New Institutional Economics and History: A case of economic imperialism

For some time, economics became detached from history. By the 1990s, it seemed that little could be expected in the way of any kind of cross-fertilisation of ideas between the two disciplines, such as had been the case at the time of Braudel, for example. Yet, in the past decade, new links, built on different foundations, have been formed between these disciplines with the emergence of Global History and New Institutional Economics (NIE). Contrary to Global History, the hypothesis advanced in this paper will suggest that NIE, such as that developed by North, is problematic for the study of economics, either past or present. It will be shown that North uses history as a kind of pretext in order to impose a preconceived idea of how economics evolved. He uses a framework which is both reductive and inadequate since it is the result of an apologetic conceptualisation of ‘the great American firm’ and of the capitalist hierarchy of labour.

Firstly, I will describe the relationship between economics and history from the perspective of the crisis of economics which occurred in the 1970s. Faced with serious internal difficulties, traditional ‘political economy’ became an ‘economic science’, broadening its methodology and diversifying its objectives. The first theses of NIE, that North has never

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4 We do not wish to suggest that the arguments of Pomeranz (2000), for instance, are necessarily true but that they are more fruitful than NIE arguments for the advance of the debate.
5 I do not consider NIE to be a genuine branch of the institutionalism founded by Veblen, Mitchell and Commons; actually, NIE must be regarded as an attempt to save the neoclassical paradigm.
entirely rejected, was an important factor in this intellectual strategy. It would nonetheless be unfair not to recognise how North’s line of thinking evolved over time: North himself claims to have put some distance between his current work and the work which earned him the Nobel Prize in 1993. This is why, in the second part of this paper, I will seek to define the notable characteristics of his work, as it developed in the course of the 1990s. This development was characterised by the growing attention given to beliefs and ideology according to which economics should not just be about a theory of choice but also a theory of the determination of choice. I will argue that this development barely conceals a culturalist turning point which ought to surprise us. Finally, I will discuss some of the theses that North has been developing most recently concerning the importance of politics to the understanding of the historical dimension of economics. Yet, this latest development has led to further ambiguities. I will seek to highlight the importance of the social and economic context in which the neoinstitutionalist paradigm has spread. Hopefully this might lead to a fruitful reconsideration of the NIE.

1. The beginning of New Institutional Economics and the empire of economics

In the 1970s, research on general equilibrium theory experienced a crisis. The proponents of this theory behaved as if the fluctuation of economic variables could be revealed by the balancing of market forces. Yet, they categorically failed to explain precisely how such forces could systematically produce such a balance. This explains why this research has almost vanished. ‘Economic Imperialism’, as it has come to be called, has masked a huge fault-line at the heart of the discipline. The field of study of economic analysis has been extended, without question, to

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6 It is undoubtedly North’s 1990 publication which made him famous. The book began with the now well-known assertion that ‘history matters’ (North, 1990, p. vii). This led many economists to believe that North had undergone an intellectual transformation, leading him to the edges of neoclassical economics. It is likely that the decline of heterodoxies at the time can be largely explained by this illusion.


8 For further explanation, see B. Fine (1999), (2002a) and (2002b).
crime, to the family and to politics, for example. What was above all a *system of simulacra*, according to which human behaviour can be understood as if it was governed by the market or utilitarian reason, was elevated to the position of an interesting theoretical novelty. This illusion, once criticised by Veblen, was rationalised by an economic discourse:

“The current economic situation is a price system. Economic institutions in the modern civilized scheme of life are (prevailing) institutions of the price system. The accountancy to which all phenomena of modern economic life are amenable is an accountancy in terms of price (…) Indeed, so great and pervading a force has this habit (institution) of pecuniary accountancy become that it extends, often as a matter of course, to many facts which properly have no pecuniary bearing and no pecuniary magnitude as, e.g., works of art, science, scholarship, and religion (…) on reflection, all men of normal intelligence will freely admit that these matters lie outside the scope of pecuniary valuation.”

In the absence of evidence of markets in certain social fields, many scholars behaved *as if* markets did exist. Simultaneously, a number of discourses proliferated around the institutional question but it should be noted that their *constitutive and normative* ideals resulted directly from that of the free, open, competitive and self-regulating market. Those economists who were convinced by the NIE theses accepted that if the *really existing* economy was formed out of free markets functioning without ‘transaction costs’, we would be in the best of worlds in which there is no institutional question. From here, Williamson, a great promoter of analysis in terms of ‘transaction costs’, put forward the theory according to which “in the beginning there were markets”. He claimed to do so for simple reasons of convenience. It is to the credit of Ankarloo and Palermo that this convenience actually resulted from implicit necessity due to an apologetic

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9 For a critical discussion of neo-utilitarian theses, see A. Cot (1988, T1, p. 224 sq.) as well as the body of work published by the *Revue du MAUSS*.

10 Veblen (1909).
form of reasoning which aims to demonstrate that it is not coercion but efficiency which lies at the origin of the ‘institutions’ of capitalism (‘institutions’ here meaning the complex hierarchies which companies form)\(^\text{11}\). Nevertheless, this point of view, which lies at the heart of North’s approach, implies a number of difficulties. Firstly, imagine that economic actors choose\(^\text{12}\) “voluntarily through conscious choice, markets over hierarchy, capitalism over feudalism (...) by calculating their respective efficiency” (authors’ italics). It follows that one should adopt an aporetic conception of the market\(^\text{13}\): “if markets are assumed to be prior to selection, nobody historically could have chosen them for efficiency (i.e the market cannot be explained from an efficiency point of view). Alternatively, if markets are seen as consciously chosen, markets cannot be seen as the intended ‘spontaneous’ result of evolution (...) Williamson tries to solve these dilemmas by escaping them (...) Capitalist microrationality is a universal trait of human beings (even in the absence of prices and markets)” (authors’ italics).

This lack of logic has not prevented North from stretching further this line of reasoning, thanks to a theoretical coup de force in the form of the following hypothesis: “It is reasonable to assume that the forces that led to the substitution of firms for markets today also help us to explain the variety of forms of economic organization in past societies”\(^\text{14}\), companies being “wealth maximising institutions which substitute for price-making markets”\(^\text{15}\). This lies at the basis of the

\(^\text{11}\) D. Ankarloo, G. Palermo (2004, p. 418). This definition of institutions is different to that of North but it is possible to see the North approach as an extension of the social and historical field which forms part of Williamson’s approach.


\(^\text{13}\) Ibid., p. 419-420. North does not resolve this kind of difficulty, instead preferring to duck the issue, following Williamson’s example. Indeed, that the concept of the ‘market’ remains unquestioned in economic theory is something that is sometimes recognised outside heterodox economics. Cf. J. Maucourant (2007, p. 92).

\(^\text{14}\) North (1977, p. 724).

\(^\text{15}\) With respect to this particular issue, the present author commented, “Have economic organisations historically behaved like companies operating in capitalist markets if, as North never ceases to point out, the institutional structures are so dissimilar?” (Maucourant, 2003, translated by Emma Bell).
New Economic History (NEH) inspired by North which has been a decisive factor in the development of early forms of neoinstitutionalism in history. Institutions have thus been redefined: “Institutions are contractual arrangements between principals and principal (sic) and agents made to maximize their wealth by realizing the gains from trade as a result of specialization (including specialization in violence or coercion)”\(^\text{16}\) (my italics). The profits resulting from ‘exchange’ (understood in the widest sense of the term\(^\text{17}\)) are always at the heart of institutional analysis. Moreover, it is the particular conception of evolutionism advanced by NIE which makes ‘institutions’ comparable to goods and services caught up in the turmoil of competition. In France, Robert Rollinat, produced (as far as I know) one of the very first logical critiques of this first wave of neoinstitutionalism\(^\text{18}\). From a different perspective, I emphasised the methodological improbabilities of NEH and I questioned the “knowledges” produced by this approach, because it is not easy to distinguish between their normative and their positive sides\(^\text{19}\). I will now provide a brief reminder of these arguments.

For North, social relations follow the model of the contract: the question of power struggles, of expropriation and exploitation are deliberately set aside in favour of the notion that there are ‘institutional agreements’ which minimise ‘transaction costs’\(^\text{20}\). This rewriting of history, which ignores relentless and enduring conflicts of interest in the name of the hypothesis

\(^{16}\) D. C. North (1984, p. 8). Whilst it seems to the author that there is an error in this text, signified by the repetition of “and principal”, this citation is interesting: it reminds one of the very basis of North’s approach which links the ‘institution’ in the widest sense of the term to “profits resulting from exchange”. Indeed, in the paragraph following this definition of the institution centred on exchange and specialisation, North writes, “We may say that institutions consist of a set of constraints on behavior in the form of rules and regulations (etc.)”.

\(^{17}\) Serfdom is understood as a form of institutional efficiency on account of the general absence of a market economy (North and Thomas, 1980). Placing exchange at the heart of the analysis allows the question of class struggles and exploitation to be overlooked.


\(^{19}\) J. Maucourant (2003; 2004).

\(^{20}\) Hence S. Pollard’s comment on North (1984, p. 19): “In real history, however, institutions are an expression of power relations, and the forms they take are not determined by the interests of all members of society bargaining it out themselves, but by the interests of the stronger group only”.

of a social optimum, paints a singular picture of modern capitalism. The latter becomes a historical aim in itself, sanctioning the emergence of a system of ‘efficient’ markets whilst the very fact of Capital, a social relation founded on the often violent separation of the producer from his means of production, disappears from the account. Such is the logical consequence of a theory which obfuscates the reality of the conditions of production in favour of an exclusive account of exchange and its avatar ‘transaction’. Even Weber, an apologist for capitalism, notes that “free labour” as a condition of a “rational calculation of capital” must be understood as being only “officially free” since workers are in reality only driven forward “by the sting of hunger”\textsuperscript{21}. Marx was therefore not the only one to oppose “formal freedom” to “real freedom”! The history of the real world, that was written by Marx and Weber, is far removed from the “history-fiction” of North.

North’s history, based on a certain evolutionism, was thus relatively optimistic. Progress towards the best of worlds was guaranteed since market forces and the mechanics of institutional exchange are both pushed forward by the same utilitarian maximising rationality. It is as if there were an “invisible hand of institutions” helping to construct the world along the lines of Anglo-Saxon capitalism. The job of the economist is thus to understand the reasons which prevented (and prevent) some societies from reaching this social optimum. It would thus be correct to state that North’s evolutionism was characterised by an “unsteady hand”\textsuperscript{22}. The teleology of his approach remains implicit: the past is understood as nothing but an imperfect declension of a radiant future modelled from a system of self adjusting markets. The role of history is thus

\textsuperscript{21} M. Weber (1923, p. 298).
\textsuperscript{22} P. Dockès (1998, p. 91).
understood as being to illustrate the approach resulting from the idealisation of American capitalism.

This discourse is, to some extent, effective: historians who regretted not being able to elevate their discipline to the status of a real ‘science’ threw themselves into the arms of neoinstitutionalism. Economic science could still, at this time, pass for the very accomplishment of the scientific ideal in social sciences. Moreover, unlike Williamson who nonetheless inspired him, North did not, even hypothetically, note that markets were the very historical foundation of economic life. Indeed, he recognised the relevance of Polanyi’s observations on the weight that generally ought to be given to the market, and proposed that the task of modern science should simply be to explain *economically* the famous “forms of integration” which are reciprocity, market exchange and redistribution.

In addition, North’s work is characterised by a teleological functionalism. This is particularly evident in his acceptance speech for the so-called ‘Nobel Prize’: the meaning of the word ‘institution’ is once again modified and he even recognised that institutions cannot be ‘efficient’: “they, or at least the formal rules, are created to serve the interests of those with the

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23 In certain respects, Silver’s work, which may be situated within NIE but which is more radical than that of North, is revealing: his very radicality allows him to reveal the ambiguity of certain concepts. Thus, reciprocity, i.e. the gift/counter-gift system, should be understood as a mutually-beneficial system of inter-temporal exchange (Silver, 1985, p. 34) on account of the high transactions costs of High-Antiquity and of the necessary remuneration of ‘reputational investment’. In this way, it might be possible to explain the stupefying inequalities of ‘values’ between exchanged goods. But such inequalities only make sense with regard to equilibrium prices and there is no market allowing one to say what these equilibrium prices might be This example shows how NIE functions as a machine capable of projecting into the past the categories of the world according to Capital: without a market, we can play at the market, creating history-fiction and engaging in an exercise of style.


25 Indeed, D. North considers that his research should form ‘refutable’ propositions in history, thus illustrating how social sciences are coated in a veneer of Popperian conceptions. North having distanced himself from empirical research from the 1990s onwards, as he attempted to emancipate the aporetic framework of early neoinstitutionalism, it follows that the criteria of refutability loses its object.

26 This is what Veblen already denounced in his critique of marginalism at the end of the Nineteenth Century.

27 North (1994, p. 360): “Institutions are the humanly devised constraints that structure *human interaction*. They are made up of formal constraints (…), informal constraints, and their enforcement characteristics?” (my italics).
bargaining power to create new rules.” This attempt was necessary because this foible is generally unacceptable from a historian’s point of view. Yet, declarations of principles do not necessarily signify that an epistemological rupture has been achieved. Abandoning the historical inquiry *strict sensu* for methodological considerations, North consequently attempted to distance himself from naïve ideas about efficiency and knowledge which are so common amongst economists. Does the passage from early to late neoinstitutional research, as it began to take shape in the early part of this century, allow us to overcome the old problems or does it simply displace them?

2. The late version of neoinstitutionalism and the question of ‘beliefs’

In 2005, North openly criticised Neo-classical theory. As for the assumption “that people know what they are doing”, he states:

“This may be true in evaluating the opportunity costs at the supermarket, but it is wildly incorrect when it comes to making more complicated choices in a world of complete information and of subjected models used to interpret that incomplete information”.

The key question for North is thus that of the origin of individual perceptions. Economic science can no longer simply be a theory of choice; it should also be a theory of “scaffolds”, conceived by the human race, which falls short of choices. He explains that the nature of this “scaffolding” is “broadly” assimilated to “cultural context […] that shapes human interaction”. Yet, “The economic paradigm – neoclassical theory - was not created to explain the process of

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29 This was his explicit intention from 1990 onwards, *cf.* D. North (1990).
31 D. North (2005, p. 64).
economic change”34. North thus invites us to undertake in-depth work capable of accounting for the fact that economic history is all too often an unhappy history35.

But does North’s intellectual turn really break with this original economism? On the one hand, this is certainly not the case. Rather it entails extending the neoclassical edifice, dressing it up in reflections from evolutionist psychology and the cognitive sciences. That this extension is judged to be “very substantial”36 by North is a matter of opinion: in no way does he reject his work from the 1970s. After all, he seeks only to understand why the “incitative structures”37, held responsible for the “rise of the Western world” have not been adopted by other countries. The banal affair involves understanding why the West should have had the privilege of creating “efficient markets”38. From this perspective, it is cultural differences which ought to enable us to understand the means or failure of economic development39. As North argues, “Religious belief systems such as Islamic fundamentalism have played and continue to play a major role in shaping societal change”40.

According to North, influenced by Greif, the Islamic World did not create institutions which would facilitate “impersonal exchange”, something that he considers to be a necessary condition for growth in the long term41. We could open up a debate on the relationship between different civilisations and their economic structure but North does not intend to highlight the role of civilisation but rather that of religion. He does not go so far as to assert that an understanding of

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34 Ibid., vii.
35 According to North, the case of Spain would be an illustration of this, cf. ibid., p. 134.
36 Ibid., p. vii.
37 Ibid.
38 Ibid., p. 127. I would prefer to speak of supposedly efficient markets.
39 Ibid., p. ix. North controversially asserts, “Certain universals in human mental constructs such as super-natural explanations – religions broadly construed – suggest that these are congenial to the underlying inference structure of all humans”. Religions are seen to express a “genetic component” of the human being that we ought to be able to distinguish from “cultural heritage”. But, to follow his reasoning would mean that the distinction between religion and culture is unclear. Cf. ibid., p. 18.
40 Ibid. p. 19.
41 Ibid., p. 75.
religious experience is sufficient to explain the relationship between societies and growth. It is also necessary to understand the singularity of the environment of which religion is a manifestation. He notes, “I suggested that the origins [of this belief] probably stemmed from fundamental demographic/resource constraints that became embodied in religions since they were the dominant organized belief structure in the pre-modern world”42. But he considers that the difference between the West and elsewhere is in large part that of religion: “The belief structure embodied in Christian dogma was, despite some notorious contrary illustrations, amenable to evolving in directions that made it hospitable to economic growth”43. Following the work of Benz and White, the reason for this is that “Christian belief gradually evolved the view that nature should serve mankind and that therefore the universe could and should be controlled for economic purposes”44.

In these conditions, North considers that Weber was correct to highlight how the Protestant work ethic contributed to the economic success of the West but he notes that Weber did not examine the most important aspect of this relationship, namely the link between behaviour and institutions45. So, does North manage to do what Weber did not? If we assume that the impersonality of exchanges is the key stimulus to economic development, North fails to show how Muslim theology could be an obstacle to growth46. Indeed, much more work is needed to demonstrate that the sociology of religions, via the economic prism, can provide a new direction for neoinstitutionalism. The effectiveness of North’s rhetoric undoubtedly lies in the confusion

42 Ibid., p. 136.
43 Ibid. p. 137.
44 Ibid.
46 North, evoking Weber’s work, considers that “the religious origins of such values”, which provide the basis of commercial codes of practice, must be studied. For him, the moral rules that Adam Smith thought to be the very condition of growth (frugality, industry, honesty and fidelity) have been respected by the Japanese, for example. But, at this level of generality, it is hard to see how the study of religious practice can be particularly revealing. It certainly says little about Islam. Cf. Ibid., p. 57.
between *Islam as politics* - which is actually a very recent idea which North qualifies as “Islamic fundamentalism” – and *Islam as civilisation*.

There are good reasons to think of *Political Islam* as an ideological construction which may be a hindrance to growth: in Iran, for example, this ideology justifies the power of a military bourgeoisie. It lies at the centre of “political capitalism” which combines the logic of profit with a neo-patrimonial state\(^\text{47}\). Yet, in other parts of the Muslim world, political Islam plays a very different role in social relations: it may be more the product of a crisis of modernisation than the main cause of this crisis. It is unclear whether the signifier “Islam”, in North’s work, describes a political, cultural or social reality. Yet it is used as the basis of the misleading discourse developed by North in the conclusion to one of his books: “And the turmoil in the Muslim world (both within that world and between the Muslim world and her neighbors) has cast a deep shadow on the human prospect”\(^\text{48}\).

At this stage of reasoning, North’s thoughts on ideology seem to be a simple ideology, in a Marxian sense, hiding the key issues. This ideology is unconcerned with the reality of political and social facts\(^\text{49}\). North’s sideling of Capital\(^\text{50}\), meaning the historical and concrete processes through which capitalism has developed, forms part of this diversion. Nevertheless, his recognition of the importance of ideology or of beliefs cannot be neglected when it comes to understanding social processes\(^\text{51}\): what is at stake here is the way in which late

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\(^{47}\) In the case of Iran, society is regulated by a monopoly capitalism which is politically regulated. See T. Coville (2002), R. Motamed-Nejad (2007): the Iranian experience enables M. Vahabi (2009a et b) to enrich Polanyian analysis with the invention of a new “form of integration” - “destructive coordination”.


\(^{49}\) Can it not be said that imperialism must take some share of responsibility for this turbulence that North suggests may threaten humanity itself? And if humanity is threatened, can it not be said that this is more a result of the lethal interaction between the ecosystem and the capitalist economies that North and his epigones hold so dear, than a result of the sociopolitical trajectories of some parts of the problematic conglomerate that he calls the “Muslim World”?

\(^{50}\) *Capital* is to be understood in its Marxist sense, as a *social relation*.

\(^{51}\) See the important role played by the self-regulating market utopia in the development of modern capitalism. See S. Plociniczak (2005), J. Maucourant, S. Plociniczak, (2009, 146-147) and N. Brisset (2010).
neoinstitutionalism isolates the ideals of the material world, a world fed by multiple power struggles.

It is logical to note that the institutional analysis favoured by North draws a parallel between Soviet ideology and Islam: the nature of the beliefs intrinsic to these systems is the key factor in this analysis. Firstly, he attributes the stagnation of the Islamic World since the Twelfth Century to “rigidities”\(^52\) which he claims prevented the development of institutions capable of developing the matrixes which would allow for greater predictability\(^53\). Secondly, he considers that the final collapse of the Soviet Union\(^54\) was also due to “rigidities”\(^55\), which were consubstantial and which resulted from an “initial belief system”\(^56\). For him, these beliefs reflected “the very imperfect and primitive understanding that the players had of the fundamental structure of an operating economy”\(^57\). It is the lack of “adaptive efficiency”, characterised by the Soviet institutional structure modelled on particular beliefs, which caused the collapse of the USSR\(^58\). North explicitly presupposes the existence of a strong and coherent Soviet ideology that was nonetheless rigid and primitive. The template for this system was, according to North, created by Marx and Lenin.

Yet, Nove, a great specialist on the Soviet Union, provides a prescient criticism of this line of

\(^{52}\) He even considers that the enduring presence of these “rigidities”, the origin of which is religious, is a source of violence: “And, in the modern world Muslim conformity in the context of an ever widening gap between the Muslim and the Western world has at times hardened into fanaticism”. Cf. North (2005, p. 44).

\(^{53}\) These institutions also allow for new experiences and facilitate change. Cf. ibid. 15. The key question for mankind, according to North, is how “to structure the environment to make it more predictable”. It is therefore necessary to “theorize in the face of uncertainty” just as Marxism and organised religion have done in their own ways (p. 16). One criterium for the relative superiority of one belief over another is thus its capacity to diminish the inherent incertitude of the human environment. Predictability is considered to be key to growth.

\(^{54}\) North, who himself admits to being no expert on the Soviet Union, claims to draw on the work of "experts" on the matter such as André Schleifer (ibid. p. 146). In reality, Schleifer is a practitioner of "shock theory" which was the cause of the disaster of the 1990s in Russia. Schleifer was even brought before the American courts in September 2000, charged with being linked to certain “irregularities” concerning the process of privatisation in Russia for which he had been a key Western adviser. Cf. J. Sapir (2002, pp. 42-44).

\(^{55}\) In this passage, North places the word in brackets. Cf. ibid., p. 146.

\(^{56}\) Ibid., p. 149.

\(^{57}\) Ibid.

\(^{58}\) In just ten pages, North solves this problem, declaring that ‘institutional analysis’ is capable of clearing up a great many controversies relating to the subject.
thinking. For him, Soviet ideology should be characterised by the malleability which it demonstrated with regard to the requirements of the ruling classes. He explains, “The evident reluctance of the party hierarchy to accept economic reform could be due primarily to their self interest as controllers of the economy, rather than to what Marx said about ‘production commodity’ under socialism”. He suggests that there is an analogy between Christian belief and Soviet ideology: “Of course, also in Christian doctrine, biblical texts are many, sometimes contradictory, capable of differing interpretations, some are conveniently forgotten or rediscovered”. He invites his reader to take into account the logic of despotic institutions. In other words, the Bolsheviks’ “primitive [economic] understanding” does not explain the failure of what would become the Soviet Union. Rather, the reason for its failure lies in the combination of the Tsarist legacy and the absolute political monopoly such as that which Stalinism introduced.

Lewin, in his seminal text, defends the theses which complement that of Nove and are far removed from the singular discourse of neoinstitutionalism on beliefs. He notably holds that the conflicts about the nature of the emerging State after 1917 must be understood and that 1924 actually marked the end of Bolshevism. He explains, “Lenin realized that his opponents were inspired by the pre-capitalist forms of an absolutist stat”. Lewin clarifies the ideological question about what exactly this social system was: “Even if the specifically Stalinist practice of displaying old nationalist symbols was abandoned after his death, the Soviet bureaucratic model

59 Nove (1983), p. 114. It seems that the relationship between Islam and modern economy can be understood as a similar mechanism, contrary to what is postulated by North’s version of late institutionalism.
60 Ibid., p. 112 : “it is hardly an accident that a Russian poet, Voloshin, wrote: ‘Peter the Great was the first Bolshevik’.”
61 M. Lewin (2005). North (2005) cites Lewin at least twice yet he fails to understand his key arguments. He merely notes his idea that the extension of the State resulted from an involuntary process whereby interventionism, in unsettling the system of prices, caused an increasing extension of state power to the extent that the state became hyper-centralised. Failing to go beyond this idea, North fails to understand the political factors which are fundamental to such a system and which constitute an obstacle to any serious type of reform.
retained a good many of its predecessor’s features, if not its ideological accoutrements. It is not therefore beliefs which should be favoured in an explanation of the fall of the Soviet Union, but rather the conditions in which political struggles took place, the weight of the nation’s autocratic past and class relations. In other words, concrete history must be developed in opposition to the ‘history-fiction’ inspired by NIE.

3. Neoinstituionalism: political economy or an economy of politics?

It is necessary to take North’s words seriously in order to understand that neoinstitutionalism, even neoinstitutionalism of the most recent period, remains marked by ‘economic imperialism’. The “political economies” which are at the heart of his analysis of economic development merely relate to the logic of the political organisation of societies: political economy is to be understood as an economy of politics. As for efficiency, it relates to a techno-economic state in which “the market has the lowest production and transaction costs attainable”: the link between the market and efficiency is thus absolutely marked in North’s 2005 text. This enables us to return to his discussion of Polanyi’s work from 1977. He argues that efficiency could, depending on the context, make a hierarchy of Polanyi’s ‘transactional modes’: redistribution, reciprocity and market exchange. Yet North meant, and continues to mean, that certain institutional contexts are, in reality, obstacles which prevent the economy from reaching the optimum of the market society. The logical centrality and intrinsic superiority of exchange, i.e. the exchange which structures open, competitive markets, also structures neoinstitutionalism. The typical question

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63 Ibid., p. 381. This is why Lewin holds that there was never any kind of “Soviet socialism” to the extent that “Socialism involves ownership of the means of production by society, not by a bureaucracy. It has always been conceived as deepening – not a rejection of – political democracy” (p. 379).
64 North (2005, p. 168).
65 Ibid., p. 15, n.3.
66 Ibid., p. 15-16, n.2) : “while in economic markets efficiency would coincide with improved material well-being, in political markets the welfare implications are more ambiguous”.

posed by this approach is how “markets with low costs of transacting” were created and why they are not the norm?67

It is thus unsurprising that a teleological approach of this nature did not allow ‘economists of politics’ to understand that the mechanisms of a so-called ‘free’ market cannot guarantee effective social protection, particularly with regard to health insurance68. It is equally unsurprising that these economists developed the revealing syntagm, “economic market”69. The reference to the market is not just the driving force of North’s approach. It is also a good way of avoiding any discussion of power struggles, of Capital, of its world and its history. From this point of view, it is useful to return to the criticism that North made of the neo-classical economists70, naïvely attached to full laissez faire, i.e. a form of laissez faire which could exist outside the usual framework of the typical institutions developed by the West. The difficulties of the transition towards capitalism in the Russia of the 1990s are taken as justification for his critique71. In his criticism of the naivety of neoclassical economy, he aims above all to underline that, in a short space of time and taking account of the weight of the recent past, good institutions did not develop so easily. It is curious that these comments, which mix common sense with a highly questionable belief in the centrality of the market, led certain economists to think that a major theoretical change was taking place in economics. This belief is as strong amongst certain sociologists and historians.

67 Ibid. p. 15.
68 The evolution of Krugman’s thought over the past twenty years is remarkable. See P. Krugman (2008) for a critique of the ineffectiveness of a system of health insurance based on market principles and a defence of the French model as it exists today.
69 This market is the model for the ‘political market’, the numerous contortions of which are held to explain economic difficulties and social disorder. These contortions are illuminated by an analysis of the term ‘transaction cost’. North considers that “the US Congress has relatively low-cost transacting as result of an elaborate institutional structure that facilitates exchange over time and makes possible credible commitments” (North, 2005, p. 53). But is this not just as hasty and apologetic a reading of American political history?
70 Ibid., p. 76.
71 Ibid., p. 77.
It is also important to note that at the very time that so many disciplines are rediscovering the institutional question, *via* a more or less subtle economism, other research is seriously questioning the primacy of institutions. Pomeranz, for example, puts forward arguments to show why environmental constraints can explain the “great divergence” which developed between China and England at the end of the Eighteenth Century. The existence of an Empire – or even of imperialism – is regarded as another way of getting round these constraints. Obviously, this analysis poses many problems: for instance, can the history of an economy be reduced to its own geography? But neoinstitutionalism does not seem to have the tools to contribute in any meaningful way to the new debates which are emerging at the present time. There are several reasons for this: the refusal to analyse the anthropological foundations of the economy which prevents the neoinstitutionalists from fighting against ethnocentrism; the obfuscation of relations between man and nature, of class and social struggles; the focus on what results from market exchange and its simulacra, politics being thought of via the syntagm of ‘political market’.

One might object that North’s latest major contribution (which forms part of an interdisciplinary publication combining economic science, political science and history) undoubtedly represents a more decisive break with his earlier work than his change of theoretical approach in the 1990s. Perhaps, as the authors of the post-face to this work note, in taking up the thread of Adam Smith, Karl Marx and Ma Weber, North and his co-authors have contributed to re-establishing the link between economics and political economy, placing politics at the centre of social development once again. Without doubt, the constraint of interdisciplinarity has helped to steer him away from the usual diversions of neoinstitutionalism, forcing him to participate in what is surely a

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72 Pomeranz thinks it necessary to return to elements of Braudel’s approach in order to counter the influence of Douglass North and his school. *Cf.* K. Pomeranz (2000).


more fruitful debate. Yet, the main thesis of the book rests on the distinction between ‘natural States’\textsuperscript{75} in which the creation of government stock stabilises society and ‘open access societies’, based on the impersonality of rules. This brings us right back to the fruitful (but ultimately insufficient) distinction that Weber makes between ‘political capitalism’ and ‘rational capitalism’\textsuperscript{76} and to the classical literature on patrimonialism and neo-patrimonialism. Was it really necessary to pass through neoinstitutionalism and its ilk to arrive at this point?

**Conclusion: Economy, history and context**

It is useful to briefly return to the notion of ‘economic imperialism’. Undoubtedly, this intellectual strategy would not have been possible in the case of the ‘hard’ sciences. Bricmont and Sokal are correct to note that nature is not a ‘text’. Consequently, such a strategy is only possible in social sciences, marked by the context in which they act. Economic and social facts are laden with theories, just like the facts of physical and life sciences. But they carry a hermeneutic dimension which must be tested by a reflexive awareness of one’s own determinations and limitations. To rescue the idea from cumulative knowledge seems to imply the application of neo-positivism, capable of integrating this capacity for reflexivity\textsuperscript{77} at the heart of the theoretical enunciation. In other words, economics, just like history, must integrate a kind of critical theory.

In this respect, the ‘theory of property rights’ and the ‘costs of transaction’ school developed in a world where the power of the great American firm and the capitalist hierarchy of

\textsuperscript{75}D. C. North, J. J. Wallis, B. Weinglast, (2009).

\textsuperscript{76}These concepts are noted, but unfortunately insufficiently developed, by M. Weber (1923; 1998). P. Norel (2009, p. 195) explores an interesting path, explaining that the Weber’s problematisation fails to examine the ‘interconnection’ between different economies. Moreover, this question of the emergence of capitalism via the link between international commerce and the domestic market (the development of market trade) is central to Polanyi’s work. See K. Polanyi (1975).

\textsuperscript{77}According to Bourdieu, promoting reflexivity is an essential condition of the production of knowledge.
labour had to be justified in the name of ‘efficiency’. It is necessary to understand the context in which these ideas developed: in the 1960s and 1970s the traditional spirit of capitalism was rather unstable. Williamson’s work was decisive with regard to the development of North’s line of thought. There is a body of literature in economics just as in the sociology of economics, which examines the validity of Williamson’s approach with regard to the contemporary capitalist economy. The transposition of Williamson’s tools to history is a theoretical coup de force which is of a purely ideological nature. The success of this transposition lies in the triumph of financial capitalism, the globalisation of markets in the 1980s and 1990s and the great ideological rupture of the 1980s. These developments are in total harmony with the vision developed by North and Thomas in the book which made them famous, The Rise of the Western World (1973).

North’s stroke of genius was to have gradually distanced himself from his own ideas which had enabled the initial transposition of neoinstitutional theses into the discipline of history. Moreover, the collapse of the American “inter-century” and the first great crisis of the Twenty-First Century can offer possibilities for a renewal of political economy, the very essence of which is the creation of a genuinely reciprocal relationship between the historical sciences, to be distinguished from contemporary ‘economic science’ which may be regarded as a sort of generalised impoverished annexation of all social sciences. The total surprise and stupefaction with which the crisis of 2008 was met by dominant economic science is a favourable contextual

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78 It should be noted that D. Ankarloo and G. Palermo (2004), in an article cited above, openly make reference to Marx, but their comments essentially form an internal critique of the edifice of ‘transaction costs’.


80 For a discussion of the distinction between Williamson and Marglin, see B. Tinel (2004), pp. 24-29.

81 The notion of “inter-century” refers to a period beginning in 1989, when Fukuyama declared the “end of History”, to approximately 2003, when the Iraq affair revealed a crisis of American hegemony: the financial collapse of 2008 served to confirm this trend. See J. Sapir (2008), who criticises the “instrumental neoinstitutionalism of mainstream economics” (p. 187, translated by Emma Bell). It also fails to analyse the decisive role of conflict in the development of institutions (p. 186).
factor for the liberation of new intellectual forces\textsuperscript{82}. It is thus easier to envisage the development of new concepts which will be useful for the economic historian. These concepts should be as much the product of the historian and of the economist and should be far removed from the methods common to the ‘economic imperialism’ of which NIE had always been the most faithful vector.

**Bibliography**


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\textsuperscript{82} Stiglitz (2001, p. vii-ix) underlines the contemporary relevance of the theory advanced in Polanyi’s *The Great Transformation*. The global developments of the end of the Twentieth Century are very similar to those of the beginning of the Nineteenth Century in the West. The rise of market globalisation over the past thirty years has not confirmed the notion of self-regulating markets.

\textsuperscript{83} colloquegide2010.univ-paris1.fr/IMG/pdf/Brisset-abstract.pdf


85 http://regulation.revues.org/index7713.html


86 http://www.elegant-technology.com/resource/MARG_UT.PDF