THE ERA OF INSTITUTIONS. D.C. NORTH'S INSTITUTIONAL ECONOMICS AS A HISTORICAL PHENOMENON

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ABSTRACT

D.C. North’s institutional economics is an innovative approach to reformat economics in its historical intertwining of markets, laws, policies and cultural standards. But is this approach viable? The bridge to culture in particular appears too narrow. The stabilizing effect of institutions is based on a traditional concept of time which fails to cover the historical dynamism involved. North remains within perceptions of history that pertain to the 19th century. His institutional change does not sufficiently consider modern aspects. Hypermodern institutions are less time stable than his theory presumes. Is North’s theory already a historical phenomenon?

Keywords: Institutional change, time structure of institutions, instability of institutions over time, institutions and history, institutions and growth

INSTITUTIONS AS AN INFRASTRUCTURE FOR GROWTH

D.C. North’s institutional economics is a theory grounded in economic history. Does it therefore apply a “historical methodology”? Are we dealing here with a revival of the “historical school” from German economics which has long since been dismissed? As a theory based on historical arguments, North’s institutional economics sets itself apart from standard economics which knows only two temporal processes: comparative static and growth (as factor productivity over time). Institutional economics belongs to the growth category, albeit with a new approach.

According to North, growth would not have occurred in the historical dimension which we call “capitalism” were it not for institutions. Property right institutions in particular constitute a historical framework with incentives for investments and market developments that stand out.
against prior history as highly productive. Institutions and markets in their specific interdependencies generate a new epoch in history which was termed “capitalism” later on, in the 19th century. Taking different developments in Spain and England from the 17th to the 19th century as an example, North illustrates institution-related path dependencies, which give economic history new directions (North 1981; 1990a). He distinguishes between formal institutions (laws etc.) and informal ones (norms, habits, customs etc.) that unfold different behavioral convergences which define the scope of economic action in different ways. In his institutional economics he formulates a complementarity in the development of markets and institutions, since institutions are required to generate behavioral dispositions which ensure risky operations and capital accumulations in markets. Institutions function as platforms for the market behavior they stimulate. A former Marxist (cf. Menard/Shirely 2014: 544), North constructs his institutional economics as a modern relation of productive forces (market) and production conditions (institutions).

The historical nature of the theory is obvious from the institutional path dependency on the one hand, and from institutional changes on the other. In structural terms we are dealing with a dialectic of institutional duration (path-dependent time invariance) and change of institutions. It is assumed here that institutional change is slower compared to markets and their movements. Only in this manner can they offer a reliable framework – a field of trust – which assures the actors involved that certain rules apply collectively which they may assume to be a stable basis for their individual activities. Institutions appear as quasi market constitutions which change at a slower rate compared to quickly changing markets but precisely thereby facilitate and safeguard the growth potential for markets.

Institutions are qualitatively unequal, i.e. heterogeneous. Some stimulate economic growth, others don’t. We are faced with a historical theory of growth insofar as it cannot be obvious from the start which institutions produce which positive or negative effects. North’s institutional economics evidently has a normative tendency as well since it strives to identify those institutions which produce efficiency effects. But such claims must necessarily remain post hoc in the form of subsequent historical description. It does not propose a theory of propter hoc efficient institutions but only a general structure the validity of which needs to be verified for its historical-empirical content. It is easy to overlook that institutions are efficient not by themselves (Bowles 2004: 432) but only in their implications for markets. The theory is historical since it accounts for the contingency that institutions may produce market failure, or paths which result in shrinking instead of growing markets (a kind of historic de-growth).
Naturally, historical evidence shows which institutions bring about which effects faster than others; but theory cannot make predications, can only reason *per analogiam*, and may err in the new historical constellation if it transfers institutions from old constellations.

North’s conception has by now evolved in several directions; prominent proponents are Aaron Acemoglu et al., and Mashimoto Aoki, Avner Greif and Carsten Herrmann-Pillath. Acemoglu et al. give expression to political economy as laid out in North’s approach. North himself gives a new interpretation to economic history itself as political economy: “To increase their rents powerful elites formed coalitions that included specialists in violence who could protect non-military elites, such as traders or the clergy. Through their monopoly on violence the elites limited outsiders’ access to valuable resources – land, labor, capital – and valuable activities – trade, worship, education – thereby securing their privileged access to rents. These rents in turn gave the elites an incentive to abide by their agreements to limit violence, creating a stable equilibrium that North and his co-authors called “limited access orders”, which are the dominant social order today” (Menard/Shirley 2014: 551, cf. North/Wallis/Weingast 2009). Institutional economics of this provenance turns out to be a new version of a political economy which is designed to shape history. But historical contingency is preserved in all *institutional designing*: it remains uncertain which developments or paths actually emerge, or for how long. There is no guarantee of a developmental equilibrium path. This is what systematically sets institutional economics apart from the growth theory of neoclassical provenance. Economic historian Francesco Boldizzoni critically appraises North’s theory as historical schematism (Boldizzoni 2011).

Daron Acemoglu analyses the correlation of markets, institutions and power (politics) in more detail, or in ways other than North (Acemoglu et al. 2004, condensed 64 f.). He expands institutional economics towards a new political economy in which distributive institutions play a specific role. North still proposes an – albeit extended – property-based institutional theory coupled with the question as to which institutions offer which incentives to efficient markets, whereas Acemoglu et al. expands the issue to comprise a new political economy which feeds the income distribution generated by the respective institutions back to the political process. The authors primarily analyze power structures which pursue their own power games in terms of institutionalization/de-institutionalization (in contrast to *public choice*). Political institutions are ascribed a major role since they have distributive effects with the potential to change, re-calibrate and *possibly revise* ownership structure institutions.

Ultimately, the issue is *commitment* in a society defined by power structures. This is no longer about North’s rule orientation but about power discourse (about *commitments*, communication, interests, power potentials, influence, and mutual perceptions). “Political institutions are
important because they allocate, at least within the limits defined by the exercise of future de facto power, the allocation of future de jure political power. Since de facto power, because of the nature of the collective action problem, is intrinsically transitory and difficult to wield, political institutions are often crucial in creating a source of durable political power. This makes it very attractive for groups to use their de facto political power to change political institutions so as to modify the distribution of future political power in their favor” (Acemoglu et al. 2004: 65). Political institutions are latently open to revision.

Back to North: From a systematic perspective we are dealing with two diverging behavioral structures: with market behavior which as a rule we interpret as rational choice, and with a form of divergent institutional behavior: the rule following behavior (Priddat 2013). North’s interpretation of institutions as shared mental models illustrates their joint or collective nature. Homo oeconomicus expands, strictly speaking, to a multiple self that needs to muster both types of behavior: the institutional game according to rules (which must be followed) in order to make individual maximizing moves at liberty but within institutional boundaries. The habitual preference / choice models do not suffice in the field of institutions to clarify actual developments because actors are located within institutions which they neither choose nor “maximize”. The type of behavior is different in this context: rule following behavior, belief structures, convergences of belief, commitments. Economic theory is revised to cover institutions. Menard / Shirley 2014 leave open whether institutional economics is an extension of neoclassical theory or constitutes a new paradigm. It is too early to make an assessment, and both options are possible.

Rule following behavior is the counter-model to the maximizing rational choice concept (Herrmann-Pillath speaks of a “different social ontology” (Herrmann-Pillath 2012)). Who follows rules must signal to others that he adheres to them, and must be able to expect from others that they do the same (Priddat 2013). Aoki speaks of an equilibrium of expectations (Aoki 2001). Individual maximization is necessarily excluded since this would mean to admit individual interpretations of institution or validity of rules, whereas what is required is just the opposite: a kind of collective social contract where all parties involved mutually affirm a basis of rationality. This means, they must be sure that nobody deviates individually from this contract – a trust condition.

For formal institutions, institutional change proceeds via amendments to legislation (through political and juridical processes); in the case of informal institutions, it takes the form of social movements, discourse, changes in relations and socialization, education and knowledge processes, ethical upheavals etc., up to great transformations or revolutions which enforce a change of institutions. While institutional change is considered a mere variation of the path the
institutions have taken, changes of institutions constitute revolutionary or disruptive alterations. Institutions may be described as having their own history, time and duration. On the basis of their proper time, they form stable instances (in time) with a reliable reference framework of actors for their institutionally standardized market transactions. Basically, this is a structuralist approach which needs to be semi-open since future development may only be simulated, not modelled. Above all, the theory cannot anticipate for how long this orientation is guaranteed. Institutions move within history, but they have their proper times and their own stories which are not necessarily coordinated. Unlike the market situation, there is no mechanism to balance or coordinate institutions, no regular comparison, neither competition nor choice, nor a propter hoc measurable efficiency. Institutions do not fit within the habitual economic terminology.

In contrast to market economy theory, there are no “natural” balances (which are not even generally recognized in market economy). Instead, institutions must repeatedly be recalibrated, rearranged and adapted to the respective historic constellation and situation. The assumed expectation equilibrium does not emerge “naturally”, nor do institutions always change towards a higher degree of efficiency. The paths which institutions pursue once they are established may diverge into different directions with each institutional change, or even break off in case of a change of institutions. Strictly speaking, it is an evolutionary concept of potential bifurcations. This has mainly to do with the fact that institutions are not determined via choices in a competitive field but endure through their path dependency once established. They have “their own history” because, emerging from an origin, they keep to a path over time which they do not leave (temporal stability). Their quality consists precisely in this stability which is not susceptible to markets or to competition. But we cannot say how long it will last. As temporally stable institutions they are projected into history as invariant, but become history within history, i.e. fall victim to its contingencies.

BELIEF AND INSTITUTIONAL BEHAVIOR

Behaviors of institutional participants are being newly gauged. Aoki and Greif (also Bowles 2004, e.g.) speak of beliefs; North speaks of ideologies and shared mental models. “North defines institutions as rules of the game, while Greif defines institutions as a system of shared beliefs and internalized norms” (Shirley 2008: 18). Later on North assimilates Greif’s position (e.g. North 2005: 77). Acemoglu et al. use the term commitment. All three terms, shared mental models, beliefs, and commitment have the same basic structure: convergence of beliefs. The beliefs differ from preferences as cognitive operators; they are not based on wishes or needs like preferences which from a methodological perspective are nothing but a kind of individual pre-screening of objects of choice. Beliefs constitute expectations as to which actions are appropriate and which are to be ruled out as a form of self-commitment.
But they have a second connotation as well: they are operators that convey meaning, and therefore are not only cognitively closed individually but also communicatively open (Herrmann-Pillath 2012). Beliefs have two sides: the specific mutual behavioral expectations that apply within an institution; but at the same time beliefs are located in the context of other beliefs, of habitus, topics, issues and opinions which are communicated elsewhere in society. Interrelation cannot be revoked by mere internal focusing (cf. Herrmann-Pillath’s relation of language, communication and institutions (Herrmann-Pillath 2012)). Herrmann-Pillath takes this one step further: the cognitive or mind structure of models proposed by Aoki, Greif etc. does no suffice to explain behavioral congruity. It is noticeable that the common belief structure of institutional actors – their shared mental model – forms a “contemporaneity”. The ideas, ideologies, meanings which they share serve to synchronize their mutual expectations. They expect that all involved not only adhere to the same rules but do so permanently for a specific/unspecific period. In how far we can speak of a sustainable institution, i.e. of its durability or historicity, depends on how we interpret the process organization of institutions. The term “path dependency” suggests that, once established, they endure a long time (an epoch). But how do they do that? How do they remain stable? Are they fixed, or rather processes which need to repeat themselves all the time in order to maintain the balance of expectations? How can a balance of expectations remain stable under the manifold influences of history? How long can mutually shared beliefs endure if society changes, if policies change programs and regulations, etc.?

If we cannot recur to (block-like) shared mental models nor to rules but are faced with interpretations, then communication processes become relevant (as pointed out by Denzau/North in 1994, but without further explications). The discursive embedding of institutional processes (Schmidt 2008; 2011) opens up an expanded context which locates the “institutional game” in a linguistic medium on the one hand (communication and specification of meaning), and on the other in institutional spheres which – themselves distributed divergently – already exist in society, in its culture and in economic experience (“traces”) (Lingg 2013).

In an entirely different context Kenneth Arrow speaks of a convergence of beliefs, to be established communicatively in order to produce some kind of market situation for the quite disparate and diverging individual rationalities (Arrow 1979, 2013; Priddat 2015: chapter 3, 3a). Without knowing North, he develops North’s basic concept of the shared mental model in his terminology. Acemoglu on the other hand speaks of commitment. All three concepts are tailored to accommodate an invariance and convergence of belief structures. Economics can no longer safely assume rational actions on the part of all involved, and therefore in second order must ascertain a general disposition to rationality; for Arrow, explicitly as a communicative reassurance (cf. Priddat 2015: chapter 3, 3a). North’s institutional economics meets the
conditions of Arrow’s *convergences of belief* reciprocally and in its own way: North speaks of a “unification of perceptions” (Denzau/North 1994: 15).

**TIME STRUCTURES OF MARKETS AND INSTITUTIONS**

Institutions establish market situations in which the general rules of conduct remain invariant, as a kind of fixed *common knowledge*. It is appropriate to speak of an *institutional infrastructure of market processes*. For infrastructure to remain valid over time it would have to adapt (*institutional change*). But in this case the duration of institutions needs to be explored. Their characterization by North as path dependent structures merely means that they mark a time path of *undetermined duration* (even if the duration is perceived as historical, i.e. as long lasting, it is undetermined). As already stated, institutions have no “natural” stability; rather, they constitute processes whose self-organization is subject to communicative conditions which are not determined by the institutions alone.

When dealing with institutions that are open to revision, the (historical and social or political) contexts play a more decisive role. The question of time stability poses itself in a different way. None of the theories of institutional economics explicitly reflects on its historical or temporal structures. North resorts to the construction of “cultural heritage”:

“The great diversity of human culture discovered by anthropologists indicates its significance. In such a situation, learning – which goes beyond “local” learning – must further the level of similarity between the members of the culture which one finds in every human society.

Cultural heritage supports the processes which reduce divergences in mental models that people in a society have and constitutes the intergenerational transfer of a unification of perceptions. Thus we are able to understand culture as an encapsulation of the experience of the previous generation of each particular cultural group” (Denzau/North 1994: 15).

The rule we get involved with stems from a decision in the past (or an older evolution). It serves to *perpetuate certain past decisions into future presents*. In other words: institutions aim to *preserve and prolong a certain form of history*, counterfactually to contingent historic events. Institutions constitute “a medium level in the emergence and consolidation of social relational patterns” which perform a two-fold service: on the one hand they transform “chance into necessity and duration”, and “on the other they serve to generate proper time and proper history” (Rehberg 1997: 103 f.)

Or to put it differently: institutions (generate) “a degree of continuity in the historical space of experience which permits to couple the expected future with the remembered past” (Meran 1985: 133; cf. Greif’s institutional trajectories: “how past institutions affect current ones” (Greif 2006: 142f.).
chapter III.7)). What was fixed institutionally in t1 shall be valid in t2, t3 … tn. Path dependency defines a certain time structure of sustained duration. The vertical-acceleratory growth of markets is supported by a diachronic-horizontal consolidation of institutions as their “reliable basis”.

This includes an – inexplicit – concept of progressing civilization which interprets economic theory generally as an increase in welfare that is of course retained in North’s theory but would require the regulative invariance of (cultural) institutions to become possible. It is easy to overlook that North does not offer a theory of institutional growth, only of institutional change, i.e. the variation of the agreed institution. Institutions are synchronically made out entities within a diachronic process of economic increase, something like stabilizing cultural “islands”. There is a clear distribution of roles, a rationale of the institution-market relationship: institutions need to remain stable so that the economy can grow.

While ordinary economic actions or market activities must continuously take new decisions in new situations and constellations, institutions carry on certain decisions of the past into a thus predetermined future. The historical momentum of this economy becomes definable – as a momentum of ignoring change through institutionally organized adherence to possible courses of action tried and proven in the past. Path dependency means that the constellation which was valid at the beginning is maintained. Then institutional change is just a variation of this initial structure. North’s institutions preform history and gradually adapt to new historical conditions via institutional change.

Institutions are established as stabilizers against such processes, or stabilizing structures (North 1990a: chap.1). North assumes that on the one hand, institutions offer options for action which did not exist before, but that on the other hand “the imperatives derived from history and present in the chosen historical path constrain the extent of possible reactions to perceived new opportunities” (North 1990a: 6). In contrast to market time which is open, institutions limit the options a society has. The future is closed down, to the degree of the constraints imposed by institutions and their rules of conduct. In this context institutions are conservative or conserving entities. They stipulate that what is currently perceived as equilibria of expectations shall also be valid in future, and thereby close down the future. But they close down the future of institutions in order to further ensure the opening of time and its opportunities for the markets.

Temporal-structural differentiations have so far been interpreted rather carefully as fast-moving change structure of formal institutions, and as slow-moving change structure of informal ones (Roland 2004). These are just other terms for asynchronies of both institutional sections and reflect the other asynchrony in different temporal structures of markets and institutions. In the context of these asynchronies, North’s institution constructs a cognitive synchrony of all actor
expectations (shared mental model, or “convergence of beliefs”, or – as mentioned before – “contemporaneity”), to provide a stable time structure for the supporting and regulating market operations. That this temporal coherence is merely a (normative) construct is evident from the fact that the formal side of the institution need not be congruent with the informal one. North insists, however, on time-stable concurrency structures which carry a perennial present into the future: institutions as media of synchrony. This in a two-dimensional sense: on the one hand, as synchrony of the minds of actors in the shared mental model (as convergence of beliefs); and on the other, as synchronization of past experience and binding regulations for the purposes of the future. If all actors are in cognitive synchronization, then change – and thereby time – is closed down. It passes steadily through time so to speak. It lies within history as duration. It functions as a historical event which suppresses current history by defining, or fixing, its operational framework. In this way institutions constitute their own history which re-shapes history in the meaning of contingent history. North’s concept operates with a hierarchy of histories in which the erratic (contingent) history is re-shaped by an institutionally constructed regular behavioral obligation to remove or reduce contingencies in order to support the increase trajectory of the economic growth path. For historians this is indeed a bold statement (Boldizzoni 2011). And it ignores the fact that institutions always occur multiplicatively, in interdependence, and not simultaneously.

North tells a number of institutional stories from which, however, no theory of efficient institutional design may be derived. Basically he narrates a meta story which retells the opportunities of institutional positive effectiveness from history. But he does not tell the entire story. Real history requires to consider again and again which institutions are currently in which process stages, which interfere with other institutions in which ways, and which start failing. The transition of the meta story of institutions to real history is what constitutes institutional change.

North’s approach is threefold: it addresses 1. a logic of time-stable institutions, 2. the requirement of institutional change, and 3. the potential stagnating effect (or decline) of institutions. Two complications may occur: I. institutional change (2) is consistent with the logic of time stability (1) only if change is considered as preserving the intention of the institution (1), i.e. not as modification of its rule (change must confirm, and not modify, the path dependency). II: Time stability (1) and institutional change (2) can advance growth only in the absence of decline (3). But if institutions have stagnating effects, then (1) and (2) are nothing but idling stabilizers (only ritual, not effective institutions (cf. Seele 2010)).

Institutional change describes a phase transition within the original institution. Path dependency becomes risky if it does not install institutional change. Each phase transition constitutes a variation of the original institutions so that, over time, institutions form a series of variant states
whose I-1 origin is no longer identical at state I-n. The path describes something like a curve (as a linear variant, but non-linear fractions may occur as well). The original intention of the institution may be retained formally, but actual behavior or even rule setting has already changed. Important is not that the institution remains invariant as such, but that it generates its intended effect on its environment, e.g. the markets. There is no institution sui generis, but only relations between institutions (I)/environments (E). They make no sense (unless as idling rituals) without their environments, e.g. the markets, on which institutions have a regulatory impact.

If they derive their meaning from their impact on the environment/markets then the effectiveness of such impact is essential and not their mere existence. Institutional theory without a historical analysis of its progression stages remains an empty claim. The quality of their verbalization depends on their ability to adapt to changing circumstances. The mere validity claim or postulation says nothing about the respective historically relevant I/E relations. The definition of institutions as time-stable entities is rather misleading if effectiveness is not assessed on a continuous basis. In extremis, the institution becomes dogmatic in its equilibrium of expectations, and forces its members to take a different direction from what the institution demands as binding. A decline of institutional trust is the consequence. If we distinguish between core and periphery of an institution, the borders are rather more liable to adjustment whereas the core may remain stable in time or invariant. If for example the informal institution of “saving” on the part of citizens is still formally termed invariant, but is actually eroding as a consequence of low interest rate policies, then behavior starts to change at the periphery of the institution, i.e. can no longer be expected to be the rule. Because of the differences between core an periphery, we must copy North’s differentiation between formal and informal institutions into the institution itself if we want to learn how to perceive any asynchronies and behavioral differentials.

Moreover, North’s concept knows two kinds of environment: first (a), the environment of institutions: the markets, represented in an I/E relationship; the assumption being that the institution remains horizontally stable over time whereas the environment, i.e. the market, increases vertically. Second (b), the environment of the I/E relationship: this is society, cultural context etc. (= E*). We generally use the term <I/E>E*-relation.

In the I/E relation we have identified institutional change as an appropriate adaptation of institutions to changing (market) environments. Hereby the change in the socio-cultural environment $E$ remains disregarded (only grosso modo included in informal institutions). We need to consider a further institutional change as a consequence of the reaction of the I/E relation to E* changes. Herrmann-Pillath and Lingg have incorporated this aspect in communicative discourse as interpretation or relation between institutions and semiosphere.
Culture and communication, two dimensions underlined in North’s later writings, unfold their validity and effectiveness not in the narrower economic I/E relation but only within the extended <I/E>E* relation.

In this extended relational field we cannot define institutions as stable structures, as in (1) and (2) (where institutional change means nothing but a procedural specification of institutions as structures); rather, we find ourselves in an extended sphere of influence which cannot be described by rules (institutions) and market mobility alone, but which modifies, shifts and alters rules via semiospheric-social communication of meanings. An internal description of institutions does not suffice; they are externally coupled with the environment E*. Informal institutions for example do not change alone by adapting to new market processes but – via the actors’ beliefs – to other than economic options. This is what we are currently observing in Greece: while European reformers insist on institutional change in order to stimulate growth potentials, the local population develops a national pride which fosters informal self-assertion institutions that represent no economic institutional change but cultural ideologies. To speak with North, a negative I/E path is developing here; but the example serves to illustrate that informal institutions can be fueled by different social and political resources that dissolve the ideal conformity of institutions and growth facilitation. North’s theory has the intuition that culture must be integrated in these processes but tends to rate informal institutions as that form of culture which adapts to growth and modifies accordingly. But this is exactly what must not happen: informal institutions can develop contrarily because they are not necessarily coupled with the I/E process but derive other motives, reasons, arguments and emotions from the semiosphere which influence the belief structures of their actors.

Two asynchronies may occur: I. that institutions and (market) environments (E) operate incongruently, and II. that the cultural-social environment (E*) brings other informal institutions to bear. Incongruence means that behaviors are not reflected in mutual expectations but – on the contrary – can misinterpret or fail to meet each other. The structural purpose of institutions to generate behavioral congruence would thus not be achieved, or missed. I, E and E* form different times or histories; other types of narratives emerge in the semiospheric discourses E*. We are dealing here with asynchronies of behavior expectations, in part with contrasting, complementary and conflicting programs. The structures which North wants to see formed in institutions then turn out to be too rigid and inefficient in terms of adaptation. We must review his definition of time stability.

**RETROSPECTIVE VERSUS PROSPECTIVE INSTITUTIONS**

It would not make sense to insist on the original rules in a changing environment. The ideology of the institution may live on, but if it does not adapt in practice the institution would erode. In
In this case institutions are nothing but the spectrum of their change conditions: from actually long-lasting invariant institutions up to fast moving institutions (Roland 2004).

Change rates may only be detected by empirical-historical means. But then we can no longer uphold North’s general attribution of the time invariance of institutions. And growth theories which integrate institutions as factors would have to take the actual time stabilities and instabilities into account without assuming them as just “given” (cf. Glaeser/La Porta/Lopez-de-Silvanes/Shleifer 2004; Shirley 2008). Institutions are not given or fixed, they are changing objects whose historical conditions need to be verified in order to obtain a meaningful statement on their validity. The equilibria of expectations, being only assumed, must be analyzed as to whether and in how far the promises manifested therein still apply. In both cases the history of the institution is told in a different manner: retrospective versus prospective. We are dealing not with one institutional economics but with different stories.

It is obvious that shared mental models cannot provide a completely adequate explanation for the behavioral coherence of institutions, since the decisive point is the orientation of the belief structure of those involved, i.e. its orientation in time. Retrospective orientations are more conservative structures compared to prospective orientations which focus more on adjustment efficiency. In the prospective case you can no longer rely on the rules you accept; you interpret them to ascertain their validity (this is where communication comes into the picture, which North always postulates but never engages in). Interpretation means to ascertain oneself via communicative means of validity because it is no longer evident. “The manner in which conventions and institutions are implemented in action is not pre-determined but results from contingent interpretation of the situation on the part of the actors. Action occurs in a tentative discursive process of testing various possible courses of action (Joas 1980: 91 ff.).

This results from the described emergence of targets and means of action which are not just inherent in the actor, only to be implemented; rather, they arise from experience with the situation … The cognitive process unfolds – just like the relation of targets and means in the process of action – in the debate with the empirical world, whereby “beliefs” define orientations for practical action. But “beliefs” are not more than assumed knowledge which must be tested in practical action; unresolvable insecurity is the driving force for ongoing active inquiry into the nature of reality” (translated from: Beckert 2009: 10).

The traditional interpretation of the institution is past-oriented: based on imaginary (or factual) origins, the institution is “set on the path”, i.e. as a continuity defined by the past, effective in the present, and reaching into the future. We may describe the institutional narrative as having a retrospective-replicative reference to the past.
In a prospective sense, the institution is considered not from the perspective of its (narrated) past but with a clear reference to the future: current behavior shapes and encourages a stable assumption of future market activities, especially for investments, insurance etc. What you cannot safely forecast for markets (Priddat 2014) you can safeguard via assertions which should maintain their validity in future. In this sense, institutions function as entities that secure the future. They operate with a prospective time reference: in a projective-simulative manner. Two risks may arise here: 1. the risk to misjudge the simulated behavioral congruence, and 2. the risk, even in case of correct assessment, not to know for sure how long the institution will maintain its regulation stability.

The historicity of institutions has dynamics which North did not imagine. The I/E relations are adjusted respectively, i.e. the major structural contrast between institutions and markets is adjusted more strongly to market requirements than North’s theory assumes. This has implications for institutional economics in so far as institutions will be modulated, re-calibrated and co-stimulated to a larger extent in dynamic markets and societies, and this independent of environmental (E*) changes in the social semiosphere reinforcing this process. We will have to abandon North’s steady model of markets and institutions as it corresponds to the 18th/19th rather than to the 21st century. In its assertion of stable institutions it has become a historical model itself – a history of economic theory rather than a representation of current phenomena and processes.

INSTITUTIONS UNDER HYPERMODERN CONDITIONS

What may have been true for older social configurations need no longer be valid for hypermodern societies and economies. “Hypermodern” describes the new area of accelerated market and innovation dynamics.

The classical regulatory quality of institutions has become insecure. Institutional change, the core element of classical institutional economics, must now be copied into institutional economics itself: as a differentiation of change qualities or their asynchronies. In the above we had described institutions as elements in the concept of an open future, with the special feature that they determine the future through their regulatory framework. By way of their path dependency they simulate a linear transformation from past to present to future. Ultimately, path dependency assumes that an institutional arrangement, once started, remains unchangeable, but without being sure about the start, without knowing about the duration nor whether what is claimed to be invariant over time may be a process which does not remain uninfluenced by the historical movements in which it takes place. This is why institutional change constitutes the
actual process structure of institutions; but this means that the “path” is changeable. Avner Greif therefore speaks of an “institutional dynamics as a historical process” (Greif 2006; chap. III).

We need to consider whether this classical institution is not part of an epoch that is passing off, i.e. should be located in a historical context. And also, whether North’s institutional economics itself has not become part of the history of economic theory since this epoch is currently dying off, specifically because the relation between economics and politics is changing – into an oscillating system. Institutions simulate time stability, but the uncertainty whether this is true is increasing. *It is riskier than before to rely on institutions.* Naturally there remains a difference to the volatility of markets: institutions are relatively stable in time. But nobody can say for how long: whether a next phase will bring different laws, different standards. The phase transition which North still imagined to be gradual “institutional change” may be disruptive (as can be currently observed in the European Union where all contractual institutions and rules are becoming uncertain). The strict differentiation between *institutional change* and *change of institutions* is becoming blurred to some extent.

Let us consider an example. New market dynamics such as in the case of the service platform *Uber* make *institutional change* visible. The classical institution of the “taxicab” with regulated access, fixed prices and an organization almost in the manner of guilds faces unexpected (disruptive) competition which is attacked according to rules that have been valid up to now (taxi associations and politicians apply old rules to new markets for which they are unsuited and which demand either new rules or the dissolution of old ones). *Uber* operates as a service platform which uses hitherto untapped resources in society as a new business model (*shared economy*): private drivers with free capacities. The business model can be extended to package deliveries (vs. postal services and existing delivery services), private sightseeing tours, ordinary patient transport services (in competition with established transport services), even to nursing care services and so on. The necessary changes in standard requirements are immediately obvious: old institutions are based on vocational training, licenses and approval notices etc. that involve administrative procedures and high transaction costs. In contrast, new markets use open resources with non-standardized admission. They offer what institutions claimed to support in principle: higher market productivity. Paradoxically, classical institutions defend themselves in order to retain their *claims*, but in doing so obstruct the effectivity of new institutional arrangements. Old institutions will obviously still assert themselves in some instances and to some degree. But prices, competition, and changes in informal institutions (e.g. customer behavior) will promote institutional change which in part will result in de-institutionalization, i.e. in an admission to markets where institutional arrangements had prevailed before. It is only important to note here how *quickly constellations have changed*; over the course of a mere few years we are confronted with completely different circumstances which foster fast *institutional*
change, or even a change of institutions. The shared economy is expanding: apart from Uber we now have Airbnb who lease free accommodation, TaskRabbit who lease free labor, etc. The new market of using untapped resources is just beginning; boundaries between private and work life are becoming blurred. We witness the emergence of new informal institutions in actor behavior which gives up regulated institutional settings in favor of less restricted forms of life and market whose guarantee lies in the high transparency of messaging systems available via Apps – a new, informally networked trust culture that appears ready to relinquish “paternalistic” institutional safeguards. The theoretical change of institutional economics still has to come: the challenge is obvious.

Today, we must at least be prepared for laws to be revised and standards to change. Their future becomes shorter; the expectation in the balance of expectations becomes ambiguous. The fact that many institutions continue to remain stable does not reduce the uncertainty which of them do and which don’t. Institutions become entities of a wide-ranging present, as Gumbrecht states from a perspective of contemporary history (Gumbrecht 2014) – a “real-time regime”. Or following Elena Esposito: the future claimed by institutions is a future of the present time. For current decisions, institutional rules are expected to apply henceforth; it is not known, however, what they will be like in the present of the near future (Esposito 2011). Cognitively established reliability may erode. The difference between market transactions and institutional rules in terms of time structure decreases, and both oscillate and tune into the volatility of economy, society and politics. In extremis, the time-stable anticipation of the future on the part of institutions is limited to the present exclusively, which may mean that 1. the institution loses its historical quality, which 2. would mean that its temporal stability is simulated (which again may be reason enough for the actors to behave as if the institution maintained its “traditional futurity” wherefrom to derive decidabilities) (cf. Ferguson 2012).

This opens up a new dimension for action: that market actors learn to speculate on institutional changes (cf. the institutional discontinuity of central banks where rules are no longer regarded as liable and “statements” by Draghi etc. have taken their place (cf. Priddat 2008 on the functional purpose of rumors)).

It would seem rash to depict informal institutions as a continuous process in civilization history, as North does. “We cannot understand where we are going without an understanding of where we have been. How the past connects with the present and future is the subject of path dependence” (North 2005: 51). “The whole structure that makes the foundation of human interaction is a construct of the human mind and has evolved over time in an incremental process; the culture of a society is the cumulative aggregate of the surviving beliefs and institutions” (North 2005: 83). What is true for some institutions, notably the state, welfare and
social institutions etc., is estimated to be a high price for economic growth history, i.e. an increase in transaction costs which might have hampered an even more efficient growth history. But above all, North is not in a position to make statements on developments and changes in culture, standards, customs and traditions. These do not “grow” but change. They may be woven into the tapestry of progressing civilization only because they support and facilitate the process of market growth – not as autonomously “growing” but stabilizing elements. We perceive how North wants economic market progression to be understood as a vertical development, supported by institutional stability in horizontal prolongation. But the assumption of institutional time stability which this implies is something we have not been able to confirm. “Technical-economic, social and cultural developments in the process of modernity relate ‘non-simultaneously’ to each other and even appear to obey ‘non-simultaneous dynamics’”, thus “evolving their own proper time”. “While technical innovations may be presented in the context of a modernization theory – as linear or exponential increase in human control over a limited segment of nature, they are not paralleled by corresponding social developments in the meaning of modern progress utopias, and even less by cultural implications. ‘Multiple modernities’ tend to branch off in these sectors” (Koschorke 2015: 182; Fn. 83).

But if formal and informal institutions do not develop simultaneously (quite apart from the market growth dynamics driven by technical-innovative advances) then we are faced with heterogeneous clusters of institutions which generate not a uniform shared mental model but a diversification of belief structures which are neither time-stable in toto nor in parallel, but create institutional asynchronous times of their own in various phase transitions. Thus we can no longer speak of a single institutional history, only of many histories that do not coincide with each other. Actors must learn to assess which institutions are valid, and above all, how risky this expectation of validity is. What to rely on, and for how long? Classical institutions used to be trust entities, i.e. built on reliable mutual expectations. If they turn out to be risky – not all institutions, and not all at the same time, but when? and which? – then we stand to lose a dimension of “social ontology” (Herrmann-Pillath 2012: 39), and actors will look for substitutes (e.g. proto institutions (Priddat 2015b)) and try to figure out in debate what to expect, or just follow the behavior of others (flock or herd behavior (cf. Hirshleifer/Theoh 2009)) in order to gain what remains from institutional warranty. Institutions of this type become temporary proxy institutions.

North’s theory operates at the interface of diverging history conceptions. From the perspective of cultural science any logical progression in history appears impossible (translated from Koschorke 2015: 183). The economic perspective, inspired by scientific-technological achievements, knows the phenomenon of a “network densification” (mesh refinement) in advanced industrial societies, reflected in growth and market theories. And this in historically
unprecedented proportions, whereas the term “pluralization” dominates the debate in cultural sciences – “pluralization of living spheres, stiles and debates for which it appears impossible to find a common reference point” (translated from Koschorke 2015: 183).

North strives to integrate both dimensions in his theory: the technical-economic growth dimension of markets, and the world of symbols from the cultural dimension (most informal institutions). It is to his credit to have submitted a synthesis proposal which integrates the contrast between economics and culture in an interwoven history. However, today we know more about the diversification and plurality of the cultural dimension (semiosphere). We are therefore faced with other and new institutional dynamics which are more complex than North imagined. Roland’s interpretation, e.g., that informal institutions have a slow-moving change structure (Roland 2004) is still based on the concept of relatively homogeneous cultural standards, norms and behaviors which has become unsustainable in many fields. A higher degree of diversity in informal institutions and of heterogeneity in terms of their liability intensifies institutional change. New behavioral expectations evolve, but with a higher degree of ambiguity and shorter time stability, and a higher frequency of their institutional changes.

If formal institutions are seen as undergoing fast-moving changes anyway (Roland 2004), we are dealing with two relative accelerations of institutional change which do not necessarily accept the time-stable linkages that form the basis of North’s theory. The forms of mutual expectations are increasingly dynamic, and the sociology of interactions changes (cf. relational sociology (Fuhse/Mützel 2010)). The new forms of institutions follow this tendency.

But then we do no longer explore the classical term of institutions. Instead, we analyze a whole range of possible, albeit short-lived, behavioral congruencies with a common behavioral tensor (which may already be aborted or reoriented in a subsequent phase).

Institutions would then be characterized not by time stability but by their capacity to establish behavioral congruency – if only for a next (short) phase of “present – future”. They are governance structures rather than institutions in the classical sense. “Governance” in this context describes regulatory structures that evolve informally as temporary structures and do not necessarily assume the cognitive-manifest form of shared mental models – proxy institutions, so to speak. They meet the remaining criterion of creating mutual behavioral expectations but are far more noncommittal and less reliable, i.e. they do not meet the criterion of time stability which pertains to the specific historicity in North’s theory. We are faced not with grand lines of history but with institutional entities in short cycles. We then use institutional designs that apply to certain situations or constellations, without any further claims. For example, new market institutions may be designed as “auctions” for specific local/temporary markets. Or laws are passed with their half-life already envisaged. Or informal health institutions recommend certain
behaviors but, being market-driven, will be subjected to different rules at shorter intervals. All informal institutions defined for example by *life styles* will change with frequency.

The new liquidity of institutions must not detract from all those still stable or even hyper-stable institutions that meet North’s epochal criteria. However, a more accurate analysis is required today from a historical-empirical perspective as to which institutions become more susceptible to time. We can no longer rely on North’s concept of institutions with time-stable structures. Theoretically this is all the more important since we have integrated the pattern of time-stable institutions in our cultural tradition as something of a *shared mental model* which we will not easily give up. Up to now, institutions have seemed to be the only social construct to safeguard our future by stabilizing behavioral expectation. But this is exactly what we cannot assume any longer without risks.

Stephen Toulmin noted this transformation as early as 1972: “Men demonstrate their rationality, not by ordering their concepts and beliefs in tidy formal structures, but by their preparedness to respond to novel situations with open minds” (Toulmin 1972: vii).

*Institutional change* starts to dominate the previously assumed time stability of institutions. In this sense, the present time is continuously revised or optimized from the perspective of a definition of the future. “This is a future which does no longer unfold before us like the open future of modernity; as an undetermined event it challenges us to brace ourselves via continuous adjustments of the present” (translated from Kaiser 2015: 306). Or as Dirk Baecker puts it, very much to the point: “The integrative form of the next society is no longer history in its present as progression or decadence, but rather the unknown future in its present as a crisis. As long as we do not know what happens next, we feel a need to ascertain a state of affairs that can no longer be relied upon” (translated from Baecker 2013: thesis 4).

REFERENCES


