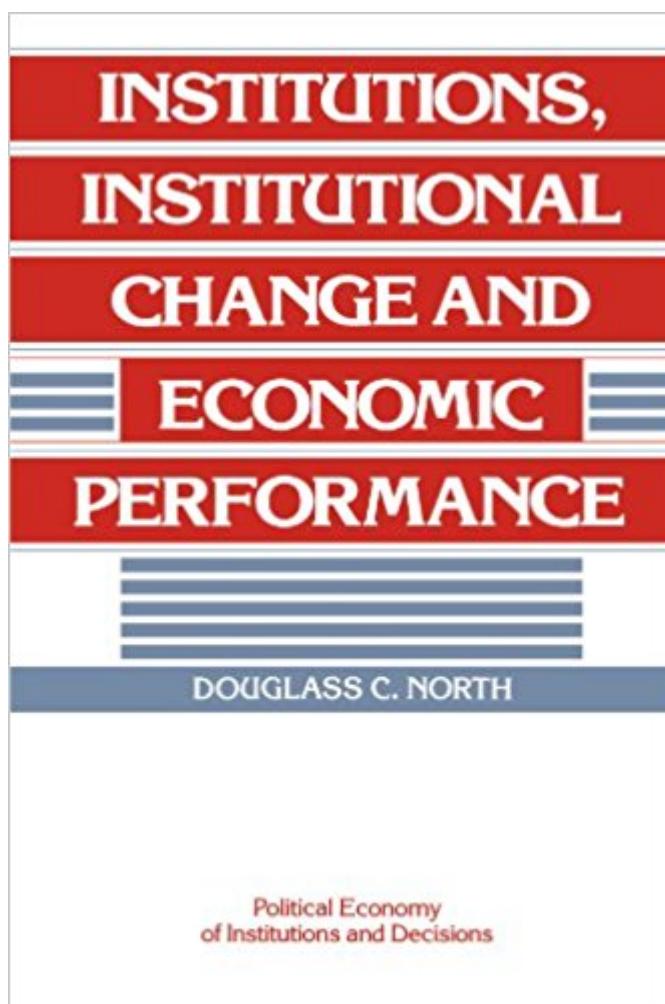


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# Institutions, Institutional Change And Economic Performance (Political Economy Of Institutions And Decisions)



## Synopsis

Continuing his groundbreaking analysis of economic structures, Douglass North develops an analytical framework for explaining the ways in which institutions and institutional change affect the performance of economies, both at a given time and over time. Institutions exist, he argues, due to the uncertainties involved in human interaction; they are the constraints devised to structure that interaction. Yet, institutions vary widely in their consequences for economic performance; some economies develop institutions that produce growth and development, while others develop institutions that produce stagnation. North first explores the nature of institutions and explains the role of transaction and production costs in their development. The second part of the book deals with institutional change. Institutions create the incentive structure in an economy, and organizations will be created to take advantage of the opportunities provided within a given institutional framework. North argues that the kinds of skills and knowledge fostered by the structure of an economy will shape the direction of change and gradually alter the institutional framework. He then explains how institutional development may lead to a path-dependent pattern of development. In the final part of the book, North explains the implications of this analysis for economic theory and economic history. He indicates how institutional analysis must be incorporated into neo-classical theory and explores the potential for the construction of a dynamic theory of long-term economic change. Douglass C. North is Director of the Center of Political Economy and Professor of Economics and History at Washington University in St. Louis. He is a past president of the Economic History Association and Western Economics Association and a Fellow, American Academy of Arts and Sciences. He has written over sixty articles for a variety of journals and is the author of *The Rise of the Western World: A New Economic History* (CUP, 1973, with R.P. Thomas) and *Structure and Change in Economic History* (Norton, 1981). Professor North is included in *Great Economists Since Keynes* edited by M. Blaug (CUP, 1988 paperback ed.)

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## Customer Reviews

"At a time when economic and political institutions are being reformed and replaced all over the world, North's book is required reading for all social scientists and policy makers." T.N. Srinivasan, Yale University "North here draws upon the literature concerning the formation of economic institutions...to ask significant questions about differences among economies across time and space...This is an exciting and stimulating work, and one that will leave its mark upon the work of economic historians. It will also be important for political scientists and other social scientists, to learn the message and relevance of an influential strain of non-mainstream economic thinking." Stanley Engerman, University of Rochester "In a careful but wide-ranging analysis grounded in rational-choice theory, he stresses the ways in which institutional arrangements, once adopted, may lead quite rational actors to behave in ways that are collectively suboptimal." Paul Pierson, World Politics

An analytical framework for explaining the ways in which institutions and institutional change affect the performance of economies is developed in this analysis of economic structures.

This is the great founding book in systematic and specific study of institutions as a determinant factor in the economic performance of a nation (or any other kind of polity). The author is a Nobel prize winner, and his book is characterized by an economy of words, as well as precision and clarity in his thought. Although it would seem obvious that institutions play a decisive role in economic performance, it hasn't been the case along the history of economic thinking. North begins by criticizing the cold and abstract Neo-Classical model, a la Robert Solow. Yes in fact, output is the result of the conjunction between capital and labor, plus the further addition of knowledge (technology) to the equation  $Q = K \times L \times (e)$ . But this model is really effective only under the assumption of open and competitive markets, perfect and equally accessible information, and zero transaction costs. We know the real world is not like that. We now know also that "rational choice

"behavior" is neither absolute nor unanimous, and that each "actor" defines the "rationality" of his choices according to his view of the world and himself. There are two kinds of institutions: formal (laws, codes, public policy, business policy, etc.), and informal (traditions, religions, modes of organization, family and social habits). Both are equally important, for they determine the rules of the game. In turn, rules determine what kind of knowledge is worth acquiring, what activities are profitable, and how to relate to others, which, in turn, determines economic performance. An innovation-rewarding society will tend to be technologically advanced, whereas a conformity-rewarding society will stagnate. Another important statement of the book is that institutions change in a marginal and incremental way. Even after revolutions and radical changes in political regimes, informal institutions tend to persist and in any case they change very slowly. North uses the example of the Russian Revolution: even though it is most likely the most radical and sudden social change ever experienced, there is still much of Tsarist Russia in its contemporary society, after the Soviet regime came and left. Tocqueville made the same observation about the French Revolution in his masterful "The Ancient Regime and Revolution": France ended up with an Emperor and several kings after the republican bloodshed and well into the XIXth Century, and social change came about slowly. By generating winners and losers, institutions create "path dependence". Even when it is clear that change is needed, those who profit from the status quo (the rich and powerful), will stop or obstruct change. North puts forth the case of the Americas, the Anglosaxon and the Hispanic, to illustrate how, in spite of the fact that many Latin American nations practically copied the American Constitution after achieving independence, the heritage of the decadent and stagnant Spain persists to this day in their institutions. This is easily one of the most relevant books to read when trying to understand the world's economy (crisis and all). As a further example, although it looks like China has changed overnight, it is most likely that's not the case in institutional terms, and soon China will face the dead weight of its culture versus economic progress. Change does happen, and there may be some kickstarters, but in the long run institutions change in an incremental and slow way.

I am a political science student and am used to the literature, but even I have to say this book gets pretty abstract. North makes some interesting points, but I feel it could have used a bit more focus. I felt like the chapters wandered and I never got the full impact of what he was trying to say. I was surprised because North's journal articles tend to be so insightful and focused. The book is probably worth reading once for institutionalist scholars as it does make the important point that transactions costs and other barriers prevent institutional change that might otherwise be efficient. However, the

book could have made that point in a short article.

This is a cristal clear book that takes you inside the world of New Institutional Economics written by one of its founders, although it was not considered as that at the time of publication. The book introduces the basic concepts to understand how institutions and property rigths as defined by Douglass C. North affect the economic process. Compared to other books by nobel laureates, this one is cristal clear. Very well written and thoroughly understandable. Highly recommendable.

Excellent book for whoever wants to understand the theoretical foundations of institutions and their importance for economic performance. The book is expensive though; that is why I give a 4 stars grade.

In this book, North outlines the precise features of the neo institutional economics school, which includes Coase, Williamson, Olson, Fogel, among others. This book is mainly about the theory itself and its origins and features, not about applications in particular, though the author does address that issue at the end of the book in the section about economic performance. I believe this book is great reading for the literate economist. It is difficult to follow for the non-economist, which I believe North focuses on in his other book, "Structure and Change in Economic History". That work is earlier and I believe not as complete, but it is much more readable. Either way, North's work is among the most important advances in economics in the 20th century (for which he got the Nobel Prize), so knowledge of it should benefit one and all.

Excellent economics

Book in excellent condition!

This book is a must read for those interested in the study of institutions and economic performance. It has created a niche of its own when it comes to the study of institutions.

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