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Abstract

I compare three approaches to economic history and institutions: the classical surplus approach, the Polanyian view, and New Institutional Economics (NIE). In the first institutions are seen in relation to the production and distribution of the social surplus. Research in economic anthropology, archaeology and history has validated the fecundity of this approach. The Polanyian criticism to classical and neoclassical theories is then considered and appreciated, although some severe limitations are envisaged. Most of the paper concentrate upon Douglass North, the NIE most representative author in the field of economic history. Striking of North is the attempt to replicate Marx's relation between economics and institutions in the context of neoclassical theory. Transaction costs economics revealed a dead end in explaining institutions and the power of predatory élites. Lacking a material anchor such as surplus theory, North's theory became progressively more elusive and indeterminate. On balance, a surplus-based Marxist-Polanyian approach is the most promising direction although much further work is still necessary to explain the coevolution of the economic and institutional sides of the economy.

Keywords: Institutions, Surplus approach, Karl Polanyi, New Institutional Economics, Douglass North

JEL Codes: A12, B15, B51, B52, Z13

It has been said, with reason, that the social sciences constitute one long dialogue with the ghost of Marx (Eric Wolf (2010 [1982], p. 20)

Introduction*

The idea is widely shared that economic history not only regards the variety of ways humans have produced, distributed, and innovated their social production, but also the institutions – political, legal, cultural, both formal and informal – that have accompanied and evolved along these economic processes. I argue in this paper that the theory of distribution deeply affects the theory of institutions. More specifically, I compare three approaches to economic history and institutions. The first two, namely the classical surplus approach and New Institutional Economics (NIE), are respectively based on the classical surplus theory and neoclassical (or marginalist) theory. In between I also consider the Polanyian approach which, however, does not endorse any specific theory of distribution, in fact it neglects it. A convergence of the classical and Polanyian approaches is nonetheless suggested in the paper.

Taking stock of previous research on the surplus and Polanyian approaches,¹ this paper will mainly focus upon NIE in a comparative perspective. In **section 1** I shall first reconsider the classical surplus approach. In this view institutions are basically seen in relation to the production and distribution of the social surplus. While a materialist theory of economic stages was proper to the classical tradition since its dawn, Marx's historical materialism provided a more elaborated theory of economic history and institutions based on the changing modes of producing and distributing the social surplus. Vast research in economic anthropology, archaeology and history that has later tested and validated the fecundity of the classical surplus approach is synthetically evoked in **section 2**. I shall next briefly return in **section 3** to the criticism that the Polanyian approach moved both to classical and neoclassical theories. I regard the criticism to the classical surplus theory as a healthy critique to its mechanical applications without a due consideration of the role of institutions. Some severe limitations of the Polanyian approach are however envisaged. In **section 4** this comparative exercise is extended to NIE. Of its two souls, a first mainly devoted to the study of industrial organization, and a second mainly concerned with economic history, I shall

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¹ Cesaratto and Di Bucchianico (2021a/b), Cesaratto (2023a/b/c/d).

of course privilege the second. To fix our ideas, I shall mostly concentrate upon the most seminal author, namely Douglass North (and more incidentally on Acemoglu and Robinson 2012), who represents the main focus of this paper (in Cesaratto 2023a the work of two eminent NIE historians, Allain Bresson and Peter Temin, is also critically examined). I will conclude that much work is still to be done in the Marxist-Polanyian direction to explain the dynamics of the coevolution of economic and institutional sides of the economy.² In the rest of this introduction, I shall detail some of the themes developed in this regard.

The two mentioned souls of NIE are both present in North. A first, Williamsonian soul regards institutions as devices to deal with uncertainty, information asymmetries and transaction costs – a horizontal perspective so to speak. A second one looks enviously at Marx's historical materialism as an appealing blend of economic, distribution and institutional analyses – a vertical perspective. In an autobiographical note North (1993) confessed that, once having rather casually enrolled at the university of Berkeley, 'my life was completely changed by becoming a convinced Marxist' (quoted by Kremser 2019, p. 145). Later he changed his mind of course, but something of the earlier radicalism lasted. What is most striking of North is in fact his attempt to reproduce in the context of neoclassical theory Marx's tension between forces and relation of production by suggesting the existence of a conflict over political power to set property rights straight. In the classical surplus tradition the focus is on the institutional regulation of a social conflict over the production and distribution of the economic surplus. In North this conflict and its institutional regulation, even when admitted, are not interesting per se but rather in view of property rights and market incentives, seen as preconditions of trade and innovation. The question is then why rational individuals or communities do not set *ab ovo* (so to speak) property rights straight avoiding wrong political institutions. History matters seems North's answer, and history can take wrong paths with institutions, ideologies and beliefs hard to remove. While this might be interesting and refreshing of arid general equilibrium theory, an aspirational (teleological) element

² A recent paper in this journal reviews the relation between institutional and post-Keynesian economics (Fernández-Huerta et al. 2023). While these authors mention here and there the relationship between institutions, income distribution and social conflict, the topic is not given central relevance. The paper appears even irresolute in admitting the Sraffian approach in post-Keynesian economics, certainly attaching great importance to issues, such as uncertainty, expectations and criticism of the concept of long-run equilibria, that have seen much disagreement between Sraffians and other post-Keynesians. A dialogue is, however, in my view necessary and possible.

is present that sees competitive markets and protection of property rights as the Mecca of history and ideal benchmark of the analysis.

As a matter of facts, it is extremely difficult for the reader to capture in simple and organised terms North's main messages, which have undergone continuous evolution, which is appreciable, but also becoming increasingly elusive. This is not casual in my view. A bird's-eye view of his work shows how North initially embraced the idea that institutions are a rational solution to transaction cost problems, a perspective that stems from Coase and Williamson. While this perspective may seem sufficient for analysing micro problems of industrial organisation – the problem of institutions in a horizontal sense – North must have later perceived it as inadequate for interpreting institutions in a macro or vertical sense, for instance the state organisation of great civilisations. After all North was interested in grand theory *à la* Marx. In actual fact, the question of property rights as the guarantee of competition prices and innovation remains central in North. However, imitating Marx, North began to regard the question of property rights as a matter concerning political power, i.e. the state. Yet, his analysis of the origin of the dominant elites' power is poor, to say the least. The lack of a material anchor to explain this origin led North to go progressively astray (Ogilvie 2007), attributing wrong historical paths to the idiosyncrasy of not-market-friendly institutions and beliefs in what appear a vicious circle, in fact a skein of which we cannot detect the tangle. Note how in the first interpretation (pro-market institutions as a vehicle of efficiency) what is real is rational; while in the second (oppressive institutions vehicle of market inefficiency) what is real can be irrational. A degree of indeterminacy eventually dominates North's analysis which relies on subjective elements as beliefs and ideologies feeding off one another, in which an institution feeds other institutions without any exogenous material anchor (Krul 2016). The late North seems to reinforce a coercive view of the state as serving the interest of élites and limiting property rights, again anedulcorated version of Marx's historical materialism. To be sure, North is perfectly right in linking property right (trade) regimes to the prevailing political institutions (the state). It is in the historical explanation of different forms of government that North (as well as Acemoglu and Robinson) are weak once Marx's inspiration is deprived of its material basis in the surplus approach. This explains the evanescence of North's analysis.

In synthesis, North's grand theory of institutions is a failed attempt to imitate historical materialism in a marginalist context, renouncing in fact its material core based on the surplus approach. Reliance on superstructural and subjective elements such as beliefs and ideologies

makes North somehow closer to Polanyi. All this considered, nonetheless I regard the lesson of the Hungarian scholar much closer to the surplus approach.

1. The surplus approach and institutions

The surplus approach is encapsulated in the formula:

$$P - N = S$$

where S is that part of the physical net social product P (net of reproduction of the means of production) which is left once workers' 'necessary consumption', N , is paid. The social surplus S can be defined as the part of the social product P left once society has put aside what is necessary to reproduce the social output at least at the current level, and that can thus safely be used for any other purpose.

This formula is applicable to all social formations under investigation as the 'core' (but I would prefer the expression 'material anchor') of historical and institutional analysis. The surplus approach is by definition an 'open system', one that must be completed by historical-institutional analysis (Ginzburg 2016).

As well known, Piero Sraffa (1960) and Pierangelo Garegnani (1960) recovered this approach 'submerged and forgotten' after the marginalist revolution of the late XIXth century. The surplus theory has been mainly applied by David Ricardo, Karl Marx, Piero Sraffa, then by Pierangelo Garegnani and Luigi Pasinetti, and by many others to the analysis of capitalist societies. Since the early classical economists and Adam Smith a materialist tradition in economic history was present in the surplus approach that linked social change to changes in the productive basis of society (Meek 1976). This view found its completion in Marx's historical materialism that explained social institutions in relation to the forms of labour exploitation dominant in each epoch (Cesaratto 2023d). Both in the classical economists' stage theory and in Marx's historical materialism, economics took an historical and institutional dimension which disappeared with the marginalist revolution.

At the heart of the traditional application of the surplus approach to economic history is the idea that 'civilization', as we understand it, presupposes the existence of a surplus, i.e. that only part of the population is needed to ensure subsistence, so that the remainder can engage in 'superior' activities (politics, administration and war, religion, culture, science, etc.) that regulate economic activities and provide the ideological justification of the status quo. Different economic formations

are then characterized by different modalities of surplus extraction, distribution and accompanying institutions. Although anthropological and archaeological studies have in the last decades depicted a much more complex course of the events, in much of this research the concept of potential and actual social surpluses is still the material anchor of institutional analysis. Although the necessity to complete the surplus approach with institutional and historical analysis has been constantly present in modern classical theory (e.g. Garegnani 2018), little work has been done in this direction until recently (Cesaratto and Di Bucchianico 2020a/b). This delay has raised complaints from anthropologists and institutional scholars (e.g. Gudeman 1978; Clark 1992). Others have expressed encouragement to do more (Blankenburg, Arena, Wilkinson 2012; Gregory 2000).

2. Surplus theory in economic anthropology, archaeology and economic history research

As recalled, since the XVIII^o century the pre-classical economists related the evolution of the material base of the economy to its institutions, for instance the adoption of agriculture and the appearance of a surplus to more complex and stratified societies, or the development of commerce to 'modern civilization'. Quesnay's *Tableau economique* is still the best account of the secular relation between the countryside (where the agricultural surplus was produced) and the town (where it was consumed in 'superior activities' including the handicraft manufacture of luxury goods). Later Max Weber coined the term «consumer city» (Erdkamp 2001). Marx and Engels went further, looking at institutions as regulating and justifying labour exploitation, and evolving along the forms of exploitation.

The greatest economic archaeologist of last century, Vere Gordon Childe (1892-1957), developed this scheme permeating our way of thinking about the transition between prehistory and history. He called *Neolithic revolution* the transition from hunter-gatherers to peasant societies which marked the emergence of a potential surplus; and *urban revolution* the actual production and appropriation of a surplus by an élite accompanied by the birth of cities. This schematic view of the first economic revolutions has been later subject of the Polanyian criticism inspiring more complex approaches to these transitions (e.g. Sahlins 1972).

In economic anthropology the concept of surplus was adopted by Lewis Henry Morgan (1818-1881), the pioneer anthropologist deeply appreciated by Marx and Engels (see Engels 1884). It was later adopted by Melville Jean Herskovits (1895-1963), the American author of the first manual in

economic anthropology drawing ferocious criticism by Frank Knight, and eventually by Jared Diamond (1997), and by many living anthropologists (e.g. Morehart and De Lucia 2015).

One key theme emerged in economic anthropology namely the relation between the economic surplus and social stratification in the early hunter-gatherers and peasant communities (Darmangeat 2020, Risch 2016, Svizzero and Tisdell 2016). Hunter-gatherers are generally considered egalitarian communities in spite of the potential surplus present also in those societies (Testart 1988). Anthropologists generally maintain that distributive equality was not a 'natural' outcome (*le bon sauvage* à la Rousseau), but the result of specific social rules (institutions) that penalized elitism or private appropriation of eventual surpluses. Nor was social stratification an automatic result of the adoption of agriculture – although it prepared it by making potential surpluses more evident. A widely discussed materialist hypothesis is that in Neolithic societies with the adoption of agriculture, storage of grains became systematic and massive, and the progressive takeover of warehouses by élites constituted the key step for stratification. In other words, since harvests are typically periodic, the very possibility of storing the product for seeding and deferred consumption is a prerequisite of agriculture. Storage also makes it possible to set aside some surplus above normal replacement and subsistence requirements in anticipation of unfortunate future events, such as famines, floods, etc. These surpluses are referred to in the literature as 'normal surpluses' (Halstead 1989). Storage in turn implies its social management and defence against potential enemies. 'Normal surpluses' may thus constitute an intermediate step towards stratification. The management of warehouses and 'normal surpluses' may provide priests or notables who impersonate the fortunes of the community with the occasion to transform themselves into the dominant élite (e.g. Darmangeat 2020).³

³ On these lines Scott (2017). The emergence of social stratification and of the state (in the standard: sequence villages, chiefdoms, state) are roughly two faces of the same coin. There are various other theories in this regard. A classic theory is by the American anthropologist Robert Carneiro (1927-2020). In this theory population pressure and relative land scarcity would induce territorial conquests and the creation of larger political entities where military chiefs would be the natural candidates to take the lead of the state (Carneiro 1970). Note that, however, military conquests accompanied with forms of economic subjugation of conquered communities make sense as long as the latter are able to generate a surplus above their subsistence. Other irons in the fire have recently been added by the late David Graeber (Graeber and Wengrow 2021) who challenge the standard sequence looking at the hunter-gatherers age as a long epoch of institutional experimentation. These also included example of large, self-ruled urban conglomerates which would contradict the necessity of hierarchies to govern complex human settlements. Generally not well received by anthropologists and archaeologists, this work will deserve a future deeper consideration (cf. the special 2022 issue of *Cliodynamics*: 'Leading Scholars of the Past Comment on Dawn of Everything', (https://escholarship.org/uc/irows_cliodynamics/0/0)).

Following the tradition of Gordon Childe, the surplus approach is quite lively in archaeology. Let me mention the prestigious names of Mario Liverani (2005) and Marcella Frangipane (2018) from La Sapienza in Rome, or of Johannes Renger (2016) who explicitly works in a Sraffian tradition.

Also authoritative historians of pre-capitalist social formations have been influenced by historical materialism, e.g. Perry Anderson (1974 a/b), Geoffrey De Ste Croix (1981), John Haldon (1993) and Chris Wickham (2008). Marxists have also been involved in endless debates on the nature of social formations and mechanisms of economic change (Cesaratto 2023d). Despite their verbosity, these debates focus on some relevant questions including the definition of modes of production and the dynamics of their change, as well as the role of human agency in economic change.

The utilisation of the surplus approach in anthropology and the other socio-historical disciplines has not been without objections.

3. The Polanyian criticism

Severely simplifying, Polanyi's well known central tenet regards the distinction between capitalist economies regulated by market exchange and the earlier economic forms where embedded or personal forms of regulation prevailed. This distinction was later endorsed by the prominent historian and pupil of Polanyi, Moses Finley (1973). For Polanyi (1957), embedded relationships can be grouped into reciprocal (such as gift) and redistributive state relationships. For both Polanyi and Finley marginalism is appropriate when applied to market economies, while it is wrong when applied to pre-capitalist formations, in which trade and in general economic relations were relatively less important.

I have two reservations about this approach:

(i) Marginalism is wrong also when applied to capitalism, and economic analysis should not be identified with it; as observed by Krul (2016, p. 23), Polanyi's 'acceptance without question of the dominant economics of his day to explain capitalist society (though not to justify it) seems, in retrospect, as a big mistake'.⁴

⁴ Taccola (2020, pp. 109-110) reports that these critiques to Karl Polanyi were well present among Italian Marxists archaeologists and historians in the 1970s.

(ii) Economic relations were important also in pre-capitalist societies (as symmetrically institutional analysis for capitalism).⁵ In fact, reciprocity and redistribution are at the same time institutional and economic forms of regulation of the production and distribution of the social surplus. As Marx ironically commented: ‘This much, however, is clear, that the middle ages could not live on Catholicism, nor the ancient world on politics. On the contrary, it is the mode in which they gained a livelihood that explains why here politics, and there Catholicism, played the chief part. ... Don Quixote long ago paid the penalty for wrongly imagining that knight errantry [an institution] was compatible with all economic forms of society’ ((1974 [1967]), p. 85). In actual fact, the distinction between disembedded (mediated by the market) and embedded (stemming from personal or political dependence) social relations is well present in Marx (1974 [1967]), pp. 81-82) who regarded them as alternative societal modes of regulating the production and distribution of the social surplus.⁶ Ultimately, in fact, Polanyi and Marx share the idea that economics is about the variety of ways in which humanity has historically organised its subsistence and reproduction (Cesaratto 2023c).

In this respect I look in a constructive way to the Polanyian criticism of some mechanical uses of surplus theory – e.g. the automatism sometimes posited between the technical possibility of producing a surplus and the emergence of social stratification and ‘civilization’. As a Polanyi’s close follower pointed out, the concept of surplus ‘is useful only where the conditions of a specific surplus are institutionally defined’, since ‘[t]here are always and everywhere potential surpluses available’, but what ‘counts is the institutional means for bringing them to life’ (Pearson 1957, p. 339). Similarly, anthropologist Morehart (2014) argues that studying surplus ‘is incomplete without considering the historical and subjective [in a social sense] aspects of surplus as it is connected to differing and overlapping institutional spheres ...’. Institutionalist Adams (1991) has argued that ‘relative surpluses appear simultaneously with the enabling institutions—rules,

⁵ It sounds in fact paradoxical that NIE outlines the importance of institutions also in capitalism, while Polanyians downplay them.

⁶ See also Anderson (1974b, p. 403) and Garegnani (2018, p. 17). Polanyi’s tripartite subdivision of societies as based on reciprocity, top-down redistribution, and markets, can later be found in historians John Haldon and Chris Wickham, and in archaeologist Eric Wolf. In them, however, the tripartition refers rather to Marx’s economic classification between primitive sharing-communities, ground-rent based societies (basically founded on the extraction of a surplus from peasants), and capitalism (exploitation of ‘free labour’)

procedures, and sortings that achieve their realization and distribution'.⁷ I agree with these warnings that it does not make sense to talk of 'surplus' in general as a 'generic abstraction', but only as a 'determined abstraction' — using the terminology of Marx (1973 [1857-58], pp. 100-101; see also Ginzburg 1976 p. 153, 163 and *passim*) — fully immersed in the historical-institutional circumstances that transformed potential into actual surpluses by ordering their extraction and distribution.

Summing up, one thing is to say that in pre-capitalistic formations personal/political relations prevailed over market-mediated relations (Marx, Anderson, Garegnani); quite a different thing is to conclude that, therefore, economic analysis of ancient formations is secondary (Polanyi, Finley). Moreover, economics does not coincide with markets or general equilibrium theory. Nonetheless Polanyi and Marx point to a similar direction by looking at economic history as a rich collection of economic-institutional modes of producing and reproducing the human material existence. In this light, Polanyi's criticism of the mechanical views of the surplus approach must be welcomed. The study of the institutional mechanism that transformed technical opportunities (potential surpluses) into new social relations of production and distribution is as much important (or even more important than) as technology *per se*. For Marx as much as for Polanyi economic history does not just coincide with the study of the change in the material basis of societies but, as the mature Marx (1974 [1887], pp. 791-792) put it in important passages, with the historical investigation of the 'infinite variations and gradations in appearance' of the concrete forms of social organization that a same material base can generate. Douglass North seems to get their hands dirty in exploring these infinite institutional variations with a difference, however. What Marx never loses sight of is the material anchor of institutions, i.e. the 'innermost secret' of the historically dominant form of surplus extraction, 'the hidden basis of the entire social structure and with it the political form of the relation of sovereignty and dependence, in short, the corresponding specific form of the state' (*ibid*). This material base is missing in North.⁸

⁷ The distinguished anthropologist Robert Carneiro (1970, p. 733) also defines 'automatic theory' the idea that 'the invention of agriculture automatically brought into being a surplus of food, enabling some individuals to divorce themselves from food production and to become potters, weavers, smiths, masons, and so on, thus creating an extensive division of labour. Out of this occupational specialization there developed a political integration which united a number of previously independent communities into a state. This argument was set forth most frequently by the late British archaeologist V. Gordon Childe'.

⁸ A clash between those that privilege a materialist anchor in anthropological, archaeological and historical research, and those who favour cultural aspects re-emerges in the conflict between processual and post-processual approaches in archaeology (Watson 2007), Shanks 2007). Processual archaeology was dominant

4. New Institutional Economics

Currently, archaeologist Viglietti (2021, p. 306) writes, ‘mainstream scholarship on the ancient economy is still in the hands of NIE-oriented approaches’ (see also Viglietti 2018, p. 223).

Neoclassical theory has indeed been defined an imperialist discipline for its invading attitudes vis à vis the other social sciences. In actual fact, Polanyian and neoclassical students of economic anthropology, archaeology and history fiercely engaged with each other through the decades 1960s-1980s under the respective flags of *substantivism/formalism* (inspired by Polanyi and Finley) versus *primitivism/modernism* (inspired by marginalist economics). The former considered the differences between historical economic formations to be in kind not in degree, the latter in degree not in kind; the former deemed economic relations marginal and political relations dominant in ancient societies, while the second regarded markets as ubiquitous in economic history. The appearance of NIE is said to have shaken things up by accepting that institutions other than markets exist in any social formation. I shall mainly focus upon Douglass North, the NIE figure more concerned with economic history. Yet, as already noted, it is quite hard to sum up Douglass North’s main messages given their change over time and, more importantly, a certain evanescence if not inconsistency which is not casual in my opinion. I will therefore avoid an impossible synthesis focusing instead on a number of aspects particularly relevant for the comparative perspective adopted in this paper.⁹

As well-known, the origin of NIE is in transaction costs economics (Coase 1937), the cost of writing and enforcing contracts in situation of uncertainty and asymmetric information. Oliver Williamson is credited for the application of NIE to problems of industrial organization, e.g. the classical ‘make or buy’ problem (an ‘horizontal perspective’ as defined above); Douglass North for its application to economic history (a ‘vertical perspective’). In a sense, Coase’s original contribution was in between, wandering why firms do exist.¹⁰ The same North distinguished between institutions, an issue of grand economic history, and organizations, a microeconomic issue (Hodgson 2017 for a

in the Anglo-Saxon world in the 1960s and 1970s, privileging material explanations with a clear Marxist contamination. Later, post-processual archaeology favoured extra-economic factors (see Trigger 1993). For a defence of relative culturalism see Viglietti (2018). Luckily, there is not a solution of continuity between these opposite approaches, and a complementarity between them might be envisaged, as I shall allude in the conclusions.

⁹ Reviews of North’s work include Ménard and Shirley (2014) and Hodgson (2017).

¹⁰ In my first published article (Cesaratto 1988) and later in Cesaratto (1999) I pointed out the limits of Coase’s and Williamson explanation of the capitalist firm as an institution in terms of transaction costs.

discussion of this point). Yet, North accepts that he is extending Williamson's approach to economic history: 'it is reasonable to assume that the forces that lead to the substitution of firms for markets today may also help us to explain the variety of forms of economic organization in past societies' (North 1977: 711). Hierarchies, however, take a social and historical dimension in North. In other words, North isn't interested in hierarchies in a horizontal industrial context, but in a vertical, socio-political and historical sense. Although North shares with Williamson the idea that the Walrasian general equilibrium theory is the analytical benchmark of their theories, it can be argued that while for Williamson 'in the beginning there were markets' as he famously wrote (Williamson 1975, p. 20), for North markets and liberal institutions are at the end of history (in a sense not far from the notorious book by Francis Fukuyama). Although North would reject teleologism, the aspiration to an 'open economy' (as defined in North, Wallis and Weingast 2009) pervades his approach to economic history. The Walrasian benchmark provides North's analysis with a material anchor (sort of) to analyze, at least by difference, past societies.¹¹

At the cost of some simplifications, two main phases of North's approach to institutions may be distinguished (e.g. Wallis 2015). In the first phase institutions (social and political hierarchies) are seen as an efficient solutions to the obstacles that transaction costs pose to property rights, market exchanges and private initiative (efficiency hypothesis). In the second, the same institutions are seen as obstacles to the development of markets and private initiative (inefficiency hypothesis). Let us begin from the first hypothesis.

4.1. *The Efficiency Hypothesis*

In synthesis the Efficiency Hypothesis would explain institutions as a sub-optimal provisions for organizing the economy in certain historical circumstances where market arrangements are

¹¹ Putting aside the severe analytical problems with Walrasian theory (see Petri 2021, Chapter 7), what is wrong with this comparative method? In fact also Marx in some famous passages suggested capitalism as a benchmark for studying pre-capitalist economies as much as the 'Human anatomy contains a key to the anatomy of the ape' Marx (1973 [1857-58], p. 105. However, he warns, although the 'bourgeois economy thus supplies the key to the ancient', this does not happen 'in the manner of those [bourgeois] economists who smudge over *all* historical differences and see bourgeois relations in all forms of society'. Therefore, he concludes, while 'the categories of bourgeois economics possess a truth for all other forms of society, this is to be taken only with a grain of salt. They can contain them in a developed, or stunted, or caricatured form etc., but always with an essential difference'.

hampered by high transaction costs (for technological reasons or either). As North (1977, p. 710) aptly sums up:

An essential pre-condition for price-making markets is the existence of well-defined and enforced property rights over the good or service to be exchanged. Such a condition does not exist today, or in the nineteenth century, for many goods and services, and was conspicuously absent throughout most of recorded history. The costs of defining and enforcing property rights – transaction costs – lead to non-price allocation of many goods and services today, because the costs of delineation or enforcement exceed the benefits. Common property resources and public goods are conspicuous examples (...). Since technological developments are continually reducing the costs of delineation and enforcement of property rights (although in some instances the effect of technological change may be the reverse), transactions costs in the ancient past would have been an insuperable barrier to price-making markets throughout most of history (...). To the degree that ownership rights are absent or attenuated, some other allocative mechanism will exist.

The standard example is serfdom in Western Europe which ‘was essentially a contractual arrangement where labor services were exchanged for the public good of protection and justice’ (North and Thomas 1971, p. 778). The approach is reminiscent of some Hobbesian social contract (see Posner 1980 for a similar approach to primitive sharing-societies).

In this perspective, North (1977) had an easy time criticizing Polanyi for the latter's weak thesis that economic analysis is not applicable in appropriate forms to ancient societies. In fact North (1977, p. 709) on the one hand accepts that ‘all societies have elements of reciprocity, redistribution and markets in them’ but, on the other, rejects the Polanyian thesis that embodied forms of social integration ‘are not explicable in terms of economizing behaviour’ but only ‘by in “depth” studies which are social, cultural, and psychological in origin’ (ibid, p. 708). This sort of explanation would be indeed little amenable to testing and refutation (ibid, p. 707).

Critics of North’s efficiency theory of institutions include Ankarloo (2002, p. 19) who points to the paradox that if ‘we conceptualise a world without transaction costs as one encompassing institutions and organizations, then we have to admit that transaction costs cannot in general be the cause of institutions and organizations’. A perfect Arrow-Debreu economy would be institutionless. Maucourant (2012, p. 197) adds that North’s analysis is ‘not really an extension of the institutional approach but rather a post-neoclassical description of the discrepancy between an a priori optimal world and our imperfect actual world, as if institutions were not essential to the social order.’ Further criticism by Krul (2016) and, specially, Ogilvie (2007) will be examined later. In fact, North seemed to realise progressively that institutions are not necessarily an efficient solution to transaction costs troubles.

4.2. *From the Efficiency Hypothesis to the predatory state*

In his main book, North (1981) abandoned the 'efficiency hypothesis' – that non market-institutions are efficient *solutions* to transaction costs that trouble markets by limiting property rights and economic initiative – in favour of the view of institutions protecting specific social groups interests thus *generating* transaction costs that limit property rights and economic initiative. As he later explained: 'I abandoned the efficiency view of institutions. Rulers devised property rights in their own interest and transaction costs resulted in typically inefficient property rights prevailing' (North 1990, p. 7). This is an interesting evolution and Marx's challenge is more clearly perceptible. Nonetheless, nowhere in North (1981, 1990) and later in North, Wallis and Weingast (2009) a clear explanation is given of the origin of rulers' power, dominant coalitions, predatory states, dominant ideologies etc. Certainly not on the materialist lines and related cultural analyses pursued by many anthropologists, archaeologists and historians (Cesaratto 2023c). This lack of clarity creates some frustration when a synthesis of North's (1981) central book is attempted.

For instance, in the initial pages it is still said that 'transaction costs underlie the institutions determining the structure of political-economic systems' (ibid, p. ix), evoking the 'efficiency hypothesis'. The change of perspective is more appreciable a few pages later where it is stated that: 'The building blocks of [a theory of institutions] are: 1. a theory of property rights that describes the individual and group incentive in the system; 2. a theory of the state, since it is the state that specifies and enforce property rights; 3. a theory of ideology that explains how different perceptions of reality affect the reaction of individuals to the changing "objective" situation' (ibid, pp. 7-8; some pages later the building blocks are reduced to two). Frequent examples of discontinuity in North's arguments can be provided. A change of perspective from transaction costs economics to such macro-issues as property rights, the state and ideology is nonetheless perceptible.

The dialectics of State and property rights are the core of North's reasoning. He distinguishes between two theories of the State: contractual and predatory. The first sounds like a reminiscence of the (horizontal) efficiency theory of institutions, institutions as a solution to transaction costs: 'the contract theory approach offers an explanation for the development of efficiency property rights that would promote economic grow' (1981, p. 22). The second somehow reverses the explanation: (vertical) predatory institutions may generate inefficient markets: 'The predatory or

exploitation theory ... considers the state to be the agency of a group or class; its function, to extract income from the rest of the constituents in the interest of that group or class. The predatory state would specify a set of property rights that maximized the revenue of the group in power, regardless of its impact on the wealth of the society as a whole' (ibid, p. 22). The conflict between predatory states (including redistributive states) and commercial interests for putting property rights straight is historically pervasive: 'From redistributive societies of ancient Egyptian dynasties through the slavery system of Greek and Roman world to the medieval manor, there was persistent tension between the ownership structure which maximized the rent of the ruler (and his group) and an efficient system that reduced transaction costs and encouraged economic growth' (ibid, p. 25). The next question would then be how to explain the origin of predatory states. Observe that North's final concern is still markets' efficiency. In other words, North's interest on vertical institutions regulating income distribution is secondary and functional to its main concern, and surprisingly not well explained. As noted by the Oxford historian Sheilagh Ogilvie (2007, p. 662): 'Efficiency theorists do sometimes mention that institutions evoke [distributive] conflict. But they seldom incorporate conflict into their explanations. Instead, conflict remains an incidental by-product of institutions portrayed as primarily existing to enhance efficiency. Thus, for instance, North often mentions distributional effects of institutions, but explains their rise and evolution through economic efficiency (in his early studies) or "mental models" (in more recent work)'.

In actual fact, North (1981) mentions two hypothesis about the origin of predatory states: the exogenous takeover of a foreign population ('a predatory origin of the state', ibid, p. 64), or a social contract stipulated to manage the 'communal needs' of a peasant village ('a contract origin of the state').¹² Rulers would anyway devise 'a set of property rights' and 'a body of law' trying to reconcile the maximization of 'returns to the rulers' and 'economic efficiency and hence, tax revenue' (ibidem). Little attention is paid to the variety of hypothesis on the origin of ancient states advanced by economic anthro-archaeologists – see e.g. the authoritative Scheidel (2013) and, in section 2, the theories that refer to storage as the lever of stratification.

Ideology, the third bastion of North's theory of institutions, is mainly justified as a way to cement loyalty, from class loyalty to observance of rules (what reduces the cost of enforcing property rights), avoiding free riding behaviours individuals may have occasion to embrace. It may go

¹² The first hypothesis reminds of Carneiro's theory (see above footnote 2).

therefore from Marx's "consciousness" dependent upon one's position in the production process' (ibid p. 51); to the belief in the ethical rules of hard work capitalism (ibid, p. 53-54); or indeed to any possible local populations credence that 'coalesced into languages., customs, taboos, myths, religions, and, eventually, ideologies' that 'survive today in the ethnic diversity that produces conflicting ideologies'. All in all, 'successful political-economic units have been associated with the development of ideologies that convincingly legitimized the existing structure of property rights and consequent income distribution' (ibid, p. 64).

While ideologies as legitimation of 'property rights and consequent income distribution' is a clear echo of Marx – although, lamentably, spoiled of his classical distribution theory¹³ – in his next book, North (1990) seems to take a step back. Subjectivism, to begin with, is rampant where institutions, ideology, norms and beliefs each feed the other in the blind navigation of economic agents in an uncertain world.¹⁴ Moreover, an anchor is again found in the market: institutions set the stage for competing 'organizations' mainly consisting of entrepreneurial firms (ibid, pp. 73, 84 and passim) while economic history is largely reduced to trade history (ibid, p. 119). Although incidentally marking his distance from Oliver Williamson (ibid, p. 54, footnote), a Williamsonian perspective peeps again in most of the book. To be sure, also a proto-Marxist view reappears in which, to be sure, politics and not the economy has the priority: 'Broadly speaking, political rules in place lead to economic rules, though the causality runs both ways. That is, property rights and hence individual contracts are specified and enforced by political decision-making, but the

¹³ North's reference to the legitimising role of ideologies of the social status quo is anyway valuable in view of the Popperian accusation to Marx of functionalism, explaining institutions or ideologies, as functional to the working of the whole without reference to individual choices (Heijdra et al. 1988). In this regard North sounds as much functionalist as Marx.

¹⁴ Too many are the passages that might be quoted, e.g.: 'I intend to demonstrate that institution basically alter the price individuals pay and hence lead to ideas, ideologies, and dogmas frequently playing a major role in the choices individuals make' (North 1990, p. 22); 'culture defines the way individuals process and utilize information and hence may affect the way informal constraints get specified. Conventions are culture specific, as indeed are norms. However norms pose some still unexplained problems. What is it that makes norms evolve or disappear ...?' (ibid, pp. 42-43); 'a major point of this study is that institutions, by reducing the price we pay for our convictions, make ideas, dogmas, fads, and ideologies important sources of institutional change. In turn, improved understanding of institutional change requires greater understanding than we now possess of just what makes ideas and ideologies catch hold. Therefore, we are still at something of a loss to define, in very precise terms, the interplay between changes in relative prices, the ideas and ideologies that form people's perceptions, and the roles that the two play in inducing changes in institutions' (ibid, pp. 85-86). It is difficult to find the tangle in this skein of concepts. The later North (2005) is likely his most elusive work where, according to a commentator (Krul 2016, p. 21), he introduced 'undefined exogenous factors: "ideology", or evolutionary imperatives, or simply a rather hand-waving "complex mix of beliefs and institutions" (North 2005, p. 44)'.

structure of economic interests will also influence the political structure. In equilibrium, a given structure of property rights (and their enforcement) will be consistent with a particular set of political rules (and their enforcement). Changes in one will induce changes in the other. But because of the priority of political rules, we will analyse the structure of the political system first.’ (ibid, 1990, p. 48 my italics). Later he writes that: ‘rulers would not antagonize *powerful constituents* by enacting efficient rules that were opposed to their interests or because the costs of situation in which less efficient property rights yielded more tax revenue than efficient property rights’ (ibid, 1990, p. 52 my italics). The problem is that what ‘the structure of economic interests’ (or for that matter, the ‘powerful constituents’) consists of, and how they are historically generated, is only vaguely alluded.

Laudably, Denzau and North (1994) present an analysis of ideologies and institutions as *shared* mental states, taking a certain distance from methodological individualism. The problem is that while through these mental states agents interpret and act in the environment, the nature of the latter (hence of historical-economic reality) remains unspecified. So the mental states continue to feed on themselves without a clearly articulated dialectic between mind and reality.¹⁵

North, Wallis and Weingast (2009) are again focused on the state. Here North et al. distinguish between three ‘social orders’: foraging, the limited access or natural state, and open access societies (without any explicit teleological implication, ibid, p. 73). Evoking Marx and Polanyi, the first two social orders would be based on personal relations, ‘particularly personal relationships among powerful individuals’ (ibid, p. 2), and the latter order on impersonal relationships (ibid, p. 2, 32 and passim).

A Hobbesian imprinting is again evident here: although North et al. (ibid, p. 13) refrain from defining the foraging stage as ‘solitary, nasty, brutish and short’, they refer to ‘evidence from skeletal remains’ suggesting that, ‘as the scale of societies increased, human-induced violence declined’ (ibid, p. 54). Thus the natural state arises to keep violence at bay (ibid, pp. xi, 18-19 and passim) leading to ‘lower levels of violence than the foraging order’ (ibid, p. 54). More specifically, the natural state would be the result of the emergence of dominant coalitions:

¹⁵ See e.g. Denzau and North (1994, p. 25) where it is elusively alluded to ‘evolving “climate of opinion” to analyze the changing meaning of terminology and ideological constructs’.

The natural state reduces the problem of endemic violence through the formation of a dominant coalition whose members possess special privileges. (...) The dominant coalition contains members who specialize in a range of military, political, religious, political, and economic activities. (...) To be credible, the commitment requires that the violence specialists be able to mobilize and gather their rents, which are produced by the remainder of the population. ... In the earliest societies of recorded human history, priests and politicians provided the redistributive network capable of mobilizing output and redistributing it between elites and non-elites (ibid, pp. 18-19).

An echo of anthropological and archaeological research on the early generation of potential surplus appropriation and birth of stratification is here perceivable, while a notion of surplus is vaguely endorsed ('rents... produced by the remainder of the population').

Political contendibility marks an open access society, where state control of violence is subjected to political control, while the 'political system is open to entry by any group and contested through ... constitutional means' (ibid, p.22). The transaction cost approach seems definitively discarded here, while some Marxist flavour is again evident, although still limited is the explanation of the origin of the exploitative social orders. There is no doubt that nobody has definitive answers in this respect, but North and his fellows do not take advantage of a rich historical research in these fields (as shown above in section 2), let alone of the Marxist debates (admittedly rather convoluted) on the transition between modes of production (Cesaratto 2023d).

4.3. *North of Marx*

As noted, North is often laboriously emulating Marx's historical materialism compactness in which ideology is the social cement that provides the necessary social consensus to the historically given relations of production and exploitation. From the predatory state to social conflict and related ideologies North is indeed often mimicking Marx to whom he dedicates a much-quoted paragraph:

The Marxian framework is the most powerful of the existing statements of secular change precisely because it includes all of the elements left out of the neoclassical framework: institutions, property rights, the state and ideology. Marx's emphasis on the crucial role of property rights in efficient economic organization and on the tension that develops between an existing body of property rights and the productive potential of a new technology is a fundamental contribution (North 1981, p. 61; see also North 1990, p. 132).¹⁶

¹⁶ North's flirting with Marx fascinated some Marxists. For instance, Wisman et al. (1988, p. 759) are dismissive about the role of surplus theory in Marx, conceding that most 'social protests ... are *in some sense also* related to economic struggles between those who produce and those who appropriate the surplus' (my italics). They conclude that, once conflicts between nation-states and gender relations are taken into account, North's 'eclectic approach to conflict ... is more useful than Marx's *single-minded* emphasis on class' (ibidem). Accusations to Marx and Engels of 'single-mindedness' on gender and state-relations are, to be mild, unfair. Galípolo et al. (2008) argue that North deliberately exhibited appreciation

To Marx North refers when he explains economic change towards a more plural society as the result of a social conflict between rulers and constituents (ibid, p. 23 and passim): ‘One variant of this is the Marxian notion of the contradictions of the mode of production, in which the ownership structure is incompatible with realizing the potential gain from an evolving set of technological changes’ (ibid, p. 28).

Sagaciously, North accuses Marx of unclarity about the concepts of forces and relation of production whose clash would produce change: ‘At times Marx seems to confine [productive force] narrowly to innovations in technology, but other times he casts his net much wider, to include things that appear at least to be part of the relations of production. ...Marx envisioned basic economic change as coming about as a result of a tension between the forces of production and the relations of production, with, at least in his original form, the productive forces being a function of technology. Thus the potential productivity of technology could not be realized within the existing property-rights structure’ (North 1986, pp. 58, 61). As I pointed out elsewhere (Cesaratto 2023d), also Marxist authors denounces the irresoluteness of the Marxian mechanism of change between the primacy that Marx’s (1977 [1859]) *Preface* gave to the forces of production as the agent of change, and the emphasis in volume I of *Capital* on the relations of production (the class struggle) (see e.g. Wickham 2008, p. 6, and Stedman Jones 2007, p. 145). Interestingly, in the *Grundrisse* Marx adumbrates an inverse relation, so to speak, between institutional change and forces of production in which the imposition of a new ‘system of laws’ by a conquering population (particularly a new ‘form of property in land’ and the introduction of slave labour) changes the material conditions of production. ‘In all these cases – Marx concludes - and they are all historical, it seems that distribution is not structured and determined by production, but rather the opposite,

of Marx to attract also a heterodox audience. Christian Kremser (2019) presents North’s theory as a form of historical materialism: ‘As with Marx, so with North, historical change ultimately proceeds from technological progress’ under the pressure of competition. As a result of the ‘change in the mode of production as a material basis, the institutional arrangement as an ideal superstructure is renegotiated’ (ibid, p. 162, translation from German based on DeePL free edition). Admittedly, this is an edulcorated version of historical materialism that does not require ‘a concept of social class; a fact that brings the theory of institutional change close to the analytical Marxism’ (ibidem). (On the enervated Marxist credentials of ‘analytical Marxism’ see Tarrit [2006] and Veneziani [2012]). On the marginalist side, Heijdra et al. (1988) do not find major substantial differences between North’s NIE and Marx’s historical materialism, but find many on the methodological side, a point I shall evoke in the conclusions.

production by distribution' Marx (1857-8 [1973], p. 96).¹⁷ This view is consistent with Marx's 'infinite' institutional manifestations of similar economic basis, and also with his method of the 'determined abstractions' that we noted above.

North's main criticism of Marx concerns the concept of social class.

According to the surplus approach individuals are admittedly part of social classes defined by their role in the production sphere.¹⁸ The basic class distinction is between those who produce a surplus and the recipients (and ancillary classes). (Classes do not indeed exist in primitive sharing societies, but only social groups defined by gender, age, prestige etc.) This approach is criticised because free riding would undermine class cohesion (North 1981, p. 45-54 and *passim*; Heijdra et al 1988, p. 310).

For North free riding and opportunism (e.g. scabbing) are so pervasive that they undermine class unity so that, for instance, for North economic change would 'come from the rulers rather than constituents' through palace coups by small competing elites (North 1981, p. 32). I do not believe that Marx would have objected that the control of the state is the main arena of class conflict. Certainly, working class compactness is undermined by violence and superior bargaining power of the élite backed by institutions, as suggested by Adam Smith (1776, pp. 68-69), and by scabbing that would, however, be socially sanctioned (Taylor 1986, p. 7). In addition, contrary to the opinion of Moses Finley, Edward Thompson, Ralf Dahrendorf and others (to which we may add Douglass North), the existence of social classes and exploitation must be separated by political self-consciousness. As de Ste. Croix put it:

The individuals constituting a given class may or may not be wholly or partly conscious of their own identity and common interest as a class, and they may or may not feel antagonism towards members of other classes as such (1981, p. 44 and *passim*).

What is essential for de Ste. Croix (*ibid*, p. 68) to define a social class, is the 'exploitation by the propertied class of the non-propertied', while 'it is the precise form of exploitation which is the

¹⁷ Marx paid also attention to transaction costs. For instance, he considered logistic activities productive (producing a surplus), but disparaged mercantile profits realised by buying cheap and selling dear in imperfectly competitive markets (Marx 1974 [1894], pp. 330-331).

¹⁸ After all this is also true in neoclassical theory. This theory is however largely uninterested to explain the origin of the distribution of initial endowments of material and immaterial resources that distinguish individuals.

distinguishing feature of each form of society (above the most primitive level of course), whether it is, for example a slave society or a capitalist society' (ibid, p. 51; see also Anderson 1980, p. 40)).

On balance, North can be seen as a challenge to Marx. He admires Marx for having 'an integrated perception of the totality of societal relations. Institutions, the state, and ideology are all part of his analysis' (North 1986, p. 58). Yet, North forgets that the surplus theory is also part of Marx's analysis without which institutions and ideologies would be empty boxes. Notably, also North has an economic anchor, namely the Walrasian general equilibrium. One that, he admits, is incapable to inspire a theory of institutions and economic history, if not by default as the result of market failures. By contrast, the concept of surplus is a tool applicable to any historical society in combination to the analysis of institutions.

In addition, Marx was mainly concerned with 'vertical institutions', the political and ideological institutions that justify and regulate the relation of production and income distribution, while North's theory ultimate concern are the 'horizontal institutions', those that affect market efficiency (North 1986, p. 60-61). Vertical institutions are ultimately seen as functional to horizontal institutions. As much as in Polanyi, North's institutions concern the sphere of circulation and not the production domain, thus neglecting Marx's 'innermost secret, the hidden basis of the entire social structure and (...) the corresponding specific form of the state'.

Having said so, while taking the vertical axes as the main focus of institutional theory, the surplus approach should welcome an 'inclusive view' of technical change and historical materialism involving not only 'hard' technical innovations but also 'soft' institutional, legal, and organizational factors. 'Horizontal and vertical factors interact', one may say. As noted a few lines above, Marx's theory is open in this regard.

4.4. *Market and conflict views of institutions*

A closer criticism to North's mainly 'horizontal' view of institutions is forcibly put forward by Ogilvie (2007) who reviews North's institutional theory from the early 'efficiency hypothesis' to his later shift 'to "cultural" approaches to institutions' (2007, p. 653). One criticism Ogilvie moves to the efficiency view regards the difficulty of considering it as 'applying to the entire society in some way' and not just to the exchange sphere (ibid, p. 657). As a matter of fact, North 'progressively disavowed his original efficiency approach, and came to believe that institutions arose and survived because of people's "subjective models"' (Ogilvie 2007, p. 659; the reference is to North 1981 and 1990). Yet, the alternative 'cultural' approach to institutions taken later by North would

also raise perplexities. Cultural explanations, Ogilvie argues, are pulling themselves up by the shoelaces, in that they rely on 'self-enforcing' mechanisms (2007, p. 661). Moreover, Ogilvie notes, not only 'beliefs, values, norms, and mental models are extremely difficult to observe' (2007, p. 677), but the efficiency profile of cultures is a moral or political question and not an objective criterium (2007, p. 678). In a similar vein Matthijs Krul (2016, p. 18) observes that the 'chain of argumentation in the most developed stage of the [New Institutional Economic History] runs from cognitive limitations, inherited as evolutionary baggage, to the formation of belief systems and ideologies and the need for social order, and these jointly give rise to respectively informal and formal institutions (laws and norms), which finally define the "rules of the game" of self-interested pursuit of advantage in markets or substituting economic arrangements'. However, he concludes, there is a 'problem of indeterminacy in NIE theory' (ibid). More specifically, he argues that 'if everything depends in an indeterminate way on institutions, then the institution concept does no explanatory work. That this may be a problem is already indicated by the vagueness of the popular phrase "institutions matter", because it does not say how they matter or for what purpose' (ibid p. 21).¹⁹

As an alternative to the cultural view, the later North presented market friendly and unfriendly institutions as the result of specific forms of government 'recognizing the importance of political institutions for economic growth' (Ogilvie and Carus 2014, p. 23). The reference is to North, Wallis and Weingast's (2009) distinction between 'open-access social orders', beneficial to growth, and the harmful 'limited-access ones'. Along similar and well-known lines Acemoglu and Robinson (2012) distinguish 'between inclusive and extractive institutions, where the inclusive systems encourage economic participation by large proportions of people, encourage people to make best use of their skills and choose their own jobs, allow people to make free choices, ensure secure private property, provide unbiased legal judgements, maintain impartial public contracting

¹⁹ What Eric Wolf (. (2010 [1982], pp. 8-9) wrote about some early sociologists seems good enough to apply, *mutatis mutandis*, to Douglass North: '1. In the course of social life, individuals enter into relations with one another. Such relations can be abstracted from the economic, political, or ideological context in which they are found, and treated *sui generis*. They are autonomous, constituting a realm of their own, the realm of the social. 2. Social order depends on the growth and extension of social relations among individuals. ... 3. The formation and maintenance of such ties is strongly related to the existence and propagation of common beliefs and customs among the individuals participating in them ...4. The development of social relations and the spread of associated custom and belief create a society conceived as a totality of social relations between individuals. ... relations constitute society ... What is the flaw in these postulates? They predispose one to think of social relations not merely as autonomous but as causal in their own right, apart from their economic, political, or ideological context'.

institutions, and permit entry of new businesses ... Extractive institutions, whether economic or political, are defined as being those that are not inclusive' (Acemoglu and Robinson 2012, pp. 74-75 and p. 23). These distinctions, Ogilvie and Carus (2014/I, p. 24) argue, 'are useful' in so far as 'they focus on the historical influence of institutions on long-term growth, and they incorporate political and distributional aspects of such institutions'. Their 'usefulness is limited, though, by their vagueness. Both distinctions are extremely broad and leave unclear exactly which aspects of a society's institutional system are critical from the authors' points of view' (ibid). More specifically, 'Efficiency theories do sometimes mention that institutions result from conflict. But they seldom incorporate conflict into their explanations. Instead, conflict remains an incidental by-product of institutions portrayed as primarily existing to enhance efficiency' (Ogilvie and Carus 2014/II, p. 9). In other words, North's final concern remains in 'horizontal' and only instrumentally in 'vertical institutions'.

Taking quite a different direction, Ogilvie endorses a conflict view of institutions explaining them 'in terms of their distributional implications and the socio-political struggles to which these give rise' (2007, p. 681). In Ogilvie conflict-related institutions are not a subordinate aspect mainly considered in view of the primary objective of market efficiency as in Douglass North, Acemoglu and Robinson, etc., but they are the primary object of analysis: 'The conflict view is better than its rivals at explaining why institutions often distribute resources to the powerful rather than maximising aggregate economic welfare' (2007, p. 664). To be sure, this approach would also fully acknowledge that institutions do 'many things' (2007, p. 668), so that, for instance, some 'will enhance economic efficiency, some will harm it, and some will leave it unaffected' (ibid, p. 671), whatever we mean by 'efficiency'. In this regard, Scheidel (2013) underlines that (horizontal) efficiency theories emphasising a 'managerial' role of the state in facilitating economic activities, and (vertical) conflict theories should not be necessarily seen in opposition.²⁰

Scheidel (2013, pp. 11-12) has two objections to the conflict view of institutions. The first is that the state may have an autonomy in the social conflict, an element that enriches and does not disprove a conflict view (see e.g. Cesaratto 2007). Secondly, the state might represent an antecedent of inequality and not the consequence. I have no doubts that this is the case for most

²⁰ Angeles (2011) observes that 'the current emphasis on property rights as a fundamental driver of economic development may be overstated' and that, in any event, 'we should not expect the same institutional explanation to fit all cases' (ibid, pp. 173-74).

of pre-capitalist 'civilizations' in which a 'tributary state' is born from a degeneration, so to speak, of communitarian institutions (e.g. Haldon 1993).

In summation I regard Ogilvie's conflict view of institutions an appreciable advancement compared to North's elusive approach; she falls short, however, of giving a solid foundation to her conflict view in the classical distribution theory.

Conclusions

In this paper I have critically compared three approaches to economic history and institutions: the classical surplus approach, Polanyi's substantivism, and Douglass North's NIE.

The temptation is perhaps inevitable to discern into human history an aspirational element to progress: towards working class consciousness and the possibility of a different society in Marx and the progressives, or towards an open market society in North and the liberals. Less tempted in this projections looks Polanyi who finds more human relations in pre-capitalist 'embedded' societies (although also Marx had an open interest in primitive sharing-communities). It seems however possible to expunge from Marx and the surplus approach any teleological temptation, preserving his crude explanation of historical forms based on the different economic-institutional modes of surplus extraction. Although our understanding of the historical-institutional mechanisms of change of socio-economic formations is still problematic, historical materialism is a fruitful inspiration source for the surplus approach to institutions (Cesaratto 2023d).

In contrast, much less promising is Douglass North's NIE, caught between the transaction costs approach, a self-sustained empyrean of beliefs, and a clumsy mimic of Marx. Transaction costs economics does its job well in explaining commercial (horizontal) institutions, but much less in explaining (vertical) institutions related to political power and exploitation. Not casually, the 'efficiency hypothesis' in explaining vertical institutions is eventually abandoned in favour of the 'inefficiency behaviour' of predatory élites. While this final landing is interesting, an economics of predatory elites and accompanying ideologies is not well developed by North, as unlike done in the surplus theory tradition and in many related (non-necessarily Marxist) archaeological and anthropological research. As a result, North took refuge into the elusive and self-referential world of beliefs, norms and ideologies detached from a material basis.²¹ There is a similar peril in Polanyi

²¹ Ankarloo (2002, p. 21) notes that the later North 'tried to widen his institutionalism to incorporate everything from "ideology", "mental models" to law and the state'. However, 'the further he goes along this road, the more [the] economic sphere disappear in his NIE model'.

and his tradition, however. In this regard Krul (2016, p. 23) comments that Polanyi's approach 'is not a helpful alternative to the neo institutionalist turn because it raises the same problem of indeterminacy as that faced by the New Institutionalists. If everything is embedded, embeddedness does no more explanatory work than institutions do in applications of NIE theory'. I agree. In actual fact, contrary to Krul's opinion (2016, pp. 9-10), North's main challenge is to Marx and not to Polanyi. Having said so, Polanyi's criticism to mechanical and institutionally poor applications of the surplus approach must be welcomed, and a convergence between the surplus approach and Polanyi must be actively pursued in economics as well as in economic archaeology and anthropology, and in economic history.

One main challenge for future research based on the classical surplus approach is a more systematic theory of the coevolution of the material and immaterial sides of the economy that Marx's own herculean work left partially indeterminate. A second challenge regards the accusation of functionalism moved to organic theories of economic formations that I alluded to in passing.²² In these theories the various economic and institutional (political and cultural) components of society, and related individual behaviours, are seen as mutually functional. Critics argue that this mortifies the role of human agency looking at individuals as automatons whose choices are passively guided by meta-historical forces. The challenge should be picked up by heterodox students by specifying *how* history expresses itself in individual choices and agency (which sometime rebels, more often adheres to the status quo), completing the analysis in this direction. This is the question Friedrich Engels (1946 [1886], part IV) asked: 'What are the historical forces which transform themselves into these motives in the brains of the actors?'. Yet, starting from the individual choices and motivations without contextualising them would lead to a chaotic representation of the whole, to paraphrase Marx ((1973 [1857-58], p. 100; see also Anderson 1980, p. 80). An alternative way to methodological individualism is perhaps to be found in cultural-historical studies (including post-processualism and cultural relativism²³) that in apparent opposition to more objectivist and materialist strands, might instead be seen as their complement, explaining behaviours and agency through class-oriented lenses (besides other glasses like gender and race). Edward Thompson's *The Making of the British Working Class* may

²² Cf. footnote 12.

²³ See above footnote 7.

indicate an alternative path to methodological individualism, provided the making of ‘class mind’ – as Sraffa called it – is solidly anchored in the material texture of society (Anderson 1980).²⁴

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²⁴ In 1927, while on the way to break with Marshall’s heritage and proceed into the direction of the recovery of the classical surplus approach, Sraffa noted that: ‘it will be thought that the important part is the analytical and constructive’. In this way, however, the ‘significance of the historical side will be missed. And yet, this is the truly important, that which gives us a real insight into the mystery of human mind and understanding, into the deep unknown relations of individuals between themselves and between the individual and society (the social, or rather the class mind)’ (quoted by Le Donne 2022, p. 1120).

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