

The Main Themes of Institutional and Evolutionary Economics

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Geoffrey M. Hodgson, Warren J. Samuels, and Marc R. Tool (editors), *The Elgar Companion to Institutional and Evolutionary Economics*. Aldershot, England; Edward Elgar Publishing Limited, 1994, 2 volumes, 870 pages. Price: 125 Pounds Sterling. Hardcover. ISBN 1-85278-439-3. Alphabetically listed with 176 entries. No index.

In the volumes under consideration, for the first time in history a group of editors have attempted to document the main themes of institutional-evolutionary political economy (IEPE), including work in the traditions of Thorstein Veblen, John Commons, Wesley Mitchell, Clarence Ayres, Fagg Foster, Gunnar Myrdal, Mancur Olson, Douglas North, John Kenneth Galbraith, Oliver Williamson, and the editors themselves. Any university-educated person with an interest in heterodox economics will be able to savour the delights of IEPE in these volumes. This *Companion* is written with advanced undergraduate and graduate students, government consultants and policy-makers in mind. The great charm of alphabetically ordered entries is the enjoyment or information gained by picking and choosing the various subjects under discussion.

This 'Elgar Companion' is part of a series of a-z volumes including 'Radical Political Economy', 'Methodology', 'Keynesian Economics', 'Austrian Economics' and others. Edward Elgar has been a champion of heterodox economics, although recently his publishing choice has been more catholic. At present these volumes are in hardback, and expensive. But the quality is first rate. It is hoped that Elgar will publish some of them in durable softcover, and that eventually a 3-5 volume *Encyclopedia of Political Economy* will emerge from these volumes.

This *Elgar Companion to IEPE* has a total of about 450,000 words, comprising 176 entries, written by 120 authors, with an average length of about 2,500 words. 35 percent of the entries are written on individuals (e.g., 'Veblen', 'Myrdal'); 34 percent are on subject areas (e.g., 'monetary policy', 'methodology'); 27 percent are on concepts (e.g., 'time', 'power'); and 4 percent are on schools of thought (e.g., 'Texas School', 'Maryland school'). Both new and old institutionalists are included.

The editors are well represented among the writers of the entries, Hodgson having contributed 21 entries, Samuels 9 entries, and Tool 3 entries. Two of the editors, Samuels (in 1970s) and Tool (in 1980s), were editors of the *Journal of Economic Issues* for a decade each, while Hodgson has been a regular contributor to the *JEI*. Their definition of IEPE is not narrow: the volumes have entries on Joseph Schumpeter, Nicholas Kaldor, J. M. Keynes, Karl Marx, Michal Kalecki, Gardiner Means, Simon Kuznets, Kenneth Boulding, Allan Gruchy, William Kapp, Karl Polanyi, E. F. Schumacher and Adolf Lowe; but also Sidney Winter, Richard Nelson, Douglas North, Amitai Etzioni, Mancur Olson, Herbert Simon, Oliver Williamson, and Friedrich Hayek.

The volumes are a good representation of modern evolutionary and institutional political economy. They cover issues of dynamic motion, evolutionary change, holism, power, and an institutional scrutiny of the cultural foundations of the state and the firm. It is particularly interesting to see that the editors include as part of the IEPE tradition issues such as long waves and the determination of social class; but also public choice theory and spontaneous order. Modern IEPE is, apparently, a very eclectic and inclusive field of inquiry.

The entries in this work were not refereed, but the quality is high, probably because they were given to specialists in each field. Some specialists have a tendency to write obscurely, but there is not much evidence of this here. Indeed, the vast majority of entries are clear and eloquent and written by many of the best and well-known scholars of IEPE.

Four main issues arise from this volume. First, did the editors desire to show close links between the old and the new institutionalists, and if so did they succeed? The old institutionalists include Thorstein Veblen, Wesley Mitchell, John Commons, Clarence Ayres, J. K. Galbraith, Gunnar Myrdal and Marc Tool; while the new institutionalists include Douglas North, Oliver Williamson, Mancur Olson and Friedrich Hayek.

The only linkage of any strength between old and new institutionalism, which runs through these volumes, is the idea that 'institutions matter' or that 'institutions are an important area of investigation'. Beyond this there is no major attempt to argue for closeness between the two major branches of institutionalism. This is one of the strengths of the volumes: it does not attempt to argue for closeness where only a minimal degree of similarity exists between the schools beyond this basic theme.

Major clashes and strains exist between new and old institutionalism. For instance, old institutionalism believes in organic and holistic explanations of socioeconomic phenomena, dependent on the social and collective generation of wealth; new institutionalism is based on the classical liberal view that the individual is the most important basic unit of analysis, and hence that wealth is fundamentally dependent on the generation of private business and private profit. New institutionalism is thus fundamentally based on neoclassical principles, whereas old institutionalism (or neo-institutionalism as Tool has called it) in many respects is closer to historical, post Keynesian, neo-Marxist, feminist, and Schumpeterian political economy.

Strangely, there are no longish entries on the 'history of institutional economics' or 'major contemporary themes in institutional economics', where the opportunity might have arisen to discuss the *historical connections* between the traditions in detail. Instead, there is an entry on 'Institutionalism, Old and New', where Hodgson stresses the differences between the holistic trend of the 'old' institutionalism and the atomistic trend of the 'new'. He concludes the entry by saying that "'old' institutionalism retains some advantages over the 'new'" (p. 402); especially their critique of the classical liberal doctrine. The implication is that, to some degree, the progressive-radical school of institutionalism, following in the footsteps of Veblen, Commons, Myrdal, Tool and others, is superior to the new school because of its cultural, organic view of economic processes.

Indeed, Geoffrey Hodgson (p. 377 of volume one) goes as far as to say that institutionalism can be characterised by (a) an organicist view of agency; (b) the emphasis on cumulative causation rather than equilibrium; and (c) institutions being the main focus (rather than individuals). This is the institutionalism of Veblen, Commons, Kapp and Myrdal. It is clear that at least some of the editors prefer the old to the new institutionalism.

Secondly, one of the main contributions of this work is the linkages between European and American traditions covered in many entries. Up until the 1990s there had been rather distant connections between the evolutionary schools of economics in the two continents. But recently closer relations have been established through, for instance, interaction between the newly established European Association for Evolutionary Political Economy (EAEPE) and the (American) Association for Evolutionary Economics (AFEE); and work on the relationship

between the Veblenian, Schumpeterian and Regulationist schools has begun in earnest. The relationship between institutions and technology is a theme running through all of these traditions, and is well documented in this work.

The third question raised is whether these two volumes sufficiently include the "nuts and bolts" - the major themes and concepts of IEPE. The volumes lie somewhere between a dictionary and an encyclopedia, which means that not all terms are shown in the a-z listings (and remember, there is no index). For instance, the principles "minimal dislocation" and "ceremonial encapsulation" are nowhere in the a-z list of topics; instead, they are discussed in the entry written by Paul D. Bush on "Social Change, Theory of". Readers will find that most important concepts or themes are either given a separate listing or are discussed in a longer entry. The critical ones are given their own listing, such as 'culture', 'cumulative causation', 'evolution', 'habits', 'institutions', 'instrumental value theory', 'natural selection', 'power' (two entries on this), 'time' and 'uncertainty'.

However, areas that are relatively ignored in this work include a discussion of the financial system, the family, and the world economy. It is surprising that Minsky's financial instability hypothesis is not included. Similarly missing is work on family relations and household labor; world hegemonic relations; as well as social structures of accumulation. Minsky is probably not included because there is an entry in the *Elgar Companion to Radical Political Economy* on financial instability written by Minsky himself. There is also an article on social structures of accumulation in the radical policy economy volume. Despite excellent entries on "International Economic Policy" and "International Economic Relations", the relative lack of material on world power relations is perhaps explained by the *historical tendency* of American institutionalists (at least) to be more interested in domestic issues. The institutionalism of Commons and Ayres was based on the American situation. It is hoped that closer links with Europe and other nations will bring traditional institutionalism out into the world more. This volume may well contribute much in this direction.

The fourth question that arises is the relationship between institutionalism and post Keynesian, Marxist, and Feminist political economy. Given the main focus of the volumes on Veblenian - Commons - Myrdal - Kapp institutionalism, it is not surprising that, in many entries, these trends in radical political economy are argued to be closely linked with institutionalism. Bob Jessop demonstrates that the 'regulation approach' successfully links Marxist and institutionalist concerns in examining the structure and transformation of capitalism through long waves. Ann Jennings believes that feminist institutionalism is consistent with the institutionalist concern for a non-dualism and cultural perspective. And the editors evidently believe that Joan Robinson, Nicholas Kaldor, and Michal Kalecki (the parents of post Keynesian economics) are broadly part of the institutionalist tradition (there is an entry on each of them).

The overall message of the work is that institutions matter; there are different ways to examine institutions; and Veblenian institutionalism is the most legitimate branch of institutionalism. The best road for economics to evolve is though the emphasis being placed on an historical, human centred, cultural inquiry into the workings of the sphere of production and the state. Such a study examines the clashes between firms, between capital and labor, between men and women, between different ethnic traditions, between production and reproduction, and between private profit and social stability. The generation and distribution of power, and the relationships between the major classes and institutions, are the dominant themes of Veblenian institutionalism.

What is the significance of this conclusion in a world characterised by the hegemonic dominance of neoclassical economics? There is no doubt that certain social and scientific trends do support themes developed by institutionalism rather than orthodox neoclassicism. The ongoing nature of change in social, technological and economic conditions is a basic

message that is now dominant in society, and it is this, above everything else, which is the basic message of IEPE. This has led to some hybrid forms of neoclassical economics, incorporating transaction costs, endogenous growth, and bounded rationality. There is a strong chance that neoclassical economics may enhance their dominance by incorporating institutional themes in their conceptual framework as a way of keeping up to date, and that this may help to sustain its hegemonic dominance. This may well be the historical role that new institutionalism has been playing, and will continue to play in the future.

The main tenets of Veblenian institutionalism are fundamentally different to neoclassical economics. In Veblen's work, short-term market forces are less important than long trends in capitalism. These long trends and waves emanate from the institutions. Ignoring institutions means abstracting from the body and mind of the economy in favour of studying the circulation of goods and money. Veblenian institutionalists argue that both are important, and that the circulation of goods is affected by social organisation and power relations. These themes are ones which are critical to political economy. Mainstream economics, tends to ignore these themes, or assumes that they are the realm of 'application' rather than 'theory'.

A recurring theme of these volumes is "power". Mainstream economics holds the most power, yet more than any trend in economics it ignores power in an explicit sense. Power in neoclassical economics, to the extent that it exists, is linked to market forms of power, rather than being a cultural phenomena which permeates all economic relations. Lacking a substantial social, political and environmental foundation, orthodox economics is relatively mechanistic, more or less following the old-style Newtonian method of classical physics.

New institutional economics and game theory are ways for neoclassical economics to gain respectability in the minds of people who see the importance of institutions and social relations. However, the neoclassical assumptions behind new institutionalism leads it to ignore the importance of collective wealth, holism, and culture. It is doubtful that old institutionalism is closer to new institutionalism than it is to neo-Marxist, post Keynesian, social- and feminist political economy. For this reason it is critical that these two volumes on institutionalism be used in collaboration with the *Elgar Companion to Radical Political Economy* and the *Encyclopedia of Keynesian Economics*. Overall, the editors have done a marvellous job of gathering together material on the major themes, concepts, subject areas and individuals associated with institutional and evolutionary political economy. They are to be congratulated, along with the writers and the publisher.

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