
The original institutionalist perspective on economy and its place in a pluralist paradigm

Richard V. Adkisson

Department of Economics and International Business,
New Mexico State University,
Box 30001, MSC 3CQ, Las Cruces,
NM 88001-8003, USA
Fax: (575)-646-1915
E-mail: radkisso@nmsu.edu

Abstract: This paper provides a basic overview of original institutional economics (OIE). It is intended to serve as a primer for anyone interested in knowing more about OIE. The paper provides an OIE perspective on four major topics: humans and their relation to the natural environment, technology, the economic process, and institutions (and how these evolve). Finally, the paper proposes that the holistic OIE paradigm has an important role to play in the pluralist approach to economics and economic education.

This paper hopes to accomplish two tasks, one to explain the original institutionalist approach to economics in a simple and understandable way that respects a century of scholarship, is palatable to a wide range of institutionalist economists, and is understandable to readers who may have little if any prior knowledge of original institutional economics. The author claims no originality. He is only attempting to synthesise the thoughts of others who deserve the greater credit for developing the ideas. The second purpose is to discuss how institutionalism might enhance or be enhanced by a pluralist approach to economics.

After a brief exploration into the roots of original institutionalism the paper will explore the four major elements of original institutional analysis: the natural environment and its relation to humans, technology, culture, and institutions. In the end it should be obvious that none of these elements stands alone. Rather, all four elements come into play in describing how economics work and change.

Keywords: institutionalist economics; institutions; institutionalism; pluralism.

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Biographical notes: Richard V. Adkisson is a Professor of Economics at New Mexico State University and Editor of the *Journal of Economic Issues*. His research interests include economic development, institutional economics, and public policy. His recent work has been published in *Economic Development Quarterly*, *Education Economics* and *Social Science Journal*.

1 Background

Original institutionalism¹ emerged in the late 19th and early 20th centuries, times of great technological, social, and intellectual turbulence. Institutionalists Thorstein Veblen and John R. Commons grew up in the post-civil war era and experienced first-hand the transition from a vast but largely disconnected America into an integrated America of expanding economic and political power. The industrial revolution had by then been firmly established and technological advances were changing life, seemingly day-by-day. The ongoing transition from a rural-based to an urban-based economy was obvious. The corporate form of business was expanding and with it the size of businesses. Intellectual life had been recently enriched with evolutionary ideas, an expansion of the social sciences to include sociology, anthropology, and psychology, and the development of pragmatic philosophy. American life was clearly not in an equilibrium state. Referring to both Veblen (born 1857) and Commons (born 1862) Mayhew (1987, p.971) said, “the world they entered in maturity was not the world of their fathers”.

Veblen and Commons provide the underpinnings of a rich intellectual tradition continued by Wesley C. Mitchell, Clarence Ayers, John K. Galbraith, J. Fagg Foster, Marc Tool, Wendell Gordon, and many others.² US institutionalism had its greatest influence through the 1930s [Blaug, (1996), p.703] but, in spite of falling out of mainstream favour, has stayed alive to the present and has recently experienced a revival of its ideas. Care must be taken however, as many modern references to institutionalism have little if any connection to original institutionalism, thus convoluting the meaning of institutionalism and increasing the need for adjectives (like ‘original’) to distinguish sets of ideas. What follows should be considered only as a primer for understanding the original institutionalist approach to economics.

2 Humans and nature

At a very fundamental level, nature provides all the elements to support the survival and reproduction of human life. Natural processes, solar energy, and natural products are, in essence, the ‘gifts of nature’ which undergird the entire human economy and all economic activity involves human/nature transactions.³ Therefore, it makes sense to include some notion of the human/nature relationship in any discussion of economics. Whether human beings are a part of nature or apart from nature is a question that cannot be completely resolved here. Still, as a baseline for thought, it is useful to think of the human/nature relationship from two perspectives. One is to consider the human species in nature as a purely biological form, an animal among animals. Another perspective is to consider the human species as both a biological and social creature that has adapted to the natural environment via social/cultural change rather than biological changes.

2.1 Humans as a part of nature

The biosphere (nature) can be divided into smaller, somewhat homogeneous, regions referred to as biomes. Each biome presents a set of environmental conditions and constraints (humidity, temperature, altitude, etc.) and each biome will be home to species particularly adapted to the biotic conditions (Moran, 2000). As natural conditions change,

evolutionary theory suggests that species adapt through slow, genetic adjustments. For example, if a biome begins to change, say the average temperature slowly drops over time, genetic adaptation will occur via natural selection. Use the mouse as an example. Among mice, there will be a range of genetic variation. All mice are not identical; some have thicker fur genes while others have thinner fur genes. As the environment cools, mice with thicker fur will have higher survival rates; thus the thick fur genes become more prevalent in the local gene pool and the average coat thickness increases as the average temperature declines. Failure to adapt means a species could no longer survive in the new conditions. For example, a sudden and sustained drop in temperature might allow too little time for natural selection to work and a species might simply disappear from the biome either by migration or extinction.

If one considers humans to be purely biological creatures, there are few biomes in which humans (in their current biological form) could survive without the benefits of technology. Consider that humans are thin skinned, not too hairy, do not have sharp teeth or claws, walk upright with their vital organs exposed, and can not run that fast. The human body only functions properly within a very narrow range of body temperature. While the human body does have thermoregulation methods a purely biological human (no clothing or human created shelter) could survive only in a narrow range of the earth's available biomes. Zimmerman (1964) refers to humans in this condition as animal-level humans, "on this animal level man found nature niggardly indeed; he barely managed to survive in the face of resistances which were limited by the scantiness of his own capacities" [Zimmerman, (1964), p.10].

In the animal state, some humans might exist in nature but would most certainly not dominate it. To send a human into nature without the aid of technology would be roughly equivalent to removing a wolf's teeth and claws, shaving it, and then returning it to the wild.

2.2 Humans apart from nature – technological humans

If, as it appears, humans are biologically ill suited to the 'natural' life, how is it that nearly seven billion humans survive today? Humans are almost certainly as biologically adaptable as any other species but the slow pace of genetic change cannot explain the rapid adaptation of humans to the point that they can now survive across virtually any biome evident on earth (and some beyond earth). The answer lies in the unique human ability to accumulate tools and knowledge – technology. As Moran (2000, p.4) writes, "the human species is a generalized species adjusting itself to new circumstances by physiological and social/cultural means". In other words, for the most part, humans use technology to adapt environmental conditions to their needs rather than genetically adapting to the demands of the local environmental conditions.

Technology helps humans adapt to environmental demands in a variety of ways. Some are quite simple such as the use of a stick or a thrown stone for hunting, the gathering of materials to build a crude shelter, or the use of an animal skin to maintain body warmth. Even by using these simple technologies, humans are better able to adapt to the environment and, perhaps expand their geographic and climatic range. Consider a more extreme example where bottled gas, specialised shelter and clothing, tracked motorised vehicles, etc... allow humans to survive in Antarctica in spite of its harsh environment. Likewise humans have survived space flight, undersea exploration, and the cold winters and hot summers of the temperate regions.

3 Technology

The importance of technology in shaping human/nature transactions (and human/human transactions) is the reason original institutionalists place great emphasis on technology. Ayres (1962) described technology as accumulated tools, skills, and knowledge (jointly used) and provides the basis for institutional ideas regarding technology. One need only to consider life without technology (animal-level humans) to appreciate the extent to which technology influences human individual and social life and that technological change disrupts life patterns.

3.1 Technological evolution

Like explaining the origins of life it is difficult to say where technology began. Perhaps it was when an early human got too tired to chase a rabbit for lunch, and grabbed a rock to throw or a stick to strike. Perhaps, it was when someone first realised that wrapping oneself in the skin of his or her lunch would help ward off the cold. Still, one need not understand the origins of technology to appreciate that technology permeates nearly all human activity today. What can be explained is how technology has evolved since its inception.

Ayres (1978) provided an explanation for technological evolution/accumulation when he discussed the technological continuum. Once technology comes into play, it assumes a life of its own. As societies use technologies, they are continually combined and recombined in new ways. The new technological combinations are added to the stock of technology while simultaneously begetting more combinations. Thus, technology is a dynamic social product of which the stock grows as it is applied. Consider that simple machines, the lever and fulcrum, the inclined plane, and the wheel and axle have long been used in their primitive states but also form the basis for all modern mechanical devices. Because technological evolution brings new tools, knowledge and skills to the problem solving (provisioning) process, free inquiry and free exchange of ideas are important original institutionalist values (Klein and Miller 1996).

Another important original institutionalist tenet is that technological change begets social change. According to Gordon (1980, p.39) “technology is the dynamic force which, over time, is overwhelmingly influential in determining the nature of society, the behavior norms of institutions, and the values of individuals”. As examples think of how the evolution of the automobile has changed everything from settlement patterns (the rise of suburbs) to courtship; and how instantaneous and portable communication devices have altered the way daily activities are planned/coordinated. Likewise imagine how the emergence of large scale manufacturing changed working patterns, labour relations, and the like or how video games have changed children’s play patterns.

4 Economic process

To the original institutionalist, an economy is a system⁴ through which a society provides for itself. A society not sufficiently provided for cannot reproduce itself and survive, let alone thrive. It is obvious that the application of technology to the natural environment is one important aspect of the provisioning process, but nature does not simply hand over what human societies need and want. The process of provisioning always involves nature,

its processes, and its laws⁵ but humans typically do not find the gifts of nature particularly satisfying or even useful. As Tool notes:

“People seem compelled to employ physical and reflective energies in activities which result in a *conversion* of elements in the physical and cultural environment into the material (and nonmaterial) means of life and experience.”
[Tool, (1985), p.72, emphasis added].

Think of mother nature as a great provider who is generous in her giving but whose gifts usually come in kit form, with no instructions included, and/or are delivered to the wrong address. On the one hand, she provides all the elements necessary for humans and human society to survive, reproduce and even thrive. On the other hand, the gifts seldom arrive in ready to use form or at desired times and locations. Humans continually seek to reconcile the problem of transforming nature’s gifts into useful and desired goods and services and getting them delivered to convenient places at convenient times.

The human/social efforts to resolve these problems (and thus provide for society) is the economic process (Tool, 1985). It transforms that which is available (ultimately in nature) into that which society needs and wants. Stated differently, social provisioning and the continual replication of human society requires that technology be applied to nature in order to capture and modify natural products and process so that society may be sufficiently provided for. Note that *sufficiency* does not imply satiation.

The exact structure of the economic process is fungible. Obviously, different human/nature/technology combinations can accomplish similar goals. Similarly, it is possible for humans, nature, and technology to be combined in ways that do not meet the goals of social provisioning. To meet social goals humans, nature, and technology must be combined carefully. Thus, the major question of economics becomes, how does a society organise its economic process to best provide for the needs and wants of its members? To the institutionalist the best way is to adopt the technology and related behaviours that best meet the socially desired ends. The continual process of reevaluating the way things are accomplished and the extent to which they lead to desired ends is often referred to as the ‘ends-means-ends continuum’ [Gordon, (1980), p.43].

Obviously the objective characteristics of the economic process (the means) are different across time and space and all economies can be considered to be mixed economies (Heilbroner and Milberg, 2001). Modern economic processes look substantially different than processes evident in earlier periods. Even in the same historic period, the characteristics of economic processes in different places can be quite different as well. The reasons for change and contemporary differences will be discussed below; however, Tool (1985) makes an important observation in emphasising that while the purpose (provisioning) remains constant the structure of the economic process changes. There is no one correct way to coordinate the economic process.

5 Culture

The human role in shaping the economic process has been understated. Certainly, the economic process involves human interactions with the natural environment and technology, but they come to the process with more than just an opposable thumb.⁶ They bring also their culture, both material and transcendent. To some extent, material culture has already been incorporated in the discussion above. Technology is a social and

therefore cultural product. But material manifestations of culture are not independent of the transcendent elements of culture. Culture shapes all things human and social.

“Culture is man’s medium; there is not one aspect of human life that is not touched and altered by culture. *This means personality, how people express themselves (including shows of emotion), the way they think, how they move, how problems are solved, how their cities are planned and laid out, how transportation systems function and are organized, as well as how economic and government systems are put together and function.* However, like the purloined letter, it is frequently the most obvious and taken-for-granted and therefore the least studied aspects of culture that influence behavior in the deepest and most subtle ways.” [Hall, (1989), pp.16–17, emphasis added]

Trompenaars and Hampden-Turner (1998, pp.20–24) present culture as layered like an onion.

- The outer layer: explicit products. “Explicit culture is the observable reality of the language, food, buildings, houses, monuments, agriculture, shrines, markets, fashions and art. They are symbols of a deeper level of culture”.
- The middle layer: norms and values. “Norms are the mutual sense a group has of what is ‘right’ and ‘wrong’. Norms can develop on a formal level as written laws, and on an informal level as social control”. And “values [...] determine the definition of ‘good and bad,’ and are therefore closely related to the ideals shared by the group”.
- The core: assumptions about existence. “All cultural groups face certain common and ongoing problems, in particular, the problem of survival. At the core of a culture are solutions to the problems of daily life that are so obvious “that the solutions disappear from [their] consciousness”. “The best way to test if something is a basic assumption is when the question [as to why] provokes confusion or irritation”.

This simple model of culture discussed above is similar to that expressed by Hayden (1988). Hayden sees the line between the observable and the transcendental as lying between norms and values. Like material expressions of culture, norms are evident as they are regularly expressed, explicitly or implicitly. Norms (discussed by Hayden in terms of beliefs and attitudes) are “activity and institution specific” while “cultural values are transcendental” [Hayden, (1988), p.418]. As acculturated humans deal with social relationships they carry with them a largely non-malleable⁷ set of cultural values (and core assumptions) and adjust beliefs and attitudes as necessary to reconcile social requirements with deeply imbedded values. Like an automobile’s shock absorbers help it move smoothly even as road conditions change, people use fungible beliefs and attitudes to cushion conflicts between the social and technological requirements of day-to-day life and their deeply held cultural values.

With respect to the deeply held values – core assumptions – original institutionalists often discuss values as being either instrumental values or ceremonial values. Instrumental values favour the incorporation of new tools, knowledge, and skills into the problem-solving process while ceremonial values would oppose the incorporation of new technologies that could threaten existing social relations with respect to power, wealth, position, etc. As technological, environmental, or other criteria change tension is created between the old values and the new reality. As mentioned above, some of this tension can be relieved by an adjustment of beliefs and attitudes but in other cases core values must

change to allow the incorporation of the new knowledge.⁸ If the ceremonial values are eventually pushed aside in favour of instrumental values, institutions adapt to the new circumstances and progress is achieved. If the ceremonial values continue to shape behaviour, ceremonial values trump instrumental values and the institutional patterns (justified by the ceremonial folkways) are said to be ceremonially encapsulated (Bush, 1987). Although this phenomenon is often referred to as the ceremonial/instrumental dichotomy, most institutionalists agree that values (and institutions) can have both ceremonial and instrumental characteristics. For example, adherents to the value/norm, ‘thou shall not steal’, may adopt the value/norm for religious reasons but their adherence also helps to create a safe and stable social environment.

6 Institutionalism and human behaviour

Jensen (1987) finds the roots of an institutional theory of human nature in the early writings of Thorstein Veblen and John Dewey. These early writings laid the cornerstone that guided the development of institutionalist thought about human nature but did not lead all followers to the same conclusion. In part, that is because of institutionalist resistance to defining human nature too narrowly. Recently, Fernandez-Huerta (2008) has taken up the topic by defining carefully a set of notions about human economic behaviour that are consistent with the institutional model. The easiest way to summarise is to say that institutionalists view humans as multidimensional; they have many goals, limited rationality, limited cognitive capacity, are conditioned by society, subject to habit, and tend to emulate the behaviours of others to define their place in society. Jensen (1987, p.119) labelled the human being as a ‘socio-cultural person’.

“This individual is a complicated creature whose behavior and acts are determined largely by a socio-cultural environment that is evolving continuously under the impact of dynamic technological forces; forces that are the creations of those human beings who populate the society of which the individual is a member and an actively participating member at that. Because of the multidimensional character of the social psychology of the socio-cultural person, this individual pursues a multiplicity of goals and objectives.” [Jensen, (1987), p.119].

This does not suggest that individuals have no will of their own, no creativity, or no independence of thought. In fact, for “the institutionalist the relation of the individual to his/her institutional setting is one of dynamic interaction. While the individual is a product of institutional circumstances, he/she is also potentially a creative force in shaping and molding institutions” [Bush and Tool, (2003), p.10]. In other words, to institutionalists, individuals are neither completely autonomous nor completely powerless. Rather individuals operate within a social context where their decisions and behaviour are, perhaps more often than not, coloured by the socio-cultural environment in which they operate. Individual economic behaviour is embedded in the whole of social relations. As Hodgson (2006, p.7) writes, “any single individual is born into a pre-existing institutional world which confronts him or her with its rules and norms”. Individuals participating in the economic process have an “indissoluble connection of the actor with his or her social surrounding” [Beckert, (2003), p.769]. The economic behaviours of individuals are embedded in the greater set of social relations.

7 Institutions

Institutions arise as technologically endowed, culturally conditioned; and socially embedded humans interact with nature, with technology, and with each other in pursuit of individual and social provisioning. As they interact they weave webs of rules, implicit and explicit, that give order to their behaviour. The resulting institutions, “systems of established and embedded social rules that structure social interactions” [Hodgson, (2006), p.18], give structure to the economic process. Most economic behaviours follow repeated, predictable patterns. Original institutional economists contend that “*most* of what people do is *governed* by the *institutions* of their society” [Neale, (1987), p.1178, emphasis in original]. Commons (2005, 1934, p.69) refers to institutions as “collective action in control of individual action”. Tool emphasises the importance of institutions in the economic process.

“The economic process is given effect in experience only through institutions. The term institution means any prescribed or proscribed pattern of correlated behavior or attitude widely agreed upon among a group of persons organized to carry on some particular purpose. Institutions are the working rules, the codes, the laws, the customary ways which shape and pattern behavior and attitudes in a manner to accomplish some end-in-view or purpose.” [Tool, (1985), pp.73–74].

Neale (1987) sees institutions as having three characteristics: people are doing things and there is regularity to their behaviour; there are ‘rules’ that give order to these activities (lead to regularity of behaviours); and there are folkviews (cultural criteria) that justify the activities and the rules.

Using Neale’s (1987) characteristics it becomes fairly easy to distinguish institutionalised behaviour from other random acts. For example, across the US people can be seen queuing to check out at the supermarket, renew their driver’s licenses, or to get into the theatre. If asked why they line up they might respond with a rule like, first come-first served. If asked how this rule is justified they may express that they value the rights of individuals and that it would be unfair to cut in line because it would violate other individual rights. Thus, queuing is an institutionalised behaviour. Also, to violate an institutionalised pattern carries consequences. In the case of cutting in line the sanction may be little more than a sneer, a dirty look, or a rude remark. In other cases, speeding for example, the consequences could be payment of a fine, loss of driving privileges, or in extreme cases incarceration.

On a larger scale institutionalised gender roles, work times, CEO pay differentials, education and socialisation patterns, property rights, incorporation laws, etc., have broader social consequences although the idea is the same. There are many rules, explicit and implicit, that condition individual, group, and social behaviour. Thus, when analysing economic problems, the institution becomes the unit of analysis.

Like values, institutions are often discussed as being instrumentally and/or ceremonially warranted.⁹ A pattern of correlated behaviour (institution) is instrumentally warranted to the extent that it allows the application of existing tools, skills, and knowledge to community problem-solving processes [Bush, (1987), p.1080]. A pattern of correlated behaviour (institution) is ceremonially warranted if it provides “the standards of judgment for invidious distinctions, which prescribe status, differential privileges, and master-servant relationships, and warrant the exercise of power by one social class over another” [Bush, (1987), p.1079]. Thus, ceremonial values are generally thought to be past

binding in that institutional evolution is slowed when ceremonial values trump instrumental values. A brief example – burial of human remains – will help to demonstrate these concepts. Suppose that one has identified an institution.¹⁰ burial of human remains will provide an adequate, if morbid, example.

In terms of patterns of behaviour a common sight, at least in many parts of the USA, is to drive by a cemetery and see a group of well-dressed people standing around a hole and eventually lowering a box holding the remains of a deceased friend or relative and covering it over with dirt. Rules guide this behaviour: be quiet to show reverence and respect; make the hole at least six feet deep; place the casket in a concrete vault; overfill the hole to allow for settling, etc. Some of the elements of the burial institution could be instrumentally warranted. For example burial may slow the spread of disease or reduce odour problems. Perhaps the use of the vault is warranted by preventing the grave from caving in later. Other elements might be ceremonially warranted. For example there may be a belief that the dead will arise again; therefore burial of the body intact is deemed important. Alternatively, perhaps social norms imply that a well-marked grave is a sign of a well-lived life.

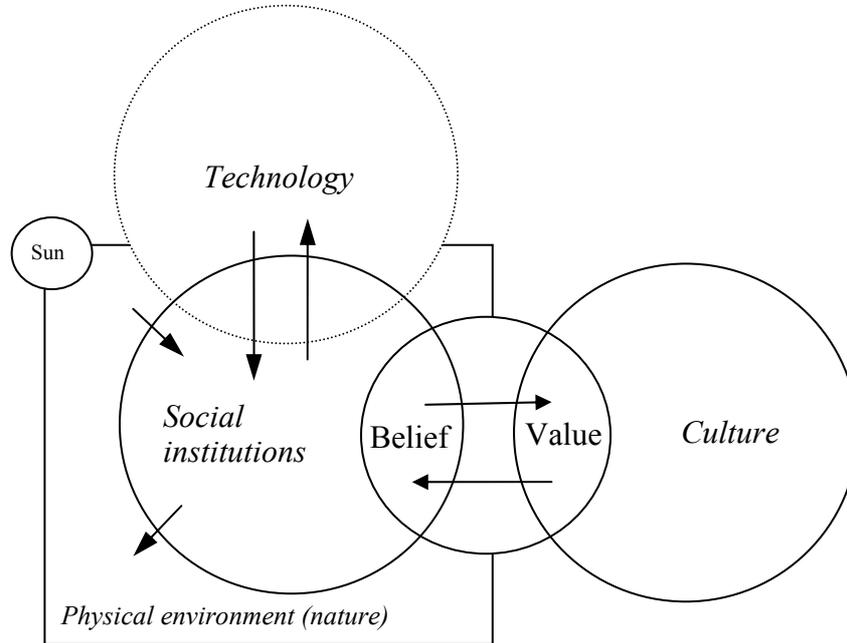
Now suppose that scientific research finds that cremation is more effective at preventing the spread of disease than burial. If the spread of disease is seen as a problem to be solved, then instrumental values dictate that bodies be cremated rather than buried. However, to the extent that religious beliefs, the desire to commemorate past success, or the influence of the casket industry dominate decision making, there will be resistance to cremation and the move from burial to cremation may be slowed or even stopped.

8 Putting things together

Figure 1 is borrowed from Adkisson (2009). It ties the elements discussed above into a system through which the economic process is carried out. Nature is represented by the rectangle. The accumulated stock of technology (tools, skills, and knowledge) is represented by the upper circle. Culture is represented by the rightmost circle.¹¹ Institutions take centre stage because it is through institutions that nature, technology, and culture transact. Institutions both shape and are shaped by the other elements.

The arrows between the elements represent flows of criteria (Hayden, 1988). The arrows are bidirectional because at the same time nature, technology, and culture place boundary conditions on institutions, human activities (via institutions) reshape nature, technology, and culture. Less obvious in the diagram is that institutions place limits on one another or that culture may sometimes have internal value conflicts.

One way to grasp the message of Figure 1 is to identify an institution and ask why it has its characteristics. Remember that nature, technology, and culture impose boundary conditions on institutions. To continue with the disposal problem introduced above, the low elevation of New Orleans means that remains must be buried above ground. In other areas permafrost calls for other disposal methods. Meanwhile, technology changes how holes are dug (even through permafrost); increases the effectiveness of cremation (more efficient crematoria); or offers other alternatives to burial (cryogenics). Meanwhile, as discussed above, cultural criteria will associate meaning with burial that will encourage burial rather than other disposal methods. As for institutions limiting other institutions the example can be expanded yet again. To the extent that urbanisation can be called an institution, urban land use density may limit burial options.

Figure 1 Institutions as coordinating mechanisms

Source: Adapted from Hayden (1988)

From another perspective, burial methods that are shaped by initial social/environmental conditions also reshape social/environmental conditions. For example, every time a cemetery is designed, watersheds, local flora and fauna are replaced, and with every burial the composition of the soil is potentially changed. Meanwhile, the challenges of burial, rain, wind, frost, drought, etc... inspire the development of new technologies that, in turn, call for further changes in behaviour (burials even in winter or inclement weather, for example). Likewise, the emergence of new technology or environmental conditions can challenge cultures to change. Even if a culture is slow, for example to change its view of the afterlife, evolving technology (cryogenics for example) might allow folks to maintain their beliefs while adapting to new technology. Similarly, perhaps the culture has environmental values that conflict with their post-life invidious distinction values. Changing environmental conditions might bring the environmental values to the forefront so that minimising environmental impacts trumps the invidious good life/good grave value.

Burying the dead might seem at first like a very uneconomic example.¹² It was chosen for its universality. Every society in every time and place has had to solve this problem. There is also great variety in practices tied to local conditions including cultural beliefs and values. Still, the lessons of the example can be generalised to many circumstances. Societies institutionalise payments systems, educational systems, child rearing practices, etc. In each case the institutions that develop do so within the parameters provided by the environment, technology and culture. To have institutions that do not fit the conditions implies that the institutional patterns will not be sustainable and adaptation will be required. This brings the discussion back to the evolutionary approach of original institutionalism.

Just as flora and fauna must adapt to changing environmental conditions to survive, so must social institutions. The social environment involves the four elements represented in Figure 1: nature, technology, culture, and institutions. As change comes to any element, the other elements may have to change, in particular, the patterns of behaviour appropriate for one socio-technical-environmental circumstance might not work well in another circumstance. Of course institutional evolution takes time. Consider the following stylised example.

Start with a problem: crowded urban living conditions. Through the technological continuum the wagon and the piston pump eventually evolved into the private automobile (technological change). This, combined with the availability of open land outside of urban areas (environmental conditions) invited a change in correlated behaviour (living in suburbs and commuting to work rather than living near work). This change was supported by cultural values regarding child rearing, individualism, freedom, and relationship to the land (cultural criteria). As living patterns changed (institutional evolution) roads became crowded, time became tight, and the air became polluted. New problems arose. The environmental feedback (dirty air) indicated a need to pollute less. New technologies were developed (emission controls), carpooling, more efficient cars, light rail systems, etc. Meanwhile, suburbanites had to weigh their desire for freedom and independence against the time crunch when commuting to work (adjustment of beliefs and attitudes). Eventually, some suburbanites became new urbanites and looked to move back to the city centre (institutional change). Gentrification of urban centres displaced the poorer folks who had previously moved to the deteriorating city centre – new problem. And the process continues, and nobody knows where it will end.

In fact, ‘nobody knows’ is an important original institutionalist concept. The economic process is one of constant problem solving: the ends-means-ends continuum. As the economic process continues, conditions change, new problems arise, and attempts to solve them are undertaken. However, in the original institutionalist view, change has no predetermined direction. In the face of any set of problems there are a variety of institutional or technological responses possible. The question of adaptation is to find which institutional arrangements are best suited to the new circumstances. Since circumstances vary from place to place and time to time, the right institutional arrangement is the one that best fits the circumstances. The best institutions are the institutions that continue to assist society in solving its problems, including social provisioning.

Although they assume no predetermined destination or universal goal by which to define progress, institutionalists do look for progress (Bush, 2009). Tool defines progress in this way, “[T]hat direction is forward which provides for the continuity of human life and the noninvidious re-creation of community through the instrumental use of knowledge” [Tool, (1985), p.293]. Klein and Miller (1996, p.271) refer to progress as “enhancement of the life process”. Similarly, “efficiency is viewed as a means of problem solving through the application of instrumental reasoning that not only permits, but facilitates effective social functioning” [Klein and Miller, (1996), p.276]. Note that these definitions are decidedly normative and qualitative. That which is progressive and efficient changes as social, technological, and environmental conditions changes.

“Evolving societies continually define and redefine what for them is at any time meant by a reasonable society, a serviceable society, or perhaps a ‘just society’. A reasonable society – that is, a society that enhances human life – goes well beyond (although it includes) a lack of prejudice and discrimination on the

basis of race, gender, ethnicity, etc. These are, to be sure, intolerable. The existence of such states of affairs, and such other phenomena as high levels of unemployment, inhibits the 'efficient' deployment of resources in the service of optimal (maximum) output [...]. In the same manner, instrumental valuation leads to a view about the implications of concentrated economic power – indeed, of concentrated power of any kind." [Klein and Miller, (1996), p.275].

As the last line of the quote above suggests, institutionalists are concerned with power, broadly defined. For example, Dugger (1980, p.897) defines power as "the ability to tell other people what to do with some degree of certainty that they will do it". Klein (1987, p.1346) refers to power as "the degree to which individuals or individual units affect the decision making process". Institutional economists do not pretend that every person or economic entity has equal power or that those that possess power are not interested in keeping it. In essence, it is the desire for power that drives adherence (or promotion of adherence) to ceremonial values.

9 Summing up

For the reasons just discussed, original institutionalists are open to a richer palette of policy options than are economists of other stripes. Petr argues that:

"The [original] institutional approach to economic policy is (1) values-driven, (2) process-oriented, (3) instrumental, (4) evolutionary, (5) activist, (6) fact-based, (7) technologically focused, (8) holistic, (9) non-dogmatic, and (10) democratic." [Petr, (1984), p.4].

By now, most of Petr's characteristics should be easily understood but a few are worthy of mention because their importance may be underemphasised in the body of this paper. That original institutionalists are policy activists (#5) comes from their non-deterministic view of economic change. As Klein, (1987, p.1370) notes, "an economy is always and at all times *a system in process of becoming* (emphasis in original)". If change has no predetermined direction then society has the chance to apply discretion, that is, to direct change toward socially determined goals. Because directed change involves social decision making, democracy (#10, assumed to be well-functioning) is highly valued by institutionalists.

"Independent value is placed by institutionalists on a political system that requires that policy be implemented by those who will bear its incidence, and that the new be democratically agreed upon before it becomes the law of the land. That is, it is considered essential to the verification of policy that those who formulate and implement it be subject to its consequences because it is only thus that it is possible to test the validity of that policy to achieve congruous ends." [Klein and Miller, (1996), p.273].

In other words, while institutionalists may be sympathetic to social decision making by government they explicitly recognise that government must be directly accountable to the governed.

Finally, to say that original institutionalists are non-dogmatic (#9) simply means that there are multiple ways to approach economic problem solving. Markets, government regulation, non-profit organisations, along with many other possible arrangements, each

can coordinate the economic process. It is the non-dogmatic character of original institutionalism that places it well within a pluralist approach to economics.

10 Original institutionalism in a pluralist paradigm?

Pluralism in economics implies that there is “diversity in theoretical perspectives”, that no single theory can explain the world, that there is no single standard for judging theories as being better or worse, and that all theories are fallible (Mearman et al., 2009). From a slightly broader perspective “pluralism reflects a plurality of views: the principles that underpin the existence of a diversity of realities” (Negru, 2009). The active promotion of pluralism in economics has roots at least as old as 1993 when the International Confederation of Association for the Reform of Economics (ICARE) was formed. ICARE became the International Confederation of Associations for Pluralism in Economics (ICAPE) in 1994 and today works with a variety of professional associations, journals, publishers, etc. to promote pluralism in economics. ICAPE’s statement of purpose includes the following “pluralism and intellectual progress are complements”. This is not to say ‘anything goes’, but that each tradition of thought (Austrian, feminist, old and new institutionalist, Marxian, neoclassical, post Keynesian, social economics, Sraffian, etc.) adds something unique and valuable to economic scholarship.¹³

The momentum behind pluralism continues to build as evidenced by the publication of several books on the topic and the 2009 launch of the *International Journal of Pluralism and Economics Education*. To what extent does original institutionalism fit in this pluralist movement?

Original institutionalism is by its very nature pluralistic. The descriptions above should make it obvious that institutionalists incorporate and rely on ideas that cross ideological and disciplinary boundaries. Economic problem solving, from the original institutionalist perspective involves experts in fields as diverse as biology, engineering, anthropology, political science, and almost any other academic or professional field. Within institutionalism are economists who also consider themselves as feminist economists, radical economists, policy economists, environmental economists, labour economists, and almost any stripe of economist. In part, this is because the narrower concerns of particular economic subfields can be analysed in their broader institutional context and because institutionalism provides a broad umbrella under which diverse ideas are often discussed.

Still, as in the ICAPE statement above, to say that original institutionalism is well suited to a pluralist approach to economics is not to say that anything goes. Although original institutionalism can accommodate a wide variety of institutional arrangements there are at least three theoretical no-no’s that fundamentally conflict with the original institutionalist approach. The first are theories that adopt methodological individualism, “according to which all laws of the ‘whole’ (or more complex situations) can be deduced from a combination of the laws of the simpler or simplest [component]” [Audi, (1999), p.566]. To do so is to ignore the social context of individual behaviour. Second, theories that use mechanistic analogies to draw conclusions purported to be universal through time and space. Institutionalists focus on context, process, and adaptation. Universal conclusions that ignore such things are incongruous with institutionalist theory. Third, and related to the second, are theories that are deterministic. Institutionalists focus on change but do not pre-assign the direction of change.

The first purpose of this paper was to outline the basic ideas of original institutionalism so that interested persons could have a quick introduction to the paradigm and consider its usefulness in economic analysis¹⁴. The second purpose of this paper was to discuss how institutionalism might enhance or be enhanced by a pluralist approach to economics. It seems evident that institutionalism can be and is enriched by a wide variety of economic ideas originating in other theoretical traditions. Certainly the institutionalist theoretical perspective, at least as briefly summarised here, takes a rather broad sweep at explaining economic behaviours. Incorporating specific ideas and concerns from other perspectives/subfields can help by providing the specialised knowledge necessary to analyse specific economic problems. Coming from the other direction one might conclude that, within the limits mentioned above, the original institutionalist model could potentially provide an overall framework that could give shape to economic pluralism.

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Notes

- 1 This paragraph borrows extensively from Mayhew (1987).
- 2 It would be impossible to name all contributors to the US institutionalist tradition. One place to start looking for a list would be to read the list of recipients of the Veblen-Commons award in a recent issue of the *Journal of Economic Issues*.
- 3 For a more detailed discussion see Adkisson (2009).
- 4 Though not a system that is separate from other systems.
- 5 For a more thorough discussion of the interaction of humans, nature, and technology see Adkisson (2009).

- 6 Although the importance of the opposable thumb should not be underestimated [Mayhew, (1987), p.978].
- 7 Certainly culture is more malleable over generations of individuals. To say non-malleable is to assume that once a person is acculturated they are unlikely to change their core assumptions (values) even if they find new beliefs and attitudes to help them adapt to change.
- 8 Gordon (1980, p.43) refers to the continual process of reevaluating values/norms in the face of changing conditions (technology, environment, etc...) as the 'self-correcting value judgment'.
- 9 This presentation is a drastic simplification of an ongoing debate over the meaning of ceremonial/instrumental.
- 10 Although typically, analysis would require the identification of multiple institutions.
- 11 Although shown as separate sets in this diagram, the reader should keep in mind neither technology nor cultures are static. While the diagram seems to represent culture (transcendent aspects of culture) and technology (cultural product) as stocks they should be thought of as two aspects of a dynamic cultural process see (Bush, 2008).
- 12 IBISWorld estimates that the US funeral home industry alone generated over \$21 billion in revenue in 2009. See <http://www.ibisworld.com/industry/default.aspx?indid=1726> for details.
- 13 Visit ICAPE's website at <http://www.icafe.org/>.
- 14 Readers interested in pursuing a deeper knowledge of original institutionalism might want to begin by reading a few works by or about Veblen as well as some of the sources cited in the paper. Another excellent source is the *Journal of Economic Issues (JEI)*. The *JEI*, published by the Association for Evolutionary Economics, has served as the major outlet for original institutionalist work since 1967.