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# Institutional Economics: Perspectives and Methods in Pursuit of a Better World

by **Charles J. Whalen**

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The book entitled *Institutional Economics: Perspectives and Methods in Pursuit of a Better World* (Routledge, 2022) and edited by Charles J. Whalen is a recent contribution in the field of Institutional Economics. Whalen is Research Fellow at Baldy Center for Law and Social Policy, University at Buffalo. He taught at Cornell University, served in the USA Congressional Budget Office, conducted research at the Levy Economics Institute, and worked as associate economics editor at BusinessWeek. He is past-president of the *Association for Evolutionary Economics (AFEE)*, which has played a considerable role in advancing Institutional Economics.

The book takes us back to American Institutionalism. As stated in the introductory chapter, one of the aims of the book is to function as a springboard that would launch the institutionalist tradition founded more than a century ago by scholars such as Thorstein B. Veblen, John R. Commons, Clarence E. Ayres, and Wesley C. Mitchell, to mention a few, into an era of vibrant economic analysis, dialogue, and innovative practical research, especially in view of the global crises of the 21<sup>st</sup> century (p. 1). The Institutional tradition discussed in this book differs from the more recent developments in so-called New Institutional Economics, founded by economist and 1993 Nobel-laurate Douglass C. North. In his Nobel prize lecture, Douglass C. North (1993) criticized orthodox neoclassical economists for assuming that economic and political institutions don't matter and for focusing solely on getting the prices right. Yet New Institutionalism continued to apply neoclassical assumptions that explained institutions, such as public policy and private property, as an additional (social) means for individuals to maximize utility and achieve market efficiency mainly in the form of minimizing transaction costs. Ultimately, institutions, as rules and habits of human thought and action, were stripped of their complex and multidimensional nature, which is determined by people's relations and interdependence with one another and with the natural environment, and by the ways they express and address, individually and collectively, real-world needs, concerns, identities, values, and goals. American Institutionalism reminds us that markets are shaped by the social and cultural contexts within which they are embedded. It views institutions as the result of collective efforts for social provisioning and substantive

living, rather than the outcome of individual choices for maximization and efficiency. Thus, self-regulating markets, private property, and individual enterprise put forth by mainstream economics do not abide to natural, universal laws, but are themselves constructs of a market society that reproduce inequalities and injustices.

Part I of the book focuses on Institutional *Perspectives*, while Part II examines Institutional *Methods*. Both parts feature a total of 11 chapters that combine traditional and new perspectives and methods in Institutional Economics. The first three chapters in Part I examine the tradition of giants: Veblen, Commons, and Karl Polanyi. Part I begins with a chapter by William T. Waller, Professor of Economics at Hobart and William Smith Colleges, who discusses the development of core concepts of Institutionalism, namely the Veblenian dichotomy and instrumental value theory. He stresses how these concepts introduce methods of social valuation which go beyond the reductionist principle of market efficiency and assess institutions in terms of their instrumental efficiency, that is, in terms of their service to the life process and social progress, based on knowledge, technology, and pragmatic problem-solving. In the next chapter Whalen discusses the core concepts of Institutionalism developed by Commons, namely the theory of reasonable value and collective democracy. He argues that mainstream economics relies on the market mechanism to resolve industrial disputes without success. Thus, he turns to the notion of collective democracy, which is at the heart of Commons' theory of reasonable value and refers to a collective process of resolving conflict through collaboration, investigation, negotiation, and deliberation among the state and social partners (mainly, capital and labor). Then Michele Cangiani, retired Professor of Economic Sociology at Ca'Foscari University of Venice, dedicates a chapter to Polanyi and his institutional theory. He talks about Polanyi's analysis of the institutional transformation of the market society, in which we observe, on the one hand, the "dis-embeddedness" of the economy, that is, the separation of the economy and the society, and, on the other hand, the mobilization of social forces to "re-embed" the economy and counter the injustices and inequalities of capitalist societies.

Subsequent chapters in Part I shed further light on developments in market societies by appealing to insights from newer research traditions. Whalen contributes a chapter in which he draws from Post-Keynesianism and Institutionalism to discuss how money ceases to be seen as an institution, and how finance is separated from production, leading to economic vulnerability and crisis. In the next chapter, Janice Peterson, Professor Emerita of Economics at California State University, builds on the shared understanding of Feminist and Institutional Economics. We see that gender is an institution, determined by social and cultural values, which create distinctions between men and women, and between public and private spheres, leading to the devaluation of anyone and anything that identifies with "woman". The question of environmental sustainability and Institutionalism is addressed in the chapter by Richard V. Adkisson, Emeritus Professor of Economics, New Mexico State University. He shows how econocentrism and *laissez-faire* beliefs, which promote market-based transactions for social provisioning, have separated the economy from nature, and prevent public action from effectively dealing with environmental destruction and climate change. All these approaches suggest the re-evaluation of money, individuals, and nature, based on alternative principles, which include, among others, meaningful autonomy for consumers, workers, and

citizens; workplace democracy; intersectional analyses of gender, race, class, and nation; the redefinition of family and care; collective action through public policy.

In Part II we move from the perspectives of Institutional Economics to its methods. Generally, we read that Institutional Economics adopts a values-driven, activist, and democratic constructive approach in research, education, and policy, as opposed to mainstream economics, which has created a wedge between fact and value, positive and normative, theory and policy, logic and emotion, expert and practical. Part II begins with a chapter by Thomas Kemp, Professor of Economics at the University of Wisconsin-Eau Claire, who analyzes Commons' investigational approach of the economist in civil service. We learn that conflict resolution and policymaking depend on a democratic state that will support an impartial and trustworthy civil service for building collective processes of economic research and deliberation among social partners. In fact, we observe that Commons and his students had applied this method in framing laws and commissions for conflict resolution and worker protection in Wisconsin in the first half of the 20<sup>th</sup> century. The chapter jointly authored by Sarah S. H. Klammer, Eric A. Scorsone, and Whalen examines Alan Schmid's situation-structure-performance (SSP) framework. Klammer, as Academic Specialist, and Scorsone, as Associate Professor, are both at the Department of Agricultural, Food and Resource Economics, Michigan State University. The authors describe the merits of this framework in assessing the impact of institutions on wealth and well-being. Among the many applications of the SSP framework discussed in the chapter some interesting findings imply that bottom-up initiatives provide opportunities for active participation of community members in the design and implementation of development policies.

Arguably, analyzing the complex, multidimensional, and ever-evolving social and institutional context requires a plurality of tools and methods. To decipher the character of neoliberalism, an analysis of mythopoetics is proposed by Mary V. Wrenn, Senior Lecturer in Economics at the University of the West of England. In her chapter, she argues that the responsibility of institutional economists is to dismantle the enabling myths of capitalism, such as the omnipotent market and individual responsibility, which conceal corporate power and social inequality and threaten democracy and collective action among consumers and workers. In the following chapter, Whalen tells a story about ... storytelling. He highlights the power of narratives and pattern models in Institutional Economics in developing, presenting, and sharing our theories. Notably, it is possible for all interested parties – researchers, policymakers, community members – to partake in a mutual exchange of ideas and visions about their experiences and their view of the economy as a whole. Of course, this does not mean that mathematical and statistical techniques are rendered useless for institutional analysis. Michael J. Radzicki, Associate Professor of Economics at the Worcester Polytechnic Institute, completes the analysis of the book by stressing the importance of these techniques. He argues that the appropriate application of modern tools of simulation and data science, alongside pattern modelling, can generate new insight on economic and institutional change.

All these exceptional contributions grapple with many important issues which would fill numerous volumes and inspire stimulating discussions on the paths that Institutional Economics can further take to achieve its objectives. Due to limited space, I will focus on two interrelated paths, which, as demonstrated in the book, have played a central role in Institutionalism: rejecting dualisms and instituting democracy. Firstly,

Institutional Economics may further investigate the notion of civil society, namely the formal and informal social groups and networks, ranging from neighborhood self-help groups to global movements for social and environmental protection, which function outside the market and the state and play an active role in shaping values and institutions. For instance, the re-evaluation of gender may incorporate discussion and research on the phenomenon of multiple gender identities, which are supported by communities and movements (e.g., LGBTQI) that promote values of self-determination, solidarity, collective participation and deliberation. Polanyi refers to collective action which relies on reciprocity, in combination with exchange (market) and redistribution (state), to pursue the social “re-embeddedness” of the economy. As mentioned in the book, this is particularly crucial in contemporary capitalism, which, in Polanyian terms, has moved to authoritarian liberalism, that is, the marketization of society and politics.

This brings us to another issue that Institutional Economics may be called upon to address: What then? Can we salvage capitalism? Should we search for “post-capitalist” alternatives? In the works of authors such as Julie-Katherine Gibson-Graham (2006, 2016), George Caffentzis and Silvia Federici (2014), and Fikret Adaman and Pat Devine (2017), to mention a few, we find that these institutions already exist, and provide alternative rationalities, subjectivities, and imaginaries that redefine our place in the economy, the society, and the natural environment, and help us envision new values and institutions for the future.

As we envision a better society, we notice that other dualisms are ebbing, those between present and future, and between existing and imaginary. It may therefore be useful for Institutional Economics to engage in a deeper study of intuition, imagination, symbols, and ideals. Some institutional economists argue that it is difficult to distinguish between the instrumental and ceremonial elements that shape institutions: “what is” is influenced by considerations of “what ought to be”; and “what ought to be” is influenced by “what is”. No doubt, as mentioned in the book, neoliberal mythologies sustain the power and inequalities that hinder the life process and social progress in contemporary societies. It may also be pertinent to examine the ways in which people across time and space have commemorated the historical figures and events that challenged power, unravelled inequalities, and struggled to restore equity, justice, and democracy. These figures and events, though recorded as historical fact, may be portrayed as symbols of perspicacity, boldness, and self-sacrifice, inspiring younger generations to pursue social change, to shape their own future, and to envision a better society, as something that is *real* and *possible*. Moreover, studying the history of economies and economics in all parts of the world can considerably enrich the perspectives and methods of Institutional Economics. The present book mainly focuses on developments in the USA. Seeking alternative approaches outside the American context will also enable us to dismantle perceptions of “otherness” that separate populations within a global system of regional hegemonies.

Overall, the idea of a holistic and realistic purview of the economy, shaped by an ever-changing social and institutional environment, makes this book an important contribution to economic theory, policy, and education. The book’s title implies that the only reason to study economics is to make this world a better place in which to live. I think this is a principle to be shared by all social scientists and it is one that is genuinely and whole-heartedly served by this book.

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