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CRITICAL SURVEY

This is the fifth of a series of Critical Survey articles. The aim of the series is to report on recent developments, to provide an assessment of alternative and to suggest lines of future inquiry. It is intended that the articles will be accessible not only to other academic researchers but also to students and others more practically involved in the economy. Future Survey articles will include Philip Arestis on 'Post-Keynesian economics' and Geoffrey Ingham on 'Economics and Sociology'.

The present state of institutional economics

Warren J. Samuels*

After articulating the institutionalist paradigm and its principal facets, the article examines the present status, converging interests and possible future of institutional economics. Emphasis is on related schools of thought and, especially, European (and other) developments along evolutionary and holistic lines of analysis, and on a new generation of US and, especially, European authors. Among more specific themes are the importance of power, technology, social change, social control, organisations and institutions in governing economic performance. The work of European authors is expected to become increasingly important owing to their concern with subject-matter and policy issues, rather than sectarian questions.

Introduction

In the United States institutional economics[1] has been and remains the leading heterodox alternative to dominant neoclassicism in economics other than Marxism.[2]

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*Michigan State University. I am indebted to readers of earlier drafts of this article, many of whose ideas and words have been incorporated in this revision. Thanks go to Jeff Biddle, Doug Brown, William Dugger, Wendell Gordon, Geoff Hodgson, Ann Jennings, Philip Klein, Anne Mayhew, Edythe Miller, Wallace Peterson, Allan Schmid, Ron Stanfield, Rich Tilman, Marc Tool, Harry Trebing, William Waller, and Charles Whalen, as well as to two anonymous referees.

[1] The term 'institutional economics' is used without prejudice to 'evolutionary economics'.

[2] Some institutionalists consider their approach to be mutually exclusive with neoclassicism, whereas others, including this writer, consider institutionalism and neoclassicism to be supplementary. Some institutionalists consider their approach to be mutually exclusive with Marxism, whereas others, including this writer, consider institutionalism and Marxism as having significant areas of overlap. There has been considerable diversity within institutional economics. Such heterogeneity is not pathological. It is a sign of richness and ferment.

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Pronouncements of the demise of institutionalism have been premature. Indeed, during the last twenty-five years there has been a considerable renaissance of institutionalism, as well as of other heterodox approaches to economics. Institutionalism today is rich, complex and diverse. Although certain strains of it have been myopic, backward looking and in conflict, institutionalism is, quite possibly, on the threshold of a great transformation, one which will build on the foundations laid by Thorstein Veblen,[1] John R. Commons and others, but which will strike out on its own, giving effect to the programmatic methodological promise of institutionalism in the past.

The objective of this article is to identify the present state of institutional economics, with particular attention to its prospects.[2] The approach is eclectic, rather than narrowly sectarian, and broad, avoiding hard boundaries, seeking to find knowledge, insight and understanding, wherever one can. The article is intended to be neither a survey of recent institutionalist writings nor an exposition of institutionalist ideas (although elements of both are present for illustrative purposes) nor a defence of institutionalism.[3]

I shall argue in this article that a great revitalisation of institutionalism seems likely to take place. It will emanate from several sources. One is the group of institutionalist thinkers in Europe who have origins that go beyond Veblen and Commons—and in many cases do not include them—and have not been a part of US institutionalism. A second is the new generation of institutionalists in the United States. Both groups are proving uninterested in either simply rehearsing old doctrines or continuing sectarian controversies. A third source consists of heterodox groups with congruent interests and approaches, namely, the Post Keynesian and Social Economists. A fourth source comprises individuals more or less within the orthodox mainstream who, sometimes using institutionalist work but often not, have worked on topics and/or in ways congruent with those of the institutionalists. Sometimes their work enhances the efforts of institutionalists; at other times, largely because of the tenacious hold of the determinate optimum equilibrium mode of analysis, the two are dissonant.

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I should defend my assertion that institutional and neoclassical economics are supplementary, notwithstanding their different methodological and philosophical foundations and practices. It is a position to which several readers of earlier drafts of this article have taken offence. Neoclassical economics deals with questions with which institutional economics does not, or deals with the same or comparable questions in a different manner—from all of which one can learn. I believe that insights and knowledge from one school can, with adequate formulae of translation, be carried over to other schools of thought. The willingly eclectic person can embrace, or at least maintain in reserve, mutually incompatible or inconsistent positions. One does not have summarily to reject that with which one tends to disagree; one can learn from others. I acknowledge that there are those who desire determinancy and closure and others who can be content with open-endedness and ambiguity.

[1] The reference list contains a combination of leading and representative works by individual institutionalist authors named in the text, representative with regard to both their individual work and the work of institutionalists generally. In general, references are not given to works which, while arguably institutionalist in character, represent areas of substantive work as economists—for example, John R. Commons on labour economics and Wesley C. Mitchell on business cycles. An effort has been made to present references on a diversity of topics, while still providing citations to leading and representative works.

[2] The views presented here are personal and do not necessarily reflect those of any subgroup of institutionalists. The author has little confidence in his ability to predict the future, so that the promise said here to exist may prove to be nothing more than wishful thinking. This is because of the author's belief in radical indeterminacy in the sense of George Shackle, that we cannot confidently predict the future because the future will not exist until it has been made through human action, in part that we create the future through our efforts to apprehend it.

[3] For surveys of institutionalism by the present author, see Samuels, 1984, 1987, 1991; also 1988, 1990. See also Tool, 1988; Tool and Samuels, 1989A, 1989B, 1989C; and Hodgson, Samuels and Tool, 1993. There is no substitute for perusing the volumes of the *Journal of Economic Issues*

Given the likely further development of institutionalism by US and European institutionalists and by incrementally renegade neoclassicists, what form will the development take? Will it crystallise around the Lakatosian core of historic US institutionalism? Or will it crystallise around a set of evolutionary and other topics more or less common to older traditional US institutionalists, 'new' neoclassical institutionalists, younger US institutionalists, and European institutionalists? Will the future of institutionalism comprise a revision of the 'old' US institutionalism of Veblen and Commons which more or less closely fits that body of thought yet adds to it? Or will it comprise an amalgam of many different contributions to common topics, one of which is the entirety of traditional institutionalism? Such detail I do not attempt to predict.

The institutionalist paradigm

There is a relatively common set of beliefs that unite the work of institutionalists at both the theoretical and applied levels, however much those beliefs may be distinguished from the various, and varying, specific applications to which they may be put.

Insofar as they are interested in the allocation of resources, which is, of course, the central problem of neoclassical economics and important for economists of all schools, institutionalists pursue a wider range of explanatory variables and come up with a broader and arguably deeper answer, though admittedly not as neatly simplified an answer. The crux of the institutionalist position, its 'object of dissent', is 'the conception of the market as the guiding mechanism of the economy, or, more broadly, the conception of the economy as organised and guided by the market. It simply is not true that scarce resources are allocated among alternative uses by the market. The real determination of whatever allocation occurs in any society is the organisational structure of that society—in short, its institutions. At most, the market only gives effect to prevailing institutions. By focusing attention on the market mechanism, economists have ignored the real allocational mechanism' (Ayres, 1957, p. 26). Although institutionalists disagree as to how much and what precisely is important in the neoclassicists' analysis of the operation of pure market mechanisms in allocating resources, they all agree that markets are organised by and give effect to the institutions which form them.

But institutionalists are principally interested in a different central problem, that of the organisation and control of the economy as a system encompassing more than the market. The institutionalists are concerned, therefore, with the distribution of power in society; with markets as institutional complexes operating within and in interaction with other institutional complexes; with the causes and consequences of individual and collective psychology; with the formation of knowledge, or what is taken as knowledge, in a world of radical indeterminancy about the future; and, *inter alia*, with the determination of the four problems of resource allocation, level of aggregate income, distribution of income, and organisation and control as matters of cumulative causation in which the working out of each of the four problems has impact upon the others—and in respect to which general culture is also both a dependent and independent variable.

Institutionalism has been attractive to those who have been uncomfortable with various aspects of neoclassicism, however much they may consider the two schools to be supplementary and neoclassicism to make positive contributions to how market economies work. The institutionalist critique of neoclassicism is wide ranging: neoclassicism is faulted for its methodological individualism, that is, for its practice of treating individuals as independent and self-subsistent, possessing given preferences, whereas institutionalists find that individuals and culture are mutually interdependent and that the analysis of markets *ipso facto* constitutes methodological collectivism. Institutionalists further argue that the concept of a 'market' is a metaphor for the institutions which form, structure and operate through it, as above. Institutionalists criticise the central neo-classical quest for determinate optimum equilibrium solutions, arguing in part that this forecloses the operation of real-world processes of working things out and tends to substitute economists' own conception of institutional organisation and individual preferences for those of economic actors.

Institutionalists also point to the static nature of neoclassical problems and models, whereas they affirm the dynamic and evolutionary nature of the economy. Neoclassicism is faulted for its conceptualisation and use of the idea of a pure market. The argument is complex. It is in part that neoclassicists tend to fail to make the jump in applying their theories from the logical categories of pure markets to the specific institutions that create and define markets in the real world; that is, that the categories of neoclassical analysis are largely formally logical and therefore substantively empty, and cannot properly be applied to the real world without additional assumptions, assumptions which willy nilly determine how markets form, operate, and generate results. The argument is in part also that there is a tendency in neoclassical analysis, particularly in its more conservative formulations and applications, for any change in institutions, especially legal change of law, to appear to be undesirable government interference (or give effect to some postulated condition of optimality)—unless selectively specified, *a priori*, as congruent with some notion of capitalism.

In all these and other respects institutionalists find that the neoclassical demand/supply type of story, while useful to a point, both omits important concerns and variables and, in pursuit of determinate optimum equilibrium solutions, channels analysis along presumptive, prefigured lines, in both respects losing contact with important, if not decisive, aspects of the real world and the other stories which can be told about that world and how it operates.

Finally, therefore, institutionalists object to the tendency of neoclassical analysis to reach Panglossian conclusions of 'whatever is, is optimal', thereby abetting a perceived ideological agenda supportive of ostensibly market solutions, thus lending selective credence to the nuances and policies of *laissez-faire*. This obfuscates what institutionalists consider to be necessary analyses of power structure and the uses to which government is put in the formation and performance of markets, thereby depriving economic theory of both the importance and the non-ideological analysis of government.

Affirmatively, institutional analysis encompasses both markets and institutions, and much more. Institutionalists have pursued analyses of the social forces which condition and channel the formation of markets and the exercise of individual choice and behaviour; the institutions which constitute and operate through markets; the economy understood as a system encompassing more than the market and undergoing systemic evolution, in part due to institutional and technological change; and, *inter alia*, the factors and forces actually operative in the economy.

Institutionalism has had three dimensions. First, institutionalists have critiqued both the organisation and performance of existing market economies and the economics of the pure market considered as an abstraction. Second, institutionalists have generated a substantial body of knowledge on the variety of topics noted in these pages. Third, institutionalists have developed a multi-disciplinary approach to problem-solving. In regard to all three, institutionalists have stressed empiricism (rather than both *a priori* propositions and mathematical puzzle-solving), pragmatism, and a willingness, indeed desire, to be multi-disciplinary, that is, to find knowledge, especially but not solely knowledge applicable to policy, wherever it can.

Let us consider eight principal facets of institutional economics understood as a body of knowledge—and thereby as an approach to problem solving.

First, institutionalists emphasise social and economic evolution and so take an explicit activist orientation toward social institutions. Institutions, they say, are important and cannot be taken for granted, because they are manmade and changeable. Although changes in institutions and working rules occur frequently, they normally change slowly, through both non-deliberative (for example, habitual and customary) and deliberative (typically legal) modes. One important point is that institutionalists reject the overwhelming neoclassical search for automatic mechanisms and laws—not denying that adjustment mechanisms exist and that statements of tendency can be made, but emphasising the reality of individual and collective choice (this paragraph paraphrases Witte, 1954, pp. 134–135).

Second, institutionalists affirm the importance of social control and the exercise of collective action therein. Institutionalists insist that projections by neoclassicists of the mechanical operation of pure, automatic markets create the illusion of autonomous free markets operating independently of human action and control. On the contrary, institutionalists emphasise that the market economy *per se* is itself a system of social control, and that specific markets are what they are and perform as they do because of the institutions operating as social control which form and operate through them. The economy is what it is because of the existing correlative system of social control; business would not be business without the requisite legal and non-legal social controls. Commons defined institutions as collective action in control and enlargement, or liberation, of individual action; both are necessary in the creation and, notably, structuring of freedom in a free market economy. As already noted, the institutionalists have objected strongly to the misleading impressions of the possibility—if not reality—of absolute self-subsistent individualism and non-interventionism abetted by the mechanical mode of neoclassical theorising in the quest of static determinate optimum equilibrium results.

Third, institutionalists emphasise technology as a major force in the transformation of economic systems. While generally not monistically deterministic with regard to technology or the state of the industrial arts, institutionalists have found that the logic of industrialisation has profound effects on social, economic and political organisation and on the nature of culture, just as culture has profound effects on the adoption and operation of technology. Technology will be further discussed below but one additional point should be made here. It is that 'the relative scarcity or relative plentifulness of all resources', indeed the very nature of a physical object or condition as a resource, is determined by 'the state of the industrial arts' (Ayres, 1957, p. 26). It is human activity mediated through technology that determines what is a resource, its relative scarcity and its efficiency.

Fourth, as already emphasised, institutionalists insist that the ultimate determinant of the allocation of resources is not some abstract market mechanism but the institutions, especially the power structures, which structure markets and to which markets give effect.

Fifth, the institutionalists' theory of value does not concern the relative prices of commodities but the process through which the values ensconced in institutions, social structures and behaviour are worked out. For Veblen the operative consideration is whether something enhances the life process, and an evolutionary theory of value must be, and is constructed out of, the habits and customs of social life and their transformation through deliberative and non-deliberative processes. For Commons, 'reasonable value' relates to the reasonableness of the working rules which define the limits of individual and collective action, respectively. In particular, this meant the Supreme Court's decision as to what is reasonable between plaintiff and defendant, which made the Court in his view the 'final faculty of political economy' in the US—an argument which can be generalised to encompass all branches and processes of government as well as all forms of social control. One of the institutionalists' most fundamental complaints about neoclassicism is that the latter either ignores or reifies the existing working rules and the values represented in them, thereby in part begging the processes through which those values are formed and effectuated.

Sixth, institutionalists emphasise the dual role of culture in a process of cumulative causation or coevolution. They emphasise, first, the transcendental role of culture and cultural processes in the formation of both social structure and individual identities, goals, commodity preferences, and lifestyles, all of which has impact on economic life and institutional adjustment. Both power and culture matter. They emphasise, second, that culture itself is an artifact, a product of continuous interdependence among individuals and sub-groups. Individuals are born into a culture and a society. They are socialised in the ways of that society, within the range of individual discretion permitted by that society. Their behaviour and choices then contribute to the selective reinforcement and weakening of elements of culture. Culture changes through the behaviour of individuals previously socialised in the culture yet the culture which an individual leaves behind is different from that in which he or she was socialised. Both individuals and culture matter, as does power, which governs which individuals will have greater or less impact on the transformation of culture. The growth of mass consumption society, for example, which parallels the growth of industrial society, has been a cultural phenomenon generated, intentionally or otherwise, by the behaviour of certain individuals and groups in society which had great impact on the socialisation of all other individuals; and so on.

Seventh, correlative to the feeling held by most institutionalists that neoclassicism, insofar as it functions to take for granted, obfuscate, and reinforce the existing structure of power and social relations, a structure marked by inequality and hierarchy, institutionalists have been pluralistic, or democratic, in their orientation. This pluralism is manifest in the propensity of institutionalists to call attention to that obfuscation and reinforcement and the implications for the conduct of economic theory. It arises in explicit concern for the fate of the working class and the masses and their respective institutions and values, especially their participation in the process through which reasonable value is established. It is manifest in the institutionalists' focus on the economy as a non-deterministic and non-mechanistic decision-making process, in contrast, for example, to tendencies to treat the formation of preferences and working rules as if governed not by power but by transcendent mechanisms. It surfaces in the willingness of institutionalists to pay attention to the views and ambitions and values of the working class and masses. It especially arises in the tendency of institutionalists to maintain some distance from established powers, so as to maintain their sense of perspective. Perlman (1952, p. 405) thus wrote that

Commons genuinely believed that the 'common men' ... are as capable of making valid and meaningful intellectual discoveries as himself and his colleagues in the social scientists' guild. In a word, Commons practised the most difficult sort of democracy—intellectual democracy.

Eighth, institutionalists have been holistic. On the one hand, they have defined the economy broadly to include much more than the pure market mechanism. On the other hand, they have emphasised that meaningful and non-question-begging explanation and description of economic phenomena requires recourse to other disciplines, in a multi-disciplinary venture as required by the objects of study.

On the basis of these eight considerations one can appreciate the institutionalist objection to the mechanistic quest by neoclassicists for static determinate optimum equilibrium results. For the institutionalists the economic system not only comprises more than the market, it is an ongoing cultural process with elements which coevolve through complex processes of cumulative causation. Pursuit of the mechanics of price determination trivialises what the economy is all about, and excludes considerations of social control and social change and all that they entail.

Present status, converging interests and the future of institutional economics

Institutionalism in the United States had a resurgence commencing from the mid 1960s. The Association for Evolutionary Economics (AFEE), publisher of the *Journal of Economic Issues*, together with a modest splinter organisation, the Association for Institutional Thought (AFIT) are the principal vehicles of organised efforts in the field. Most of the economists who belong to and participate in these associations work self-consciously in the tradition of Veblen and Commons, as well as such others as Karl Polanyi, Wesley C. Mitchell, John Maurice Clark, Clarence E. Ayres, J. Fagg Foster, John Kenneth Galbraith, Kenneth E. Boulding, and Gunnar Myrdal.

One characteristic of US institutionalist writings in the first decades following World War Two was that they often merely rehearsed or re-argued established institutionalist positions on methodological or substantive topics.[1] The work of many US institutionalists in the post World War Two period nonetheless did make serious contributions.[2]

[1] Institutionalism has been characterised (as are all schools of economic thought) by richness coupled with diversity. One example is the definition of an institution. Veblen defined an institution as a habit of thought common to the generality of men. Commons defined an institution as collective action in control and enlargement, or liberation, of individual action. The two definitions appear at first glance to be in conflict but they are quite congruent and represent heuristic tools for analysis. Veblen's definition stresses the cognitive aspect of institutions, whereas Commons's stresses the interpersonal or interelational aspect. Both are effectively combined in the recent work of Hodgson (for example, Hodgson, 1988).

[2] The writings of individuals who have been honoured as president of AFEE are suggestive of the areas of interest and strength: Clarence Ayres (general institutional theory), John Gambs (general institutional theory), Allan Gruchy (comparative economic systems, history of economic thought, and general institutional theory), Joseph Dorfman (history of economic thought), Ben Seligman (labour economics and history of economic thought), Daniel Fusfeld (economic history and general theory), David Hamilton (consumption economics and evolutionary theory), Harry Trebing (public utility regulation), Willard Mueller (antitrust and industrial organisation), Seymour Melman (technology, industrial organisation and the military sector), Wallace Peterson (macroeconomics and the welfare state), Philip Klein (business cycles and general institutional theory), David D. Martin (antitrust and industrial organisation), Dudley Dillard (economic history and history of economic thought), Jack Barbash (labour economics), Walter Neale (linguistics, economic development and general institutional theory), James Street (economic development), Wendell Gordon (general institutional theory and economic development), David Schwartz (public utility regulation), Milton Lower (macroeconomics and international economics), Anne Mayhew (economic anthropology and general institutional theory), Dilmus James (economic development), Edythe Miller

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More recently, US institutionalists have extended their vision. This is particularly true of the younger US institutionalists, as well as of the European writers not trained in the doctrines of the US institutionalist founding fathers. The greatest promise for the further theoretical and empirical—as well as conceptual and paradigmatic—development of institutionalism must and probably will reside with the new generations of US and European institutionalists. This is suggested, in part, by work reported upon in Hodgson, Samuels and Tool (1993). These developments seriously extend and/or revise received institutionalist doctrines on various subjects, such as psychology, evolution, power, institutions and technology.

The future of US and Canadian institutional economics resides to a large degree in the hands of a younger generation of economists who identify with traditional institutionalism.[1] These writers exhibit considerable dynamism, ferment and originality, and are making contributions which go far beyond either rehearsing the old doctrines or perpetuating the old sectarian differences. The names of those among the most promising of the younger generation are given in the note.[2] Much, though by no means all, of their work is published in the *Journal of Economic Issues*. They work in public finance, economic development, environmental economics, law and economics, behavioural science, philosophy, feminism, and so on, including general institutionalist theory and methodology.

One of the most remarkable developments in the history of contemporary economic thought has been the emergence of economists in Europe (and in Australia and New Zealand) working in areas of institutional and evolutionary economics. Many of these writers are members of the recently organised European Association for Evolutionary Political Economy (EAEPE); some are members of the Association for Evolutionary Economics; and some are associated with the *Review of Political Economy* (ROPE). Myrdal, K. W. Kapp, Karl Marx, Karl Polanyi, John Maynard Keynes, Nicholas Georgescu-Roegen and Joseph A. Schumpeter have been principal influences on these. Only some of them have been strongly influenced by the traditions of Veblen and Commons. But all have an interest in topics that are institutionalist in substance and have no particular interest in contributing to the neoclassical paradigm. Some are specialists in particular areas of study, such as evolutionary analysis, organisation theory, and technology. These subjects require, as they see it, modes and methods of analysis often quite different from, though not necessarily totally in conflict with, neoclassical approaches to their subject. These modes and methods of analysis are more congruent with those of the US institutionalists, although they sometimes use tools and concepts

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(public utility regulation and general institutional theory), John Munkirs (industrial organisation), Paul Dale Bush (general institutional theory), Marc Tool (general institutional theory), James Sturgeon (general institutional theory) and John Adams (general institutional theory). Other US and Canadian institutionalists include: Walter Adams, Glen Atkinson, Robert Averitt, Vernon Briggs, Daniel Bromley, Thomas De Gregori, Ken Dennis, James Dietz, William Dugger, William Glade, Warren Gramm, Gregory Hayden, Lewis Hill, Abraham Hirsch, Don Kanel, H. H. Liebhafsky, William Melody, Kenneth Parsons, Baldwin Ranson, Allan Schmid, James Schaffer, Robert Solo, Ron Stanfield, Paul Strassmann, Rick Tilman and Charles Wilber, to mention only a few, and with apologies to those not named in this connection or elsewhere in this article.

[1] The distinction between generations is admittedly arbitrary.

[2] Randall Barlett, James Brock, Doug Brown, Charles Clark, James Cypher, Alan Dyer, Peter Fisher, Steven Hickerson, Jim Horner, Ann Jennings, Ann Mari May, Brent McClintock, Steven Medema, Philip Mirowski, Kenneth Nowotny, James Peach, Carol Peterson, Janice Peterson, Jerry Petr, Ronnie Phillips, Michael Radzicki, Yngve Ramstad, Malcolm Rutherford, Raphael Sassower, Michael Sheehan, Rodney Stevenson, James Swaney, Rick Tilman, William Waller, Charles Whalen and Randall Wray.

originally developed by neoclassicists, such as transaction costs. Included in this group are writers such as those listed in the note.[1]

Intellectually close to institutional economics are Post Keynesian economists working in the fields of monetary and macroeconomics. Many of them are associated with or have published in the *Journal of Post Keynesian Economics* but many have published in *JEI*, *ROPE*, and *Challenge*, as well as this journal; names are given in the note.[2] Apropos of institutional economics, the Post Keynesians emphasise the role of differential institutional arrangements, especially in the operation of financial markets and considerations of structure, the latter, for example, with regard to the different performance of oligopoly core and competitive periphery and the particular characteristics of labour markets. Both groups deprecate neoclassical equilibrium analysis, emphasising instead both the facts and forces actually operative in the macroeconomy and the working of often institutionally driven adjustment processes.

Especially close to institutional economics is social economics. Many institutionalists who are active in AFEE and publish in *JEI* are also active in the Association for Social Economics and publish in its journal, the *Review of Social Economy* (there are other international associations and journals in the socioeconomics field). The two groups of economists share historicist-evolutionary, holistic, and, *inter alia*, methodological concerns and opposition to the exclusivist dominant mode of conventional practice, including its approach to self-interest in a world of societisation and human need. Social economists emphasise the role of human values and the operation of the complex and subtle processes through which values arise and are assessed, contrasted, evaluated, pursued and effectuated.

It is possible to argue for the existence of a radical institutionalism, one which borrows from Marxism and other forms of radical economics. It is also possible to argue either that historic institutionalism is itself radical (so no *independent* radical institutionalism exists) or that, in going only so far toward Marxism, it is not radical enough. Be that as it may, a number of contemporary institutionalists consider themselves to be not Marxists, but radical institutionalists and have written in that vein.[3] Some of these and perhaps other institutionalists might have been inclined toward Marxism but became disaffected.

Looking at the matter from the other way around, US Marxism (and also European, about which I cannot personally say much) has made contributions to topics of interest to institutionalism.[4] Some of their work has to do with economic and social power, business cycles, the environmental and human excesses of capitalism, the organisation of work, democracy and capitalism, and the coevolutionary notions of antiessentialism, entry points, and overdetermination—often in effect continuing and/or modernising work by earlier institutionalists as well as earlier Marxists. Marxism is itself, of course, quite diverse in its treatments of determinism, class, and other topics.

[1] Ash Amin, Philip Arestis, Mike Dietrich, Kurt Dopfer, Giovanni Dosi, Sheila Dow, Wolfram Elsner, Chris Freeman, Geoffrey Hodgson, Neil Kay, Fred Lee, Brian J. Loasby, Klaus Nielson, Kurt W. Rothschild, Malcolm Sawyer, Ernesto Screpanti, Gerald Silverberg, Peter Skott, and Peter Soderbaum. Andrew Dragun resides in Australia and Peter Earl, John Foster and Martin O'Connor reside in New Zealand.

[2] Included are Philip Arestis, John Cornwall, Paul Davidson, Jan Kregel, Hyman Minsky, Basil Moore, Nina Shapiro and Nancy Wulwick.

[3] These include Doug Brown, William Dugger, Ann Jennings, Ron Stanfield and William Waller—so identified in Dugger, 1990.

[4] These writers include Samuel Bowles, Herbert Gintis, David Gordon, E. K. Hunt, James O'Connor, Stephen Resnick, Howard Sherman, Tom Weisskopf and Richard Wolff.

A self-styled 'new' institutional economics has developed in the US and Europe.[1] This school works largely within neoclassicism, and shares its rationality, maximisation, and market or market-like orientation and likewise tends to seek, though with less formalisation, the conventional determinate, optimal, equilibrium solutions to problems. The practitioners of this school, however, each in their own way, tend to open up or expand the reach of conventional neoclassicism, for example, in their work on the theory of the firm. Leading figures include Oliver Williamson, Ronald Coase, and Douglass North. They work on such topics as the organisation and operation of the corporation, the formation of markets, the division of activity between corporations and markets, and the formation of market systems and the institutions which form market systems, including throughout consideration of transaction costs and, especially in the case of the more recent work of North, the role of power and ideology in institutional and system evolution.

A variety of writers work in such converging fields as public choice, property rights, rent seeking, and law and economics. Much of this work is either congruent with or vital parts of the 'new' institutional economics. The leading writers here are James M. Buchanan, Gordon Tullock, Armen Alchian, Mancur Olsen, Harold Demsetz, Ronald Coase, and so on. In these areas, however, there is also work by 'old' institutional economists, for example, Allan Schmid and the present author as well as by younger non-US institutionalists, such as Andrew Dragun.

Those 'old' institutionalists who consider neoclassicism, and its aforementioned offshoots, and institutionalism to be supplementary, which may well include most of the younger generation of institutionalists, will welcome as substantive contributions much of the work of the 'new' institutionalists, though without the neoclassical methodology and paradigm and also without, where relevant, the conservative ideology and political agenda which so often accompanies this work (as in the case of the Public Choice school and, below, Austrian economics). A reformulated institutionalism along the lines of particular topics likewise will accept the substantive contributions of all groups and schools.

For example, apropos of the institutionalist emphasis on cultural lag and the need to accommodate selectively the formation of physical capital (technology) with the formation of human capital, North in particular emphasises that institutions and transaction costs influence transformation costs, and that the cultural lag in human capital adjustment to physical capital selection is a major problem. In addition, the importance of information and transaction costs offers a useful mode of analysing advertising, marketing and policy making, and is especially enriched when informational asymmetries are introduced into analysis, as has been done by Randall Bartlett (1973) in regard to the formation of government policy.

Another example: the Veblenian distinction between making money and making goods is partly paralleled by the 'new' institutionalist distinction between institutions that promote creativity and production and those that promote redistribution and rent-seeking. Neither of these pairs of distinctions are entirely self-subsistent, as each requires the exercise of judgment, even when being used for positive analysis; but they are heuristically valuable in opening lines of research and analysis.

Inasmuch as institutionalism is one approach to heterodoxy in economics, it is not surprising that a variety of other heterodox schools have more or less common

[1] A useful comprehensive and largely non-ideological integration of the 'new' institutionalism, public choice theory, etc. is presented in Eggertsson (1990).

ground with traditional US institutionalism, in addition to the aforementioned schools. These other schools include the French *Régulation* school, varieties of Schumpeterian economics, and other versions of evolutionary economics.

A number of US writers not otherwise organised or selfstyled, though generally 'evolutionary' in orientation, started from within neoclassicism but have made departures which have moved them in the direction of institutionalism.[1] They work at various levels: individual persons, institutions or organisations in particular or in general, the level of the economic system qua system; and so on. Their work retains elements of neoclassicism—as does the work of several economists who pursue some version of sociobiology, such as Harold Demsetz and Armen Alchian—but it departs therefrom in fundamental respects.

Austrian, or neo-Austrian, economists have reinstituted some of the interests of the founders of the school, such as Carl Menger and Friedrich von Wieser, and have added to their evident interests in the market and the Austrian version of price theory, analyses of the emergence and development of institutions. The leading figure here is Friedrich A. von Hayek. Like many writers in the 'new' institutionalism, the normative orientation tends to be conservative (in either or both the nineteenth and twentieth century senses). Still, writers in both groups have made important and interesting advances in our understanding of institutional evolution, including, if inadvertently, the role of normative premises therein; indeed, many of their positive analyses can be seen as contradicting some of their conservative positions, or at least the relatively naïve versions thereof.

Although institutionalists readily find faults with the work of the New Institutional economists and the Austrians, these economists have produced serious work. Whatever conceptual or ideological limits this work may involve, adjustment can be made for these limits and their positive findings and analyses can be absorbed. What is necessary are institutionalists who are more interested in developing certain substantive areas than in either criticising others for doing what they think is good work, merely ceremonially rehearsing and defending the doctrines of earlier institutionalists, or taking their own exclusivist positions.

Finally, I note some writers who also are not directly associated with institutionalism but whose work is clearly in the institutionalist tradition, for example, Robert Heilbroner, William Lazonick, Harvey Leibenstein, Charles Lindblom, and Lester Thurow. Lazonick (1991), for example, argues not only that capitalism has been transformed from an individualist entrepreneurial to a managerialist corporate system but that the managerialist system has been effectively transformed into a still different system, which he designates 'planned coordination'. He supports the argument with studies of the economic history of Britain, the US and Japan. Lazonick works largely on two levels. One is the theory of the firm, where he has a richer analysis than that provided by Coase, Williamson, Alchian and others. The other is at the level of the economic system as a whole, where he considers organisation and control questions almost totally obviated by mainstream economists. Both are combined in an understanding that firms have developed from individual enterprises connected by markets to increasingly large firms with increasing coordination (first US managerial capitalism and then Japanese planned coordination) under propitious cultural and political conditions. The crux of Lazonick's argument is neatly illustrated by his treatment of Ronald Coase's transaction-cost analysis which gives ontological primacy to markets and seeks to explain why firms exist.

[1] These writers include Richard England, Robert Frank, Brian Arthur, Richard R. Nelson, Richard Norgaard, Thomas Schelling, Tibor Scitovsky, Richard Thaler and Sidney G. Winter.

Congruent with institutionalist thinking, Lazonick argues that transaction-cost analysis is too restrictive: 'The history of twentieth-century capitalist development shows . . . that as a dynamic process firms create markets, not vice versa. By definition, Coase's approach casts the firm as a passive player that arises out of "market failure" rather than "organizational success" ' (Lazonick, 1991, p. 169).

The future: process and evolution

A principal theme of institutional economics has been that the economy is more than the market. Institutional economists have argued both that markets must be studied not solely as a pure mechanism but as the products of institutions which form and operate through them, and that the entire economy must also be studied systemically to include all the institutions which comprise the economy, not merely the system of markets narrowly conceptualised. Correlative to such holism—holism with regard to markets and with regard to the economy in its entirety—is evolutionism. Institutionalists emphasise that, far removed from the necessary conditions for partial or general static equilibrium analysis, the economy is always in a process of becoming, that one cannot take its institutions as given because they are constantly evolving, in part through interaction with technology and law and politics. Veblenian evolutionism is Darwinian in having neither cause of causes nor predetermined end state; it is non-teleological and open-ended.

This means that the economy is fundamentally processual, involving a process through which things are worked out, not a transcendental mechanism imposing its will or enforcing some grand design or teleology on mankind. Institutionalists lament that mainstream neoclassical economics, in order to reach determinate, optimal, equilibrium solutions to problems, makes assumptions which foreclose the operation of process and tend to substitute the perceptions and preferences of economic analysts for those of real-world economic actors. It is the real-world economic actors who collectively, through market and political processes, work out solutions to problems of resource allocation, income determination and distribution.

Opportunities abound in researching and analysing evolutionary processes in a positive, non-normative manner. Veblen emphasised blind, non-teleological evolution and Commons, artificial selection, with a distinctive emphasis on deliberative decision making; institutional economics includes both. The Austrian, actually Mengerian, theory of spontaneous order also properly encompasses both, albeit with distinctive emphasis on non-deliberative decision-making.

The comparative advantages of institutionalism are the breadth of factors and forces it is willing to consider, including institutional and historical details; its evolutionary paradigm; and its emphasis on adjustment processes in a nonjudgmental manner, in contrast to the neoclassical fixation on determinate optimal equilibrium solutions. The 'natural selection', for example, of firms must be analysed in terms of operative factors and forces (including power structure), and not be sterilised by either tautologies involving optimality or pretences that there are transcendental governing mechanisms beyond human analysis and influence. The institutionalists reject concepts of the natural order of things in favour of a view of the world as created by human individual and collective activity and consequently as subject to human control rather than under the sway of automatic mechanisms—a position which manifestly enables them to examine the details of human action and interaction, including the social or cultural as well as the individual aspects of phenomena.

One of the central subjects of an evolutionary and processual analysis must be technology. Technological development and use is a product of human choice: it does not just happen as a *deus ex machina*. Recent work from a Schumpeterian perspective, for example, emphasises the importance of technological innovation, diffusion, interdependence, regimes and trajectories as well as the cumulative nature of technological change, in part in relation to gateway technologies; the historical, cultural and processual factors in the genesis, form and direction taken by technology; the difference between theories which explain the origins and development of technology and those which explain its consequences; and, *inter alia*, the interactions between technology and entrepreneurship (Heertje and Perlman, 1990).

Another central subject must be the study of power, with its dual focus on the organisation and control of the economic system and on the legal-economic nexus (or the interrelations between nominally legal and economic processes) which arguably is the central institutionalised process through which the former is effectuated. One of the principal areas which has preoccupied institutionalists from the beginning has been the interrelationships between the legal-governmental-political and the economic-market spheres. Veblen and Commons, along with Richard T. Ely, John Maurice Clark, Walton H. Hamilton, and others, investigated the history and the details of the legal foundations of capitalism in particular and the economy in general. Today there are a number of institutionalists working in the law-and-economics field producing analyses quite different from those generated by the conventional, mainstream writers. The idea of a fundamental legal-economic nexus has been central to institutional economics. One of its effective findings is that government willy nilly is involved in the economy and that such involvement constitutes planning, whether or not it is recognised as such. The question is always whose interest is to count, and government is inexorably involved in its ongoing solution. Needless to say, there is much more work to be done.

Conclusion

Institutional economics has had much ferment and controversy. Institutionalist analysis, which emphasises the conflictual rather than the presumptively harmonious nature of socioeconomic processes, can be applied to institutionalism itself, with the conclusion that whether or not one considers such ferment and conflict 'healthy' it is an expectable characteristic.

This article argues that institutionalism, if it takes advantage of numerous sources of cognate research and analysis, and if it further departs from certain sectarian aspects of its past, may be on the threshold of a quantum change in level and sophistication of analysis. This may be the case with all of economics; if so, a revitalised institutional economics can be a significant part thereof.

The key question is whether the economics of the future will build directly on the 'old' US institutionalism or whether that institutionalism will merge into a new crystallisation of evolutionary and institutional economics. It is the genius of institutional economics to have emphasised the facts of the evolving social reconstruction of reality (and of the fundamental importance of the legal-economic nexus to that process), thereby going against the grain of the mechanistic determinism and noninterventionism of mainstream neoclassicism. It can be the future of institutional economics to obtain nourishment from many sources, thereby to extend and enhance its contributions. This future can be produced by the new generation of institutionalists in the United States and by now apparent vast numbers of like-minded economists in Europe and elsewhere.

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