

SISTEMATIZATION OF THE INSTITUTIONALISM OF DOUGLASS NORTH AND A PARALLEL WITH THE THEORY OF GEOFFREY HODGSON

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SUMMARY

This article aims to integrate the most important institutional ideas of Douglass North and draw a parallel with those of Geoffrey Hodgson. A bibliographic search of the main institutional works of the authors was carried out. As reference, North (1990, 1994, 2005 and 2009) and Hodgson (1994, 2001, 2003, 2005 and 2006) were used. As an illustration and intensification other works dedicated to the study of institutionalism were considered. The theoretical effort allowed us to recognize the idiosyncrasies of the institutionalism of North on: i) their differences before the old institutionalists; ii) his vision of neoclassical analysis; iii) his own conceptualization of the main categories of institutional analysis, as institutions and organizations, e.g.; iv) the relationship between institutions and economic performance; and v) the process of institutional change. The parallel with the ideas of Hodgson identified possibilities and restrictions of combination between the two theories in the analysis of institutions and organizations.

KEYWORDS: institutions, organizations, economic performance, mainstream.

INTRODUCTION

The economic relations are shaped by customs, habits, beliefs ... In different societies, the transaction of the same product, even if at the same price, is idiosyncratic. In addition to price/quantity, there are numerous variables and categories of analysis involving the decision of buying and selling. Even in spite of this obvious fouling "rules" in economic transactions and, consequently, in the markets, the economic science has prioritized technical analysis, in a decent mechanism of the so-called "hard" sciences. The analyses of relations in the market are restricted to prices and quantities, often estimated.

The establishment of the Neoclassical School of economic science as mainstream left on the sidelines some research programs, especially those with intersection next to the social sciences. The automatism in market equilibrium, advocated in a natural order, would allow an optimum level of output and prices for the society as a whole and not only for individual agents.

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For the neoclassical, the State intervention, far from necessary would unbalance the system. There were only a few spheres left for the State to act, such as those related to security and justice. Similarly, that set of customs, habits and beliefs, which will be seen later in this work, and by many, denominated as institutions, which was exogenous to neoclassical model.

The alleged automatism which is at the root of the neoclassical model of market has in the perfect competition its normative standard. Their hypotheses are: i) Atomicity of the market: the agents are small enough to the point of not determining price and/or quantities. The firm is pricing decision, and this is constant; ii) Homogeneity: there is no differentiation between products, being the price the decisive variable of preferences; iii) Technology widely available, so that any company willing to produce the goods can do so; iv) Perfect mobility: there are no barriers to entry or exit of firms; v) Perfect information: the market is transparent in regard to all information, such as e.g. price and cost functions; vi) Maximizing rationality: the neoclassical consider *homo economicus* endowed with a substantive rationality – corresponding to the pursuit of maximum profit even in the short term – which requires complete information. The automatic balance and the natural efficiency of perfect competition meant that the neoclassical school abdicate discuss the market itself as a category of analysis.

The neoclassical analysis prioritizes the marginal values, that is, the changing points, instead of the total values. The calculation area with its limits and derivatives, in order to measure the results of changes in the margin, is a brand. Mathematics, already incorporated into the economy through their duties, then becomes ubiquitous in classical orthodoxy that by imposing itself as mainstream make this character the considerable part of economic science. The belief in the automatism of the market and the unlimited rationality, the exaggerated use of mathematics and a high degree of abstraction, moved the economy from the midst of the social sciences and emphasized the *homo economicus*. The convergence to the Newtonian scientific sophistication was responsible for the elevation of the neoclassical foundations to the status of mainstream, taking them beyond the proper limits of economy. Rationality, utility maximization, cost benefit ... came to be considered in decisions that would be/should be purely social by economists such as Becker. Weintraub (2002, p. 2) explains that:

The area of rational mechanics was a model for the neoclassical economy. The agents were like atoms, the utility was like the energy, the usefulness maximization was like the minimization of the potential energy, and so on. This way, the rhetoric of the well succeeded science was related to neoclassical theory and thus the economy itself was related to science.

The curricula of the faculties of Economics were formulated according to the dictatorship of the mainstream, which became endogenous over the years even with certain themes that were nothing but expensive. Microeconomics manuals began to bring the "transaction costs" of Coase.

Even the condition of zero transaction costs – hypothetical to Coase himself – was transformed into a "theorem". As for the marginal efficiency of capital in Keynes due to rational new-classical expectations, the macro economy is structured on maximizing functions or equilibrium.

In this context the mathematical method, associated with objective analyses, reduced the scope of the economic analysis in search of maximizing functions opposing to the social character of the discussions that did emerge from political philosophy.

This neoclassical "world" dislocate from the "core" of the economic analysis variables and categories so consecrated, as those of the political economy. The institutions listed in the research programs of American economists such as Veblen, Commons and Mitchell in the late 19th and early 20th century, were also made by exogenous to the model that has restricted its analysis to the individual agents, firms and markets, and the maximization of goals, profit and utility, respectively.

However, even in the face of continued classical orthodoxy as mainstream in undergraduate courses, the economic science was generating alternatives. Even the conservative Prize for economic sciences in memory of Alfred Nobel had such alternatives. Williamson and Ostrom with analyses on governance (2009) Kahneman and his economic Psychology (2002), and the information asymmetry in Akerlof (2001), Sen and the economics of welfare (1998), North and his institutionalism (1993), Coase and his transaction costs (1991), are examples of theorists (some even without the diploma in Economics) laurelled with the Nobel in economics with larger or smaller differences with the mainstream.

Along with these attempts to re-evaluate exogenous aspects to neoclassical model, the institutionalism, widely spread in the early 20th century, gets new consistency from the 1970s. Oliver Williamson, Douglass North, Geoffrey Hodgson, among others, stand out in the late 20th century.

The institutions are incorporated to the model, which allowed to embed variables and categories that the mainstream had despised. Certain aspects of society and politics came to light in economic analysis, including as definers of different levels of economic performance. The institutional matrix, for example, is understood by North as restrictive of the economic relations in the different geographical levels (nation, region, and municipality). The simple existence of institutions is not sufficient to ensure a good economic performance. It is possible that the institutions slow down the degree of the economic performance.

This way, the economy is going to meet other social sciences such as sociology which considers the institutions as frequent subject in their programs. As a result it reduces very much the importance of secular neoclassical technical analyses, stirring with the structures of science. This is because the model estimation involving factors and/or products were regarded as sufficient to economic science, given the automatism of the market, satisfying the techno-productive analysis.

Seeking to contribute to the dissemination of the institutionalists thought, this article aims to integrate the most important institutional ideas of Douglass North and draw a parallel with those of Geoffrey Hodgson. A bibliographic search of the major works of institutionalists authors was made. North (1990, 1994, 2005 and 2009) and Hodgson (1994, 2001, 2003, 2005 and 2006) were used as reference.

The article is divided into 3 sections, in addition to this introduction and conclusion. In the first section a preface and an overview of what the new Institutionalism opposing to the classical Economic orthodoxy is. The second section presents the thought of Douglass North, his main concepts, the relationship between institutions and economic performance and the process of institutional change, among other themes. In this section though Parallels between this author and Hodgson are given, taking advantage of the opportunities of parallelism that the text offers. Section 3 is dedicated to the thought of Hodgson highlighting other parallelisms and disagreements with North. And then the article is concluded.

1. THE NEW INSTITUTIONALISM

The economic literature has discussed weaknesses and limitations of the neoclassical school. This is a starting point of the institutionalism of North. So, here is a presentation of this debate with the purpose of seeking the wished theoretical framework. The theoretical locus in Douglass North that erects his theory from denial and reformulation of certain neoclassical postulates is searched..

The thought of North when compared to the mainstream, presents as its mark the biggest adherence to reality and the possibility to consider elements here seen as crucial to the economic system and which are exogenous to neoclassical model.

The idea is to get away from the mere theoretical abstraction, as well as from the techno productivity modelling, to understand the economy starting from other perspectives, that are: i) something "alive", dynamic, evolutionary; ii) subject to an interdependence with related fields that need to have elements incorporated into the analysis to give account of relationships that go beyond – and much– the technical borders of production; and iii) possibility of using a theory without distance from the real world.

The mathematical rigor, the technician focus and the belief in automatic balance in the long run led the neoclassical to a condition of dominant current in the economy. Weintraub (2002, p. 2) points out that "once the neoclassical economics was associated with scientific economy, any challenge to neoclassical approach looked as a questioning of science, progress and modernity". In this sense the Kaplan's (1964) "law of the drunk's search" became applicable to many economists

in which a drunk searches for his house key away from where it was lost simply because that place was illuminated. Others have a vision like that of Bardon Mill described in Hodgson (1994, p. XVIII) who prefers "... much more to go forward and develop the theory roughly in the right direction than to remain consistent and uncompromising in a wrong position"². A re-evaluation of the institutional aspects by the economy in the late 20th century sought the key in the correct places using new lights. Rests on a few factors, especially the visible weaknesses and gaps identified in the classical orthodoxy, and in some research programmes alternative to the mainstream, just like that especially undertaken by Coase.³

Mathematical sophistication of orthodoxy served as instrumental to elevate the economy to the status of science when this title was assumed to converge to the Newtonian proverbs. The assumption of terms like "balance" is an example. The search for theorization of the models of the mentioned paradigm in some aspects shifted the neoclassical thought from reality. Hodgson (1994) highlights the inability of such thought in "... provide convincing explanations about many economic phenomena and generate policy recommendations actually able to solve economic problems of great importance." (p. xi). The perfect competition as a normative standard is a classic example. His hypothesis is taken as a support.

The idea of atomicity of the market assumes that firms are price taking as these are determined by the market. Well, the real economy has demonstrated for decades the concentration of markets and the consequent growth – and use – of the firms' power to set prices and/or quantities. Away from product homogeneity to exist, the differentiation has been used by numerous companies such as barrier to entry, well presented by Bain (1956). The same author is classic when showing other types of barriers to entry, countering the perfect mobility advocated in the model of perfect competition.

Instead of the perfect information, what can be seen in the real world are strong asymmetries that generate opportunism on the behalf of the agents. Akerlof (1970) is the reference in the subject. The reoccurring cases of corporate espionage, in addition to the establishment of patents and royalties contradict the widespread technologic availability.

With respect to maximizing rationality, one of the six assumptions of perfect competition, an unknown entrepreneur, Manager, CEO ... who has in an expressed way his equality between marginal revenue and marginal cost. Hall and Hitch (1939) is the classic reference on this theme, when comes to oligopolistic markets. Rather than maximizing results in the short term, the companies have as main strategy to remain in the market, even if for this a price-limit to prevent the entry of new potential incoming is defined.

² In this work all the citations were translated into English.

³A reply to the criticism made to neoclassical can be found in Lisboa (1997 and 1998).

An important mainstay to the neoclassical firm theory and in consequence to perfect competition, the idea of decreasing marginal income is also object of contraposition. Sraffa (1926) questions the maintenance of the model of perfect competition amid the increasing returns of scale, which became known as "Marshall's Dilemma". Arthur (1996), in an important contribution to the existence of increasing returns in the so-called "new economy", states reasons for its existence:

- i) Up-front costs, from high initial investments in P&D when compared to small production costs. Once the P&D phase is over the cost is reduced exclusively to the production, making unit costs become insignificant;
- ii) Network effects, given the high-tech product compatibility with a network of users. To the extent that software uses a particular programming language, the higher the prevalence of such language, the greater the number of software that will use it making it default, generating a virtuous circle;
- iii) Customer loyalty that, given the relative difficulty for learning how to use a particular technology, existing brands and products are prioritized simply by "only" updating skills for subsequent versions of the product.

Before the economic crisis of the late 2000, the unrealism of the mainstream is reintegrated by Kaletsky (2009) who focused on the efficient markets hypothesis and rational expectations. His proposal was that economists were receptive to contributions from professionals such as psychologists, sociologists and historians, for example, and not just from mathematicians and statisticians.

Hodgson (1994) was prodigious when defending the classical orthodoxy going against Mill (1871) and Pearce's position (1977) when they defended the similarity between the "laws of Economics" and the "laws of Physics". He also contests Downs (1957) and Gary Becker, as examples of those who have extended the application of such laws to other fields of study such as politics, in the case of the former, and the family in the case of the later.

The same Hodgson (1994) summarizes the criticism of the neoclassical maximizing rationality in two aspects: i) that which is related to complexity, knowledge, uncertainty and the limitation of computing capacity; ii) that which is related to the experimental work in areas such as psychology and indicators that the "non rational" behaviour can even be dominant in the economic world (p. 86). Regarding the "non rationality", it is imperative to highlight Kahneman, Economic Psychology reference.⁴ Another example of the relationship psychology/economics is the social field. Hodgson (1994, p. 123) highlights "... the social psychology experiments that reveal the influence of others in the formation of our judgments and acts [...] An isolated individual often changes explicit judgement when confronted with a unanimous wrong majority".

⁴ In this case it is suggested to read Kahneman (1979 and 1998), among others.

Without attempting for these variables of classical orthodoxy, denying or signing, Karl Polanyi has developed a research program based on the relationship between institutions and society, including the economy.

In his classic work, Polanyi (1944) understands that the 19th century civilization was established by four institutions: i) the power balance system; ii) the international standard of gold; iii) the auto-regulative market; and iv) the liberal State. The key to such a system was in the laws that governed the economy (p. 17). The author recognizes an important institutional change that occurred in England when the Government of the Crown, that "... exceeded in abuses and, consequently, jeopardized the resources of the nation" (p. 57) gave rise to "... the Government of a class – the class that took forward the industrial and commercial development (IBIDEM).

A referential to the new Institutional Economy, Coase (1937) demonstrates that from the point of view strictly neoclassical the economic theory only cares about the markets, the only relevant institution from the economic point of view, what unable it to explain other arrangements in the economy than the market itself. In this work the author establishes the concept of transaction costs which are the costs of recourse to the market. Ex-ante exists – when seeking to ensure certain characteristics in the good or service that is acquired – and ex-post – when transactions are repeated. They are the most relevant costs in the analysis of North.

In Coase (1960) the author states that in cases of negative externalities the State intervention is not required if (and only if) the transaction costs are null, because in this case the rights will stop in the hands of those who gives more value. Under these conditions, simply assign the property rights of any party. That is, the initial allocation of property right under the null hypothesis of transaction costs, is neutral point of view of final allocation; being also the neutral point of view of redistributive effect, and also efficient. This statement came to be widely diffused by the neoclassical that transaction valuing costs declined (as always) the costs of production. The exception referred to, by Coase was known as the "Theorem of Coase ", in absentia of himself once it would make no sense to have written an article in 1937 highlighting the importance of transaction costs and in 1960 to prepare another NULL transaction costs-based, without a change of 180° in his theory which effectively did not happen.

As it will be seen ahead, part of the new Institutional Economics and, specifically Douglass North, keeps filial relation with Coase who is included in the genealogy of this economic school even though he anticipated it.

The Nobel prizes in economics of Coase (1991), Fogel and North (1993) and Williamson and Ostrom (2009) – exponents of the so-called New Institutional Economics (NIE) – extended the interest in their theories. The inspirational source for these authors did not cease to be the American institutionalists of late 19th century and early 20th century, such as Veblen, Mitchel and Commons,

which by the time interval that separates them from the NIE, came to be called by the NIE of Old Economic Institutionalism (OEI). With this, the economists were conducted to the "... retellings of important texts in various areas and new ways of looking at old problems on which they relied on" (PESSALI and DALTO, 2010, p. 12)

The OEI had already been a counterpoint to the modelling mathematical of the mainstream and its world of natural balance, what is clear in the definition of the Commons: "institutionalism is the relation of man to man" (COMMONS, 1931, p. 3). There was an interdisciplinary approach, not limited to economics. It is the case of the "theory of Idle Class", referential work of Veblen.

In it (VEBLEN, 1899), the author draws the attention to how classes identify themselves in society according to the different consumption patterns. To Veblen, in modern society to have power is to be idle: "All the people with refined taste feel that certain jobs – which conventionally are considered to serve – come along with inseparability, a certain spiritual contamination" (VEBLEN, 1899, p. 41). In addition to the imposition of neoclassicism as mainstream, the high level of interdisciplinarity for his era and the conceptual plurality prevented the OEI coalesced as a reference in economic thought. For authors of NIE what lacked was a theoretical body.

It is interesting that one way or another two characteristics of the old institutionalism that made it be on the sidelines of the dominant economic thinking for a while are also present in the New Institutionalism. It is the case of interdisciplinarity. Sociology, psychology and anthropology are frequently the sciences with which new institutionalists seek dialogue:

Standard theories are of little help in this context. Attempting to understand economic political, and social change (and one cannot grasp change in only one without the others) requires a fundamental recasting of the way we think (NORTH, 2005, P. vii)

Different approaches are also a nuance of the New Institutionalism. March and Olsen (1984) and Nelson and Sampat (2001) illustrate different types of "new institutionalisms", some even more related to other sciences than to economy. For Nelson and Sampat (2001) two aspects represent important convergence between the theories presented by them: i) reflections on the institutions that sustain the technological advance, the physical capital formation, education, the economy efficiency and the process of resource allocation; ii) the understanding that the institutions present relations of economic agents. This plurality of chains reflects the recognition of the importance of the institutions for the economic system. After all, even the absence of rules is in itself a rule. It requires certain institutionalism.

A referential to the NIE, as demonstrated earlier is Coase (1937 and 1960) and, respectively, their transaction costs and entitled "theorem".

The theory of transaction costs generated two institutional approaches with different scopes. A microeconomic, dedicated to the analysis of institutional arrangements, in which the greatest

exponent is Oliver Williamson. Another is the macroeconomic, dedicated to the analysis of institutional environment, where Douglass North is the highlight.

The Williamson research program focuses on the governance structures, institutional frameworks that support the achievements of transactions, reducing transaction costs. North focuses on economic performance. His thought is described below.

2. THE NEW INSTITUTIONAL ECONOMY OF DOUGLASS NORTH

Douglass North is a member of the rational choice institutionalism in classification exposed by Hall and Taylor (2003) which includes in addition to this the historical institutionalism and sociological institutionalism.

From the 1970s North undertakes several searches in a process that "several concepts suffered elaboration; some were progressively redefined or even abandoned" (FIANI, 2002, p. 45). Before that it is pointed out that his theory, considered as reference in this thesis project, takes into account that drafted from North (1990). North formulates a discussion of macro scope. His concern is not with private governance structures, of one sector or another, or even with a special type of private governance structure. His concern is related to the effects that institutions exert over the operation and development of a society. He focuses on economic and political institutions, but refers also to other types of institutions such as educational and social.

A curious feature of North is his two-way transit with neoclassical economics. This is why a contextualization of neoclassical thought was done earlier in this work. In North's own words his thought is a modification of neoclassical theory, retaining from the same the basic principle of scarcity and the analytical instruments of microeconomic theory (NORTH, 1994, p. 568) – Although the result is an institutional macro analysis. North criticizes the fact that the neoclassical see the institutions as "statistics", that is, as exogenous variables. – He incorporates the institutions to his theory, highlighting the importance of the same to economic performance. He seeks to fill a gap in the mainstream when he considers it inappropriate to analyze and prescribe policies that foster development, assuming, erroneously, that the institutions and the time do not matter. Nonetheless North recognizes the impossibility, at least until then, to create "a theory [institutional] of the economic dynamics comparable in accuracy to the general equilibrium theory" (IBID, p. 567). Fundamental differences of his theory to the neoclassical are the implications of time and the conception of rationality, to know.

There is a historical-evolutionary character in North's theory, a progress in relation to comparative-static of the mainstream. Social and economic changes along with time imply in

learning processes that make the institutions become dynamic categories. This process can occur over the course of a lifetime or one generation, but they are also cumulative, reflecting the cultural development of a society throughout its history: the cumulative learning of a society embodied in language, human memory, and symbol storage systems includes beliefs, myths, ways, of doing things that make up the culture of a society (NORTH, 2005, P. VII)

Rationality for North differs from that preached by the mainstream. Instead of a maximizing rationality presumed of perfect information and widely available, as well as unlimited computing power, for North rationality is limited, linked to processes. The agent acts in a field of limited possibilities. Limitations in storage, processing and transmission of information are justifications that make maximization become hypothetical. The real world is full of risks and uncertainties that, in themselves, justify the institutions.

Institutions exist to reduce the uncertainties involved in human interaction. These uncertainties arise as a consequence of both the complexity of the problems to be solved and the problem-solving software (to use a computer analogy) possessed by the individual (NORTH, 1990, P. 25).

Important to note that North does not "convey" categories of analysis into the mainstream. What he does is to bring mainstream categories to his analysis. He denies part of the core of the mainstream, as substantive rationality and perfect competition.

Converging to Coase, North (1994, p. 569) defines that "when negotiating is costly then institutions matter. And in fact negotiating is costly. "If the transaction costs were null the results would always be efficient from the point of view of society. The problem is that null transaction costs are hypothetical.

When considering a world of imperfect markets, conflicting with the normative standard of neoclassical perfect competition– " the economic markets from yesterday and today are characteristically imperfect and are dominated by high transaction costs" (NORTH, 1994, p. 571) – North transforms "into search genuine issues a series of phenomena previously seen as mere anomalies [and that] were kept as exogenous elements to the template" (CRUZ, 2003, p. 106). He also breaks with the neoclassical extremely mathematized language, worrying as well in reaching other scientists, especially public, in addition to the economists (NORTH, 1990, p. VII).

The high transaction costs come from the complexity with which markets are currently structured. The Game theory is illustrative. If there are infinite interactions in the game (infinite interaction between players means that it is not known when the game ends) it is possible to generate some kind of cooperative result from the prisoners ' dilemma. To have cooperation the game cannot have a scheduled end. There should be an end, but cannot be predetermined. With human evolution and the consequent greater complexity of relationships the productive

specialisation recrudesced, reducing the repetition of the game and the personal contact. This required a corresponding institutional matrix to ensure property rights. For North

[...] the world of impersonal exchange is characterized by specialized interdependence in which the well-being of individuals depends upon the complex structure characterized by individual specialization and hence exchange extends through both time and space (NORTH, 1990, P.55).

In this sense North approaches Polanyi (1944, p. 77) for whom "a market economy can only function in a market society". Impersonal exchanges "... expand the economic opportunities" (NORTH ET ALLI, 2009, p. 114)

North (2005, p. 87) indicates the determinants of institutional evolution in the early days of mankind: the increase in brain size, upright posture and the development of vocal cords. The sophistication of human life at the time, as in the use of new tools and language spawned new patterns of organisation and the adoption of agriculture by some societies. In this way traditional sources of uncertainty were eliminated.

In North et. al. (2009) the social evolution, economic, and even institutional is typed. The analysis of violence throughout human history and its interrelations with the institutions allows the definition of three social standards: i) the orders of hunters and gatherers; ii) societies of limited access; and iii) societies of open access. The latter two persist in the modern world.

Societies of open access are characterized by (p. 11):

1. Political and economic development.
2. Economies that experience much less negative economic growth.
3. Rich and vibrant civil societies with lots of organizations.
4. Bigger, more decentralized governments.
5. Widespread impersonal social relationships, including rule of law, secure property rights, fairness, and equality – all aspects of treating everyone the same.

Societies of limited access are characterized by (p. 12):

1. Slow-growing economies vulnerable to shocks.
2. Politics without generalized consent of the governed.
3. Relatively small numbers of organizations.
4. Smaller and more centralized governments.
5. A predominance of social relationships organized along personal lines, including privileges, social hierarchies, laws that are enforced unequally, insecure property rights, and a pervasive sense that not all individuals were created or are equal.

Although with different purposes of previous works, in North et. Al. (2009) there is the complementation of the information contained in previous works by the same author considered

here. One of them is the existence of societies with limited access in the 21st century. This complements the idea of how institutional differences justify different stages of economic development. Societies with limited access still persist because "...aligns the interests of powerful individuals to forge a dominant coalition" (p. 13). Later he is emphatic when defining that in this type of society "[...] privileges, and rents of the individual elites in the dominant coalition depend on the limited entry enforced by the continued existence of the regime [...]" (p. 20).

The absence of barriers to get in the societies of better economic performance allows North et al (2009) to apply the idea of creative destruction, Schumpeterian as well as in the economic and political aspects. Which leads to a continuing "[...] creation of new interests and the generation of new sources of rents [...]" (p. 24). Pessali and Dalto (2010) corroborate North's thought by saying that "the Schumpeterian notion of entrepreneur comes from the individual and embraces collective economic entities covers that catalyze the skills and resources of several other economic agents with the goal of, under his guidance and coordination, carry out a plan of action".

In the societies of limited access the elites hold on to the State using it as an instrument of private use. A frequent mixture between what is public and private: "These states are therefore much more subject to populism and policies that create macroeconomic imbalances and budgetary crises" (NORTH ET ALI p. 137). In the societies of limited access the elites control powerful social organizations, such as churches, Governmental courts and military units (IBID, p. 249).

On a national level, the above is seen in institutional safeguards to ensure property rights. Corrupt countries are not objects of international investments. Nóbrega (2004, p. 1) signals that

rich countries are those in which investors feel safe in relation to their property rights, the rule of law prevails, the incentives are aligned with social objectives, monetary and fiscal policies are anchored on solid institutions and citizens enjoy civil freedom and may use the mechanisms of political representation. Poor countries are those in which these arrangements do not exist or are inadequate.

In this context, the State plays an important role with regard to property rights in the proportion that besides protecting defines them "whenever there are conflicts" (FIANI, 2003, p. 148). The big problem here resides in embarrassing States of development. Cruz (2003) brings up this problem questioning:

How to ensure against opportunism, irresponsibility or simple myopia of the governors? How to stop the rulers to employ the power of the State to promote their own interests, in detriment of the society? Who controls the controllers and how to do it? (CRUZ, 2003, p.116)

This concern, applied to societies of limited access, is justified, for example, in the patrimonial discretion of public management, characteristic of developing countries. When organizations like political parties change all the planning underway, regardless of their efficiency, with the purpose of putting into practice their judgment of value.

Politics will determine, for example, which interests will prevail, as well as through the clash of forces (usually not physical) or by the differentiated capability of these various forces articulate and defend them. Politics also interferes in the process of development from the perception of interests, what once more is placed in the role of ideological conceptions on this set of factors (STRACHMAN, 2002, apud AREND and CÁRIO, 2005, p. 20).

On the defence of interests typical of the political body, we must remember that this is often in the service of economic organizations when "entrepreneurs transfer the question of institutional change to the political arena" which allow that entrepreneurs, losers in the economic field use the political process to correct their mistakes (AREND and CÁRIO, 2005, p. 8). Thus, "in peripheral countries institutional arrangements were geared to benefit those whose interests were determined by the bargaining power" (GOMES, 2004, p. 10)

In the societies of open access the belief systems emphasize equality, sharing and universal inclusion. Political parties struggle with competitive elections and once in power do not eliminate opportunities for questioning by opposition parties.

Corroborating with what is found in other mentioned works of North on non institutional standardization, here he defines that "the limited access order is not a specific set of political, economic, or religious institutions; it is a fundamental way of organizing society" (NORTH ET AL., 2009, p. 31).

A relevant feature of the societies of open access is that, rather than rely on elites, they rely on a mass citizenship, that is, in the impersonality. The Government extends its performance through policies turned to social equality.

In the strictly economic field, the comparison between the two types of society demonstrates that in those of open access their dynamic sector generates direct and indirect effects for the whole economy. In those of limited access, with markets heavily controlled, this effect is inhibited.

The transition from a society of limited access to one of open access happens when the elite accepts to transform personal privileges into shared impersonal rights, including access and the coercion of the law, the State and military apparatus.

2.1 Institutions and organizations (or the socio-economic “game”) in Douglass North

North has a simple definition of institutions. They "are the game rules in a society" (NORTH, 1990, p. 3). The institutions together define the structure of incentives of the societies and specifically of the economies. Delimit human relationships in different ways, including with regard of the economic performance. Greeting a friend, the venture of a business, the loan of

money, the burial of the dead ... reflect the institutional matrix which "defines and limits the game of choice for individuals" (IBID, p. 4). The why such events per se are idiosyncratic because the institutions are so.

Facing the above and considering that: i) the contemporary trade environment is generally impersonal; and ii) institutions vary according to the countries; results from the conjunction of these factors – greater or lesser complexity of relations and the nature of the institutions – the different economic stages of the countries. In a situation of impersonal/complex environment and incompetent institutions to restrict the relationships, the transaction costs are high, resulting in low levels of economic performance.

A relevant issue is that the incompleteness of information obstructs all possible scenarios are intended and marked out by the institutions. As highlights Hodgson (1994, p. 160) "the formulation of a contract between two parties implies almost always an implicit or explicit reference to a set of rules, customs and rules, more than a detailed trading again on each of the clauses and contingencies". In this scenario you need to remember that there are laws, customs that are not expressed in the contract and that, on the other hand, no agent is given the right to disregard. In this sense, more important than seek to give account of all possible scenarios in a contract and to foresee the cons for each case, the society should have adequate conflict resolution mechanisms. The more mature the governance structure the least will be necessary to appeal for instruments of conflict resolution.

By limiting the human interactions, the institutions will be seen as constraints. In this sense North approaches Hodgson (1994), because the latter argues that:

These inflexibilities or restrictions indicate, in fact, to the individual what other agents could do, and the individual may then act accordingly. On the other hand, if such inflexibilities or "imperfections" did not exist, the behaviour of others could change with all the disruption of the economic system and these frequent adjustments of behaviour could be regarded as random or chaotic.

It is clear that the institutions have not only the restrictive character. "They also promote changes as they shape the knowledge and its application to solve problems" (PESSALI and DALTO, 2010, p. 18).

A problem to be highlighted is when individual interests are opposed to the interests of the society as a whole. In this case, individual agents may attempt to violate the rules. In this sense, in addition to the operational costs the institutions must do justice to the transaction costs as they need to investigate violations and impose punishments. Just like the referee in football when he indicates the yellow card when the footballer does not play by the rules. As highlighted by North et al (2009) institutions shall include also the means by which the rules and regulations are applied.

The institutional typology of North is self-explanatory and also simple. Institutions can be formal or informal. Rules, laws, constitutions, etc., are cases of formal institutions. Informal institutions are the standards of conduct, conventions, self-imposed codes of behaviour, etc.

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According to North informal institutions alone could only generate a spontaneous social order in primitive societies, because they had low transaction costs and high production costs. Modern societies are anonymous, without individual interactions. The transaction costs are high. Informal institutions do not have strength to guarantee social co-operation in that type of society.

The appearance of formal institutions, with the purpose to reduce risks and uncertainties, depends on the strength of interest. Groups that have negotiating power, that is, pressure power, able to formalize rules. What makes the political markets more susceptible to social inefficiency. In this kind of market transactions are based on votes and infinitesimal power of each elector does not encourage the search for more information.

This scenario makes the political markets more complex than the economic as well as extremely overwhelming in economic performance – "the political and economic institutions are fundamental determinants of economic performance" (NORTH, 1994, p. 468). Furthermore, considering that: i) in the democracies the political market is the offerer of the legislators; ii) the representation is uneven in terms of social groups; and iii) the power of the voters is minimum; a huge opportunity is open so that the formal institutions reflect exclusive interests of the groups better represented. More than that, that the legislators prevent institutional changes favourable to society, but evil to them.

There is a strong binding between economic interests and political power. North stresses the possibility of legislators to have their own goals:

These issues appear to show in the voting behavior of legislators; it is widely observed that one cannot explain the voting behavior of legislators within the narrow confines of a principal/agent model, in which the agent (the legislator) is faithfully pursuing the interests of the principal (constituents). The agent's own utility function - his or her own sense of the way the world ought to be - appears to play a role in the outcomes (NORTH, 1990, p. 21).

The use of the State in private benefits (and not of society) is taken up later: "Put simply, if the state has coercive force, then those who run the state will use that force in their own interest at the expense of the rest of the society" (NORTH, 1990, p. 59). Fiani (2002, p. 50) reflecting on the work of North points out that "the emergence of the State turns the establishment of rules governing property rights and economic exchanges in process product of political bargaining, without necessary connection with economic efficiency".

It is seen that the State shown here by North is composed of different agents and not by a ruler alone. Thus, the State itself is the subject of disputes. More than that, to the extent that democracy allows the rise of new layers of the population to the State the bargaining game complicates even more.

In one of his most well-known phrases, North defines that "If the institutions are the game rules, organizations and their entrepreneurs are the players" (NORTH, 1994, p. 571). As the institutions are "rules" their operationalism depends on this other category, organizations that are groups of individuals who come together to achieve a common goal. In North et al (2009, p. 6) organizations are defined as tools that individuals use to increase their productivity, search and create contacts and human relations, to coordinate actions between individuals and groups, and as an instrument of domination and coercion

Organizations can be political (political parties, the Senate, a municipal Assembly, a regulatory agency), economic (companies, unions, cooperatives), social (churches, clubs, athletic associations) and educational (schools, universities, vocational training centres) (NORTH, 1990, p. 5). By reflecting the institutional matrix, organizations also end up being divided into formal and informal.

North hierarchizes institutions and organizations. For him:

Formal rules include political (and judicial) rules, economic rules, and contracts. The hierarchy of such rules, from constitutions, to statute and common laws, to specific bylaws, and finally to individual contracts defines constraints, from general rules to particular specifications. And typically constitutions are designed to be more costly to alter than statute laws, just as a statute law is more costly to alter than individual contracts. Political rules broadly define the hierarchical structure of the polity, its basic decision structure, and the explicit characteristics of agenda control. Economic rules define a property right that is the bundle of rights over the use and the income to be derived from property and the ability to alienate an asset or a resource. Contracts contain the provisions specific to a particular agreement in exchange. (NORTH, 1990, P. 47)

This hierarchization is widely accepted. An example is Pessali and Dalto (2010, p. 14) for whom "the analyst should not be surprised to find institutions within institutions, hierarchies of institutions, or other forms of conjugation between them".

Given the above, it is reasonable to divide the institutions and organizations in accordance with "macro" and "micro". Understanding how macro institutions, those of general scope – the Constitution, e.g. – that coexist on the market. Micro institutions correspond to those relation restraining ones not mediated by the market. An example of a macro institution is the labour law (applicable throughout the country) and a micro one the internal regulations of companies, specific and applicable only to their employees. The same interpretation is considered for organizations. A

court, e. g, is a macro organization while a company is a micro organization. North et al (2009) highlights that the majority of organizations have their own internal institutional structure (p. 16).

Using North metaphor of "game", a micro organisation (the firm) is restricted by a macro institution (labour law) and uses a micro institution (internal regulations) to restrict their employees, defining good internal practices to the firm. See that the power of constraints is in the rule, i.e. in the institution, even when it is deliberately created by an organization (the firm).

This contextualization between institutions and organisations, the way taken by North, is relevant as far as the new Economic institutionalism in a general way presents a diversity of concepts for them. In addition, there is some disagreement about the overlap between institutions and organisations, i.e. organisations may be institutions, as Hodgson defends. The table 1 provides examples based on North's definitions.

TABLE 1 – “Institutions are the game rules. The organizations are the players”

THE GAME	INSTITUTION/ORGANIZATION	TYPE
Election	Electoral code	Formal Macro Institution
	Electoral Court	Formal Macro organization
	Political parties	Formal Micro organization
Definition of candidates for an election	Electoral code	Formal Macro institution
	Rules of procedure of the party	Formal Micro institution
	Trends of the workers ' Party (PT)	Formal Micro organizations (the party's Statute foresee the groups named trends)
	“The PMDB of Temer” or “the PMDB of Geddel”	Informal micro organisations (the Statute of the party does not foresee)
Work accident prevention in the companies	Law Nº 6.514, of December 22,1977	Formal Macro institution
	NR-5 of the Ministério do Trabalho	Macro instituição formal
	Internal commission of Accident Prevention (ICAP) of each company	Formal Micro institution
Any event in England	Starting time	Micro institution which can be formal or informal (a constant in an invitation e.g.)
	Arrive on time	Informal Macro institution
	The British people	Formal Macro organization (registered as British, has a formal citizenship)
Any event in Brazil	Starting time	Micro institution which can be formal or informal (a constant in an invitation e.g.)
	Arrive late (“I will get there later because nobody arrive on time”)	Informal Macro institution
	The Brazilian people	Formal Macro organization (registered as Brazilian, has a formal citizenship)
Innovation	Law nº 9.279,of May 14, 1996 (Patents law)	Formal macro institution
	Companies	Formal micro organizations
	“Piratairos”	Informal micro organizations

Source: Own elaboration

Important to note that the games of table 1 are not necessarily restricted to the institutions and organisations respectively exemplified.

2.2 Institutional change in Douglass North

North contests the static-comparative view of the neoclassic, highlighting the necessity of a historical-evolving definition of the economy that ends up composing the core of his theory. What makes it imperative to highlight the process of institutional change for the mentioned author.

Fiani (2002, p. 46) points out that

The fundamental interest for North, when studying economic history, is to explain his institutions as determinants of economic performance of societies. It occurs, however, that although North is interested in the institutions as determinants of economic performance of societies, it is the problem of the permanence of institutions that discourage economic growth that will be incurred in his central concern.

As it happens in the governance structures of Williamson, institutional changes for North involve calculations based on costs. Changes are only made when the benefit in doing them is greater than the corresponding cost. It is included in this calculation the cost of change per se (i.e., transaction costs of change) and not only what eventually is ceased to earn with it (opportunity cost). The benefits of change have to be sufficiently larger than the sum of the referenced costs.

If the highest rate of return in an economy is to piracy we can expect that the organizations will invest in skills and knowledge that will make them better pirates. Similarly if there are high returns to productive activities we will expect organizations to devote resources to investing in skill and knowledge that will increase productivity. (NORTH, 2005, P. 61)

Another relevant issue concerns the distribution of the costs of institutional change. "If the total costs of the change go to some of the persons concerned while others disclaim, the change may find certain obstacles" (PESSALI and DALTO, 2010, p. 22). Obviously the same can be said about the benefits.

Given the convenience of maintenance of the institutional matrix and, mainly, the cost of institutional changes, a great prior assessment is required. Understood in another way, the institutions have a *lock in*. This is a concept that institutionalism seeks in technological analysis. Pessali and Dalto (2010) use the example of the gauge of the train tracks that ". .. still reproduces the technology of the old carts pulled by animals. Were the gauge increased the productivity of rail transport could have grown by using wagons of higher capacity "(p. 17)

To keep institutions represents a kind of "balance". Institutional changes represent "unbalances", even though in a sense of progress. After all individuals are born "rooted" and institutional changes are complex. Well, if institutional changes were easy and always had the right direction, there would be no coordination problems or countries with low economic performance. The feeling of change has to be strong enough to "uprooting". Finally, due to the proper inability to fully understand the surrounding world, individuals translate incompletely the signals they receive. Because, as highlights Hodgson (1994, p. 121) "the reality, out of our heads, can exist independent

of cognition that we have of it. But the ' reality ' that ' we see ' and ' understand ' is in part socially constructed.

The rooting of cultural aspects, difficult to be modified, is exemplified by North when he calls attention to the failure of some countries to reproduce American institutions: “It Should be emphasized that the institutions that have emerged in the Western world, such as property rights and judicial systems, do not have to be faithfully copied in developing countries” (NORTH, 2005, P. 159).

The famous *path dependence* so much applied to technological bases of the companies is employed by North in his theory as well. *Path dependence* implies that once invested in a pattern it follows its course. Such an example of it being used in the technological bases is the “qwerty” keyboard transferred from the typewriters to the computer.

North makes use of the *path dependence* in the sense that institutional changes are constrained by existing institutions, in a kind of guiding principle. Once you have invested in an institutional pattern we stick to it. If the institutional framework rewards piracy pirate organizations will emerge; If the institutional framework compensates productive activities, organisations – enterprises – committed to such activities will come out (NORTH, 1994, p. 572). Changes out of the path are possible, but uncommon since the cost is higher.

Examples of institutional *path dependence* very much mentioned by North are the respected American property rights inherited from England and the personalism in economic and political relations in Latin America, inherited from Portugal and Spain.

The concept of *path dependence* leads us to conclude that there are no proper standardized types of "ideal institutions". If the institutions are dependent on the trajectory and, therefore, idiosyncratic, how should there be an ideal consistent type?

North believes that changes in informal institutions require a long time, since they represent the uprooting. As for the formal institutions alterations can take place tempestuously being enough the legal act. Changes in formal institutions means changes in informal institutions. It is logical that there is not a natural relation of causality. Because, as North himself demonstrates, the formal institutionalization only occurs when the group concerned is represented politically. This way it is possible that changes in informal rules does not imply in changes in formal rules. Or even until informal institutions continue to exist without being formalised:

Continuing the sports analogy, taken together, the formal and informal rules and the type and effectiveness of enforcement shape the whole character of the game. Some teams are successful as a consequence of (and have therefore the reputation for) constantly violating rules and thereby intimidating the opposing team. Whether that strategy pays off obviously depends on the effectiveness of monitoring and the severity of punishment. Sometimes codes of conduct - good sportsmanship - constrain players, even though they could get away with successful violations (NORTH, 1990, P. 4).

North makes true verse about informal institutions:

That the informal constraints are important in themselves (and not simply as appendages to formal rules) can be observed from the evidence that the same formal rules and/or constitutions imposed on different societies produce different outcomes. And discontinuous institutional change, such as revolution or military conquest and subjugation, certainly produces new outcomes. But what is most striking (although seldom observed, particularly by advocates of revolution) is the persistence of so many aspects of a society in spite of a total change in the rules. Japanese culture survived the US. occupation after World War II; the post-revolutionary U.S. society remained much as it had been in colonial times; Jews, Kurds, and endless other groups have persisted through centuries despite endless changes in their formal status. Even the Russian Revolution, perhaps the most complete formal transformation of a society we know, cannot be completely understood without exploring the survival and persistence of many informal constraints. (NORTH, 1990, P. 36)

Organizations take care of transforming the structures of beliefs in formal structures. There is a feedback in the sense that the formation (and change) of the institutions follow a process that begins in the formation of individuals mental models, moulded in turn by the cultural inheritance and everyday problems. From them informal institutions and their organizations are formed. They are responsible for the creation of the institutions and formal organizations. From interaction, conducted by the mental models, between organizations and institutions, formal and informal, institutional evolution occurs. In this sense North resembles Hodgson (1994) for whom "through their own existence, established character and visible of much behaviour to them associated, institutions create in fact, and in a certain way, emit additional information" (p. 133).

Abrupt and general Institutional changes happen at moments of inflection promoted by wars, revolutions, natural disasters, and achievements.

3. HODGSON'S THOUGHT AND CRITIC

Geoffrey Hodgson's thought, although contemporary of the New Institutionalism, has a close relationship to the "old" institutionalists. For Hodgson what divides the NIE and the OEI is the conception about the individuals. The old institutionalists depart from an institutionalized individual, consider a cultivation resulting from existing institutions. The new institutionalists (like North) head off from methodological individualism. The institutions arise from a model of an individual rational behaviour. The Individuals are "figures".

For Hodgson individuals are born institutionalized, "rooted". Such rooting will stick to the individual the institutional nuances of their society. Hodgson (1994, p. 121) remarks that "the acquired conceptual framework reflects our culture, the social norms and rules that we inherited." Later the same author is emphatic in describing that:

Since we were born we begin to acquire a social language and share a symbolic order. The individual knowledge is expressed in a social language and is passed through a set of socially acquired cognitive filters. We learn a great deal of the world through the language and symbols that have no meaning in an individual sense. Our aims and expressed intentions, whatever be their individual qualities, are formulated with language that, in its essence, is not individual but social (HODGSON, 1994, p. 125).

This rooting does not prevent changes. Such changes occur over time, which does not make the process tautological. This interactive process is inter-institutional and intergenerational. Pessali and Dalto (2010) highlight the linking from one institution to another in the emergence of the newer: "this is only to recognize that, in modern societies, we are all born in a world with established institutions, and to discuss about how the first institution came forward would be an insoluble problem of infinite regression" (p. 16). The language is the mother type of institution.

Hodgson uses the concept of social structure, in a broader meaning than institutions in North. The social structure comprises relationship between the environment and the individual which is not necessarily signalled by the institutions. It involves the social relationships that do not have rules. They are examples of individual relationships that cannot be treated within the institutions feelings. The author shares with North as for the need to consider the institutions in economic analysis, but has different definition in terms of institutions and organizations. Such difference is, as a matter of fact, famous in the institutionalist debate.

For Hodgson an institution is a special kind of social structure that involves encoding rules of interpretation and behaviourism (HODGSON, 2005). Institutions are lasting systems of established and built-in rules and social conventions that structure social interactions (HODGSON, 2003, p. 6). The organizations are understood as a type of structure with ability to fetch a defined goal even if such goals are not declared (HODGSON, 2005). In this way the organizations are seen as a "special subset of institutions, which has additional features of adherence and sovereignty".

An organization is a special type of institution that covers:

- a) Criteria to establish its boundaries and distinguish its members and non-members;
- b) A recognized principle of sovereignty;
- c) A chain of responsibility of internal commands

Just like North, Hodgson believes that the institutions constraint human behaviour, in the sense of limiting it. But stresses that "however, the constraint can open up possibilities: it may enable choices and actions that otherwise would not exist. For example, the rules of language allow us to communicate; traffic rules help traffic to flow more easily and safely"(HODGSON, 2003, p. 163).

Hodgson discusses the classification of North's institutions in formal and informal. He points out that North refers to formal "rules" and "informal" constraints. By exploiting Menger,

Hodgson (2001) considers like types of institutions those ones that emerge spontaneously and the ones that result from processes involving purposes. (p. 101) For Hodgson (2005) all institutions, including the official ones, involve informal rules. To resolve the problem of terms he proposes the distinction on the basis of the evolution of institutions among those that evolve spontaneously and those that require an exogenous intervention.

It is still clear that Hodgson recognizes that the institutions nominated informal by North are relevant. He also uses Durkheim: in a contract not everything is contractual. It goes beyond. He recognises that some "non-legal" institutions can evolve without any human planning generating enormous social consequences.

Hodgson refers to the formal/informal dichotomy used by North to highlight conclusions of studies on economic underdevelopment: tradition and statute – the formal and informal – structure the development and depend on one another. He converges to North's thought when highlighting the need for a strong institutional intervention in order to guarantee the property rights in the complex modern society where incomplete and imperfect information predominates, high transaction costs and asymmetric relations.

There is, in Hodgson, a static interdependence between informal and/or formal rules. And this is so, because the effectiveness of a formal rule presupposes sanctions in feelings and practices on everyday lives of people. He exemplifies through economic development that is based on a fair and effective public administration, and an efficient system of property rights that are held not only in formal legal rules but also in informal culture (HODGSON, 2005). In Hodgson (2006) he is emphatic when defining that with one possible exception (the language) all institutions depend on other institutions. There is, in Hodgson, a static interdependence between informal and/or formal rules. This is because the effectiveness of a formal rule assumes sanctions in feelings and practices of everyday life of people. He exemplifies through economic development that is based on a fair and effective public administration, and an efficient system of property rights that are held not only in formal legal rules but also in informal culture (HODGSON, 2005). In Hodgson (2006) he is emphatic when defining that with one possible exception (the language) all institutions depend on other institutions.

For Hodgson (2001) in certain cases it is required the assistance of a pre-existing powerful institution to create or sustain other institutions. The State is the most coherent solution (not necessarily the most efficient) once it is "... well positioned to assume a regulatory role [...] and may make use of their substantial symbolic ceremonial powers, and ourselves "(p. 112).

Referring to the economic development, Hodgson (2005, p. 94) points out the following:

An implication for economic development is that attention should be given to institutions and institutional features that are conducive to norms and values that serve social integration, personal development, and human needs more generally.

The choice of institutions becomes a doubly important policy decision, not only because they provide incentive structures for individual behavior, but also because institutions can mould individual mentalities and preferences.

It is imperative to highlight the understanding of Hodgson about the term "habit": propensity to behave in a particular way in a particular class of situations. Habits are, as the author draws attention to, acquired in a social context and not transmitted genetically.

The curious thing is that, furthermore, the same Hodgson (2005, p. 95) believes that "Legislation cannot go faster than the development of human habits and informal social norms". The author outlines how important points for a future agenda; i) the possibility of institutions to have a reconstituent effect on the preferences of individual actors; and ii) the formation of habits through operation of channels and institutional constraints (HODGSON, 2001, p. 109)

Hodgson highlights the difficulty of analysing the institutional evolution. To explain the origin of the institutions presupposes to elect a starting point, a "State of nature", resulting in a potential problem of infinite regression: "attempts to explain each layer of emerging institutions always rely on institutions and previous rules" (p. 103). The author explains that:

There is a fundamental reason why the idea of explaining the institutions in terms of interaction of individuals should be abandoned from a "State of nature" without institutions. And that every individual interaction inevitably depends on some – at least rudimentary – form of language. Language is in itself an institution. Individuals rely on customs, standards and language to interact. Interpersonal communication, essential for all stories of institutional emergency, depends on linguistic rules and standards and of another nature. The State of nature without institutions is unreachable either in theory or in reality (HODGSON, 2001, p. 103).

Hodgson advocates a new research project, reworded, where "... the evolution of institutions, counting with other institutions as a starting point would be stressed, rather than from 'hypothetical' nature of States and without institutions" (HODGSON, 2001, p. 105). So, he himself commits a sin related to the "State of nature": where would the "first" institutions come from?

CONCLUSION

The new institutionalists have a relevant role when rescuing economic analysis left aside by the mainstream. The classical orthodoxy, when focusing on the availability of production factors and their allocation, banished the importance that the institutions have once they can induce or constrain the economic performance when generating cooperation or conflict.

North analyzes the institutional macro environment from a microeconomic basis that mixes fundamentals of classical orthodoxy (in some cases refuting them or changing them but having them as a starting point) and alternative grounds, especially the transaction costs highlighted by Coase. In this sense fulfils an important role by resuming analysis categories that have intersection with other social sciences without disregarding those typical of orthodox economy.

Hodgson undertakes a research project closest to that of the old institutionalists. As such, he does not start from the methodological individualism and therefore does not use microeconomic instrumental as reference.

Even though North and Hodgson are contemporary in institutional analysis, their thoughts have hues which differences justify the decanted diversity of "new" institutionalists.

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