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HOW CAN FORMAL NORMS CHANGE INFORMAL NORMS? DOUGLASS NORTH'S APPROACH TO IDEOLOGIES AND INSTITUTIONAL CHANGE

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How can formal norms change informal norms? Douglass North's approach to ideologies and institutional change

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Abstract. The paper argues that in North's theory the reciprocal influence between organizations and institutions, and between informal and formal norms, is interpretable as a continuous alternation of bottom-up and top-down processes. Bottom-up processes arise from shared beliefs, and they concern how informal norms engender formal norms. Top-down processes explain how formal norms influence informal norms. North does not exhaustively deal with this latter process, although he provides elements which go in this direction. The concept of ideology illustrates this problem. It is conceived as the outcome of bottom-up processes whereby shared interpretations of reality emerge, but not as a tool used by norm entrepreneurs to trigger top-down processes of change in informal norms. Since formal norms incorporate ideologies, these processes concern how formal norms give shape to informal norms. The paper suggests that theories of social construction – with specific attention to legal studies, international relations inquiries, and Schumpeterian approaches – can integrate North's view.

Key words: formal norms, informal norms, ideology, bottom-up and top-down processes

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1. Introduction

North's theory has definitively contributed to the inclusion of institutions within economic analysis. His model of institutional change focuses on the interaction between organizations (as groups of individuals pursuing the same goal and interacting with other organizations and agents) and institutions; a model which presupposes the reciprocal influence between informal and formal norms. His scheme can be summarized as follows. By providing a structure of incentives, institutions (which include formal and informal norms) affect organizations, and organizations modify institutions by exerting pressures on them. Mental models shared by individuals engender informal norms, traditions and customs, which give rise to formal norms. Formal norms in their turn shape informal norms as extensions useful for resolving specific issues.

The thesis put forward in this paper is that the reciprocal influence between organizations and institutions, and between informal and formal norms, can be interpreted as continuous alternations of bottom-up and top-down processes. North does not clearly distinguish between these phases, although many elements of his theory go in this direction. In particular,

the process by which economic and social actors require institutional changes, as a bottom-up process which springs from social dynamics, is not perceived as different from the top-down phase in which norm entrepreneurs, who play important roles in policy-making positions, plan those changes at political and (formal) institutional level. This latter phase – at least partially – involves the creation or modification of informal norms in consequence of changes in formal institutions, which is a problem implied, but not developed, in North's discourse. This perspective is interwoven with North's treatment of ideology. Political and economic agents, he maintains, are guided by ideologies which arise from shared mental models and beliefs. This implies that the emergence of ideology is characterized as a bottom-up process. Yet, ideology is also a *tool*, which can be used intentionally to alter the existing beliefs by norm entrepreneurs who influence economic and social policies. This problem, not dealt with by North, regards top-down processes, and it reveals that the alignment between formal and informal norms may be not a spontaneous outcome but a constructed one.

In other words, North does not clarify some aspects related to the alteration of informal norms by formal ones, although this perspective is considered, and recursively appears in his theory. More precisely, North explains the causes which induce changes in informal norms, but he does not illustrate the precise mechanisms which allow these causes to be operational. Analysis of these mechanisms enlarges the boundaries of North's approach, and it could shed light on the process of institutional change. The aim of this paper is to conduct a preliminary exploration of these developments. Possible candidates for explaining how formal norms change informal norms are theories of social construction, which range from legal to international relations approaches compatible with Schumpeterian views. They emphasize that norm entrepreneurs and ideologies construct shared representations of social reality able to influence individual behaviors (and able to induce compliance with the formal rules that they promote and support). This entails consideration of another concept somehow present in North's approach: the malleability of the cultural heritage.

The paper is structured as follows. Section 2 summarizes North's theory of institutional change, and it shows that the influence between institutions and organizations and between informal and formal norms is reciprocal. Sub-section 2.1 focuses on how North deals with ideologies and how they work in institutional change. Section 3 and sub-section 3.1 discuss the incompleteness of North's treatment of ideologies, but at the same time they show that North provides, but does not develop, a view which makes it possible to overcome these limitations, especially as regards the role of formal norms in elaborating and modifying

informal norms. Section 4 suggests how North's theory can be expanded by including the notion of cultural and 'norm entrepreneurs'. Section 5 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 behavior 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 behavior 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)

The emergence of formal norms, described as a shift from "unwritten traditions and customs to written laws", does not imply that informal norms disappear as if they have been eroded. On the contrary, moral and social norms continue to support formal constraints, since they reduce their enforcement costs. Although formal constraints emanate directly from informal ones, this relationship also operates in the reverse direction, due to the fact that the "informal constraints had gradually evolved as extensions of previous formal rules" (1990, p. 91, see also pp. 40 and 87). It is not unusual that, in the process of institutional change, "the formal rules will result in the creation of a variety of informal constraints that modify the formal rules and extend them to a variety of specific applications" (1990, p. 95). In

short, the two perspectives can be summarized as follows. 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, because informal norms can be “extensions, elaborations, and modifications of formal rules” (1990 p. 40; 1992 p. 480).

In the mature phase of North’s inquiry, and especially from the 1990s onwards, the analysis increasingly focused on individuals and their interaction with organizations and institutions, and on the notion of “shared mental models”. Subjective views, by guiding the perceptions of economic and political entrepreneurs, influence individual choice, and this contributes to explaining economic growth (Knight and North 1997, p. 215). Although it is not unusual that individuals imperfectly decipher the environment, with the consequence that they can disagree on what action is appropriate, shared mental models and beliefs emerge in consequence of human interaction and engender a “cultural heritage” which reduces these divergences (Denzau and North 1994, p. 15). They exhibit a certain tenacity, because current mental constructs are the outcome of preexisting mental models. Therefore, they can be interpreted as “collective learning” that incorporates the past learning of a society. All this defines institutions, which “from an internal point of view, [...] are nothing more than shared mental models or shared solutions to recurrent problems of social interaction” (Mantzavinos, North and Shariq 2004, p. 77).

North analyzes in particular the role of entrepreneurs’ mental models within organizations and in relation to institutions. The opportunities and incentives provided by institutions determine both the kinds of organizations that will come into existence (North 2005, p. 60), and the kind of skills that they develop. However, organizations are not passive recipients. On the contrary, they exhibit a capacity to modify the rules of the game,

the entrepreneurs of organizations induce institutional change as they face the ubiquitous competition derived from an economic world of scarcity. As they perceive new or altered opportunities they induce institutional change by altering the rules (either directly by political bodies or indirectly by economic or social organizations pressuring political organizations); or by deliberately (and sometimes accidentally) altering the kinds and effectiveness of enforcement of rules or the effectiveness of sanctions and other means of informal constraint enforcement. Historically, as organizations in the course of interaction evolve new informal means of exchange, social norms, conventions, and codes of conduct may wither away. (North 2005, p. 60)

The “new or altered opportunities”, perceived by organizations, can be both exogenous changes in relative prices and consequences of an endogenous competition. Yet, as previously

shown, the perceptions of the entrepreneurs of political and economic organizations depend on how the mind interprets reality in a new period on the basis of the mental models formed in the previous one. This does not imply that mental models do not evolve. On the contrary, they can be revised, refined or rejected, because learning processes are at work. And learning involves “representational redescription”: that is, “a process in which knowledge stored as the solution to a special problem of the environment is subsequently reordered to serve as the solution to a wide variety of problems” (Mantzavinos, North and Shariq 2004. 76). Learning from past experience enables organizations to develop better coordination skills and strategies with which to handle repeated interaction problems. If experience matters and affects present and future institutional settings, this means that history matters and that some accidents of the past can determine the direction of institutional change. Institutional changes are the result of path-dependent processes¹. Path-dependence

“can account both for the pervasive influence of the past on the present and future and also for those occasions when abrupt changes in the path of society occur. The latter will occur when the belief system is perceived to be inconsistent with the outcomes predicted by that belief system” (North, 1994, p. 385).

In summary, the process of institutional change is synthesized by North (2005 p. 4) as follows:



Fig. 1 North’s scheme of institutional change (North 2005, p. 4).

This synthesized representation may be confusing, because it mixes the above-outlined complex processes that distinguish institutional change in North’s work. As argued, institutional change involves two different levels of analysis that are mutually interconnected. The first explains the bi-directional link between formal and informal norms. The second focuses on the dynamics that allow institutional change through the two-way interaction between institutions and organizations (Fiori 2002). These latter dynamics are those in which perceptions of reality and beliefs play a central role, because organizations are groups of

¹ North (1990) applies Paul David’s concept of path dependence in technological change to institutional changes.

people pursuing the same goals (North, 1990, p. 25), and they interact both with institutions and markets, which are also made up of individuals.

Individuals matter because North bases his entire inquiry into institutional change upon the interactive process between individuals and their context: “the agent of the change is the individual entrepreneur responding to the incentives embodied in the framework” (North, 1990, p. 47). Individuals are constrained by the existing institutional structure; nevertheless, they are able to change that structure according to their preferences (Groenewegen et al. 1995)². On this point, North shares the tradition of old institutional economics, which argues that institutions work because the rules involved are embedded in shared habits of thought and behavior.

From this perspective institutions are emergent social structures, based on commonly held habits of thought: institutions are conditioned by and dependent upon individuals and their habits, but they are not reducible to them. Habits are the constructive material of institutions, providing them with enhanced durability, power and normative authority (Hodgson, 2003 p. 164).

In North’s view the bi-directional interaction between institutions and the players (organizations and individuals) integrates with the bi-directional interplay between informal and formal norms. These interactions exhibit dynamics of upward causation when elements of a lower ontological level affect those of a higher one. In the case of the process of institutional change, such upward causation can be reconstructive (Hodgson 2003) in that lower level changes (changes in mental models) may alter a higher level of the structure (institutions). But, because the interaction between institutions and organizations and individual is bi-directional, also changes at the institutional level may affect the lower level and induce changes in individuals’ and shared mental models in a reconstructive way.³

In summary, the relationship between individuals (and organizations) and institutions can be represented as an interplay constituted by bottom-up and top-down processes, which are

² North’s individualism differs from neoclassical methodological individualism because it focuses on the interaction between individuals and their social context. In this sense, North can be defined as an institutional individualist. Institutional individualism combines individual actions and their interaction with the social context (Agassi, 1975).

³ North’s process of institutional change involves different levels of analysis and a circular relationship between institutions and players. Such complexity can only be explained by considering the role of individuals’ and shared mental models in such processes. These elements of North’s work are those cited by part of the literature to argue that his theory of institutions is consistent with the tradition of the old institutional economics, and that North’s contribution should be taken as a new chance to develop a proper institutional economics within this tradition (Rutherford 1995, Groenewegen et al. 1995). Discussion of how North’s work can contribute to the development of current institutional economics falls outside the scope of this essay.

combined with bottom-up and top-down relationships between informal and formal norms. In these bi-directional processes ideology plays a key role.

2.1 Ideologies and mental models

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.⁴ 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 usually not 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). Intellectual entrepreneurs of ideology “invent and distribute new ideologies” (Zweynert 2009, p. 350, note 20) or they modify and extend existing ones. 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

⁴ Some different meanings of ideology, especially in Marxist approaches, are discussed in Eagleton (1991).

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 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 redescriptions”), 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”), and 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. How formal norms can change informal norms. The role of ideologies

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. However, ideologies are usually conceptions of the world that are more structured than shared mental models.⁵ Moreover, it could be argued that political entrepreneurs intentionally use ideologies as tools to shape informal norms. Although North does not treat this aspect, he takes into account that formal norms retroact on informal norms, and that they modify habits of thought and mental models.

⁵ North himself (1992, p. 485) points out this feature.

Formal norms not only engender “a variety of informal constraints” as their “extensions, elaborations, and modifications” (North 1990, pp. 95 and 40), they also contribute to shaping political and economic organizations by providing the structures of incentives for selection of knowledge and skills, whether they be used to reward “piracy” or productive activity (North 1990, pp. 77-78).⁶ Ideologies are embedded in these processes and in the “policies” which culminate in an “altered perceived reality” by individuals and organizations (see above in this paper, at p. 5, the scheme mentioned by North (2005))⁷. The influence of formal norms on individual perceptions is an important component of change in mental models. In fact, individuals’ new perceptions about improvements in their condition can induce them to alter “the existing institutional framework at some margin” (North 1990, p. 8). In this way, individuals trigger institutional change by stimulating a new bottom-up process. On the other hand, the capacity of formal norms to change informal norms is explicitly illustrated by the answer to the question “How do informal constraints change?” (North 1990, p. 87). North refers to “the forces that shape cultural evolution”, which work “at the macrolevel”; but at the same time he considers the role of the “microlevel”. Since informal norms supplement and extend formal norms:

a change in formal rules or their enforcement will result in a disequilibrium situation, because what makes up a stable choice theoretic context is the total package of formal and informal constraints and enforcement aspects. Note, however, that a change in either institutional constraint will alter the transaction costs and give rise to efforts to *evolve new conventions or norms that will effectively solve the new problems that will have arisen [...]. A new informal equilibrium will evolve gradually after a change in the formal rules* (North 1990, pp. 87-88; emphasis added)

Formal norms (along with informal norms) constitute the institutional setting. Their change provokes an institutional disequilibrium which engenders an evolution of “new

⁶ Of course, this function is also performed by informal norms.

⁷ In a similar vein, Roe maintains that policies depend on ideology and on the relative power of the different interest groups. Even though Roe does not explicitly investigate the mechanisms originating individual perceptions, he underlines that ideology, as 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). This perspective shows that policies not always are mere extensions of popular ideologies (see section 4).

conventions or norms”, and this constitutes a new basis for future changes in formal norms. The incremental nature of institutional change, therefore, involves a continuous interaction between bottom-up and top-down processes.

Given this scheme, the question arises as to what actors transform into legal and political terms the demand for change arising from individuals and organizations when there occur both a gradual alteration of social agreements and a radical and discontinuous change in the formal rules (North 1990, p. 89). According to Aoki (2010, p. 140), these figures are not marginal in North’s work, given that “he argues throughout the book [North 2005] that the dominant beliefs held by political and economic entrepreneurs in policy-making positions play important roles in determining the direction of institutional change”. Whilst Aoki points out North’s consideration of top-down processes, by contrast Williams (1997) reproaches North for adopting 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. According to Williams (1997, p. 297), ideology 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; and when it “observes that certain informal constraints are incompatible with its governing ideology, it replaces those constraints with a system that is not only more compatible but also more formal, so that it can be more successfully monitored from above” (Williams 1997, p. 297).

Even though North does not examine the figure of the political entrepreneur in detail, and even though his notion of ideology is circumscribed, it seems excessive to criticize him for having completely neglected the mechanisms related to the top-down phase. Although his theory is incomplete, he takes these problems into account; and this, as the next sections discuss, makes it possible to consider possible extensions of his approach.

3.1 The construction of norms, the role of ideologies, and the norm entrepreneurs

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). This perspective, according to Zweynert, delineates a view of institutional change in sharp contrast with the subsequent developments of North’s theory, culminating in *Understanding the Process of Economic Change* (2005), where “the evolution of society’s institutions is above all a function of changes in the dominant belief system” (Zweynert 2009, p. 340). If North (1981) and North (2005) represent two alternative explanations of institutional change, not integrated into a unified theory, in between those two explanations is a non-neoclassical⁸ (but incomplete) theory of the role of the State as the “impartial third-party enforcer of contracts” developed in *Institutions, Institutional Change and Economic Performances* (1990) (Dugger 1995, pp. 456-8).

Although North (1981) refers to the neoclassical conception of State, this book also includes a view of ideology as a component of institutional theory (see section 2.1): 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)⁹. 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 behavioral 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).

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

⁸ North’s analysis of institutional change can be defined non-neoclassical, since it does not fit the standard assumptions of standard economics. More precisely, on the one hand, North argues that his approach to institutional economics fits with neo-classical theory in that it begins with scarcity, it views economics as a theory of choice subject to constraints, and it employs price theory as essential, because changes in relative prices are the major forces inducing institutional change. On the other hand, it modifies the neoclassical rationality postulate, it adds institutions as relevant constraints, and it incorporates ideas and ideologies into the analysis, modeling the political process as a critical factor in the performance of economies (North 1992).

⁹ The same point is stressed by Ménard and Shirley (2014).

that consideration of ideology as a tool which shapes human behavior 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 behavior 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 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. 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 by the purposive action of figures that different approaches call political, cultural, and norm entrepreneurs. 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 figure 2 shows.

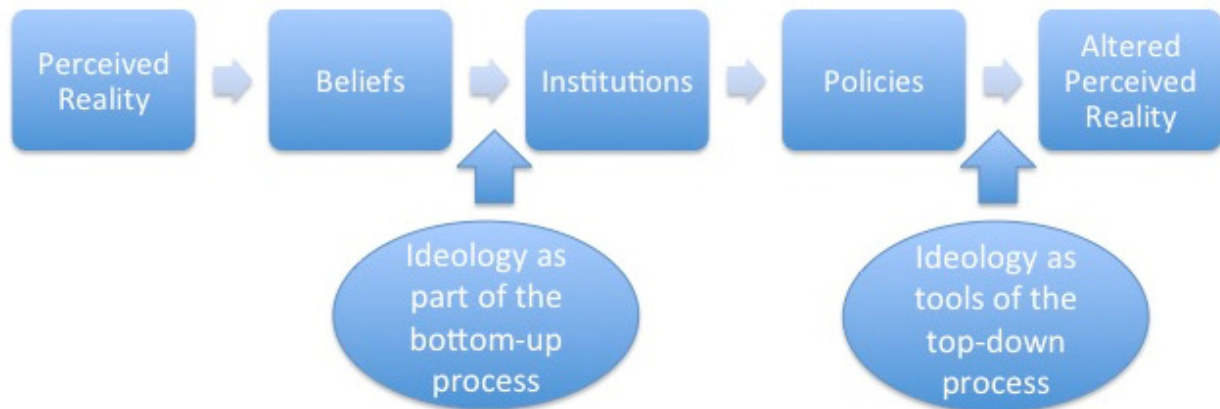


Fig. 2. Extension of North's scheme of institutional change (North 2005, p. 4).

The next section discusses some approaches which can integrate North's incomplete treatment of these topics.

4. Political and norm entrepreneurs

Some interesting suggestions to develop North's partial analysis of the top-down process between formal and informal rules are provided by Schumpeter ([1942] 2003, p. 270), who maintains that "collectives act almost exclusively by accepting leadership". "Volitions" of groups, like those of the unemployed who want to receive unemployment benefits, "do not as a rule assert themselves directly. Even if strong and definite they remain latent, often for decades, until they are called to life by some political leader who turns them into political factors". Schumpeterian "political entrepreneurs" create voters' preferences and opinions, they discover problems, and they "take advantage of the fact that on many issues *no* opinions (preferences + theories) exist in the first place, as new problems arise which cannot easily be judged with recourse to established knowledge and ideological shortcuts" (Wohlgemuth, 2002, p. 236). Their function, in a "cognitive-evolutionary approach", consists in providing shared meanings of political and economic issues, and in persuading others of the rightness of certain problem-views (Slembeck 1997, pp. 231 and 235). The "institutional entrepreneur" – as the entrepreneur who innovates by recombining technology, capital and other factors – also continuously recombines preexisting institutional elements, where this "bricolage" is at the basis of path dependent processes (Campbell 2006, pp. 506-8). North, Wallis and

Weingast (2009, p. 116) are appreciative of Schumpeter's approach. They think that what he termed *creative destruction* affects politics and that "in the polity, political entrepreneurs continually adapt, advancing new ideas and creating new coalitions".¹⁰

The Schumpeterian notion that novelties emerge through the recombination of preexisting elements accomplished for strategic purposes also characterizes Zweynert's "cultural entrepreneur". In this view, adopted to fill some gaps in North's theory of institutional change, culture is not something that is homogeneous, but rather a heterogeneous and changeable toolkit. The political and cultural entrepreneur who intends to promote institutional amendments (for example, Western reforms) in other (non-Western) countries, should connect new ideas to people's shared beliefs, and "[i]n doing so, it can be assumed, s/he will be the more successful, the more s/he manages to 'sell' the imported ideas and institutions as compatible with 'the' cultural heritage of the importing society" (Zweynert 2009, p. 350).

Compatible with the Schumpeterian view of the political entrepreneur (as the organizer of preferences and of voters' opinions, and as a *bricoleur* who recombines new ideas and current beliefs), and helpful for integrating North's contribution, are the theories both of social construction¹¹ and of "norm entrepreneurs" proposed among others by legal scholars like Lessig and Sunstein.

Lessig (1995, p. 947) maintains that entities like the government construct social structures, social norms and social meanings. 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 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 produced in the West. The government began a campaign to denigrate those who wore helmets, but when helmets started to be produced in 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

¹⁰ Moky (2014, pp. 172-191) defines "cultural entrepreneurs" as people who persuade individuals to accept new beliefs, influence their behavior, affect institutions. Among them he considers Francis Bacon and Isaac Newton.

¹¹ The construction of the institutional system and of social reality is discussed within sociology of knowledge by Berger and Luckmann (1966), a book which interested North (see North 1981, p. 48, note 2). Searle's (1995) theory propounds the idea that social facts depend on human agreements and institutions. An institution is "any collectively accepted system of rules (procedures, practices) that enable us to create institutional facts" (Searle 2005, p. 21).

dueling 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 behavior through repetition (Hobsbawn and Ranger 1983). 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.¹²

“Cultural managers” do not arbitrarily invent new cultures and norms; rather, they construct new meanings on the basis of existing values. Soviet rituals and ideology succeeded because worked in this way, and not coercively. This perspective seems to suggest that cultural heritage based on traditions, social norms and values is a bundle of malleable meanings and views which can be shaped by formal norms and ideologies, by exploiting certain existing beliefs, and probably by marginalizing other components of the cultural background. As a consequence, the alignment between formal norms inspired by (State) ideology and the social and cultural norms of a community is the result of work by the norm entrepreneurs, rather than being a spontaneous outcome. Social meanings change in consequence of strategic techniques applied by “meaning managers” or “meaning architects”, which in most cases (but not necessarily) are “marginal”, and produce “incrementalism and reform” (Lessig 1995, p. 1008).

Another interesting contribution is provided by Sunstein. His approach, by referring to Lessig on many issues, focuses on “norm management” as an “important strategy for accomplishing the objectives of law” (1996, p. 907). Changes in social norms and in the corresponding social meanings can be accelerated by “norm entrepreneurs” as political actors. These can exploit discontent with existing norms and propose collective solutions by signaling their own commitment to change, by organizing coalitions, and by suggesting new norms. If successful, they create “norm cascades”¹³ (or “norm bandwagons”). These concepts recall North’s description of punctuated shifts, which can occur when the gradual accumulation of logical inconsistencies culminates in rapid changes of ideologies (see section 2.1). In fact, “Norm bandwagons occur when small shifts lead to large ones as people join the ‘bandwagon’; norm cascades occur when there are rapid shifts in norms” (Sunstein 1996, p.

¹² 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.

¹³ On this concept see also Kuran (1995).

909). Moreover, “norm entrepreneurs” resemble North’s “intellectual entrepreneurs of ideology”, who promote new norms (and “counter ideologies”) and suggest modifications or extensions of existing ones. Finally, “Norm bandwagons occur when the lowered cost of expressing new norms encourages an ever-increasing number of people to reject previously popular norms, to a ‘tipping point’ where it is adherence to the old norms that produces social disapproval” (Sunstein 1996, p. 912). This recalls North’s opinion that the cost of the existing order is inversely related to the perception of its legitimacy (North 1981, p. 53). If the current ideology is unable to support such legitimacy, and if it is unable to reduce the free rider problem, it will undergo changes. In line with this reasoning, Sunstein (1996, p. 930) suggests that when a crisis of current norms and ideologies occurs, the free rider problem can be dealt with by new norms, and “When the free rider problem begins to be solved, through reducing the cost of acting inconsistently with prevailing norms [...] things can shift very quickly” (Sunstein 1996, p. 930). Various subjects can be norm entrepreneurs, from civil rights organizations to religious groups, from Martin Luther King Jr. to Jerry Falwell. In the terms of the present paper, their activity influences bottom-up processes by advancing demands and exerting pressures for institutional change.¹⁴ The top-down process, in which governments eventually recognize these demands for change and elaborate political answers also by inducing changes in perceptions of social problems, is the other side of the coin. Governments change social meanings and social norms; they may try to persuade people to follow a certain course; or they may try to remove traditional social meanings related to shared beliefs regarding sex, racism, health and many other issues. Law, in general, performs an “expressive function”: that is, it expresses social values and it prompts social norms to shift in a particular direction. This perspective has been developed in the libertarian paternalism approach, and in reference to the concept of choice architecture, as a strategy which mobilizes civic behaviors (see Sunstein and Thaler 2008).

Other insights interesting for the purposes of this paper are provided by international relations scholars who have adopted social construction theories. In their contribution to the “ideational research program”, they have sought to show that ideas and norms are reasons for actions and play a role in world politics, and how identities of States have been socially constructed (see Ruggie 1998). They have also studied projects of social construction such as European integration and decolonization. Finnemore and Sikkink (1998), following Lessig

¹⁴ Ellickson (2001), in a rational-actor perspective, refers to Sunstein’s norm entrepreneur, and he considers the “change agent”, a figure who stimulates new norms, because s/he expects a flow of benefits which exceed the costs that s/he incurs by acting in that role. See also Carbonara et al. (2008).

and Sunstein, interpret the evolution of norms as a three-stage process that they call “life cycle”. The first stage regards the “norm emergence”, the second stage implies the “norm acceptance” and refers to Sunstein’s “norm cascades”, and the third stage involves internalization. In the first phase of norm emergence, the mechanism of persuasion triggered by norm entrepreneurs consists in convincing other States to adopt a new norm. The second phase concerns the action of the norm leader to propagate a norm among the norm followers. When this process reaches a tipping point, it engenders a norm cascade, in consequence of which – in the third phase – the norm is internalized and widely accepted. In their political strategies, norm entrepreneurs construct cognitive frames. While in the domestic dimension, they prompt the emergence of a norm from a malleable cultural background, which in principle could lead to the emergence of many other norms, in the dimension of international relations, they work in a controversial, but malleable, normative space. They contribute to the emergence of one norm, although alternative norms could have arisen from the same space. This is the case of women’s suffrage and later women’s rights, where “norm entrepreneurs encountered alternative norms about women’s interests and the appropriate role for women” (Finnemore and Sikkink 1998, p. 897).¹⁵ In the terms of the present paper, the phases of emergence, demands for institutional changes, and the diffusion of norms through norm entrepreneurs is a bottom-up process, while the subsequent formal institutionalization is a top-down process able, as in the case of women’s rights, to retroact on underlying customs and social norms inherited from the past. Persuasion matters when norm entrepreneurs construct cognitive frames to induce changes in State policy (see Elgström 2000; Payne 2001, pp. 43-4), but also when governments act as choice architects and modify people’s behavior simply by addressing people’s choices with “nudges”, that is, strategies able to stimulate civic behaviors (Sunstein and Thaler, 2008).

5. Conclusion

The present paper has tried to clarify some points of North’s theory which appear not well defined. His scheme of institutional change involves reciprocal influence between institutions and organizations (and individuals), which relate to the reciprocal influence between informal and formal norms. This bi-directional process has been interpreted as a continuous

¹⁵ In this case international norms on women’s rights competed with many domestic norms.

alternation of bottom-up and top-down processes, in which respectively cultural heritage and informal norms, as by-products of shared mental models, emerge and give shape to formal norms, and formal norms affect and modify informal ones as their own extensions. Yet, these two dimensions are not dealt with by North with the same precisions. The mechanisms which drive top-down processes are not completely specified. By focusing on the emergence of norms from mental constructs, North assumes that, once created, formal norms retroact on informal norms, but he does not specify the features of this retroaction. The notion of ideology, which allows North to abandon the neoclassical view of the State, is representative of this approach. As a general 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 whom North calls “intellectual entrepreneurs of ideology” contribute, probably as opinion leaders, to these changes and they elaborate “counter ideologies”. Yet, it could be argued, elaboration of counter ideologies precedes the formation of new formal norms. If counter ideologies succeed in imposing themselves, new formal rules follow. In this circumstance, ideology can be used in a different way: for example, to support the new formal institutions. Political authorities and other institutions can alter informal norms or exploit those of them perceived as more useful. This is what we call the top-down institutional process.

More in general, in North’s approach, the multitude of actors who – coherently with their perceptions – demand changes to formal institutions (that is, those who anticipate and accelerate changes) are not distinguished from those norm entrepreneurs who have a role in governments and other political institutions, and use formal norms as tools with which to modify informal norms. Although the two groups partially coincide, they play distinct roles. One group elaborates counter ideologies against the existing order in the previous phase; the other uses ideologies to support the new order in the subsequent phase.

For this reason, we have used approaches which can shed light on the top-down processes to integrate North’s view, although ours is evidently only a preliminary contribution. The notions of political, cultural and norm entrepreneurs illustrate how formal norms modify informal norms also by using dominant ideologies and persuasion. Social meanings, which give sense to social norms, can be created by the “meaning architect”; and the “architect of choices” can orient preferences, because culture is a malleable toolkit. Political strategies intentionally construct cognitive frames, and dominant ideologies can detect and reinforce some social values and marginalize others. This reveals certain processes neglected by North.

He considers the alignment between formal and informal norms to be an unplanned result of path dependency: formal norms can invest in piracy (or in productive activities), but at the same time they derive from a cultural framework which supports piracy (or productive activities). Therefore, path dependency is a spontaneous outcome, and the alignment between the two kinds of norm derives from their being part of the same cultural setting. Theories of social construction also take into account situations in which the alignment between formal and informal norms can be constructed, and this adds elements to the analysis of institutional change.

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