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Ideologies and beliefs in Douglass North's theory

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This paper argues that North does not conceptualize the difference between ideologies as shared beliefs, which arise from shared mental models in consequence of bottom-up processes, and ideologies as views which stimulate top-down institutional processes, by means of which informal norms and existing beliefs are re-oriented. Top-down processes are possible because shared beliefs are characterized by variety and malleability, rather than by a (homogeneous) "cultural heritage". Although in North's theory the reciprocal influence between informal and formal norms is interpretable as an alternation of bottom-up and top-down processes, he does not develop this perspective.

Key words: ideology, beliefs, mental models, institutional change.

JEL Classifications: B25, B52, D02

1. Introduction

Douglass North, especially in his last writings, assigned an increasing role to shared beliefs in the formation of institutions. Beliefs are representations of the world which guide individuals and give shape to institutions; but in their turn institutions, as cognitive frames for and constraints on behaviour, influence beliefs. This bi-directional relationship is at the basis of institutional change, and it can apparently be represented as an alternation of bottom-up and top-down processes. North seems to suggest a bottom-up perspective, when he shows how informal norms lead to the emergence of formal norms. Instead, he seems to indicate a top-down process when he highlights that formal constraints can create informal ones.

However, especially as regards the top-down phase, this outlook is not developed. North, except for some general insights, does not explain either *how* formal institutions can shape underlying beliefs or what

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tools are employed to perform this operation. This limitation prevents his theory from investigating some mechanisms governing institutional change.¹

To illustrate how top-down processes occur, this paper discusses the notion of ideology. North deals with ideologies, but he describes them exclusively as “shared mental models”, that is, as interpretations of the world which are part of bottom-up processes and which contribute in many respects to the development of formal norms.

However, ideologies exhibit also another function, not analysed by North, which delineates a top-down process. If ideology can be used by formal institutions to modify existing beliefs, the notion of ideology requires some clarifications. North frequently refers to the concept of “cultural heritage” to express the idea that culture is a homogeneous matter, inherited from the past, which reduces divergences among mental models. Although this concept helps to identify fundamental traits of alternative cultural systems, it is not easily usable to examine some features of social and political ideologies. In particular, analysis should consider two circumstances. Firstly, variety of competing ideologies, and not homogeneity, characterizes institutional systems. The history of the contemporary world illustrates coexistence of ideologies such as liberalism, conservatism, socialism, and nationalism. Secondly, ideologies are malleable. They are clusters of concepts whose boundaries are permeable and this condition makes it possible to re-orient them by means of top-down processes. Reorganization of shared beliefs, as an effect of top-down processes, occurs in many ways. It involves the use of propaganda, control of media and of the educational system, but it also implies reformulation of the meaning of some ideological concepts.

In this perspective, the alignment between shared beliefs and ideologies supported by formal institutions, and between formal and informal norms may be the result of a top-down process of construction. This situation in some way highlights a dimension neglected by North, who examined either alignment as the spontaneous outcome of social processes, or misalignment as the source of inefficiency, but did not tackle how formal institutions create an alignment between formal and informal norms by inducing modifications in the latter.

The paper is structured as follows. Section 2 shows that the influence between institutions and organizations and between informal and formal norms is reciprocal. This bi-directional relationship constitutes the basis for interpreting institutional change as an alternation of bottom-up and top-down processes. Section 3 focuses on how North deals with ideologies, and it shows that he relates the emergence of ideologies to bottom-up processes but does not examine the role of ideologies in top-down processes. Sub-sections 3.1 and 3.2 discuss this incompleteness also in light of the secondary literature.

¹ In terms of institutional analysis, this perspective regards both dynamics of “reconstructive downward causation” (Hodgson 2003), and dynamics according to which changes at the institutional level affect the lower level and induce changes in individuals’ and shared mental models in a reconstructive way (Ambrosino 2016).

Section 4 examines the notion of ideology in North's analysis of the Soviet Union. Here, North makes a step forward in his examination of ideology with respect to other parts of his work because he describes it as a structured system of thought from which top-down institutional processes derive, rather than as an expression of shared (popular) beliefs. Section 5 argues that the variety of ideologies and their malleability must be considered in order to explain top-down processes. In particular, sub-section 5.1 suggests that a variety of competing ideologies coexist in societies. It shows that as clusters of variable concepts they partially overlap and have permeable boundaries. This circumstance facilitates their transformation, so that sub-section 5.2 discusses the malleability of popular ideologies, where this term means that ideologies, as shared beliefs, can be oriented and reorganized by formal institutions. Section 6 discusses how North considers the relationships between formal and informal norms in terms of either spontaneous alignment or misalignment which engenders inefficiency, and it suggests that alignment rather than a spontaneous outcome can result from a top-down process of construction of institutions. Section 7 provides some concluding remarks.

2. Institutions, organizations and mental models in North's approach

In North's view, two distinct terms are fundamental for understanding institutional change: "institutions" and "organizations", which are identified respectively as the "rules of the game" and the "players". Institutions include formal constraints (e.g. regulations, laws, statutes, constitutions) and informal constraints (e.g. social norms, conventions, self-imposed codes of conduct). Organizations, such as political, economic, social and educational bodies, are groups of individuals which share common objectives. To explain the performances of economies over time, it is necessary to take into account not only the interaction between institutions and organizations, but also the interplay between formal and informal norms, which regulates individual behaviour and characterizes the institutional performance. The relation between formal and informal norms is intrinsically dynamic, and it implies an evolution from "conventions, codes of conduct, and norms of behaviour to statute law, and common law, and contracts between individuals" (1990 p. 6). There is a linear transition from one kind of norm to the other. In fact,

The difference between informal and formal constraints is one of degree. Envision a continuum from taboos, customs, and traditions at one end to written constitutions at the other. The move, lengthy and uneven, from unwritten traditions and customs to written laws has been unidirectional as we have moved from less to more

complex societies and is clearly related to the increasing specialization and division of labor associated with more complex societies. (North 1990, p. 46)

Although formal constraints emanate directly from informal ones, this relationship also operates in the reverse direction, for example when a “new informal equilibrium” evolves “gradually after a change in the formal rules” (North 1990, p. 88). In addition, informal constraints can develop as “extensions of previous formal rules” if they resolve problems not completely covered by formal rules (1990, p. 91; see also pp. 40 and 87). The power of congressional committees is an example of events of this kind. Informal unwritten constraints “evolved from the formal rules to deal with specific problems of exchange and became established as recognized institutional constraints even though they were never made a part of the formal rules. Committee chairs and committees consequently have an influence over legislative choices that could not be derived from the formal structure” (North 1990 p. 40).

In short, in North’s view of relationship between formal and informal constraints, on the one hand, informal norms are fundamental in the process of formation of formal norms; on the other hand, formal constraints can play a role in shaping informal constraints able to complement them.

In the mature phase of North’s inquiry, and especially from the 1990s onwards, the analysis increasingly focused on “shared mental models” as a concept able to explain how agents interpret the world, generate beliefs, and organize their interactions within institutions. Mental models assume a collective dimension because a “common cultural heritage” reduces individual differences in interpretation of the environment (Denzau and North 1994, p. 15; 2005 p. 27). This facilitates the emergence of the behavioural regularities which are at the basis of institutions (Mantzavinos, North and Shariq 2004, p. 77). Therefore, institutions “are nothing more than shared mental models or shared solutions to recurrent problems of social interaction” (*Ibid.*, p. 77).

Mental models and knowledge play a role also in institutional change. This latter is made possible by the continuous interaction between institutions and organizations, and it is usually an incremental – not revolutionary – process, because “the players are constrained by path dependence – the limits to choices arising from the combination of beliefs, institutions, and artifactual structure that have been inherited from the past” (2005, p. 80). Institutions provide the opportunities and incentives which affect the kinds of organizations that will come into existence, because opportunities and incentives influence organizational skills (North 1990, pp. 77-78; 2005, p. 60). However, organizations are not passive recipients. On the contrary, they exhibit a capacity to modify the rules of the game with their demands for institutional

change (North 1990, p. 73).²

The process of institutional change is synthesized by North as follows:



Fig. 1 North's model of institutional change (Mantzavinos, North and Shariq 2004, p. 80)

The model illustrated in Figure 1 is circular, since it starts from perceptions and concludes with new perceptions. But it can be interpreted also as characterized by two phases: one, where perceptions are organized in shared beliefs which culminate in formation of institutions, and which can be labelled "bottom-up process"; the other, where formal institutions with their policies alter perceptions of individuals and organizations by providing incentives, can be labelled as "top-down process".

As said, this scheme reflects the fact that the relationships between formal and informal norms can be interpreted in terms of bottom-up and top-down processes: when informal norms evolve into formal norms, bottom-up processes are at work; instead, when formal rules influence and modify informal norms, top-down processes occur. Similarly, the interaction between institutions and players (individuals and organizations) can be viewed as a top-down process when institutions (and in particular formal institutions) influence the skills and knowledge of these players by means of their incentives, and as a bottom-up process, when players react and stimulate institutional change (in particular change in formal institutions) (see Fiori 2002). Although the bottom-up/top-down perspective can be traced in North's work, he does not develop it, and this prevents consideration of some aspects of institutional change.

3. Ideologies, mental models and bottom-up processes in North's approach

² North points out that "Organizations with sufficient bargaining strength will use the polity to achieve objectives when the payoff from maximizing in [a certain] direction exceeds the payoff from investing within the existing constraints" (North 1990, p. 79).

According to North, “ideologies are the shared framework of mental models that groups of individuals possess that provide both an interpretation of the environment and a prescription as to how that environment should be structured” (Denzau and North 1994, p. 4, see also North 1988). For this reason, “ideology, and institutions can be viewed as classes of shared mental models” (Denzau and North 1994, p. 4). Other competing definitions of ideology are not considered. Ideology remains the expression of socio-cultural contexts also when it assumes the sophisticated form of theory elaborated by economists and other intellectuals, because the constructs of economists are not “independent of the evolving external political and economic environment” (North 1992, p. 487). Ideology has a complementary role with respect to formal norms, because it reduces free rider problems and people’s tendency to calculate only their private benefits. The more it increases the legitimacy of the institutional system, the more it reduces the “costs of maintenance of an existing order” (North 1981, p. 53). Adherence to ideologies promoted by institutions reduces many enforcement costs, because when people adopt ideologies coherent with formal norms, they do not violate rules of property rights, they do not litter the environment, they comply with civic obligations, they honor contracts, etc. In sum, adherence to values embedded in ideologies increases the legitimacy of institutions (North 1981, pp. 53-4).

Finally, North recognizes that ideologies do not usually arise “without the guidance of intellectuals”, and that “intellectual entrepreneurs of ideology” have an important role “whenever there develop contrasting views of the world around us as a result of differential experiences” (North 1981, p. 51). Although North does not exactly clarify who these figures are (see Storr 2011), he probably refers to opinion leaders who operate in political groups, civil rights organizations, or religious groups. Intellectual entrepreneurs of ideology “invent and distribute new ideologies” (Zweynert 2009, p. 350, note 20) or they modify and extend existing ones.³ They propose what North calls a “counter ideology”: that is, a new ideology, whose aim – for example – is to persuade people that certain injustices are intrinsically related to the existing institutional system. As a consequence, “Successful counter ideologies must not only provide a convincing image of the link between the specific injustices perceived by various groups and the larger system which the intellectual entrepreneur desire altered, but also [...] provide a guide for action” (North 1981, p. 54).

The function performed by the “intellectual entrepreneurs of ideology” is apparently associated with the change of ideologies over time. Individuals modify their ideological view when their experiences contradict their ideology. Yet, since experiences are filtered by mental models and are continuously

³ Mokyr (2017, chs. 6-8) defines “cultural entrepreneurs” as people who persuade individuals to accept new beliefs, influence their behaviour, affect institutions. Among them he considers Luther, Bacon, and Newton. These figures are akin to North’s “ideological entrepreneurs”, Greif’s “moral entrepreneurs”, and Swedberg’s “social entrepreneurs” (Mokyr 2017, p. 59). Also Sunstein’s (1996) “norm entrepreneurs” are similar to North’s ideological entrepreneurs.

reinterpreted, “intellectual entrepreneurs of ideology” contribute to constructing new ideological frames in which to include new experiences or re-conceptualize old ones. North (1981) puts forward the idea that changes in ideological paradigms are analogous to changes in scientific paradigms as described by Thomas Kuhn in his *The Structure of Scientific Revolutions* (1970). As Denzau and North (1994) clarified, these phenomena involve reorganization of the categories and concepts (i.e. “representational redescrptions”), and can be described in terms of “punctuated equilibria”: gradual and continual changes characterize long periods in which there prevails “normal ideology” (the counterpart of the “normal science”), which are interrupted by rapid and punctuated changes. These latter appear in consequence of the accumulation of logical inconsistencies, and of the discovery of new sets of implications irreconcilable with previous views. But they can also be provoked, since these kinds of problems may “be used by an entrepreneur to make a punctuated change in the ideology or religion to further the entrepreneur’s own goals” (Denzau and North 1994, p. 25).

3.1. The role of ideologies: A preliminary view

In his analysis of the role of individuals in institutional change, North introduces ideologies as relevant factors. As “classes of shared mental models” (Denzau and North 1994, p. 4) providing an interpretation of the environment, ideologies intervene in the creation of formal institutions. By affecting shared beliefs, they are part of the institutional bottom-up process which generates the cultural heritage of a country. The role of “intellectual entrepreneurs of ideology” accelerates this process, and the more the “counter ideologies” that they propose are successful, the more they tend to be included in formal norms. Nevertheless, it could be argued that ideologies can be used as tools to shape informal norms. Although North does not treat this aspect, in some way he takes into account that formal norms (which embody ideological views) retroact on informal norms and beliefs. Formal norms engender “a variety of informal constraints” as their “extensions, elaborations, and modifications”, and influence formation of organizations by providing incentives which shape their skills (see sect. 2). Ideologies are embedded in these processes and in the “policies” which culminate in an “altered perceived reality” by individuals and organizations (see above Fig. 1).

Despite these elements, according to Williams (1997), North’s theory adopts only a “bottom-upward” model of cultural evolution. He had not taken into account the “top-downward model” of creation of formal constraints, which – as Williams’ analysis of eight systems of physician reimbursement constraints would show – seems to provide a better explanation of institutional phenomena. Ideology - Williams maintains - plays a role different from the one illustrated by North. It is not simply a shared view of the

world; rather, it is a political tool of governments. In fact, the ruling power creates an ideological system designed to increase and preserve values useful for government (Williams 1997, p. 297).

North does not examine top-down mechanisms in detail; in particular, he does not examine how formal institutions, constructed on the basis of systematic ideologies, modify existing beliefs and informal norms. At least partially, he neglects that under certain circumstances, “informal institutions are modified, adapted, or even reinvented over time” (Helmke and Levitsky 2004, p. 730). In some cases, the cause of their emergence “is ‘top down’; informal institutions may be a product of elite design and imposition [...], or they may emerge out of elite-level strategic interaction” (*Ibid.*, p. 731).⁴

However, even though North’s view of ideology and of top-down institutional processes is limited, it seems excessive to criticize him for having completely disregarded these problems, as Williams maintains. He takes them into account, but in an incomplete way, and the next sections discuss the consequences of this incompleteness.

3.2. Ideology and the State in North’s work: Some appraisals

As North (1994, p. 381) recognizes, *Structure and Change in Economic History* (1981) “developed a Neo-Classical Theory of the State”, where the State is considered as a “wealth - or utility maximizing ruler” (North 1981, p. 23). However, this book also includes a view of ideology as a component of institutional theory (see section 3.1): that is, it comprises a concept which “plays no role” in the neoclassical framework (North 1992, p. 485). In the neoclassical approach, the rational choice perspective assumes that agents have correct models, which allow them to understand the environment without the mediation of collective mental constructs. For this reason, North considers *Structure and Change in Economic History* (1981), as a turning point, in which he “abandoned the efficiency view of institutions” (1990, p. 7). Rutherford (1995, p. 445) dates North’s theoretical shift to between North (1978) and North (1981), while Brownlow (2010, p. 308) maintains that 1981 marks the end of the second and the beginning of the third phase of North’s scientific inquiry, where he left the cliometric view, focused on relationships between institutions and economic change, introduced new topics not dealt with by neoclassical theory, and referred to behavioural approaches (see Ménard and Shirley 2014, p. 20). In turn, Vandenberg (2002, p. 218 and 230) argues that the complete expression of North’s shift resides in North (1990), although important deviations from neoclassical analysis appeared in North (1981).

⁴ As Helmke and Levitsky (2004, p. 732) also remark, “to the extent that formal institutional change alters costs and benefits of adhering to particular informal rules, it can serve as an important catalyst for informal institutional change”.

Although the introduction of ideology represents a novelty in the analysis of institutional change, the secondary literature generally points out that North's theory does not adequately develop this issue. Rutherford (1995, p. 447) maintains that North "does not provide a complete theory of ideology or ideological change", and Vandenberg (2002, p. 233) remarks that consideration of ideology as a tool which shapes human behaviour alongside neoclassical rationality does not yield a sufficiently coherent approach. Zouboulakis (2005, pp. 141 and 144) observes that, although the notion of ideology is at the margin of North's model, and that its definition is "elusive", it is a meaningful instrument with which to understand how individual behaviour takes shape within a social context. If Ankarloo (2002, pp. 21-3) maintains that inclusion of mental models and ideologies in North's institutionalism leads to disappearance of the economic sphere, Fine and Milonakis (2003, p. 559) argue that ideology is invoked by North to explain "whatever is not explained by rationality", and that it is erroneously dealt with as a part of the structure of society, like technology and demography. This view refers to objective properties of systems, and it disregards the fact that ideology involves subjective intellectual processes (p. 561, see also Milonakis and Fine 2007, pp. 36-42). In their perspective, a further shortcoming is that "North's treatment of ideology proceeds exclusively from the individual, each deciding to change perception of reality like they would a production technique or color or design of clothing" (Fine and Milonakis 2003, p. 562). Finally, according to Fiani (2004, pp. 1014-1019), although North in his mature phase rejected the incorrect neoclassical analysis of the legislator as the mere agent of interest groups (his or her principals), in favor of a view which grants this figure significant degrees of freedom in following his or her convictions, he did not investigate the basic elements of politicians' and legislators' ideology (see also Caballero and Soto-Oñate 2015 p. 968).

The perspective suggested by the present paper is that, although North's theory of ideology provides important insights, it is incomplete, especially as regards the analysis of how ideology allows formal norms to influence informal norms. North examines the emergence of ideologies and shared mental models as bottom-up processes, but he remains rather vague about the top-down process in which ideologies and other mechanisms are used to change informal norms and beliefs. The notions of bottom-up and top-down processes denote that ideologies perform two different functions, rather than describing a temporal sequence in which one phase precedes the other. When ideologies incorporated in formal institutions are employed to modify beliefs and informal norms, the cultural heritage, rather than being a well-delineated *corpus* of customs and shared beliefs, can be conceived as a manageable matter that can be dealt with, stimulated, and oriented in many ways, including purposive action. This perspective was outlined, but not developed, by North, who recognized that "The degree to which such cultural heritage is 'malleable' via deliberate modification is still very imperfectly understood" (North 2005, p. 156).

From this point of view, the process of institutional change can be synthesized as in Figure 2.

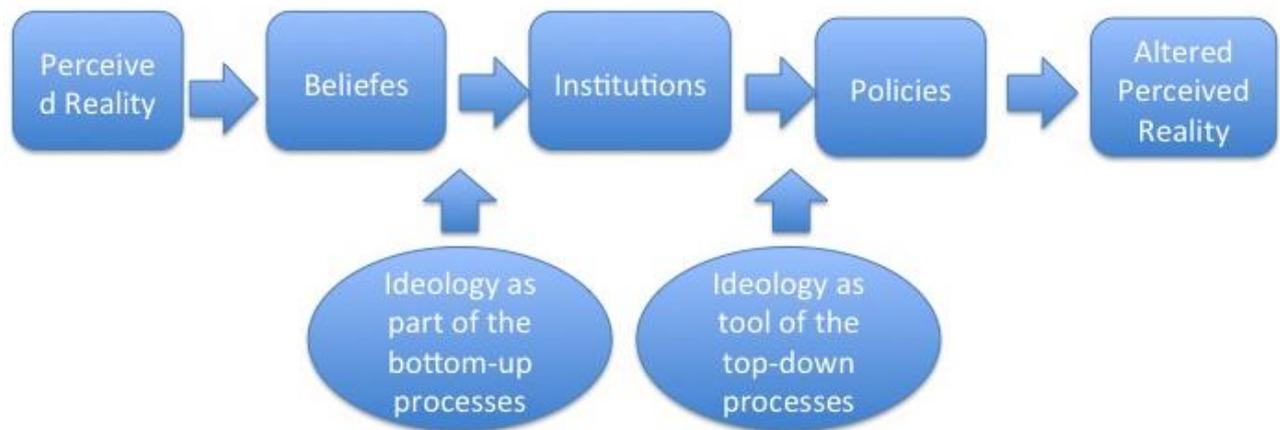


Fig. 2 Development of North's model of institutional change (Mantzavinos, North and Shariq 2004, p. 80).

4. Ideology in the history of the Soviet Union: North's analysis

North's notion of ideology is dealt with also in his analysis of "the rise and fall of the Soviet Union" (North 2005, chap. 11; 2006, pp. 52-54), but here this concept is developed differently with respect to other parts of his work. North prevalently considers ideologies as expressions of shared beliefs which permeate institutions and arise from bottom-up processes. By contrast, in the account of the history of the Soviet Union, ideologies are viewed as structured systems of ideas (i.e. theories), which in principle are not emanations of underlying beliefs and customs, and which are able to shape institutions by means of top-down processes triggered by policies that they inspire. Ideology is presented in this latter sense when North points out that

"The Soviet Union was founded on the basis of theory – beliefs – that originated with Marx and Engels and continued under Lenin." After Lenin occupied the Winter Palace and managed to gain power, those beliefs were translated into an institutional structure that defined the way in which the Soviet system evolved." (North 2006, p. 52)

Soviet ideology was a theory based on Marx's, Engels', and Lenin's work. It was an composite system of thought which was "translated into an institutional structure". What is misleading is that North labels

organized systems of thought as simple “beliefs” as if they were not different from poorly structured “shared beliefs” embodied in customs and traditions. By contrast, the genesis of ideologies as theories does not necessarily depend on the development and refinement of a widespread “cultural heritage”, although they can be popularized. In principle, socialism, liberalism, conservatism, radicalism, etc., in the nineteenth century were ideologies of this kind which exhibited two forms: they were both systematic theories and widespread, poorly structured beliefs (i.e. shared beliefs). As theories, they can be used as instruments both to generate new beliefs which will become progressively shared, and to support those existing beliefs more coherent with official policies. When they are used in this sense – that is, when they are employed as theoretical bases to build institutions and to promote policies – they characterize top-down political processes. Evidently, ideologies as expressions of shared beliefs and ideologies as theories are not (necessarily) in opposition. However, they can be distinguished for two reasons: 1) they perform a different role in institutional processes, 2) while unstructured and popular ideologies emerge as extensions of shared beliefs, ideologies as theories (that is, as peculiar products of intellectual activity) can exhibit a different genesis.

State ideology in the Soviet Union had top-down characteristics, and profoundly transformed the social and institutional structure. The “initial theory” was modified over time, “from war communism through the New Economic Policy to the first five year plan in 1928” (North 2005, p. 147), in consequence of external events which conferred pragmatic characteristics on it (pp. 147-9). Also in the Gorbachev era, policies exhibited ideological contents⁵, which were part of a top-down political process, although different in nature from those of previous periods. A feature of these reforms was that they were not aligned with the “underlying political structure” (North 2005, pp. 152-3) and, despite Gorbachev’s efforts, they did not prevent the failure of the system (North 2006, p. 53). This story shows, more in descriptive than conceptual terms, that political leaders and policy makers used ideology to orient top-down processes. In this way, by transforming institutions, they also transformed shared beliefs by providing formal, although inefficient, incentives for individuals and organizations.⁶ The failure of the Soviet Union had also another cause: the mechanism which allowed individuals and organizations to react to institutional stimuli and to express demands for institutional change was obstructed. The “feedback” between individuals and institutions was defective, so that it was not possible to “encourage and permit experimentation and equally [to] wipe out failures” (North 2005, p. 154).

In conclusion, some points should be taken into consideration:

⁵ For example, some private economic activities were legalized, and with *Glasnost* more freedom of expression and reduction of censorship were introduced (North 2005, pp. 152-153).

⁶ In North’s model, policies alter perceptions of reality and engender new beliefs, also by providing incentives which shape individuals’ and organizations’ behaviours. Similarly, for example, policies during the “era of war communism” produced “negative incentives with respect to worker productivity and peasant agricultural output [which] had the expected consequences” (North 2005, p. 147).

- 1) North explicitly considers only one notion of beliefs (as “shared beliefs” expressed in customs and traditions), but his historical account of the Soviet Union shows another notion of “beliefs” (those which have an intellectual origin and are expressed in State ideologies).⁷
- 2) Ideologies, in the second meaning, are able to transform social orders, and to shape shared representations of the external world. They trigger institutional top-down processes by means of policies. This implies placing “ideology” between institutions and policies, as represented in Figure 2.
- 3) Given this premise, a special role is performed by policy makers and political leaders who use ideology. This is apparent in the history of the Soviet Union (from Lenin to Gorbachev), but in general it is a characteristic of all systems, since “political and economic entrepreneurs in a position to make policies” are those who formulate “dominant beliefs” which give shape to institutions and “determine economic and political performance” (North 2005, p. 2).⁸ In addition, this engenders an alteration of perceived reality.
- 4) If so, because ideology in the Soviet Union altered individuals’ perceptions of reality, it also engendered its own shared beliefs. Although North remarks that top-down processes are at work when policies change underlying beliefs, he does not explain *how* ideologies (and in general formal norms which incorporate ideologies) modify underlying shared beliefs and informal norms or support those beliefs which are coherent with them. As will be discussed (see section 5), this occurs in many ways. Propaganda, control of media, educational system, socialization, creation of associations sponsored by governments, etc., foster the spread of ideologies supported by formal institutions by conveying meanings (or by modifying existing ones) aimed at persuading people, coordinating their behaviours, and suggesting what kind of informal norms and values are more suitable.
- 5) When analysing ideologies, it is preferable to abandon, at least partially, North’s concept of “cultural heritage” as a homogeneous set of customs, traditions, and social values to consider a variety of ideologies, beliefs, and values present in society which are often antagonistic and sometime exhibit aspects of complementarity (see section 5). In this perspective, the alignment among ideologies, institutions and beliefs is a complex matter. It can be the outcome of a (top-down) process of construction and not a (bottom-up) spontaneous result (see section 6).

⁷ This implies that the two kinds of ideology can be relatively autonomous. In this perspective Roe underlines that ideology, as a set of “opinions of average people”, often does not influence policy choices. People can be uninterested and confused, and “when the political issue at hand evokes cross-cutting ideological preferences, confusion, and indifference, politicians can safely ignore ideology” (Roe 1994, p. 27). Therefore, policies, with their ideological contents, are not always expressions of popular ideologies.

⁸ Aoki (2010, p. 140) remarks that North (2005) considers ideologies in top-down processes, when he “argues throughout the book that the dominant beliefs held by political and economic entrepreneurs in policy-making positions play important roles in determining the direction of institutional change”.

5. Varieties of ideologies and reformulation of their meanings

The distinction between *ideologies as theories* and *ideologies as shared beliefs* poses some problems.

The first problem – as shown in the previous section – is that great ideologies exhibit both theoretical and conceptually poorly organized versions, which assume the form of popular beliefs. For this reason, historians distinguish between “history of ideas” (which include analyses of systems of thought) and “history of mentalities” (Le Goff, 1987).

The second problem is that many competing ideologies and beliefs cohabit in cultural systems. North’s notion of “cultural heritage”, as a homogeneous set of beliefs and ideologies embodied in institutions, does not take this circumstance sufficiently into consideration. Of course, the idea of “cultural heritage” is reasonable when the focus is on fundamental characteristics of civilizations like, for example, those of Western society. In this sense, North (2005, chap. 10) attributes fundamental aspects of Western societies to the “cultural heritage” of the Catholic Church, and he distinguishes beliefs which developed in Latin and Muslim worlds. Moreover, this approach enabled to deal with “natural states” and “open access orders” (North, Wallis and Weingast 2009).⁹

However, when the focus is on less general historical events, the co-existence of competing ideologies within societies, considered as both organized and heterogeneous beliefs, seems to challenge the idea of “cultural heritage” as a homogeneous set of beliefs, norms and values.¹⁰ This entails considering, firstly, the variety and, secondly, the malleability of ideologies.

5.1 Variety and co-existence of ideologies which compete and partially overlap

⁹ These two social orders “arose over the last ten millennia”. In particular, natural states or “limited access orders” “emerged in the first social revolution”. Their feature is that “Personal relationships [...] form the basis for social organization”, while “In the *open access orders* that emerged in the second social revolution, [...] impersonal categories of individuals, often called citizens, interact over wide areas of social behavior with no need to be cognizant of the individual identity of their partners.” (North, Wallis and Weingast 2009, p. 2).

¹⁰ The idea of a uniform cultural heritage has been criticized. In anthropology, also in reference to North, Olivier de Sardan (2013, pp. 285-287) prefers to adopt the notion of “normative pluralism” (Olivier de Sardan 2008b). And Zweynert (2009), partially following Kahlil (2006), and criticizing North, observes that “The notion of culture as a more or less homogenous, randomly given, and unchangeable ‘cultural heritage’ holds the dangers of turning culture into a ‘catch-all’ explanation for the differences between societies that cannot be explained otherwise [...] and of cultural fatalism.” (Zweynert 2009, p. 347). By contrast, culture is not something that is homogeneous, but rather a heterogeneous and changeable toolkit.

Ideologies are “clusters” of concepts related in multiple ways. For example, liberalism posits liberty, individuality, rationality and progress as core concepts to which other dependent concepts such as legitimacy and authority are attached, while socialism is based on concepts like group solidarity, equality, and labour (Freeden 2003, p. 51; see also Freeden 1996, chaps 1-3). The meanings that these ideologies convey depend on the relationships among the concepts which they use, that is, on how clusters develop. For example,

“Justice will possess a very different meaning if an ideology places it in close proximity to equality rather than to property. In the first case justice will always conjure up some form of equality – equality before the law, economic equality, gender equality, and the like – while in the second it will always have to nod in the direction of property – protecting it through laws of inheritance or through banning invasive taxation” (Freeden 2003, pp. 51-52).

As a set of modular units that can be assembled in various ways, ideologies (and variants of each ideology) expand by adding new concepts. Moreover, the distribution of concepts posited either at the core or at the periphery of ideologies changes over time. Hence in the course of the 19th and early 20th centuries the notion of private property, originally at the core of liberal ideology, became marginal (*ibid.*, p. 61).

From this modularity derives “permeability”. Ideologies are not mutually exclusive clusters of concepts; rather, “they intersect with one another at multiple points of contact”, and occupy overlapping space (*ibid.*, p. 63). Ideologies like liberalism, laissez-faire, socialism and Catholicism cohabited in Europe in the nineteenth century. On the one hand, they were antagonistic systems of values and of representation of the world; on the other hand, they exhibited complementary aspects. The laicism of liberalism was in conflict with Catholicism, and it was not distant from the laicism of socialism; but the Catholic view of solidarity was close to the sensibility of socialism, and both were distant from the trust in the market proclaimed by economic liberalism, precisely because solidarity was invoked by both as a remedy for degenerative effects of the market.

The co-existence of many competing ideologies can be represented as a “marketplace for ideas” where people make “selection from cultural menus” (Mokyr 2017, p. 46). In terms of bottom-up processes, this selection can be favoured by cultural and “ideological entrepreneurs” who prompt people to adopt new beliefs (see section 3, sub-section 3.1, and note 3). But, it may also be viewed in terms of a top-down process when the State and formal institutions orient formation of new beliefs, that is, when they act as

cultural and “ideological entrepreneurs”. The role of the State in education, as an actor which influences beliefs, practices and mental models, is an example of this kind:

“in modern times the state has entered in a big way into the socialization scene, partly in competition with the parents. Socialization of children is seen to have major externalities, and hence compulsory education and military service have been introduced at least in part to imbue children with cultural elements that people in power feel they ought to have. This process of socialization extends to all subsets of culture: beliefs and knowledge [...]; certain skills [...]; values [...]; and preferences” (Mokyr 2017, p. 39).

5.2 Malleability of ideologies and top-down processes

Ideologies, both as structured systems of ideas and as less structured beliefs, are malleable because they have permeable boundaries and, as cluster of concepts, can be reorganized by the action of formal institutions. They can be transformed also in consequence of conflicts which over time tend to reduce their divergences. The complex relationship between the Catholic Church and Franciscanism in the thirteenth century is an example of this. Franciscanism obliged the Church to modify its organization, but in its turn the Church re-shaped the figure of Francis of Assisi by taming his message (Duby 1987). The thrust to include Franciscanism in the doctrine and practice of the Church engendered ideological homogeneity, which can be interpreted as the result of a top-down process whereby the formal ideology, embodied in the ecclesiastical institution, modified beliefs of Franciscanism, which at that time was little structured. In this way, the alignment between the traditional doctrine of the Church and Franciscanism was the result of a process of construction.¹¹

Another kind of operation that can be viewed as a top-down process showing the malleability and reorganization of ideologies as popular beliefs is described by Lessig (1995). He maintains that entities like the government construct social structures, social norms and social meanings (1995, p. 947). In general, actions – like tipping, wearing particular clothes, or raising a flag – exhibit a social meaning which derives from the fact that any act (e.g. the raising of one’s hand) acquires a meaning (e.g. that of a salute), because it is associated with a certain context (p. 958). Modifying contexts in order to change social meanings is a process of social and institutional construction. Before the 1960s wearing helmets in Soviet Russia was considered a statement antithetical to the message of the Soviet government because those helmets were

¹¹ The construction of the institutional system and of social reality is discussed within sociology of knowledge by Berger and Luckmann (1966).

produced in the West. The government began a campaign to denigrate those who wore helmets, but when helmets started to be produced in the Soviet Union, the ideological propaganda shifted, and transformed the social meaning of helmet-wearing, whose use was no longer stigmatized. Similarly, the State's struggle against the practice of duelling in the United States was resolved by changing the social meaning of this practice.

Traditions can also be "invented" by inculcating values and norms of behaviour through repetition (Hobsbawm and Ranger 1983)¹². As Mosse (1975) has shown, fundamental ideological phenomena, like the nationalization of the masses during Nazism, can be explained by considering how Nazism reused and reformulated *some* aspects of preexisting traditions, myths, and cultural symbols ranging from certain traditional ideals of beauty to ceremonies of workers' movements. Fragments of different, if not opposed, traditions were recombined, so that they acquired new meanings. Similarly in the Soviet Union, political rituals were used to align Marxist-Leninist ideology with the existing system of norms. The Bolsheviks suppressed the celebration of the New Year/Christmas, but in consequence of popular resentment which weakened the regime, they soon recognized their mistake. Traditional figures (like Grandfather and the Snow Maiden) were reintroduced, and celebrations were sponsored by the State (Lessig 1995, pp. 983-4).¹³

New traditions and beliefs do not arise from a vacuum; rather, new meanings are constructed on the basis of existing values. Soviet rituals and ideology succeeded because they worked in this way, and not coercively. This perspective suggests that beliefs, traditions, social norms and values constitute a bundle of malleable meanings and views that can be shaped by formal norms which embody structured ideologies, by exploiting certain existing beliefs, and probably by marginalizing other components of the cultural background. One effect deriving from these procedures is that in this way not only popular beliefs but also structured ideologies change their configuration. Reorganization of part of existing values and traditions implies that also some components of structured ideologies are accentuated in order to achieve an alignment between formal and informal norms. The cluster of concepts which constitute ideology supported by formal authorities – from the Church during the 13th century to the Soviet Union – modifies when in its turn it modifies underlying beliefs.

These processes are evidently not confined to totalitarian ideologies supported by the State. The meaning of the first amendment to the U.S. Constitution – that guarantees freedom of speech, freedom of press, free exercise of religion - orients acceptance of shared beliefs about freedom and pluralism. In a more contingent perspective, the expression "America First" synthesizes how American political power

¹² "Invented tradition' is taken to mean a set of practices, normally governed by overtly or tacitly accepted rules and of a ritual or symbolic nature, which seek to inculcate certain values and norms of behavior by repetition, which automatically implies continuity with the past." (Hobsbawm 1983, p. 1).

¹³ From a different perspective, Hodgson (2009) discusses the role of the State and of law, and he points out that they cannot be reduced to a mere extension of customs.

tends to reorganize existing shared beliefs by mixing populism, nationalism and protectionism: that is, by expanding the area in which these clusters of ideological concepts overlap, and by modifying their original meanings. Similarly, recent legal provisions by the Italian government aimed at reducing ideological opposition to vaccination carried forward by anti-vaccination movements concern not only prohibition of that behaviour but also the spread of arguments aimed at changing the belief underlying that behaviour. This technique, which Lessig (1995, pp. 1010-1011) calls “ambiguation”, consists in shifting the social meaning of vaccination. Vaccination appears not as an imposition to protect one’s own health, since this argument can conflict with individual self-determination, but as a prophylaxis to protect the health of other individuals, that is, a behaviour coherent with a universally accepted principle.

In accordance with Lessig, McAdams (2000) observes that law, independently of the sanctions that it threatens to impose, performs an “expressive” function which helps individuals to coordinate their behaviour by influencing their expectations about how others will behave, and affects the emergence of conventions, practices and beliefs. The expressive function of law creates “focal points”¹⁴ which give salience to one kind of behaviour. Therefore, focal points activated by formal norms prove to be devices by means of which persuasion, and not only imposition, is achieved.

In conclusion, the alignment between formal norms inspired by (State) ideology and the social and cultural norms of a community is the result of construction work, rather than being a spontaneous outcome, although such construction can evolve in unexpected ways.¹⁵

6. Alignment and misalignment between ideologies and beliefs and between formal and informal norms

The discussion on bottom-up and top-down processes makes it possible to consider the potential misalignment between structured ideologies promoted by formal institutions and popular ideologies as poorly structured beliefs (i.e. shared beliefs). It is a misalignment between two forms of representation of the world which tend to converge if ideology works as an instrument which orients and organizes both beliefs and informal constraints. North does not specify *how* this kind of top-down process occurs. In his

¹⁴ This expression introduced by Schelling (1960) indicates “some clue for coordinating behaviors” (p. 57) on the basis of its salience.

¹⁵ Also the libertarian paternalism, which presents choice architecture as a strategy which mobilizes civic behaviours, seems compatible with the perspective of the social construction of meanings (see Thaler and Sunstein 2008).

view, it is sufficient to delineate this process in general terms, by assuming that changes in formal institutions and policies retroact on beliefs.

According to North, two opposite outcomes characterize institutional processes: alignment and misalignment between informal norms and formal institutions.¹⁶ Alignment determines the coherence of the institutional system, but not necessarily its success. This latter is accomplished only if informal norms and formal institutions are jointly oriented to efficiency.¹⁷ By contrast, if formal and informal institutions are aligned, but are not oriented to growth, the system is coherent but not efficient. American colonies represent an example of this. They inherited the institutional tradition of Great Britain, developed appropriate beliefs, and an impersonal system of exchange (North 1990, pp. 79-80; 2005, pp. 108-112) that allowed them to build their formal institutions. Likewise aligned, but inefficient, are those systems which have developed forms of personal exchange (North 2005, pp. 135-6). Their formal institutions, both political and economic, are particularly weak, as evidenced by systems in North Africa and the Middle East where the *Suq*, a form of exchange, is widespread, and where “governmental controls over marketplace activity are marginal, decentralized, and mostly rhetorical” (North 1990, p. 123). In general, the explanation is that “The institutional framework dictates the maximizing opportunities for the organization [...] [As a consequence] We have institutions that reward restrictions on output, makework, and crime, just as we have institutions that reward productive economic activity” (North 1990, p. 78).

If alignment between formal and informal institutions denotes coherence and, under certain conditions, efficiency, misalignment always determines the failure of systems.

In North’s discourse, the tenacity of beliefs explains why in the long run informal constraints with their persistence influence the incremental evolution of institutions: that is, it explains why formal and informal constraints are aligned. But persistence of informal constraints can be a problem not only in inefficient systems in which informal norms tend to reproduce inefficiencies, but also in efficient ones. In fact, in efficient systems the introduction of new advantageous “political or judicial decisions” may contrast with underlying “informal constraints embodied in customs, traditions, and codes of conduct” (North 1990, p. 6). The reason for this is endogenous in nature, and it consists in the conflict between the fast times of policies activated to modify formal norms, which “may change overnight”, and the slow times of transformation of

¹⁶ For example, effects of alignment and misalignment are that “A common belief system which embodies social norms consistent with the policies of the ruler will reduce the use of coercion; and conversely, diverse belief systems or a common belief system at odds with the policies of the ruler will increase the ruler’s reliance on coercion.” (North 2005, p. 104).

¹⁷ As regards the notion of efficiency, North maintains that he uses “the term efficient [...] to indicate a condition where the existing set of constraints will produce economic growth. Specifically, institutions that enable the parties in the exchange to capture more of the gains from trade will grow relative to those that fail to realize this potential” (North 1990, p. 92). On the notion of efficiency and the reduction of transaction costs see also North (1990, chap. 8).

informal norms.¹⁸ These conflicts determine a misalignment between formal and informal norms, although these latter were aligned before introduction of reforms.

Misalignment may depend also on a different type of cause whose nature is exogenous: formal institutions developed with success in one country can be enforced in another country without the necessary process of integration with its informal norms. This misalignment renders these reforms inefficacious or little efficacious, although they have worked efficiently elsewhere. This is the case of Latin America, where

“an alien set of rules [inspired by Anglo-American tradition] was imposed on a long heritage of centralized bureaucratic controls and accompanying ideological perceptions of the issues. In consequence, Latin American federal schemes and efforts at decentralization did not work after the first few years of independence. The gradual reversion, country by country, to bureaucratic centralized control characterized Latin America in the nineteenth and the twentieth centuries.” (North 1990, p. 103).

In short, alignment and misalignment contribute to explaining institutional phenomena.

In North’s approach, alignment is an outcome of a spontaneous - not always linear - process where consistency between formal and informal norms emerges in consequence of the fact that the past of institutions influences their present institutional setting. By contrast, misalignment depends on a wrong architecture of formal norms, which impedes them from integrating with informal norms, both when the fast times of emergence of new rules and policies are not in tune with the slow times of change in social norms, and when formal political and economic institutions are transferred from one institutional context to another.¹⁹ However, what North does not explain is how a formal system works in order to modify informal constraints and ideological representations with the aim of building a *new* alignment. The

¹⁸ “[F]ormal rules, or political status makes informal constraints change at a different rate than formal rules” (North 1990, p. 87). Rapid changes in formal rules are particularly evident in consequence of revolutions (North 1990, p. 89).

¹⁹ The definition of alignment and misalignment can be problematic. Corruption, clientelism, political patronage and clan politics corrode formal norms. For this reason, as expressions of informal organizations and informal norms, these degenerative phenomena engender an institutional misalignment and are usually repressed by law. However, they often prosper at the expense of formal institutions, from which they extract resources. This can determine an inefficient alignment, rather than a misalignment, between formal and informal institutions. It is not unusual for mafias or similar organizations to seek to exert direct influence upon political decisions (Lauth 2000, pp. 25-6). The practice of “blat” in the Soviet Union shows that it can be difficult to distinguish between inefficient alignment and misalignment. “*Blat* is the use of personal networks and informal contacts to obtain goods and services in short supply and to find a way around formal procedures”. If, on the one hand, this practice was a “deviant’ outcome of the centralised system of control” (i.e., it denoted misalignment), on the other, it was “indispensable for the functioning of the system” (i.e., it denoted inefficient alignment) (Ledeneva 1998, p. 1 and p. 77).

construction of a new alignment between formal and informal constraints, as top-down process, regards systems characterized by both inefficient misalignment and an alignment which has to be modified because it engenders inefficiencies.

Finally, the top-down approach can explain some cases of persistence of inefficient systems. The persistence of inefficient institutions depends on the coherence between formal and informal norms and on their reciprocal reinforcement;²⁰ and coherence and reinforcement involve an alignment which can be constructed through the creation of new beliefs, or through the re-formulation and exploitation of existing ones, as the history of political systems, especially but not exclusively authoritarian, in the twentieth century shows (Mosse 1975).

7. Conclusion

The present paper has analyzed the concept of ideology in order to clarify some points of North's theory which appear not well defined and are relevant to explaining some processes of institutional change.

The analysis of North's theory of institutional change from the point of view presented in the paper furnishes insights in that sector of the economics of institutions that describes institutional change as a complex process in which both bottom-up and top-down dynamics take place, and in which ideologies play a role.

As a general representation and interpretation of the environment, North maintains that ideology is a shared mental model. It intervenes in the formation of institutions and it is a source of legitimacy for the existing institutional order. It develops as a bottom-up process and it sometimes changes rapidly. Those who North calls "intellectual entrepreneurs of ideology" contribute, probably as opinion leaders, to these changes and they elaborate "counter ideologies". In North's account, counter-ideologies prelude the formation of new formal norms, because if they succeed in imposing themselves, new formal rules follow.

However, it can be argued that ideology can be used in an alternative way: for example, to help new formal institutions to alter informal norms or to exploit those of them perceived as more useful. Ideology in this circumstance may not be a mere extension of popular shared beliefs, but the product of more composite theories incorporated in formal institutions; theories which work to construct their own shared

²⁰ Of course, the same scheme can be applied to explain the persistence of efficient norms.

beliefs and informal institutions, when these latter are not sufficiently developed in society. Formal institutions which use ideologies in this way act as “entrepreneurs of ideology” and treat shared beliefs and social norms as malleable matters that can be reorganized.²¹ North does not examine in detail this latter phase, which we call the top-down institutional process, although he provides some suggestions that go in this direction. He points out that formal norms can modify informal norms and beliefs, but he does not specify *how* this happens.

Finally, conceiving an active role of ideologies in top-down processes requires revision of the notion of “cultural heritage”, which conveys the idea that beliefs are homogeneous, although this notion can usefully describe the fundamental demarcation lines among social systems. Alternative representations of the world cohabit in institutional systems. As clusters of concepts which partially overlap, they have permeable boundaries which facilitate their transformation.²² This malleability implies that – by means of top-down processes - some of them can be marginalized or suppressed, while others are shaped by constructing cognitive frames and by changing social meanings associated with existing practices and beliefs. In short, the variety and malleability of co-existing popular ideologies help to understand how alignment between formal and informal norms occurs. A possible outcome of this process is that, by re-orienting shared beliefs, ideologies supported by formal institutions reorganize themselves, and include new concepts in order to favour that alignment. Therefore, both ideologies supported by formal institutions and shared beliefs are malleable. This perspective takes account of certain processes neglected by North. He considers the alignment between formal and informal norms (as part of the same cultural setting) to be an unplanned result of institutional process, especially in countries oriented to efficiency. In North’s view, the misalignment of formal and informal norms simply denotes inefficiency. By contrast, analysis of top-down processes shows that the alignment between formal and informal norms can be constructed, although evolution of this construction is unpredictable, and this adds elements to the analysis of institutional change.

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²¹ In other words, the role of “entrepreneurs of ideology” is not performed only by intellectuals and opinion leaders, who work to change existing shared beliefs and try to introduce into formal institutions the ideas they support; it is also exercised by existing formal institutions which try to influence the formation of new shared beliefs. In the former case, this function accelerates bottom-up processes, while in the latter, it stimulates top-down processes.

²² Of course, a reverse movement occurs in bottom-up processes when opinion leaders try to change existing popular ideologies by exploiting the porosity of shared beliefs.

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