Chapter 13

The New Institutional Economics: The Perspective of Douglass North

In the most complete statement of his position, new institutional economist, Douglass North, who sees the problem or question of cooperation more clearly as central, tells us that we must look to two aspects of human behavior to get at the deficiencies of rational choice (wealth maximizing self-interested) theory as it relates to institutional economics. These aspects are motivation and deciphering the environment (1990: 20).

In dealing with the motivational issue, North, in contrast to Williamson, tries to integrate altruism into the calculus. In doing so he draws upon and stays within the externalized, gene-centered work of such sociobiologists as Richard Dawkins of selfish gene fame. His attempted integration of altruism is somewhat forced and unsatisfactory since his externalized perspective does not allow him to enter into the dynamic of motivation. In effect, beyond acknowledging the importance of such behaviors as altruism, he doesn't give us much more in the way of enlightenment on the subject.

In moving on to the question of deciphering the environment, which is the cognitive (as opposed to motivational) issue, North acknowledges the limited capacity of individuals to process adequately all environmental signals and data. In what appears to be an interim or stopgap effort to explain variance in motivation from the perspective of wealth-maximizing behavior, he makes the following statement

The complexity of the environment, given the limited processing ability of the actor, can explain the subjective perceptions (emphasis mine) of reality that characterize human understanding and even the sense of fairness or unfairness (emphasis mine) that the individual feels about the institutional environment... (North 1990: 25).
How "the complexity of the environment" could fully and ultimately explain subjective perceptions and even the sense of fairness or unfairness is very difficult to see. At best such externalities can only partially explain such subjective states. To get a complete explanation one must assume or identify some other motivating sources internal to the human than wealth-maximizing acted upon by, or responding to, the said complexities of the environmental factors. For a sense of justice or fairness one must have in addition to self-interest the capability to identify or empathize with the situation of others...or else the statement is meaningless. To see that just one's self-interested, maximizing self is shortchanged in an economic transaction or situation scarcely constitutes what we consider a sense of fairness or unfairness. One must add to that a capacity for empathizing with others who are shortchanged and perceive that shortchanging of either self or others in the economic transaction or situation is unfair...an instance of unbalanced reciprocity...that offends our human nature.

North acknowledges that his explanation is inadequate to account for a broad range of human behavior (e.g., anonymous free donation of blood, dedication to ideological causes, commitment to religious precepts, self-sacrifice for abstract causes) and that our understanding of motivation is therefore very incomplete (1990:26). After giving this acknowledgment to motivation, he, then, dodges the essential question of motivation and moves on, for further insight, to focus on the study of institutions.

Undoubtedly the examination of institutions needs to be done. And equally undoubtedly, such study will further elucidate the issues of motivation. Nevertheless the project will eventually and inevitably take us back to the more fundamental question of human nature itself. The question which was sidestepped because of inadequate knowledge and behavioral concepts.

THE RECIPROCAL DYNAMIC AND
THE STUDY OF ECONOMIC INSTITUTIONS

The reciprocal dynamic of our evolved brain structure...the tug and pull of ego and empathy, of self-interested wealth-maximizing behavior counterpoised and complemented by empathetic, other-interested, other-maintaining behavior...provides a more accurate view of the motivational dynamics of the individual upon which any satisfactory explanation and understanding of microeconomics must ultimately rest.

The reciprocal algorithms of behavior can account for the motivational dynamic of exchange. This does not mean that they can explain all aspects of motivation. And, of course, they cannot explain or give much guidance on the cognitive issues of deciphering the environment. They can, however, take us further in the clarification of the fundamentals of social and economic exchange and they provide a superior underpinning to the study of institutions than the univariate assumption of a solely wealth-maximizing individual.

As noted in previous chapters, institutions are both political and economic in that they give order to and regulate reciprocity. The manner in which they do so is, in large part, a function of the history, traditions, ideology, and indeed the entire context, past and present, of the society. History, tradition, and ideology as conservative factors will tend to preserve whatever imbalances that exist and have