welfare economics, the new political economy, the new growth theory, the new labor economics, the new economic geography, the new financial economics, the new development economics, the new economic history, and so on. Such economics imperialism is far from new. But previously it was based upon reducing the non-economic to the economic, treating the former as if it were equivalent to a perfect market even in its absence. It had significant but limited appeal and scope, most notably through the work of Gary Becker's "economic approach." For him, everything is reduced to the rational choices of individuals endowed with biologically determined preferences.

Just a decade ago, this was considered outrageous even by Becker's fellow mainstream economists (Swedberg 1990). In the interim, a new form of economics imperialism has come to the fore, emphasizing the crucial impact of market (especially informational) imperfections. These are claimed, in typical reductionist fashion, to explain economic *and* social outcomes, the latter as the potentially collective but individually rational response to market imperfections. Conformity to institutions, customs, and culture become construed as rationality in light of feedback from historically evolving conditions.

In short, the new version of economics imperialism extends its explanatory power by inserting the rational individual into a world of statistical uncertainty and, equally, extends its appeal by adopting and adapting the language and concepts of colonized subject matter. Yet, as Zafirovski (2000) has perceptively documented in detail, all purveyors of rational choice rely upon a division between the rational and the irrational, between what they explain and what they find inexplicable (and generally to be dismissed or explained as irrational).

³ Fine (2001 and 2002a) for detailed discussion and, for further accounts and references, website <http://www2.soas.ac.uk/Economics/econimp/econimp1.html>.

Becker is an extreme example since he claims all behavior is accommodated within his economic approach. More generally, others suggest rational choice resides somewhere between this extreme and limits set by pursuit of self-interest through the market. In the past, as recognized even by its most ardent practitioners, rational choice has its limits and limitations, where the irrational and the social take over and complement it. The position could not be more clearly stated by Thaler: "I will end my remarks with the following two false statements. 1. Rational models are useless. 2. All behavior is rational" (1987:99). Further, as Velthuis (1999) demonstrates for Talcott Parsons, it is not so much a matter of the subject of enquiry as the method of analysis in which the economic approach is concerned with the individual and sociology with the social as a separate and legitimate approach (denied by the purist committed to rational choice).

Throwing these evolving elements together does not lead to identical outcomes in developments across the social sciences. How each discipline and topic responds to more general intellectual, and external, factors depends upon its own continuing traditions and debates. This paper is critically concerned with recent developments in economic history and the way in which Douglass North, in particular, has dealt with the relationship between the rational and irrational.

North is an apt choice. He has had a major influence on economic history in a number of ways. As founding contributor to the new economic history, or cliometrics, for which he was awarded a Nobel Prize in economics in 1993, he pioneered the application of mainstream neoclassical economics to history. Yet, he also rejected that earlier work, or its approach, for its inability to address the role of property rights and their foundation in institutions. These factors have themselves now fallen under the compass of "the newer economic history," one that draws upon the new micro-foundations or information-theoretic approach to economics. The rational, optimizing individuals of mainstream economics still prevail but they inhabit an informationally imperfect world that leads them to form and conform with institutions and customs. North has remained dissatisfied with such reductionism, worrying over how the ideas for new institutions arise and stick. Ultimately he rests his explanation on ideology or beliefs.

Thus, despite or even because of his intellectual foundations within neoclassical economics, North has recognized and emphasized its limitations. As the irrational has become rational, the exogenous rendered endogenous, so he has embraced, retained, and strengthened his commitment to such dualities. This has had two important effects. First, it has led some to be confused about whether North's institutionalism is neoclassical or not, and whether it can or cannot be wedded to older institutional traditions.

Second, and more important, North's economics and economic history clearly both predate and cohabit with their current evolution and mutual interaction. For he is widely cited across these fields and the social sciences more generally for his role in what might be termed "bringing institutions and history back

in”—from an economics and a (new) economic history that had been widely perceived to have omitted them, alongside power, conflict, and the like. But, in restoring institutions and history, the questions of what (is) history and what (are) institutions remain vital.

In this light, this paper shows that North's economics and economic history have, in some respects, remained fundamentally consistent with one another. That he should at times be perceived to be otherwise is a result of the failure to recognize that his undoubted methodological individualism persistently refuses to allow it to be reduced to rational choice alone. In this respect, North remains faithful to the divisions between the social sciences, and the rationale for them, that were characteristic of the intellectual environment of his earliest work. In contrast, currently, there are those who seek to restore institutions and history without recognizing the limitations of, and the limits to, explanations based upon rational choice. They can only draw approvingly upon North and his authority by ignoring the conundrums around ideology and beliefs with which North has puzzled over the last decades.

Such, in light sketch, are the analytical elements that form North's theory of history and its continuing significance. In section 2, we briefly outline the new and newer economic history so that the evolution of North's own stance can be brought into relief by way of departure, as elaborated in sections 3 and 4, one covering his account of the economic, the other ideology. North's theoretical vision of history is shown to have traversed a path from the principle of pricing (resources and their allocation are everything) to the pricing of principle (ideology is decisive and open to implicit purchase), combining the rational with the irrational and mainstream economics with ideology, and with transaction costs, property rights, and institutions bridging the divide between the two.

2. FROM NEW TO NEWER ECONOMIC HISTORY

Cliometrics is in its fifth decade. Its most enduring, and endearing, quality is navel-gazing. As one of its leading practitioners, McCloskey, puts it:

The members of the [Economic History] Association must be sick to death of “The Achievements of the Cliometric School.” The health of a field, it is said, is inversely proportional to the percentage of essays on method, by which standard cliometrics itself was sick to death in childhood and is only just now recovering. The few essays on method appearing nowadays are usually commissioned, lack revolutionary fervor, and have become as predictable as sportswriting: gee whiz, how extraordinary has been the growth of cliometrics; cliometrics is gravely limited by its attachment to neoclassical economics; do not be alarmed by counterfactuals (1978:13).

McCloskey signals a schizophrenic response of the profession to the adolescent field. Ardent supporters faced off against dismissive critics. The former have stressed achievement. McCloskey summarizes these as three⁴: to expose slop-

⁴ See Lamoreaux (1998) for an account of the historiography of cliometrics from the perspective of the newer approach.

py economics and reshuffle data; to engage in better counting; and, most important, to address grand questions of which debate over the economics of slavery has been the most important.

Pre-occupation of cliometrics with itself is unique across the new fields being colonized by economics. In general, these have taken some old version as point of departure without benefit of a return ticket. Indeed, the old has been treated with scant respect for lack of “rigor” and “science,” by which is meant formal mathematical models and falsifiability based on statistical techniques. It has been left to critics of the new not so much to defend the old as to observe that the new is not so novel after all with its insights fully understood and more fully grounded in earlier scholarship.⁵ In many respects, the new and wider grasp of economics has been parasitic upon the old—requiring the latter to pose its problems and provide raw materials for its models and t-statistics—but otherwise profoundly ignorant of its content unless through the selective prism of reductionist modeling.⁶

Such qualities are commonplace in the cliometric literature. But so is the more circumspect element. This reflects a nagging historical conscience. We are dealing with major economic and social change, starkly revealed by the passage of time and scarcely reducible to the dull intersection of supply and demand. Should cliometricians themselves forget their broader mission in estimating the marginal product of the last slave, the softer side of the profession can serve a salutary reminder. In short, cliometrics has been particularly vulnerable to criticism from others as well as to critical self-reflection, especially by comparison to the encroachment of economics into other social sciences. The “irrational” continues to haunt the “rational.”

The last decade has provided a striking illustration of the fragile self-confidence of the new economic history through the emergence of the *newer* economic history (Fine 2000).⁷ Its leading representatives have been scathing of the old cliometrics and have posted a collective notice of *mea culpa* to earlier skeptics, now adjudged to have been exonerated. Specifically, it is accepted that the old cliometrics depended unduly upon perfect competition and absence of institutions. Institutions now matter, alongside customs, norms, and the like. But these are amenable to formal modeling by means of the new information-theoretic economics with its emphasis upon market imperfections. By embracing the corresponding latest models from neoclassical economics, apart from purporting to explain the presence of economic structures, non-market forms of interaction and apparent abandonment of (direct) pursuit of self-interest are also understood as an appropriate response to informational imperfections.

⁵ For a selection see Nelson (1997) on the new growth theory, Martin (1999) on the new economic geography, Ingham (1996) on the new economic sociology, Toye (1995) on the new institutional economics, and Fine (1998) on new labor market theory.

⁶ See Lazear (2000) and Fine (2002c) for a critique.

⁷ See Fine (2000) for a critical account of the newer economic history.

From such analytical richness, rectifying the sins of omission of the past has, in its own mind, permitted the newer economic history both to command the field by incorporating the concerns of its erstwhile critics and by extending the scope of analysis from firms to industries and from industries to nations as reflected, respectively, in the sequence of volumes (Temin 1991; Lamoreaux and Raff 1995; and Lamoreaux et al. 1999.)

The newer economic history is marked by five fundamental features. First is its reductionism, comprising a number of elements. Despite claiming to break with mainstream economics, it only does so as far as the assumptions of perfect competition are concerned. Indeed, the newer economic history might be seen more as tagging upon recent developments within information-theoretic economics rather than as responding to its critics within history. Significantly, in a relatively recent textbook, Atack and Passell comment: “As new tools and insights have been added to the economist’s toolbox—whether principal-agent problems, human capital theory, computable general equilibrium models, or game theory, to name a few—economic historians found that they provided better ways to interpret the past. Consequently, they have been quick to adopt them. At the same time economic history has not merely borrowed from economics but also contributed to our understanding of economics” (1994:xiv).

Yet, this promises too much, too early in terms of what the volume delivers, for the mentioned tools and insights scarcely figure in the book, despite its 700 pages, and they are absent in index entries. Terms such as “principal-agents” and “moral hazard” do appear in a glossary, and presumably both introduction and glossary were drafted at a later stage, just as the newer economic history was coming rapidly to the fore. In any case, the basic reliance upon methodological individualism remains. The economy is made up of an aggregate of optimizing individuals who are burdened by imperfect and asymmetric information and corresponding transaction costs. Consequently, it is possible for economic and social structures to be explained, together with institutions, customs, and norms, as the individually rational but collectively reproduced response to such market imperfections.

The newer economic history’s second fundamental feature is that, methodologically, it depends upon a division of variables between endogenous and exogenous, a proxy for the rational and irrational. With the benefits of the new information-theoretic economics, the boundary between the exogenous and the endogenous shifts in the latter’s favor. Consequently, whether it be preferences, technology, and endowments, as in the old neoclassical model, residual explanation will always reside outside the model—with some initial starting point for the triumvirate previously listed for example, even if they are endogenized with the passage of history through custom, learning, norms, or whatever. Crucially, the division of variables between endogenous and exogenous, wherever the boundary falls, leads to a corresponding definition of the scope of economic history and the contribution that economics can make. This historiographi-

cal framework is put particularly clearly by Davis (1970: 68), who divides history into four categories of susceptibility: to existing economic theory; to analysis other than economic theory; prospectively to one or another of the social sciences; to interdisciplinarity. Whilst potentially perceived as a neutral descriptive scheme for organizing the literature, it is taken for granted that none of these categories is empty. It follows that any extension of economic theory must extend its scope of application to history. The newer economic history endogenizes what was previously exogenous. It must be able to do more, better.

More specifically, the new approach brings history back in. Its previous departure under the old approach and its dependence on mainstream economics is pinpointed by McCloskey:

“Smith, Marx, Mill, Marshall, Keynes, Heckscher, Schumpeter, and Viner, to name a few, were nourished by historical study and nourished it in turn. Gazing down from Valhalla it would seem to them bizarre that their heirs would study economics with the history left out . . . Yet this is what happened. It began in the 1940s, in some respects earlier, as young American economists bemused by revolution in the substance and method of economics neglected the reading of history in favor of macroeconomics, mathematics, and statistics” (1976:434).

Third, then, for the new approach, *history* as “time and context” that *matters* is re-introduced as a matter of theory. But it is understood in a particular way as path dependence (or presence of dynamics and/or multiple equilibria). This understanding of history is seriously deficient. Despite allowance for path dependence, the models and concepts are ahistorical, asocial, timeless, and universal. History, time, *and* context are confined to the random shocks, or other haphazard factors which lead to one rather than another *pre-determined*, if stochastic, path to be taken. Thus, Greif (1997:402) sees the neoclassical economics deployed by cliometrics to have been too narrow. In contrast:

This new economic theory . . . underscore[s] the importance of history in economic processes . . . endogenous-growth models, and dynamic general-equilibrium models . . . posteriors, focal points, learning, coordination, sunk investment, historically determined interest groups, social groups, social norms, legislation, and preferences. Hence, economic theory has begun to support, rather than undermine, the claim regarding the importance of history and to provide conceptual frameworks within which path dependence may be examined.

But, as is made clear in the volume contributed by Bates et al. (1998),⁸ to which Greif is a contributor, history at most serves to aid in the selection between otherwise ahistorical models or between equilibria for a selected model.

Fourth, as already apparent in its narrow understanding of history, the newer economic history remains more or less untouched by postmodernism and concern with the socially constructed meaning of its objects of study. This is inevitable for any analysis that draws upon mainstream economics, for the latter

⁸ Somewhat paradoxically, the book is dedicated to North, Boniface and Sharman (2001).

is unique in having been totally untouched by the influence of postmodernism. Quite apart from its own version of subjectivity, drawn from the preferences or utility of otherwise unexamined individuals over unexamined goods, it relies exclusively on universal categories such as utility, production, goods, and inputs for its analysis. Yet, the new economics does appeal to, and draw upon, notions of culture, trust, values, and so on. But the meaning attached to these is reduced to how individuals respond to informational uncertainties about the world. There is otherwise no socially and historically specific discursive content.

Last, and partly as a matter of style but significant in determining scope and appeal of the new approach, the formal modeling, and explicit assumptions and methodology upon which it rests, is often tempered by, even inconsistently incorporated with, informal analytical discourse. From broad propositions of the sort that institutions, customs, or history matter as a response to market imperfections, it is a simple step to allow for inclusion of any of the traditional variables of social theory, from culture and ideology, to exploitation, power, and conflict. Whether explicitly signposted as such, these ultimately derive from the opportunities or impediments created and sustained by optimizing individuals in a world of imperfect information.

From the preceding account of the newer economic history, a familiar pattern of analytical evolution presents itself. Because of the division between exogenous and endogenous, progress can be made by shifting variables from one to the other, respectively. What was previously a residual and unexplained becomes a variable and subject to explanation. The newer approach is exemplary illustration. Yet it is associated with one, as yet, unobserved anomaly. This is the relationship between the newer approach and Douglass North, one of the founding fathers of cliometrics and credited with having coined the expression “new economic history” (Goldin 1995:193). As will be seen, there are considerable affinities between North and the newer approach. He has for some time been highly critical of the old neoclassical model of perfect competition, especially in arguing that institutions and history matter. Yet North cannot be comfortably accommodated within the newer approach. One reason for this is because his own work has evolved informally and independently of it, not least because he commendably broke with its, and his own, early version prior to the rise of the new information-theoretic approach. The new and newer economic histories can in principle explain anything on the basis of rationality by pushing out the boundaries of the endogenous/rational, one by extending the scope of the as-if-perfect market, the other by appeal to market imperfections. By contrast, North has retained a continuing commitment to the role of ideology which occupies an uncomfortable position in straddling the rational/irrational divide.⁹

⁹ In what follows, we concentrate exclusively on North’s theoretical trajectory. For an assessment of its application to history, see Milonakis and Fine (2001).

3. SHIFTING VISION OF THE HISTORIAN OF THE WESTERN WORLD

Since early cliometric years, North's thinking has evolved continually. At the outset, he reports major change in the academic wind, "A revolution is taking place in economic history in the United States" (1963:128). The impact will be felt on the political and the social rather than vice-versa (1963:130). "Moreover, this new emphasis in no way vitiates the contributions of the nonquantitative historian. It does promise to provide both the historian and economist with important new support. For the political and social historian, the basic revisions of our economic history should suggest some fundamental reinterpretations in political and social history" (*ibid.*).

The revolution involves the application of economic theory to economic history. North suggests taking any leading article and seeing whether it is susceptible to formal modeling, even if needing to rely upon the most favorable (unrealistic?) assumptions. Most revealing of the primitive level of North's approach is his view on the viability of slavery: "Only if the wages of free labor fell to the subsistence level, so that in fact the prices of slaves fell to below their reproduction cost, would the institution become nonviable" (1965:91).

More generally, a manifesto is provided for the fledgling cliometrics: "In summary . . . we need to sweep out the door a good deal of the old economic history, to improve the quality of the new . . . and it is incumbent upon economists to cast a skeptical eye upon the research produced by their economic history colleagues to see that it lives up to standards which they would expect in other areas of economics" (*ibid.*).

By the early 1970s, North adopts a more ambiguous stance toward neoclassical economics and its application to history. It is roundly praised and perceived to be essential: "Neo-classical theory has been a powerful tool of analysis of the new economic history and has demonstrated repeatedly that it can shed light upon our economic past. In fact, I would put it stronger: A theory of choice—the self-conscious application of opportunity cost doctrine—is essential to the framing of meaningful questions in economic history" (1974:3). But, crucially, it is a theory that must know its limitations: "It is the systematic use of standard neo-classical economic theory which both has provided the incisive new insights into man's economic past and also serves to limit the range of enquiry" (1974:1). The problem is the neglect of transaction costs and associated enforcement. Indeed, "The growth or decline of economic systems is clearly a function of increasing or decreasing productivity of the two sectors—goods and services and protection and justice . . . It is the interplay between the two sectors that is a key to an understanding of economic change. What leads to the development of "efficient" or "inefficient" property rights and how do these "rules of the game" influence the output of goods and services?" (1974:6).

Significantly, the complementary role of protection and justice is viewed as a sector of the economy, although it is subsequently tempered with the passage

of time and the wise use of terminology less grating to the non-economist. Not surprisingly, he rejects the option of rejecting neoclassical economics altogether, simply because the economy rests cheek by jowl with the non-economic: “The approach I wish to suggest offers a common analytical framework to study the structure of economic systems. Standard micro-economic theory then becomes one part of a broader framework of analysis” (1974:3).

North’s subsequent work has sought to fill out that broader framework, primarily building upon rather than setting aside what has gone before. Since the 1970s, his central task is to account for *change in economic history*. In this he considers neoclassical theory is inadequate: “Neoclassical economics applied to economic development or economic history . . . does not and cannot explain the dynamics of change.” This does not mean that neoclassical theory is useless for the historian. For it, “may account very well for the performance of an economy at a moment in time or, with comparative statics, contrasts in the performance of an economy over time,” (North 1981:57). However, given its essentially static character, its usefulness in studying the dynamics of change is limited. Although, “explaining economic performance in history requires a theory of demographic change, a theory of the growth of the stock of knowledge and a theory of institutions, in order to fill the gaps of neoclassical theory” (1981:7), the focus of his theoretical work became institutions.

The building blocks of this theory are, first, “a *theory of property rights* that describes the individual and group incentives,” second, “a *theory of the state*, since it is the state that specifies and enforces property rights” and, third, “a *theory of ideology* that explains how different perceptions of reality affect the reaction of individuals to the changing ‘objective situation’” (1981:7–8, emphasis added). The key concept lying behind his theory of institutions is that of *transaction costs*. North notes, “What economists have not realized until recently is that the exchange process is not costless . . . and [they] ignore the costs involved in exchange . . . contending that such costs exist but are passive and therefore not important, or are neutral with respect to their consequences for economies” (1989:1319)

Indeed, this observation is elevated to the highest level of importance: “In fact, the costs of transacting are the key to the performance of economies” (ibid.). Consequently, the work of Coase (1960) is singled out for its significance both in emphasizing the presence of transaction costs and as a sorely neglected point of departure from mainstream economics: “Coase pointed out that the neoclassical model, which has served as the basis of economic reasoning for most scholars in the Western world, holds only under the severely restrictive assumption of zero transaction costs” (ibid.).

The next theoretical task is to set the potential gains from trade against the pervasive presence of transaction costs. Consequently, development is understood in terms of the net advantage of one over the other: “The result of all this is that resources devoted to transacting (although small per transaction) are

large, while the productivity associated with the gains from trade is even greater; and high rates of growth and development have characterized Western societies” (1989:1320). Why should North have set up the problem of development in these terms? The answer is his wish to explain why some economies should perform better than others. If it were simply a matter of “fundamentals,” availability of resources and technology, then differences would tend to be eroded by factor mobility and costless transactions.

Instead, as already indicated, North focuses on explaining how divergence in performance derives from differences in transaction costs. These, in turn, are explained by ascending a further analytical layer, to the level of *institutions*: “with positive transaction costs, institutions matter” (1989:1319). At a relatively early stage, North defines institutions as “a set of rules and compliance procedures and moral and ethical behavioral norms designed to constrain the behavior of individuals in the interest of maximizing the wealth and utility of principals” (1981:201–2). To highlight the importance, and potential variability, of institutions, North posits two extremes.¹⁰ In “a simple model of personal exchange,” there is a complete absence of “cheating, shirking, opportunism, all features that underlie modern industrial organization theory” (1989:1320). Everyone knows everyone else so that it is impossible to walk away permanently as the beneficiary of a bum deal for others. Here we have pure integrity for fear of being exposed, but the division of labor is crucially limited by the absence of the impersonal market. By contrast, at the other extreme, “a pure model of this world of impersonal exchange” (1989:1320), is rife with potential for cheating, etcetera. Consequently, costly though it may be, these need to be discouraged: “In order to prevent such activity, elaborate institutional structures must be devised that constrain the participants and so minimize the costly aspects . . . As a result, in modern Western societies we have devised formal contracts, bonding of participants, guarantees, brand names, elaborate monitoring systems, and effective enforcement mechanisms. In short, we have well-specified and well-enforced property rights” (1989:1320). *Property rights*, then, are a core component of the institutional level, imperative for agents to be able to handle the uncertainties attached to increasingly complex and impersonal exchanges. There are two broad aspects to institutional structures. One is *the state* understood as an enforcement agency; the other is *social norms*:¹¹ “The institutional requirements . . . [are] the result, first, of the development of a third party to exchanges, namely government, which specifies property rights and enforces contracts; and second of the existence of norms of behavior to constrain the parties in interaction, which will permit exchange where high mea-

¹⁰ North (1990:34–35) also identifies an intermediate stage of exchange, one based on, “impersonal exchange, in which the parties are constrained by kinship ties, bonding, exchanging hostages, or merchant codes of conduct.”

¹¹ Social norms also perform the function of explaining why economies differ in performance even though they share the same formal institutions.

surement costs, even with third party enforcement, pose problems with respect to opportunism, cheating, etc.” (ibid.).

Consider North’s theory of the state. The *raison d’être* of the state is its power to specify and enforce property rights. These are designed to produce forms of economic organization that would reduce transaction costs and promote economic growth. By doing so the state plays the role of the wealth maximizer for society. There is, however, a caveat: if this model is correct, what explains the widespread tendency of states to create and tolerate inefficient property rights? On the one hand, the state has two contradictory objectives: in addition to devising property rights in order to maximize societal output, the state also tries to specify rules which maximize the income of its rulers. Indeed, the latter is of primary importance to North (1981:43), but receives little analytical elaboration in later work: “The state will specify rules to maximize the income of the ruler and then, subject to that constraint, will devise rules to lower the transaction costs (and promote economic growth).” Further, “This fundamental dichotomy is the root cause of the failure of societies to experience economic growth” (1981:25). On the other hand, the ruler’s maximizing strategy is subject to two constraints which also help to produce inefficient property rights: first is a competitive constraint (from potential rulers within their own state or from rival states); second is a transaction cost constraint (referring to the costs of monitoring, metering, and collecting taxes) (1981:28).

This notion of the state is riddled with problems. First, the state is here treated as a Hobbesian institution standing above society, “a *deus ex machina* to define and sustain the idea of ownership” (Hodgson 1988:154). As such it needs separate analysis. A transaction-costs argument invoked in the explanation of most institutions is not applicable. Instead, North offers a functionalist explanation in terms of the state’s services to society: the specification and enforcement of property rights and the maximization of societal wealth (of its rulers). Second, a collectivity (the state) is here treated as if it were a rational maximizing individual subject to constraints, albeit with a dichotomy of motives. This serves North’s purposes well. If “inefficient property rights” arise, this is due to the first maximization principle, whereas if efficient property rights prevail the second maximization principle comes to the fore. Institutions emerge and persist according to whether they are functional to state objectives, however defined, in face of transaction costs. As seen below, in case of an individual’s behavior contradicting the neoclassical rational cost/benefit calculus, North appeals to the concept of ideology. Lacking a similar residual in the case of the state, he inculcates in its logic two self-contradictory objectives (maximization postulates), drawing freely between them according to the explanandum.

With an institutional structure comprising government and norms, and a separate distinction between institutions as formal rules and informal norms, this completes North’s analytical framework with the exception of one crucially important refinement of social norms that adds one last layer to be elaborated later. First,

consider how this structure explains historical change and economic performance. There is one essential mechanism that straddles all of the analytical levels—*individual pursuit of self-interest with an as-if market mechanism prevailing throughout society*. This is already explicit in the gains from behaviors such as cheating, but for institutional impediments. But it penetrates everywhere, even to the determinants of ideology, with every principle having its price:

To the degree that individuals believe in the rules, contracts, property rights, etc., of society, they will be willing to forego opportunities to cheat, steal, or engage in opportunistic behavior. In short, they live up to the terms of contracts. Conversely, to the degree that individuals do not believe in the rules, regard them as unjust, or simply live up to the standard wealth maximizing behavioral assumptions we typically employ in neo-classical economics, the costs of contracting, that is transaction costs, will also increase. Empirical evidence suggests the price we are willing to pay for our conviction is a negatively sloped function, so that ideological attitudes are less important as the price increases (1989:1322).

In this light, outcomes are path-dependent, contingent upon the strength of bargaining parties and, not surprisingly, with (transaction costs) market imperfections as a starting point, can potentially lead to Pareto-inefficiency. The latter arises as those with power have an incentive to exploit it at the expense of efficiency, presumably in the absence of evolved mechanisms for transfer payments that could be more than provided for by the greater efficiency that is attainable in principle: “[If] the revenue that can be raised by the rulers [is] greater with an inefficient structure of property rights . . . even when rulers wish to promulgate rules on the basis of their efficiency consequences, survival will dictate a different course of action, because efficient rules can offend powerful interest groups in the polity” (1989:1321). This means that history is the “endless struggle of human beings to solve the problems of cooperation so that they may reap the advantages not only of technology, but also of all the other facets of human endeavor that constitute civilization” (North 1990:133).

But what exactly does North mean by “history”? Essentially it is confined to the impact of path dependence. In moving from the opening of his book, “History matters” (1990:vii), he adds the refinement one hundred pages later, “Path dependence means that history matters” (1990: 100). But he considers that the literature has neglected the importance of transaction costs, without which past mistakes could be costlessly rectified, and explicitly refers to the work of Paul David and QWERTY, the setting of keyboard lay-out in stone/plastic¹²: “If . . . the actors initially have incorrect models and act upon them, they either will be eliminated or efficient information feedback will induce them to modify their models” (1990:85). Once again, North’s divergence from the mainstream is at

¹² QWERTY is the typing keyboard laid out to minimize jamming for mechanical typewriters but now redundant in the age of computers. Its use by David as an example of path dependence through technological lock-in has become a historical cliché. For a critique of path dependence as understood by David, see Fine (2000).

most marginal and reflects no apparent sensitivity to the social as something distinct from the individual.

4. FROM PRINCIPLE OF PRICING TO PRICING OF PRINCIPLE

North's analytical framework presented so far is consistent with the newer economic history. Indeed, the latter has engendered a positive response, North writing: "I am far more optimistic than I was in 1977," partly because of initiatives "exploring the 'black box' of the rationality assumption, confronting theorizing in the real world of uncertainty (or ambiguity), exploring the implications of transaction costs for economic performance, modeling political-economic systems, examining the nature of preferences and so on" (1997a:412, 413). With the partial exception of reference to uncertainty and ambiguity, such sentiments could have been expressed by mainstream economists, or newer economic historians. North also shares a huge ambition in reach of historical explanation, as revealed by the title of his seventeen-page joint article of 1970, "An Economic Theory of the Growth of the Western World." Yet, North does not follow, or anticipate, the route taken by the newer approach, which is to elaborate ever more complex models of imperfect information on the basis of an ever wider range of uncertainties. Rather, he critically departs from this path in response to one analytical and one empirical issue.¹³ The latter concerns his acceptance that not all behavior is reducible to economic rationality, even of the extended type associated with the conscious adoption of such things as custom for individual through collective gain. Simply put, behavior remains anomalous by such criteria, most notably in the phenomenon of individual voting in elections where the negligible anticipated rewards (nil unless a tie) do not justify the effort. Consequently, social norms become something more than, and different from, game-theoretic, long-term strategizing. They incorporate, at one further level, ideology: "Norms are codes of conduct, taboos, standards of behavior, that are in part derived from perceptions that all individuals form both to explain and to evaluate the world around them. Some of these perceptions are shaped and molded by organized ideologies (religions, social and political values, etc.). Others are honed by experience, which leads to the reaffirmation or rejection of earlier norms" (North 1989:1322).

Ideology becomes a truly marvelous and powerful explanatory factor. For it encompasses whatever is not explained by rationality (which has itself been extended by appeal to market imperfections). This is a point of departure from the newer approach, certainly as promulgated by economists, for whom only rationality exists, and appeal to any other form of behavior is arbitrary and unacceptable. North defines ideology as "the intellectual efforts to rationalize the behavioral pattern of individuals and groups" (1981:49). Again, as for the state,

¹³ Hence Vandenberg's (2002) notion that North inconsistently combines different approaches where he departs from the neoclassical economics with which he began.

this approach changes little in his later work. But, unlike the state, much more analytical weight becomes placed upon ideology (possibly because the state is an institution that is itself seen as ideologically determined over and above the pursuit of self-interest). For North, ideology performs two critically important analytical functions. The first is to act as a constraint on a simple hedonistic, individual calculus of costs and benefits. It does so by legitimizing a given set of property relations, thus helping to reduce enforcement (transaction) costs. “Strong moral and ethical codes of a society is the cement of social stability, which makes an economic system viable” (1981:47).

Second, a positive theory of ideology is necessary to explain secular change, mostly as an initiator and fuel of large group action. As a historian mindful of change through time, North is not surprisingly devoid of reliance upon an equilibrium in which ideology is a self-reproducing artifact complementing, interacting, and integrating with the material world. Indeed, for North, “it is simply impossible to make sense out of history (or contemporary economies) without recognizing the central role that subjective preferences play” (1990:43–44). North is acutely aware, not least for methodological individualism, that for the world and for its institutional structures to change, someone must do it (1999:10–11). “Secular change has occurred not only because of changing relative prices but also because of evolving ideological perspectives that have led individuals and groups to have contrasting views of the fairness of their situation and act upon them” (1981:58). Further, “individuals change their ideological perspective when their experiences are inconsistent with their ideology” (1981:49). “Individuals will attempt to force change as a result of injustice and alienation they feel.” In other words, individuals may attempt to change the system because of a “deep seated conviction” that the system is unjust (1981:12). There must not only be incentive but conception, as revealed in this sweeping summary of his approach:

The reality of a politico-economic system is never known to anyone, but humans do construct elaborate beliefs about the nature of that reality—beliefs that are both a positive model of the way the system works and a normative model of how it should work. The belief system may be broadly held within the society, reflecting a consensus of beliefs; or widely disparate beliefs may be held, reflecting fundamental divisions in perceptions about the society. The dominant beliefs, that is, those of political and economic entrepreneurs in a position to make policies, result over time in the accretion of an elaborate structure of institutions, both formal rules and informal norms, that together *determine* [our emphasis] economic and political performance. The path dependence that results typically makes change incremental, although the occasional radical and abrupt . . . akin to punctuated equilibrium change in evolutionary biology can occur in economic change as well . . . the rate of change will depend on the degree of competition among organizations and their entrepreneurs . . . resulting in alterations of the institutional matrix. What follows are revisions to perceptions of reality (1999:10–11).

Thus, at the end of the day or, more exactly, on the top layer of the analytical structure, resides ideology or beliefs as underlying, explanatory factor. In-

deed, for North, “It is belief systems that are the underlying determinant of path dependence, one of the most striking regularities of history” (1994b:385). But as Rutherford puts it, “North does not provide . . . a theory [of ideology] so that his treatment of institutional change and stability now rests on the change or stability of a factor that is, in significant part, exogenously determined” (1994:46). It is a remarkable destination for an analytical journey that begins with optimizing individuals in a perfect market. In turning full circle and returning to the individual, by way of markets, property rights and institutions, at last a more rounded human being emerges, one with values and beliefs. By the same token, a more rounded economic history is created, one that straddles the other social sciences. Yet, if use of fundamentals depends on transaction costs, and institutions depend on ideology, the latter is ultimately decisive. How has it been understood by North?

First, there is some lack of clarity in the way North treats ideology. Having defined structure as “the characteristics of society which we believe to be the basic determinants of performance,” he goes on to include in this “the political and economic institutions, technology, demography, and ideology” (1981:3). Ideology, therefore, becomes part of the structure of society on a par with technology and demography! The problem with this formulation is that in treating ideology as part of the structure of society, the analytical distinction between structure and human agency or, in David Lockwood’s (1964) terminology, between “system integration” and “social integration,” is completely blurred since an aspect of the latter (human agency, social interaction) is simply treated as part of the former (structure, system integration). Thus one of the basic problems that has puzzled social theory from its inception, from Karl Marx and Max Weber to David Lockwood and Anthony Giddens, appears to evaporate unless it be the result of a huge and complex mechanism of simultaneous interdependencies over time. Ideology, however, whatever the exact meaning one chooses to attach to it, by its very nature implies a subject. Although *socially constructed*, it involves intellectual processes and is therefore *subjectively held* by individuals. As such, it is an indispensable part of human agency. Structures, on the other hand, refer to objectively identified properties and positions within a social system. As such, in Giddens’ words, “structures are necessarily (logically) properties of systems and collectivities, and *are characterised by the absence of a subject*” (1979:65–66). Hence, ideology cannot legitimately be treated as part of the structure of society but is itself part of the social process through which objective determinations in the form of structural positions and properties are translated into subjective action (see Callinicos 1987:39–40; Anderson 1980:17).¹⁴

Second, despite its crucial analytical significance for his framework, North’s

¹⁴ In commenting on an earlier draft, North accepts he was wrong in his 1981 book to “imply that ideology is part of the structure.” He also claims that he has since “conspicuously stayed away from the term because it is so loaded; and I have really been more concerned with the way in which beliefs evolve and the way in which learning takes place.”

treatment of ideology is admitted to be superficial although, he claims, through no fault of his own. North writes of ideology as: “That complex of ideas, customs, dogmas, values, ethical standards, etc., which make up our understanding of the world around us, establish our normative standards, and help define the choices we make. While some norms are externally enforced, others are internally enforced codes of conduct, like honesty or integrity. It would be an immense contribution to have a testable general theory of the sociology of knowledge and therefore an understanding of the way overall ideologies emerge and evolve” (1989:1323).

Ideally, there would be a theory of how ideologies arise and are reproduced. But North declares himself dissatisfied with what is available: “The immense literature on the subject from Marx and Mannheim to Merton is not very convincing, although Robert Merton’s chapters written in 1949 are still a good summary of the state of the art” (1989:1330). Because the literature does not provide a general theory of the sort he seeks, North sets most of it aside altogether. (Although, if such a theory were available and passed the test, it would close his model of history for good!)

What does North derive from Merton’s account?¹⁵ The answer seems to be very little, despite the decisive importance of ideology for his theory of history. Indeed, with one minor and heavily distorted exception to be taken up as the next point, North’s approach is marked by a rejection of Merton, especially in two respects. So much taken for granted that it does not bear stating, Merton is concerned with the *social* determinants of ideology—through class, structure, etcetera—even if harshly dismissive in his commentary of such factors being decisive in of themselves. North’s treatment of ideology proceeds exclusively from the individual, each deciding to change perception of reality like they would a production technique or color or design of clothing. Further, in seeking to avoid excessive determinism, Merton necessarily ranges over a wide set of explanatory variables and processes. By contrast, North chooses to focus upon one ideological determinant alone, stripped to its bare essentials—the costs and benefits to an individual of holding to, or changing, an ideology. Otherwise, with frequent reference to the work of Herbert Simon, and others working on (ir)rationality from the perspective of the individual’s cognition and system of beliefs, North is most readily interpreted as always reconstructing social theories of ideology through the prism of methodological individualism, of agents making sense of their external environment by interacting with, and internally contemplating it. In short, for North: “A theory of learning would model the way in which the initial genetic architecture, collective learning . . . from past generations, and the players’ experiences to-

¹⁵ In commenting on an earlier draft, North reports that he “sat in on Merton’s graduate seminar at Columbia in 1949 . . . I have tried to modify his framework in terms of what we have since learned about institutions, organizations, and culture, but a lot of my approach is derived from [what] I have learned from Merton and, for that matter, from Marx too.”

gether shape the mental models of the player to thereby provide the resultant belief systems (1995:822).¹⁶

Third, in confining himself to work surveyed up to 1949, North entirely overlooks the postmodernist period, and before, in which ideology is seen to be concerned not only with its attachment to cause and effect but also irreducibly with its own meanings. This theme is not absent from Merton's work but is more easily read into it retrospectively rather than it jumping out of the page. In contrast, there is little or no evidence throughout North's writings that he is aware of such considerations. Accordingly, he feels entitled to revert to an outlook based on the as-if market price for principles: "In the absence of such a theory, we can still derive an important and potentially testable implication about norms at a more specific microlevel of analysis, which is derived from an understanding of institutions. Specifically, the structure of rules and their enforcement help define the costs we bear for ideologically determined choices; the lower the costs, the more will ideas and ideologies matter" (1995:1323).

In effect, from starting with the principle of pricing in establishing the old version of the new economic history, and then applying it successively to resource allocation, property relations, and institutions, North can be neatly adjudged to have moved to a position of the pricing of principle. It is a theme that recurs throughout his later work, although consistent with what has gone before. As it were, ideology, etcetera, is complicated; we do not have a complete theory; so the focus will be on one effect alone. Thus, North suggests: "Institutions basically alter the price individuals pay and hence lead to ideas, ideologies, and dogmas frequently playing a major role in the choices individuals make" (1990:22). He confirms that ideas, etcetera, respond to the prices implicitly charged by institutions for our beliefs, even if we cannot decipher other determinants: "If our understanding of motivation is very incomplete, we can still take an important forward step by taking explicit account of the way institutions alter the price paid for one's convictions" (1990: 26). North uses this forward step to explain changing attitudes toward the family and to the role of women in society (1990, 84), and toward slavery: "What perhaps needs stressing more than anything else is that individuals could express their abhorrence of slavery at relatively little cost to themselves and at the same time exact a high price from slave owners" (1990:85). Nonetheless, had the North foreseen the cost of the Civil War, it might never have taken place.

Fourth, as already remarked, North definitely departs from the neoclassical version of ideology, one that reduces it to biologically determined preferences that are, nonetheless, potentially influenced by random as well as optimally chosen experience. North (1981:50–51) explicitly distinguishes himself from the pure form of rationality associated with Stigler and Becker (1977). He ar-

¹⁶ For North, in short again, it would tell us "what is the relationship between the way the mind works and the formation of institutions?" (1993:161).

gues that they neglect the formation of different individual ideological stances on the basis of the same experiences, and that ideology contains moral/ethical judgments (especially around fairness and equity). For North, ideology is seen as theory-driven, if at times unconsciously so, and as a means to simplify decision-making; it is “inextricably interwoven with moral and ethical judgments” and altered when inconsistent with experiences. North is particularly favorably inclined towards the bounded rationality approach of Simon, quoting him at length and concluding, that he: “Captures the essence of why . . . the subjective and incomplete processing of information plays a critical role in decision making. It accounts for ideology, based upon subjective perceptions of reality . . . It brings into play the complexity and incompleteness of our information and the fumbling efforts we make to decipher it” (1990:23).

Fifth, as already apparent, absence of a general theory justifies North in choosing arbitrarily across ideological determinants. Pricing of principle is one example, but equally prominent is the idea that whilst formal rules and institutions can be changed overnight, ideology and the informal evolve incrementally and are slow to adjust, a critique of a caricatured Marx for his base-superstructure model (1999). It is worth emphasizing—something more than a polemical point—that the modern economics literature through formal models has sought to demonstrate that North’s conclusion of the inevitability of incrementalism is simply wrong. Relatively small changes in some arena can lead to huge changes in others as a result of multiple equilibria, complex dynamics, and path dependence, quite apart from catastrophe and chaos theory. In adding the informal, and unmodeled, there is no reason to believe that this should be otherwise. Nonetheless, in drawing many of the separate elements of his approach together, and recognizing that preferences are strongly subjective and interpretative as distinct from the one-dimensional subjective rationality of mainstream neoclassical economics, he concludes that, “The agent of change is the individual entrepreneur responding to the incentives embodied in the institutional framework. The sources of change are the changing relative prices or preferences. The process of change is overwhelmingly an incremental one” (1990:83).

Presumably, North wishes to deny that revolutionary change is possible, on the basis of normative as well as of historical judgment. Paradoxically, he borders on the dialectical in denying the revolutionary:

Although ideological commitment is a necessary condition for mass support of a revolution, it is difficult to sustain. Giving up wealth and income for other values is one thing in face of a common and hated oppressor but the value trade-off changes as the oppressor disappears. Therefore, to the extent that the new formal rules are built on an incentive system that entails ideological commitment, they are going to be subverted . . . the formal rules change, but the informal constraints do not. In consequence, there develops an ongoing tension between informal constraints and the new formal rules . . . Although a wholesale change in the formal rules may take place, at the same time there will be many informal constraints that have great survival tenacity because they still re-

solve basic exchange problems among the participants, be they social, political, or economic. The result over time tends to be restructuring of the overall constraints—in both directions—to produce a new equilibrium that is far less revolutionary (1990:90–91).

Thus, with resource allocation and pricing nested in a structure that ultimately rests on an informal system of beliefs, change can only be slow and incrementally cumulative as the higher layers in the hierarchy of determinants act as a buffer on those below (North 1994a; 1995; 2000).

Last, having departed the neoclassical world, a whole new world is opened up for North from which to explain the ideologies we adopt. Apart from technology, demography, and institutions to address the evolution of fundamentals, he embraces cognitive analysis as a means to understand ideology. Somewhere inside our psyche, human history is waiting to be told. In short, the simultaneous weakness of North's treatment of ideology and its strength as an explanatory factor is a consequence of his failure to have drawn from the immense literature on the topic, most notably that ideology is subject *socially* to what might be termed the six Cs: it is constructed, construed, chaotic, contradictory, contextual, and contested.¹⁷ This is to be contrasted with North's understanding of culture: "Culture is more than a blending of different kinds of knowledge; it is value-laden with standards of behavior that have evolved to solve "local" exchange problems (be they social, political, or economic). In all societies there evolves an informal framework to structure human interaction. This framework is the basic 'capital stock' that defines the culture of a society" (1997b:13–14).

Thus, in reviewing the theme of comparing North with Merton, one overwhelming difference stands out between the two. Whilst, in the context of the social, Merton is committed to avoiding reductionism and rigid determinism, whether to the economic or otherwise, North ultimately settles on the strongest form of reductionism and determinism at the level of the individual. The impact of other factors is acknowledged if only to be sidelined in deference to the "pricing of principle." The as-if market mechanism works its way up through his analytical framework from resource allocation, property rights, and institutions, to ideology. One reason for what might be thought of as an ironic revenge upon Marxism, whose practitioners would surely blush at the extent of the economic reductionism, is the substitution of the individual for the social in this parody of a base-superstructure model (with intermediate levels). Throughout his work, North remains inseparably attached to methodological individualism, however much it may be complemented by property rights, institutions, and culture.

As a result, his most recent interest in cognitive science is understandable and entirely compatible with the evolution of his thinking. But this work remains underdeveloped both in itself and in its results. For, in addressing the no-

¹⁷ See Fine (2002a) for this in the context of the culture of consumption. Note, though, that North (1995), for example, accepts inconsistencies in beliefs.

tion of the social construction of ideology, North suggests that,¹⁸ “you cannot understand the way the mind works without intimately understanding the connection between the mind and its social environment” and, in order to take this further, “what we would like to understand is the way in which the external signals that the mind receives from the environment get structured into neural nets that produce the beliefs that human beings have.”

5. CONCLUSION

North’s starting point in his post-cliometric phase has been a critique of neo-classical theory as a framework for analyzing change in history. Since “the neo-classical world is a frictionless one where no institutions exist” and in which “change occurs via a change in relative prices in an impersonal market,” neo-classical theory can account for neither the institutional framework nor for change in history (1981:5, 8). In addition, neoclassical theory with its individualistic calculus is considered inadequate for a host of other reasons: first, it does not tackle the free rider problem and as such cannot explain “large group action,” which for North is a major source of change; second, it cannot account for altruistic behavior; and, third, it cannot explain stability (“why do people obey the rules of society . . . when an individualistic calculus would suggest cheating, shirking, stealing, assault and murder should be everywhere evident?”). “Indeed,” North goes on, “a neoclassical world would be a jungle and no society would be viable” (1981:11).

To account for all this, one has to go beyond the individualistic account of costs and benefits of neoclassical economics. Hence the introduction of institutions through a transaction-costs argument and of ideology as a means of overcoming the free rider problem and of accounting for all forms of behavior that do not conform to individual rational choice calculus. This is, according to North, the task of the social sciences: “The task of the social scientist is to broaden the theory to be able to predict when people will act as free riders and when they will not” (1981:46). In other words, for North, the task of social sciences is supplementary to the “economic approach” in order to deal with situations in which the latter fails, as is the case with altruistic behavior, large group action, secular change, and so forth. The rational individual, however, remains the starting point as well as the most pervasive element in North’s problematic. Having extracted the social from the picture by starting his analysis with the asocial, ahistorical rational individual, he then reintroduces it from without to account for the theoretical lacunae created by the very act of leaving the social out of the picture in the first place.

What is more, he does so *on the basis* of the individualistic rational choice postulate. This is obvious in the way he treats both institutions and ideology. He regards both simply as constraints on individual maximization. Institutions

¹⁸ This, and the following, from commentary on an earlier draft.

in particular, although of central importance in North's theoretical discourse, are not taken as a point of departure but are themselves explained in terms of the individual motivation of agents that comprise them (1981:44; and 1990:3–6). The state, on the other hand, is treated as if it were a maximizing individual. All is attached to a static and timeless framework.

This is how North himself summarizes his approach:

Defining institutions as the constraints that human beings impose on themselves makes the definition complementary to the choice theoretic approach of neoclassical economic theory. Building a theory of institutions on the foundation of individual choices is a step toward reconciling differences between economics and other social sciences. The choice theoretic approach is essential because a logically consistent, potentially testable set of hypotheses must be built on a theory of human behavior . . . Institutions are the creation of human beings. They evolve and are altered by human beings; hence our theory must begin with the individual (1990:5).

But North's methodological individualism also goes beyond the utility maximization of mainstream economics to encompass a more complete human being, purportedly drawing upon and integrating social science as a whole. As North puts it: "All theorizing in the social sciences builds, implicitly or explicitly, upon conceptions of human behavior . . . traditional behavioral assumptions have prevented economists from coming to grips with some very fundamental issues . . . a modification of these assumptions is essential to further progress in the social sciences. The motivation of the actors is more complicated (and their preferences less stable) than assumed in received theory" (1990:17).

His approach might be best understood as a combination of rational choice theory with irrational choice theory, the latter comprising whatever is left aside by the former. Yet, the approach is admitted to be flawed. The first, rational, element is unable to explain action other than in self-interest. The second has proved so elusive that, in a remarkable non-sequitur, North focuses systematic analysis on the pricing of principle. Yet, if there is one thing to be learned from the literature on ideology, it is that, however widely cast, its origins, meanings and evolution cannot be found within the individual. Ideology, although individually held, is *socially* constructed. Having taken social and historical specificity out of the analysis in the first instance by appeal to universal categories such as transaction costs, division of labor, factor endowments, and ideology itself, it is hardly surprising that North should face severe difficulties in reintroducing them at a later stage.

North's overt influence, then, has been to establish economic history as (a shifting) mainstream economics plus ideology, with transaction costs, property rights, and institutions bridging the divide between the two. His covert influence has been to deter those who look for something else from their history—to classes, movements, power and conflict, with corresponding theory to suit. The result in the past has been a great divide between economic and social history, in which there has been a corresponding if inexact division of responsi-

bility between material and cultural factors, respectively. This division is breaking down as economics increasingly purports to be able to address the social, the cultural, the institutional, and so on. The example of North's work reveals how limited are these claims derived, as they are, from methodological individualism, for which a division is necessarily drawn between the rational and the irrational, the endogenous and the exogenous, and the economic and the ideological. Nonetheless such methods will prevail to the extent that "social" historians fail to grasp the nettle of providing economic alternatives to the principle of pricing and the pricing of principle. For the latter will be influential if not central amongst those, such as North himself, who are dissatisfied with exclusive reliance upon formal modeling and reductionism to rational choice (with history as path dependence and model choice). These approaches, as in the newer economic history, have already introduced the richer language of history and social science by reference to culture, institutions, norms, trust and so on. North offers an alternative in allowing for the irrational, something outside the modeling itself, but only at the expense of a continuing commitment to methodological individualism however much it might be disguised by the adoption and adaptation of concepts and terminology derived from genuine social theory. Thus, North has become a standard reference in providing authority for the newer economic history (especially if citing work before his cognitive turn), but also for those who wish to engage on a wider compass whether in social history, political science, the new institutional economics, or the new development economics and studies.

What is the alternative? First is to recognize the current intellectual climate as one of dual retreat from the extremes of neo-liberalism and postmodernism. Unavoidably for North, the non-market and ideology matter, although each is narrowly construed. Second, North's own intellectual voyage, despite setting out under the mast of individualism, eventually leads him to the troubled waters of collectivities, power, and conflict. Third, these should be taken as an analytical starting point, historically grounded in the societies under consideration for which capital and capitalism, for example, are more appropriate as both material and cultural categories than are the universal notions of property, institutions, and ideology.

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