THE REVIEW OF INSTITUTIONAL THOUGHT

A Publication of the
Association For Institutional Thought

VOLUME I DECEMBER 1981

THE REVIEW OF INSTITUTIONAL THOUGHT

VOLUME I DECEMBER 1981

A Publication of the
Association For Institutional Thought

EDITORIAL CORRESPONDENCE

The Review of Institutional Thought is presently published annually. All manuscripts are papers from the annual meetings of the Association for Institutional Thought. No other manuscripts are considered for publication. Those wishing to participate in the annual meetings of the Association should address inquiries to the administrative office of the Association. All correspondence regarding manuscripts, editing and publication should be addressed to: Paul D. Bush, Editor, *The Review of Institutional Thought*, Department of Economics, California State University, Fresno, Fresno, California, 93740.

BUSINESS CORRESPONDENCE

All correspondence relating to sales and billings for the *Review*, membership in the Association, and participation in its annual meetings should be addressed to: James I. Sturgeon, Secretary-Treasurer, Association for Institutional Thought, Department of Economics, University of Missouri—Kansas City, 5100 Rockhill Road, Kansas City, Missouri, 64110.

The price per copy of the *Review* is $7.00 for faculty, $3.50 for students, and $14.00 for institutions.

The *Review* was set in type by Lucietta Typesetting, Clovis, California, and printed at The Zumwalt Press by APR Publishers, Inc., Fresno, California.

THE REVIEW OF INSTITUTIONAL THOUGHT

A Publication of the Association For Institutional Thought

VOLUME I **DECEMBER 1981**

CONTENTS

ABSTRACTS

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

Editor's Note

With this thin volume, the Association for Institutional Thought (AFIT) inaugurates the *Review of Institutional Thought.* For the time being, the *Review* will appear annually, and its pages will be confined to manuscripts originally presented as papers at the meetings of the Association. It is hoped that in time the *Review* may become a quarterly, but that hope will be fulfilled only if the *Review* can acquire the requisite funding and scholarly support. Such support will, of course, depend on the *Review's* ability to deliver high quality institutional analysis in the field of political economy.

The editorial policy of the *Review* is mandated in the Constitution of the Association for Institutional Thought. Article 2 of the constitution states that it will be the purpose and objective of AFIT "... to encourage and foster the development of institutional thought in extension and modification of the contributions of Thorstein Veblen, John Dewey, Clarence Ayres, John Commons, Wesley Mitchell and others . . . ." The operative terms in this declaration are "extension and modification." They reflect the belief that a systematic development of an institutionalist paradigm of inquiry is not only possible but already evident in a nascent state in the literature. It is the purpose of the *Review* to help bring the institutionalist paradigm to full maturity.

The sense of urgency in this undertaking has been a driving force in the formation of the Association for Institutional Thought and its determination to offer a publication dedicated to this task. As Marc Tool indicates in his "Compulsive Shift to Institutional Analysis," the pervasive influence of "neoclassical orthodoxy" on contemporary economic discourse has begun to wane, and the opportunity for a paradigm shift from neoclassicism to institutional analysis is at hand.

Given the "holistic" intellectual tradition upon which the institutionalist paradigm rests, contributions to the *Review* will emanate from many "disciplines," ranging from philosophy and psychology to anthropology and economics. A cursory examination of the abstracts of papers presented at the First Annual Meeting of AFIT, which appear in this volume, reveals this interdisciplinary orientation. The lead article of this volume was written by a political scientist. It is this interdisciplinary scope of institutional thought which sets it apart from orthodoxy and offers the best hope for freeing the processes of inquiry from sterile, academic compartmentalization.

The appearance of the *Review* will, no doubt, confound those historians of economic thought who periodically write obituaries on the passing of institutional economics. In spite of the vigor of the Association for Evolutionary Economics and the high quality of its *Journal of Economic Issues*, it would appear that there is still a widespread impression among orthodox economists that institutional thought has failed to sustain its intellectual momentum. It may be even something of a surprise to institutionalists to find that their numbers have grown to such an extent that there are now two professional associations devoted to the support of institutional analysis. While this is, indeed, a remarkable development, it is by no means difficult to understand how it came about. To ensure that this phase of the history of institutional thought is not obscured by a lack of sufficient documentation, James Sturgeon, Secretary-Treasurer of AFIT, has contributed to this volume a history of the founding of AFIT. While he notes that the origins of AFIT are located in the "Cactus Branch" of institutionalism nurtured in several universities of the Southwest, he documents the fact that the progeny of the "Cactus Branch" is now far-flung across the nation, giving AFIT a truly national character even though its meetings are held in the West.

A primary commitment of the *Review* is to publish abstracts of all papers presented at the annual meetings of AFIT. The publication of these abstracts is undertaken in connection with the operation of AFIT's Papers Clearing House. The AFIT Papers Clearing House will make available upon request the complete text of any unpublished paper abstracted in the *Review*. These papers may be obtained for a nominal reproduction and mailing fee by writing the Secretary-Treasurer of the Association. It is hoped that by providing this service, AFIT will be able to accelerate the dissemination and review of current work being done in the field of institutional thought.

In closing, mention must be made of the grievous loss the Association sustained this year in the deaths of two of its most distinguished founding members: John C. Livingston and Louis J. Junker. Jack Livingston's "Private Vices, Public Virtues" speech, the lead article in this volume, set the tone of moral and intellectual commitment that characterized the founding of the Association. Upon hearing of Jack's death, Lou Junker expressed the fervent desire that Jack's speech be given a prominent place in the first volume of the *Review*. Within a few months of Jack's passing, Lou was gone. His death deprives the Association of its current (1981-82) president and one of its most inspiring scholars.

Jack Livingston is memorialized by Marc Tool in this issue. A systematic treatment of Lou Junker's contributions to institutional thought will appear in a later volume of the *Review*.

This inaugural volume of the *Review of Institutional Thought* is dedicated to the memory of John C. Livingston and Louis J. Junker with the hope that its pages will preserve the quality of their originality of thought and their passion for a free and vigorous inquiry into the most profound issues of our age.

P. D. B.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

In Memoriam

JOHN C. LIVINGSTON
1918-1981

The death in July, 1981, of Jack Livingston sadly deprives his family, friends, former students, colleagues, and his profession of one of America's outstanding intellects and warm and sensitive human beings.

Among those who have contributed to the instrumentalist-institutionalist perspective on social inquiry and political economy, Professor Livingston was clearly one of the most able and articulate moral and political theorists. To those orthodox proponents of political pluralism and neoclassical economics, he was a probing and effective, but compassionate, critic. For the academic world generally, he had few peers as a philosopher of democracy, freedom, equality, and social justice.

His work on democratic theory (beginning with his master's thesis on William Jennings Bryan at the University of California at Berkeley, and continuing with his doctoral dissertation at the Claremont Graduate School on "Compromise and the Theory of Democracy") and his later work on equality (concluding with *Fair Game?*) in particular, rank him with the most imaginative and creative minds of his generation. *Fair Game?* is clearly the best book on equality since R. H. Tawney's classic of half a century ago. Professor Livingston's intellectual roots are found in the ideas of John Wise, Joel Barlow, John Taylor, and Thomas Jefferson of the Founders' generation, and with John Dewey, Thorstein Veblen, Mary Parker Follett, Clarence E. Ayres, J. Fagg Foster, John Schaar, and Sheldon S. Wolen, among others in recent generations.

An awareness of the nature and critical significance of Professor Livingston's contributions can be gained by a brief canvass of some of his views.

On the theory of democracy: He offered a pervasive and profound assault on the contentions that democracy is embodied in the compromise of differences, the achievement of balance of factions, or a pluralist equilibration of competing politically expressed, but private-desire-based, interests. He undercut deference to this balance-and-compromise

dictum, from Alexander Hamilton's elitist republic to Robert Dahl's pluralistic bargaining model. In their place, Professor Livingston offered a majoritarian model which retains the deliberative role of representatives and affirms governance by consent of the governed as the root of political legitimacy. One of his favorite quotes appears inside the covers of his text (written with co-author Robert G. Thompson), *The Consent of the Governed* (Macmillan, 1963, 1966, & 1972). From Jefferson: "All, too, will bear in mind this sacred principle that, though the will of the majority is in all cases to prevail, that will, to be rightful, must be reasonable; that the minority possess their equal rights, which equal law must protect and to violate which would be oppression." Professor Livingston believed that the ethical relativism of the pluralistic model and the ethical absolutisms of the elitist model must be discarded in favor of an instrumental model of cultivated reason which discloses a public interest apart from balanced private interests.

On the theory of freedom: Professor Livingston exposed the utilitarian relativism of taking wants as given and pecuniary choice as the pursuit of want satisfaction. He rejected the various modes of defining freedom as obedience to one or another authority and of conceiving freedom to mean an absence of restraint. He denigrated recourse to Paretian optimums as providing ethical options or relevant criteria for making choices. He affirmed freedom as the capacity to think reasonably and to choose rationally, with others, the rules which order experience.

On the theory of equality: In the course of what was for Professor Livingston a career-long quest for enlightenment and conviction on the nature and meaning of equality, he marshalled a fundamental and persuasive critique of the comfortable and familiar, but deceptive and destructive, dictums of "equality before the law" and "equality of opportunity." The latter he considered "the master myth" of American political thought. Equality of opportunity becomes, in a context of conventional capitalist markets, a vehicle for dramatically increased *in*equality. All would-be competitors do not start even. Accordingly, those advantaged at the outset (by race, wealth, education, et cetera) are provided means for increasing their relative advantage. The quest for equality of opportunity increases inequality. The quest for equality, in contrast, requires advantaging the disadvantaged. In this context, the significance of Affirmative Action programs, for example, is affirmed. His *Fair Game?* develops these arguments at length. In both theoretical formulation and in personal application, Professor Livingston recognized the costs to blacks, whites, and others of perpetuating invidious practices and judgments which assault the fundamental dignity of individuals on grounds of race, sex, ethnicity, and the like.

On the theory of social value: Professor Livingston was preeminently a person of moral convictions and a scholar of social morality. He was to a remarkable degree the conscience of the campus and of his political community. As a theorist, he rejected the positive-normative dichotomy; politically, he rejected the ethical relativism of political pluralism. With Ayres, he decried "the pestilence of moral agnosticism." He vigorously rejected the view that "impulse, desire, and appetite" are to be deferred to in an economic and political community. He was fond of John Taylor's quip: "When avarice and ambition beat up for recruits, too many are prone to enlist." With Tussman, he acknowledged the dual role of the citizen, which requires a distinction between private wants and public obligations in a democratic society. The latter must take precedence over the former if the quest for a moral social order is any significant measure to be realized. Social value for him was neither ethically relative nor morally absolute. Social value adheres in the pursuit of the moral community in which human worth is not denigrated on discriminatory grounds and where dignity and effectual participation are assured. Professor Livingston's "Private Vices; Public Virtues," which appears below in this volume, addresses the value premises of economists in particular.

Professor Livingston's scholarship was not divorced from the other areas of his life. Rather, it continuously infused his teaching and guided his own activities as a public citizen. As a teacher, he ranked among the very best: reflective, creative, articulate, intense, caring, interesting, astute, and highly competent. He became a role model both for his students and for his peers. In his earlier years at the University of Denver, he participated in and wrote materials for an exciting integrative curriculum in social analysis which reflected instrumentalist and institutionalist ideas among others. Paul Dale Bush and the late Louis Junker are among his intellectual progeny of this period. Later at Sacramento State, he continued to develop imaginative approaches to social and political inquiry in his regular and honors courses.

As a public citizen, he was an active participant of extraordinary courage and perceptive insight. As a battlefield-commissioned infantryman in World War II, he came early to distinguish between military pomp (quest for status and rank) and actual circumstance (the leveling realities of combat). In the early fifties, at personal risk and cost, he voiced vigorous and public opposition to McCarthyism. In the late fifties, his appraisals of foreign policy led him on moral grounds publicly to advocate, in spite of shallow ridicule, unilateral nuclear disarmament. In the early sixties, he became an active and effective member of the governing board of the local National Association for the Advancement of Colored People to support its quest to reduce the discriminatory treatment of blacks. He was often a participant in party politics, helping direct campaigns, working on platform language, and the like. Throughout his academic career he was engaged in countless struggles with university administrators in an effort, with others, to sustain the dignity, creativity, and intellectual autonomy of the teaching faculty. He was forever the articulate foe of capricious, vindictive, self-serving or ill-considered judgments on campus whether originating with faculty or with administrators.

His scholarship on academic goverance in higher education merits a further word. Drawing on Veblen's *Higher Learning* and other sources, Professor Livingston was a most effective formulator and implementer of the collegial model of academic governance. A campus, he thought, ought to be a model of a substantially self-governing community of scholars. In a brilliant and provocative essay on "Tenure Everyone?", for instance, he persuasively makes the case for creating a collegial community and demonstrates why this kind of faculty organization is absolutely essential for fulfilling the faculty's instrumental function and charge as professional scholar-teachers. His special concern in this article was faculty personnel policy. He ably demonstrates why the simplistic compulsion to move increasingly to meritocracy models of faculty organization and governance elevates matters of status, rank, privilege, bureaucratic placement, bureaucratic judgment (do what is safe, not necessarily what is best), and power over others into determinant criteria of judgment in personnel evaluation and campus policy making. Judgment so grounded, he thought, produces a steady erosion, and the eventual demise, of the capacities for creative scholarship, courageous teaching, and the motives to conduct each. He helped to organize, and served as an early chairman of, the Statewide Academic Senate (of the California State University system); and he helped to reform the local campus senate (at Sacramento State). He served as an acting Dean of the School of Arts and Sciences. In these and other areas he demonstrated both the viability and the significance of collegial governance, and the disintegrative character of meritocratic governance. Regrettably, "eternal vigilance" was insufficient either to achieve fully his goals or to sustain some of his very real accomplishments.

His life was guided, to a remarkable degree, by his reflective insights and his humane commitments, even though it was sometimes awkward, lonesome, and painful so to do. As a prominent philosopher of equality, freedom, and social justice, he was resourceful and persuasive in seeking their implementation in academic governance, political participation, race relations, social policy discussions, and economic processes.

Withall, he was a remarkably compassionate person. Exhibiting an easy and delightful sense of humor, he loved telling stories. He was in constant pursuit of excellence in his professional, public, and private lives. He was devoted to family, friends, students, his profession, and the human values of a decent, nondiscriminatory, and reasoning society. He was an inveterate optimist. Although he could hardly bring himself to speak ill of another person, he delighted in challenging ideas and their roots and warrant. All who knew him are better for having lived and worked in his presence. The extraordinary meaning of his life and intellect will continue to be manifest in the lives of those who knew him or read his work.

MARC R. TOOL
Department of Economics
California State University, Sacramento

Selected Bibliography

JOHN C. LIVINGSTON

Fair Game?: Inequality and Affirmative Action. San Francisco: W. H. Freeman & Co., 1979.

"Tenure Everyone?" In *The Tenure Debate.* Edited by Bardwell Smith and Associates. San Francisco: Jossey-Bass, Inc., 1973.

With R. G. Thompson. *The Dissent of the Governed: Readings on the Democratic Processs.* New York: Macmillan & Co., 1972.

With R. G. Thompson. *The Consent of the Governed.* New York: Macmillan & Co., 1963, 1966, & 1972.

"Collective Negotiations." In *Handbook for College and University Administrators.* Edited by Asa Knowles. New York: McGraw-Hill, 1970.

"Academic Senates Under Fire." In *Agony and Promise.* Edited by G. Kerry Smith. San Francisco: Jossey-Bass, Inc., 1969.

"Faculty and Administrative Roles in Decision Making." In *Stress and Campus Response.* Edited by J. Kerry Smith. San Francisco: Jossey-Bass, Inc., 1968.

With AAHE Task Force on Faculty Representation and Academic Negotiations. *Faculty Participation in Academic Governance.* Washington, D.C.: American Association for Higher Education, 1967.

"Collective Bargaining and Professionalism in Higher Education." *The Educational Record.* Winter, (1967).

"The Politics of the Warfare State." *Northwest Review.* Summer, (1963).

"Unilateral Disarmament: The Only Civil Defense." *Northwest Review.* Winter, (1962).

"Alexander Hamilton and the American Tradition." *Midwest Journal of Political Science.* November, (1957).

"Liberalism, Conservatism, and the Role of Reason." *Western Political Quarterly.* September, (1956).

Book Reviews in the *Western Political Quarterly.*

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

Private Vices; Public Virtues

JOHN C. LIVINGSTON*

Professor of Government
California State University, Sacramento

Since most of you are likely to be economists, I warn you at the outset that my general view of the economics calling is a dim one. I have always inclined to think of my friends in the profession as "good men in a bad trade" (to borrow H. L. Mencken's comment about Grover Cleveland). This attitude of mine is not primarily directed at "economists *qua* economists" (though I do confess to some suspicion of anyone who uses "qua" to replace "as"). I do believe that economists have thoroughly fouled their own nest, but I would be willing to consider that to be their own sorry affair, were it not for the fact that they have managed to mess up political theory as well.

My argument is that the assumptions in economic theory—the "economic paradigm," in current jargon—underlie the intellectual collapse of political theory and the moral collapse of liberal democracy. Those of us who practice in what have come to be the derivative disciplines are no less morally responsible, of course, for following the economists' lead. And, in any event, in a meeting sponsored by institutional economists, any reference to "economics" is always with the implicit reservation, "present company excepted."

I want to try to get at the way in which the "dismal science" has become the master social science from what may seem an unlikely starting place—by calling attention to the message in one of the recent entries in the flourishing market for "self-improvement" books. The author of this one has come up with the definitive title: *Success!*, with an exclamation mark; and he fulfills the promise of the title by daring to explore the limits of the success formula. He does not pretend, as he tells us, "that you can succeed in business—or at anything else—without really trying . . . you do have to try if you want to get ahead, but perhaps not as hard as you think." Actually, as it turns out, the necessary effort is both easy and pleasant: "To succeed, you have to learn to follow your natural instincts and appetites, to convince yourself, first of all, *that what you want is O.K.*" The necessary, and perhaps even sufficient, condition is "to tell yourself: It's O.K. to be greedy; it's O.K. to be ambitious;

* The late John C. Livingston delivered these remarks at the founding banquet of the Association for Institutional Thought on April 26, 1979, at Lake Tahoe, Nev.

it's O.K. to look out for Number One . . . and it's *always* O.K. to be rich."

A couple of parenthetical remarks are appropriate here. First, the author happens also to be editor-in-chief of Simon and Schuster, which may help explain why institutionalists have a tough time getting their manuscripts published. Second, it needs to be noted, the author does offer the counsel that monetary success is not synonymous with happiness, but his final word on that subject is not far from the facetious question that the late Francis Myers used to ask: "After all, what good is happiness? You can't buy money with it."

But, to return to the formula for *Success*, what are we to make of this man who persuades himself that it's O.K. to be greedy; indeed, that *whatever* one wants is O.K.? There are, in the tradition of social philosophy, two perspectives from which this new man may be regarded. One is the perspective of economics, from which the conclusion is: "economic man, at last!" Men are finally coming to define themselves in a way that ensures the healthy operation of a market economy. There's an animal that a positivistic economic science can reckon with. A real honest-to-God maximizer whose utility schedule can be expressed as an indifference map. An animal who takes his wants as given data which express his unique and natural propensities. Just such "wants," as irreducible and incommensurate givens, have always been the basic data required by the science of economics. Only if they are givens—only if individuals regard them, whatever they happen to be, as O.K. can demand schedules be independently derived, as they must be if market equilibria, indifference analysis, Pareto optimums and all the other elements in the operation of economic "laws" are to be anything but vicious circularities. From the perspective of economics, in short, it's definitely O.K. for people to feel O.K. about maximizing whatever they happen to want.

From a second perspective, the immediate reaction to this success formula is like Mark Twain's response on first hearing Wagner's music: "It can't be as bad as it sounds." But, on sober second thought, it turns out to be worse: the product of a sick mind that would only be nurtured by and fed royalty checks in a sick society. This is the judgment reached from the perspective of economic theory before the physiocrats and of political theory until much more recently. Virtually all earlier philosophers would have asked, how can a society hope to survive, much less to survive well, that makes greed and ambition O.K.? That encourages the gratification of impulse and appetite? That explicitly denies the existence of a difference between "I want" and "I ought to have"? That thus makes public virtues out of private vices?

Most philosophers, after all, have assumed that man is not in need of instruction which legitimizes impulse, desire, and appetite. "When avarice and ambition beat up for recruits," said Jefferson's colleague, John Taylor, "too many are prone to enlist." A couple of thousand years earlier, Plato had derisively described a market society as a *civitas cupiditatis*. When the sophists preached that it's O.K. to be greedy, Aristotle replied that "ambition and avarice are exactly the motives which lead men to commit nearly all intentional crimes." He saw the whole polis to be imbued with "a spirit of avarice" which threatened its existence. For, "it is the nature of political rule to be directed to the good of the polis and not merely to private interest." The "spirit of avarice," he warned, threatened to make the polis ungovernable. And he was right; it did.

From the perspective of nearly all earlier philosophy, an adult who accepts his/her desires as given data, who thinks that it's O.K. to be greedy and ambitious, is not really an adult at all, but, as Ortega argues, a "spoiled child." And a society that encourages those beliefs is not even a nursery for spoiled children, but the land of "Lord of the Flies." And when, in a society where adults behave like children, social theory is built on "taking man as he is," the theorists are really taking children to be adults, and encouraging them never to grow up. Here, as nearly always in social inquiry, our "givens" turn out, as Dewey said, to be "takens." What I want to argue is that the supremacy of the spoiled child in American culture reflects a dual historical movement. At the institutional level, it expresses the victory of capitalism over democracy; at the level of social theory, it represents the triumph of economic over political analysis.

America, from the beginning, had a schizoid social and moral personality. It was at the same time puritan, democratic, and capitalist. In its Puritanism, it encouraged men to find their identities as children of God. The ethic and temper of Puritanness provided codes of conduct that emphasized "work, sobriety, frugality, deferred gratification of instinctual desires, . . . restraint in (their) gratification" and mutual obligation. These codes defined the nature of moral conduct and social responsibility; specifically, they provided the grounds for social obligation and care for others. The work ethic was, first of all, an ethic—that is, a statement of moral obligation. Every man in the words of a 1647 Leveller manifesto, is "equally oblieged and accomptable to God . . . for the use of that talent betrusted unto him." As against the use of wealth and outward display as symbols of inequality, in the new regime of Puritan values, "you will no longer value men and women according to their wealth, or outward shewes, but according to their vertue, and as the love of God appeareth in them." Men were stewards of their divinely given talents, obligated to God to develop them and put them in the service of their fellow man. Talents were not seen as competitive assets to be cultivated and spent carefully in the pursuit of individual ambition and greed.

Democracy, like Puritanism, taught men the civic duty to rise above self-interest to care for the common interest; to be rulers, in the company of equals, of their common destinies. As the Reverend John Wise, Puritan democrat, put it, "no man is so wedded to his own interest but that he can make the public good the mark of his aim."

The distinction between private and public interest—between "I want" and "I ought to have"; between "getting" and "solving"; between what is desired and what is desirable; between impulse and reason—was at the very core of democratic theory. It was always that distinction that provided an answer to the question put by A. Lawrence Lowell some 60 years ago. Lowell invited us to consider the situation in which "two highwaymen meet a belated traveller on a dark road and propose to relieve him of his watch and wallet." Are we to conclude, he asked, "that in the assemblage on that lonely spot there was a public opinion in favor of a redistribution of property"?

The answer to Lowell's question, on the assumptions of economic theory, is clearly in the affirmative. There is, in fact, only one way of avoiding an affirmative answer, and that is to reject the assumptions about human nature, reason, and values on which economic science has been built. Lowell, for example, argued that "the absurdity in such a case of speaking about the duty of the minority to submit to the verdict of public opinion is self-evident," the obvious reason being that, in such a case, there is no public capable of forming an *opinion* on the issue at hand. Jefferson made the same point in his First Inaugural declaration that "the will of the majority is in all cases to prevail, but that will, to be rightful, must be reasonable"—it must, that is to say, reflect and be amenable to reasoned argument. Only that is entitled to be called "opinion," Tom Paine added, which is "the result of reason and reflection." The case for political democracy always rested on a belief that men are capable of forming a public to which reasoned appeals to principles of justice could be made. Politics, therefore, was seen to be, not an arena for marshalling and counterbalancing man's vices, but as a redemptive activity in which man's capacity for conscious moral choice would be cultivated.

For both Puritanism and democracy, the enemy was man himself, in his propensity for "avarice and ambition." But both assumed that the solution also lay in man. There was, of course, a fundamental tension between the temper of Puritanism and that of democratic theory, rooted in the opposition between faith and reason as a means to moral truth. But they shared a common faith that man is capable of infinite moral improvement and that the welfare of a society is to be measured by its ability to improve the moral condition of mankind. Neither, that is to say, was satisfied to take man as he is. Both would create a "new man" in a new society.

The very essence of capitalism, in contrast—both as ideology and as a way of life—was the denial of moral truth altogether and the enthronement of appetite. In its classical version, the market conception of society took man as Hobbes had presumed him to be: acquisitive, self-aggrandizing, ambitious, envious; destined always to prefer his own selfish interests to the claims of others; psychologically incapable of a sense of justice, which even if he were psychologically up to it, was epistemologically barred by the relativity of values. (Following Hobbes—who, not Locke, provided the assumptions underlying the market economy—classical economic science assumed that reason was "but a scout and a spy to the desires."

The classical economists did not, of course, discover for the first time, that men are avaricious and ambitious. The startling truth, as Polanyi made so clear, is that they were the first to imagine that a society could be built on that assumption. Men are entitled—even obligated—they were the first to assert, to be their own unlovely, egoistic, juvenile selves. The crucial fact, as you need no reminding, was that on individual vices they built a virtuous utopia.

The magic of the natural laws of the market required, in fact, only that men not try to be virtuous or, if they tried, that they be given no social opportunity for the exercise of virtue. It was a utopia they constructed, though an ignoble one. The road to Heaven, they proposed, is paved with bad intentions. "Man could accomplish great things without himself becoming great, without developing . . . moral excellence." In contrast to both Puritanism and democracy, capitalism proposed that a society can be made just without men acquiring a sense of justice or assuming a duty to be just. Capitalism has lived on, and now has lived up, the borrowed moral capital of a puritan and democratic past, devouring all social and moral obligation in the appetites of men who are encouraged to believe that it's O.K. to look out for Number One.

At the same time, the institutional triumph of capitalism over democracy has been accompanied by the dominance of economic over political science. The greedy and guiltless man on the make, for whom the guilt-free pursuit of private views is a condition of success, is the familiar "economic man" of classical economic theory. Economists, to be sure, out of embarrassment or guilt, as well as a "scientific" desire to develop a more consistent ethical neutrality, abandoned the classical assumption of hedonistic "economic man" in favor of a concept of "maximizing man" that claimed to be neutral to whatever it is that men happen to want to maximize. But by then, what men happened to want had come to be the very fruits of avarice and ambition that an earlier economic science and the imperatives of a market society had encouraged them to believe they were entitled to want.

Man as maximizer turns out still to be an economic animal. But he would not have been regarded before our own time as also a political animal. Almost no political theorist, prior to the last couple of decades, had seriously entertained the idea that politics might itself be a market in which a natural tendency to truck, barter, and exchange is indulged in the pursuit of private interests. The reasons are obvious. Under a marketplace conception of political life, politics becomes systematic bribery of the electorate by politicians. And, there being no longer any public standards for judging rival private claims, it even becomes impossible to distinguish the case of a bribed stumblebum who sells his vote for a 20 dollar bill from a farmer who votes for the candidate who promises higher crop support prices. (The only admissible distinction, in the premises, is that the stumblebum may be said to have a higher "liquidity preference".)

As the political system has come more and more nearly to resemble the economic market, the neoclassical economic model has increasingly provided the conceptual tools for describing, and surreptitiously defending, it. At the most sophisticated level of formal theory, a few political scientists and economists have followed Schumpeter's lead to construct "economic models of democracy." (Surprisingly, and frighteningly, these "general theories" turn out to have greater relevance for political reality than general price theory has for economic reality!) In the workaday world of academic political science, economic concepts are employed less self-consciously, but no less earnestly and disastrously. The concept of general equilibrium, in the form of a balance of group interests, furnishes a presumptively "non-normative" substitute for a non-existent public interest. The concept of "equal opportunity to gain access to centers of decision-making" provides a substitute for perfect competition which effectively masks the existence of political oligopoly. A "market polity" is, in effect, assumed to provide the only alternative to a "command polity." Political participation is described as "input", and therefore as a "cost." And, "on the basis of this reasoning, the less the individual has to participate in the input and demand side of the system in order to gain his interests on the "output" side, the better off he is." The idea that a citizen has an "interest" in the opportunity for intellectual and moral development which accrues from participation in public discourse and decision on public issues lies as wholly outside the "felicific calculus" of interest-group compromise as it does of market transactions.

The kinds of individuals' "wants" that are capable of being accommodated into a utility equilibrium on an indifference map become the given data of politics. Since these "wants" are, at the same time, private, insatiable, and rationally incommensurable, and since there is no "invisible hand" in either the political or the economic marketplace, the stability of both systems is threatened by the problem of inflation. It was never, after all, the magic of the laws of the competitive market that imposed restraints on avarice and ambition, but rather the internalized restraints that stemmed from the Puritan ethic and the concern for justice that was inherent in the democratic ethic. Inflation, in both the economic and the political markets simply reflects institutionalized and legitimized greed, in a social context in which neither private nor public limits on greeds are available. Price inflation threatens to make the economy unmanageable at the same time that inflation of expectation threatens to make the polity ungovernable—and for the same reasons. The reasons are rooted in the human motivations that are cultivated by the market processes. Because the same market view of man is reflected in the assumptions of both economic and political science, there is currently no way of getting an intellectual grip on the problem — or even of defining it.

The triumph of economic rationality in politics is nowhere more evident than in the way that Pareto optimality, usually in unconscious

ways, provides political scientists with their criterion for judging the public welfare. Pareto's formula—the welfare of society is increased if either everyone is made better off, or if at least one person is made better off while no one is made worse off — *is* the underlying principle of pluralist politics, in both theory and practice. At the theoretical level, it provides a basis for the value - free pretensions of "interest - group liberalism" in politics just as it does for "free-trade liberalism" in economics. In both, it takes man as he is and institutions as they are; it justifies the existing distribution of private benefits; it denies the existence of a public interest; it rules the question of distributive justice off the agenda; it requires the religion of "growth" as a precondition of stability.

But, in fact, Pareto optimality is no more value-free in politics than it is in economics. Indeed, its implicit bias is more clearly apparent in the political realm. Consider this situation: The average income of black families in the United States is about 60 percent of white incomes. Is social welfare increased if blacks get richer, but whites get richer faster, so that the income gap is increased? Clearly, the answer can be "yes," only on the assumption that there is no problem of racial injustice. Only, that is to say, if one adopts a position of ethical neutrality toward the distribution of incomes among racial groups. A "value-free" social science is, in the actual conditions of American society, a white—and, therefore, a racist—social science.

The same considerations apply to the question of distributive justice generally. Economic and political injustice, like racial injustice, may increase at the same time that the Pareto conditions have been met. Ethical neutrality is to be purchased only at the price of assuming that whatever is, is right; only at the price of justifying all inequalities that exist, or may happen to exist.

What the Pareto optimum leaves out of account is that justice requires that someone *lose*, at least relatively. The striking thing is that, while economists have spared no effort to instruct the rest of us that in economic matters there is no such thing as a free lunch, they have also been responsible for leading us to believe that, at the moral counter, there is. Their quest for moral neutrality has led them inevitably to that conclusion. Society will be made "better-off," so long as no one is made "worse-off." The oppressors need not relinquish their advantages.

In the area of race relations, for example, it is the assumptions underlying Pareto optimality that lead to describing affirmative-action programs as "reverse discrimination." The assumption underlying that phrase is that racial justice can be achieved without cost to whites. The hard, but obvious, truth is that non-whites can be treated preferentially only at some cost to whites. But so deeply entrenched is the assumption that a "free lunch" is available at the moral counter, that the supporters of affirmative action felt compelled to invent a distinction between "quotas" and "goals" to conjure away the harder truth that social justice is always a matter of relative advantage—a condition of morality that the "science of scarcity" might have been expected to recognize.

Pareto optimality—and its offer of a free lunch at the moral counter—is a natural outgrowth of the assumption that public virtue is simply the maximization of private desire. The public good, however, is *public*: It is forged out of public discourse by men who are capable of distinguishing "I want" from "I ought to have." Those two propositions occupy different realms. It is sheer nonsense (of which only fools and advanced thinkers are capable) to imagine that they can be accommodated on an indifference map which establishes a marginal equilibrium to be accrued from different amounts of income, status, civil liberties, racial justice, or economic justice generally. To imagine that moral choice can thus be reconciled with greed—especially in a market society which has eroded the claims of conscience—is to encourage greed.

Ethical neutrality in social science is dangerous because it is impossible. Its impossibility is rooted in the fact that no social analysis can avoid making assumptions about human nature. The effort to be ethically neutral can only approach this question by taking man as he is and by seeking to eschew all judgments of what man ought to be or might become.

Adolph Hitler, on his way to power, expressed his great admiration for Karl Leuger, "the famous Burgomeister of Vienna and leader of the Christian Social Party," because, as Hitler put it, "Leuger had a rare gift of insight into human nature and was very careful not to take men as something better than they were in reality." Hitler's secrets were matters of technique, not ideology, his "poltical ideas and programme . . . were entirely unoriginal." He used "human nature," not "German nature" to create a mass movement which made men infinitely worse in reality than they had been.

I do not wish to be understood as blaming economists for the crimes of Nazism. But it is relevant to point out that Hitler's guiding principle —take man as he is—is also the only available basis for the ethical neutrality of social science. It describes the basis of the neoclassical effort to abandon the hedonistic and egoistic assumptions of classical theory, and the impact on political science of following the economists' lead. It explains why political scientists have now joined economists in being among those "groups that have nothing in common except the sense that they lack a theory worthy of their cause or calling."

The lesson in all this was described by Edmund Burke: "If you treat men as robbers, why, robbers sooner or later they will become." Goethe put it even more generally and forcefully: "When we take man as he is, we make him worse; but when we take man as if he were already what he should be, we promote him to what he can be." In Goethe's vision, I suggest, lies the only path to remaking both economic and political inquiry into a calling worthy of our efforts.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

The Compulsive Shift to Institutional Analysis

MARC R. TOOL[1]

Professor of Economics
California State University, Sacramento

Over the last half-century, the pervasive grip of neoclassical orthodoxy on the minds and hearts of an increasing number of economists and policy makers appears to have relaxed, in spite, perhaps, of desires to the contrary. Untoward and pervasive events and circumstances have produced successive and urgent demands for divergent and more relevant social, political, and economic policy responses: The Great Depression of the 1930s was the forcing bed for the Keynesian revolutionary formulations. The Second World War of the 1940s required the advent of aggregate integrative planning and control of a war economy. The conspicuous emergence of the post-colonial Third World in the 1950s generated an ambitious, and at times heretical, quest to invoke and accelerate growth and development in poor countries. The domestic concern to reactivate the economy and make "war on poverty" in the 1960s led to the use and refinement of Keynesian based "fine tuning" demand management and to an attack on structural malfunctions in the economy. The convulsive and worsening instability of concurrent unemployment and inflation of the 1970s especially has forced attentive theorists and policy framers out of habitual views into what is for them new, unfamiliar, and uncharted areas of the unconventional and the unorthodox.

It is a contention of this paper that the foregoing events and circumstances, among others, and the scholarly and analytical efforts prompted thereby, have been, and are now, contributing to a profound paradigm shift in political economy. The economist's abiding commitment to develop and apply theory which is relevant, directly or indirectly, to the great issues and problems of the day, is driving economists out of orthodoxy to positions similar to or compatible with the positions institutional economists have been evolving over this century. The shift is compulsive in the sense that exigencies of claiming pertinence in existential problem areas compel movement out of and beyond the mainstream conventional wisdom. It appears not to be, however, a shift that is knowingly and designedly intended to engineer a premeditated change in paradigm. The departures from orthodoxy noted here are not usually seen as anything more than corrections in or addenda to orthodoxy.

Many have observed the disjunction among economists who proclaim commitment to neoclassical orthodoxy and market mentality on the one hand, but who, on the other hand, ignore, compromise or abandon that commitment when they come to deliberate and recommend on public economic policy. We often hear the rigor and rationality of the orthodox model, and the efficiency of unfettered market forces, extolled by individuals who, nevertheless, make exceptions thereto as they recommend policies which manipulate markets, correct for "market failures," invoke controls, manage money stocks, sponsor subsidies, acquiesce in price administration, "live with" achieved market power, accede to commodity supply agreements, salvage sick industries (Pennsylvania RR, Chrysler), allocate markets, administer income flows via transfers, generate tax breaks and incentives, and otherwise manage the economic process to produce consequences they favor. These overt acts are sometimes rationalized as generating consequences comparable to what would have occurred had there been actual and operating competitive markets. And in the advocacy of, or the acquiescence in, such policy shifts, positivist economists become practicing normativists, that is, they are engaged in deciding what proper policy ought to be.

The fact of the disjunction can hardly be in dispute. The position developed here acknowledges that contradictory posture and suggests that the shift is not merely away from orthodoxy, but is in the direction of institutional thought. Will we, a decade or so hence, hear colleagues say: "We are all institutionalists now"? Perhaps not, but intellectual honesty and consistency might recommend such an assertion. If the selected cases herein discussed turn out to be representative of the whole, institutionalism may well become the successor to neoclassical orthodoxy, although it probably would be called by some other caption.

What follows are examples of what are here called compulsive shifts to congruency or correspondence with institutional analysis. Three primary areas of inquiry and focus have been chosen for inclusion. They are: (1) the Keynesian revolution and contribution; (2) the "stagflation" crises and responses thereto; and (3) methodological and psychological erosions in and departures from orthodoxy. In this context, we must be content with indicative instances; we cannot presume definitiveness.

Clarence E. Ayres and John Maynard Keynes a generation ago asked: "Do ideas have the power to affect the actual course of events merely by virtue of being true?"[2] The answer for us is a cautious affirmative. About economic problems there is an urgency which most scholars acknowledge. If the means of life are significantly withheld or impaired by political design, by ignorance or inadvertance, by conflict, or by "acts of God", pressure promptly builds for restoration of the flow of real income. Unemployment, inflation, poverty, pollution are now uniformly acknowledged as problems.[3] Given this urgency, there is continuing pressure on theorists and policy makers to formulate ideas that are true, theories that do not explain what they purport to explain, principles that permit understanding of causal phenomena, generalities that have not been falsified by fact and experience, theorems that *may*, as a byproduct, generate predictive capacity. Ideas, of course, are true, not in consequence of tradition, wide acceptance, or authoritative assertion; but in virtue of their manifesting conjugate correspondence between theory and fact. Truth, for institutionalists, is always tentative, never absolute. The economists' "quest for certainty" is impelled by their genuine concern for the real income wellbeing of people generally.

As this concern is reflected in creative inquiry, the question of relevance comes increasingly to supersede the commitment to rigor.[4] And ideas that are more nearly true—ideas that more adequately explain and incorporate newly emergent regularities of experience, that account in logically coherent and credible fashion for the "opaque facts" (Veblen) of current problems—become the bases for the formulation of policy. Such ideas identify problematic situations and contribute to the adjustment of institutional prescriptions and proscriptions that lie at the core of the perceived problems. Ayres and Keynes are correct; ideas affect events.

Does the herein discussed compulsive shift to institutional analysis[5] reflect this search for truth, this quest for theory more relevant to real problems? It is the argument of this paper that it does.

I

John Maynard Keynes concluded the preface to *The General Theory* by saying: "The composition of this book has been for the author a long struggle of escape . . . from habitual modes of thought and expression."[6] And "the habitual modes of thought and expression" are, of course, the postulates, principles, and policy recommendations of classical and neoclassical theory in which he was trained. Keynes acknowledged his struggle to escape from the smothering embrace of orthodoxy; he appeared not to be aware that his shift in "modes of thought and expression" was in a significant degree in the direction of institutional economics.[7] Students of his career know well that his "struggle of escape" did not begin with the writing of *The General Theory*; it is reflected in virtually all of his published writing from the First World War onward.

For present purposes, attention is invited to four foci of convergence of Keynes' thought and institutional analysis: method and scope of inquiry exhibited, concern with institutional adjustment, shift to focus on political economy, and recourse to instrumental value theory.

(1) Keynes' approach to inquiry was a self-conscious concern to formulate theory, or revisions of theory, to guide conduct in problematic situations. The relevance concern never arose as a question; it was obvious to him that relevance derives from applicability of analysis to real, existential problems. Keynes was no ivory tower resident and no pursuer of esoteric knowledge. Like institutionalists who followed Dewey, Keynes perceived the inescapable necessity of employing both deductive and inductive modes of reasoning. He castigated Ricardo and gave accolades to Malthus because of the latter's recognition of the limitations of a deductive bias. "Ricardo . . . by turning his back so completely on Malthus's ideas, constrained the subject to a full hundred years in an artificial groove."[8]

Keynes did not dichotomize theory and fact; for him, there was no pure theory-applied theory divorcement. He, like the institutionalists, sought theory that actually explained observed phenomena. With, and only with, improved understanding, predictive judgments *might* be advanced. His analytical grasp was sufficiently firm and extensive to permit him, for example, accurately to forewarn concerning the economic consequences of the reparation settlements after World War I and to anticipate social unrest following Great Britain's return to the gold standard in the 1920s.

As with imaginative scholars generally, Keynes was prepared to create or modify intellectual tools or constructs (e.g., the marginal efficiency of capital)[9] or to adapt theorems (e.g., the investment multiplier) as the formulations and refinement of his analysis required. His inquiry in the areas of his interests was open ended and non-doctrinaire.

In scope, Keynes' *General Theory* is not, of course, a general theory of the economic process for which Veblen called.[10] But it is a general theory of the determinants of the level of real income. That is, Keynes sought to identify and to explore interrelations of all of the major causal elements that determine the level of production. As Gladys Myers has suggested, Keynes' theory of real income determination, though less inclusive, does not materially contradict the more general theory of the economic process of the institutionalists.[11] Indeed, with the further development of each, they may be expected to move toward congruency.

Moreover, Keynes did not delimit the reach of his inquiry a priori. He sought determinants within orthodoxy and outside orthodoxy as mandated by the overriding concern to understand the actual determinants of real problems. Although, with the advantage of hindsight, Keynes' positions in *The General Theory* may at times appear inadequate, he nevertheless did extend the scope of his analysis to include psychological expectations as behavioral determinants. And although he acknowledged the fact of a profit motive, he recognized that it is an acquired, not an inherent or natural, trait.[12] In addition, as is explored below, Keynes abandoned the traditional divorcement and antagonism

of the public and private sectors (politics and economics) and formulated a heretical theory recommending continuing political participation in the economic process in the pursuit of full employment.

Keynes clearly set off his own inquiry mode from that of formal mechanistic model builders:

> The object of our analysis is, not to provide a machine, or method of blind manipulation, which will furnish an infallible answer, but to provide ourselves with an organised and orderly method of thinking out particular problems; and, after we have reached a provisional conclusion by isolating the complicating factors one by one, we then have to go back on ourselves and allow as well as we can, for the probable interactions of the factors amongst themselves. This is the nature of economic thinking. Any other way of applying our formal principles of thought . . . will lead us into error.[13]

Keynes' focus was on expectations and uncertainties; not on predictions and certitudes. The latter reflect a mechanical focus for which mathematical precision is sought; the former are amenable to analysis and perhaps to modification or management, but they are not precisely predictable. The diversity and complexity of actual determinants precludes dependence upon simplistic model building and linear "rationality."[14]

(2) Keynes applied, although he evidently did not formulate, a distinction used by institutionalists between economic function and economic structure—between the process or flow of real income and the institutional arrangements through which it is accomplished. As with the institutionalists, Keynes' work reflects the recognition that continuity in the provision of the material means of life must be sustained, (at times, restored) and that prescriptive patterns of correlated behavior (institutions) must be modified for that to occur. The economic function is and must be continuous and developmental; the institutional structure is and must be discontinuous and replacemental at points of disjunction or breakdown.[15]

Keynes unequivocally acknowledged that problems cannot be resolved without institutional adjustment even though he did not present a theory of institutional adjustment as such. For Keynes, institutions were inventions of the human intellect created for specific tasks. Recall that in *The General Theory*, he was prepared to see the retention of some of the capitalist institutional structure then existing because, as he saw it, it was *not* the source or locus of the problem of depression. That which *was* identified in his theory as problematic structure (high interest rates, low inducement to private investment, laissez faire attitudes, patterns of inequality of income distribution, role of the rentier) would require modification or abandonment if the removal of involuntary unemployment was to be achieved.

In accord with institutionalists, Keynes neither identified nor recommended institutions that are allegedly natural (which would therefore be "given" and invulnerable to adjustment), that are divinely sanctioned, or which are mandated by doctrinaire ideology. He did not take institutions as fixed by assumption. Institutions are products of discretionary acts of usually identifiable persons. Keynes did aspire to be among those who recommend structural change, however.

Putting the matter another way, Keynes' mode of inquiry and views of institutional change appear not to be vulnerable to charges made by Veblen against late 19th century neoclassicism. Veblen, most will remember, described orthodoxy as exhibiting characteristics of teleology, tautology, taxonomy, and hedonism, all which were pre-Darwinian in origin and unacceptable.[16] Keynes' position does not rest on the presumption that the economy is a natural order teleologically working out its own inherent and natural "ends." His running attack on laissez faire makes this clear. Keynes' analysis does not tautologically reaffirm the assumptions and structure with which it begins. "Its assumptions and its fundamental determinants as well as the patterns of causation which it sets forth are subject to evidential verification and correction. And its conclusions are not simply the validation of its assumptions."[17] Keynes' overall position manifests recognition of the economic process in an historical and cultural setting; the analysis is not taxonomically static and status quo reinforcing even though his theory of income and employment is sometimes characterized as short-run, statical analysis. Finally, Keynes' writing acknowledges the fact of hedonistic self-serving and profit maximization, but, as noted above, such motivations and attitudes are simply cultural facts, not natural and inherent attributes or traits of persons. Perhaps there is more "daylight" between Keynes and the orthodox theorists than has been thought.

(3) Throughout Keynes' long career as public servant, scholar-teacher, and theorist, he attempted to write the epitaph for laissez faire. As with institutionalists Veblen, Dewey, Commons, Mitchell, Means, Ayres, Myrdal, and Galbraith, among others, Keynes at no time accepted the dichotomous separation of the public and private sectors. In his essay in 1926, *The End of Laissez Faire,*[18] he sought to repudiate the undergirding tenets which support laissez faire and this orthodox separation. "Let us clear from the ground," he urged.

> the metaphysical or general principles upon which, from time to time, *laissez-faire* has been founded. It is *not* true that individuals possess a prescriptive "natural liberty" in their economic activities. There is *no* "compact" conferring perpetual rights on those who Have or on those who Acquire. The world is *not* so governed from above that private and social interest always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does *not* show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately.[19]

An institutionalist will find little to fault in the foregoing.

Returning to the language of Jeremy Bentham, but rejecting Bentham's view that governments are necessarily "pernicious," Keynes suggested that "Perhaps the chief task of Economists at this hour is to distinguish afresh the *Agenda* of Government from the *Non-Agenda;* and the companion task of Politics is to devise forms of Government within a Democracy which shall be capable of accomplishing the *Agenda.*"[20] Clearly implied, is the idea that the functions or tasks of government, *including* its involvement (not "intrusion") in the economy, must continuously be revised in response to emergent problems. Keynes' "agenda" is neither formally given (as in socialism) nor delimited and/or proscribed (as in capitalism). Government need not be a threat; it might be a promise. The government's role is emergent and evolving as a source and site of institutional adjustment.

Keynes' biographer, Roy Harrod, suggested that Keynes' life-long interest in reform efforts began when he was still an undergraduate at Cambridge. Said Harrod: ". . . the view asserted to be Liberal was assuredly Maynard's throughout his life. He believed that distress in all its forms should not go unheeded. He believed that, by care and pains, all our social evils, distressed areas, unemployment and the rest, could be abolished. He believed in planning and contriving. A way could be found. . . . He always had a scheme. His mental energy and resources were limitless. If a thing could not be done in this way, it could be done in that."[21]

Consistent with this view, Keynes, in *The General Theory*, recognized the probable need for "the State" to accept responsibility for invoking "central controls" in order to help establish "an aggregate volume of output corresponding to full employment, as nearly as practicable."[22] Keynes' analysis anticipates a private sector shortfall in generating sufficient consumption and investment spending to provide full employment. He suggested that the propensity to consume might be enhanced through public policy.[23] He expected, and accepted the prospect, that the state will increasingly find it necessary to socialize investment.[24] In the closing pages of *The General Theory*, his suggested or implied reforms go further to the contemplated "euthanasia of the rentier"[25] and a reduction in the degree of inequality of income distribution.[26] In a moderately favorable comment on von Hayek's *The Road to Serfdom*, Keynes nevertheless suggested the desirability and need for additional economic planning.[27] He supported the Beveridge Plan for the introduction of comprehensive social service in post-World War II Great Britain.[28] And finally, in a broader context, few would deny Keynes' central role at the conference at Bretton Woods during World War II (1944) in helping to create the World Bank and the International Monetary Fund to promote international economic and financial intercourse after the War.[29] Accordingly, for Keynes, although the economic and political processes are distinguishable, they are not separable. Analysis must encompass political economy. Political policy is often addressed to the revamping of economic institutions.

(4) To suggest that Keynesian theory incorporates a de facto and unannounced shift away from the utility value principle of orthodoxy to an instrumental theory of social value commensurate with that which emerges from the institutionalists Veblen, Dewey, Ayres, and Foster [30] is to offer an atypical but profoundly significant inference. It is the burden here to demonstrate that Keynes was a practicing normativist, not a positivist, and to note value positions to which he evidently did not or would not subscribe, and to show the extent to which he actually employed the instrumental value principle of the institutionalists. For present purposes, the instrumental value principle is identified as "the continuity of human life and the noninvidious re-creation of community through the instrumental use of knowledge." [31]

That Keynes was a practicing normativist needs little defense or elaboration. Virtually the whole of his academic and public life was devoted to the formulation and application of theory which would permit or facilitate the resolution of real problems. Accordingly, he distinguished in scores of settings a difference between "what is" and "what ought to be." And, of course, it is both logically and operationally *impossible* to distinguish between "what is" and "what ought to be" without *applying* a criterion of judgment—a social value principle. Since his career is replete with policy recommendations for substantive institutional adjustment—revision of the Versailles treaty, scaling down reparations, abandonment of gold standard, invocation of compensatory fiscal policy, introduction of deferred income scheme during World War II,[32] establishment of World Bank and Monetary Fund — he is indeed a practicing, de facto normativist.

Moreover, as Dudley Dillard has recently shown,[33] there is extensive similarity between Veblen and Keynes in a number of areas. Central to Dillard is the substantial degree of commonality in their respective monetary theories of production. Of more immediate interest here is the related respects in which Keynes exhibited a tacit acceptance of the Veblenian distinction as a judgmental premise.[34] Says Dillard: "Keynes' categories, Industry and Finance, are cognates of Veblen's Industrial and Pecuniary Employments." [35] For each, industrial activity is normatively approved; financial or pecuniary activity is normatively disapproved. Differing forms of the Veblenian distinction permeate all of Veblen's writings;[36] a comparable distinction permeates Keynes' writings as he "remained critical of speculation, the gold standard, policies of the Bank of England, and the rentier, or absentee owner." [37]

The convergence of their tacit value theory is also revealed in their similar concepts of economic waste. Keynes' distinction between the filling of "old bottles with banknotes," burying "them at suitable depths," and leaving them "to private enterprise on well tried principles of laissez faire to dig up" on the one hand, and the observation

that it would "be more sensible to build houses and the like" on the other[38] is an ethical judgment on economic activity. Keynes' references to the "virtues" of "pyramid building" and the search for precious metals in ancient Egypt,[39] and his satirization of investment decision making as the counterpart of playing Old Maid [40] also imply normative assessment of behavior. And, as most are aware, Veblen's *Theory of the Leisure Class*[41] is replete with examples of waste especially among the elite in the form of "conspicuous consumption," "invidious display" and the like. Such practices, he observed, are emulated by others.

That Keynes' thought and conduct reflected rejection of a variety of non-instrumental criteria may also be inferred with a minimum of defense: (a) Keynes was no conservative; he did not use "what is" as a criterion of "what ought to be." (b) In spite of undergraduate contact with G. E. Moore, Keynes did not share Moore's view that the "good" is and must be "indefinable." [42] (c) Keynes did not make normative use of the competitive model. His willingness to recommend or allow for the continuance of some capitalist institutions (distributive arrangements, private property, etc.) is to be judged by his provisional acceptance of their then current performance, not on some a priori basis of their naturalness or inevitable efficiency. He did not presume that departures from the competitive market are per se "bad" and that closer approximations are necessarily "good." (d) He seemed not to use pecuniary criteria in identifying what ought to be. Profit maximization is not necessarily a success indicator. "There is no clear evidence from experience," he argued, "that investment policy which is socially advantageous coincides with that which is most profitable." [43] Price, as such, is not a measure of economic worth. (e) Keynes, though himself emergent from what many might call an elitist background, appeared not to use class, status, wealth, rank, position, or ancestry as criteria of appraisal. (f) His frequent denigrative comments on authoritarian politics, obviously implied his unwillingness to permit the achievement and use of coercive power as the meaning or measure of what ought to be. (g) Human differences of sex, creed, color, and the like, were not given a definitive or discriminatory standing and converted into judgmental determinants of structural change.

Keynes' tacit acceptance of instrumental value theory is implicit in his rejection of the foregoing non-instrumental and anti-instrumental criteria. These rejected criteria would be characterized as "invidious" by Veblen or "ceremonial" by Ayres.[44] In reference to the instrumental value principle as identified above, "the continuity of human life" is reflected in Keynes' career-long quest for genuine solutions to real problems and situations which threatened that continuity. Examples of threats to continuity include pervasive and extensive involuntary unemployment, economic determinants of warfare, impact of domestic instability on international harmony, monetary determinants of economic instability, and the like. The "noninvidious recreation of community" is implied by his specific unwillingness to be deferential to the discriminatory use of wealth, economic power, self-aggrandizement, rentier status, etc., in deciding whose interests matter or count. Indeed, his opening sentence of the last chapter of *The General Theory* (on social philosophy) asserts that "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income."[45] Communities are factionated and demoralized by extensive and continuing unemployment and substantial maldistribution of income and wealth.

Finally, "the instrumental use of knowledge" is manifested in Keynes' creative mauling and modification of orthodoxy in his pursuit of a credible theory of real income determination. Keynes solved for himself the question of relevance by conceiving and invoking fundamental philosophic and economic shifts *to the extent required* by his diagnosis of the problem of depression and his search for a solution. Other areas of orthodoxy not deemed problematic were left unaddressed. Keynes developed new knowledge and modified and adapted old knowledge in order to achieve more definitive understanding. He engaged in conceptual tool and idea combining activities in his area of interest reflective of Ayres' view of the cumulative growth of knowledge.[46] Keynes' theory building tacitly reflects the awareness that "instrumental" addresses the appropriateness, fittedness, and relevance of the conceptual tool in its role and capacity of explaining phenomena. "Instrumental use" implies both functional pertinence and normative admissibility. The relevance and use of the bacterial theory of disease for public health measures and that of the Keynesian theory of income determination for compensatory, economic stabilization measures illustrates this "instrumental use of knowledge." Keynes made instrumental use of knowledge.

In sum, the foregoing suggests that with reference to methodology of inquiry, focus on institutional adjustment, concern with political economy, and tacit employment of instrumental value theory, Keynes was in fact, if inadvertently, engaged in moving from orthodox neoclassicism in the direction of institutional analysis.

II

The chronic inflation and concurrent unemployment of the 1970s continues at an accelerated pace into the 1980s. The Carter Administration resolutely pursues a balanced federal budget and restrictive money and credit policy as its major anti-inflation program. Meanwhile, the economics profession continues its decade-long agonizing over the non-text-book-described circumstances and hopes that its lack of demonstrably effective recommendations will not become its nemesis. Joan Robinson has called this period the second crisis of neoclassical orthodoxy (the first was the Great Depression). There is little doubt that she is correct.

The pressure of the pursuit of the relevant has led some macro-theorists and national policy advisors to formulate analyses and changes in policy which not only reflect a shift away from orthodoxy but inadvertently also move to correspondence to, if not congruity with, elements of institutional theory. The following observations concerning the views of macro-theorists and others are indicative of this shift.

Walter Heller's AEA Presidential Address entitled "What's Right with Economics"[47] in the mid-1970s brought the agonies and the issues into focus. He described there efforts of economists to revise both their models and their recommendations to bring them better into accord with realities of the day. In the course of this commentary, he pointed the direction for a substantial breakaway from orthodoxy by identifying three different sources of inflation: One is the familiar excess demand argument. A second is the price-wage-price spiral. A third is the "external-shock or special-sector" or "commodity-price surges."[48] The first responds to conventional (since Keynes) monetary-fiscal pressure. The second responds "more reluctantly" to such constraints. "The third is highly resistant to demand management measures."[49] Moreover, the third generates the most adverse consequences. Both the second and the third forms of inflation compel economists to breach orthodoxy and begin to address the locus and use of economic power in wage and price setting and its inflationary consequences as some institutionalists have long argued.[50]

If attention is now shifted from Heller's comments on the profession at large to the late Arthur Okun's analyses in particular, the approaching correspondence with institutional thought becomes even more obvious. In a series of public addresses over the last few years,[51] Okun, a Senior Fellow at The Brookings Institution and a former Presidential Advisor, and others, have moved closer to institutional thought in at least three respects:

Okun and others recognized well that mainstream orthodoxy is no longer the general theory of the economic process. The major part of that conventional general theory (following Marshall) in effect prescribed a myopic and normative focus on market pricing under competitive conditions to foster efficient allocation of scarce means among alternative and unlimited ends. Keynes' views (after the exorcising of threatening corollaries and heresies) were wedded to this tradition by Paul Samuelson as the post-war "grand synthesis." It is this Marshall-Keynes orthodoxy that is disintegrating. Stagflation is providing the eroding wave action. The "new problem [of stagflation] requires the additional help of new remedies, which of necessity are unconventional and unproved," said Okun.[52] "We cannot count," he continued, "on our current policies to pull us out of the stagflation swamp. The evidence of recent years has accumulated and become overwhelming. The time has come to face the likelihood that we have a losing hand and to deal a new one."[53] Conventional theory simply does not permit an adequate analysis of the concurrent crises of unemployment and inflation.

For Okun, the central heretical fact is that most prices and wages are not set in competitive, "organized auction markets" where supply and demand theory applies. This is but "a small and shrinking sector of the U. S. economy."[54] Continued Okun:

> Most of our economy is dominated by cost-oriented prices and equity-oriented wages. Most prices are set by sellers whose principal concern is to maintain customers and market share over the long run. The pricing policies designed to treat customers reasonably and maintain their loyalty in good times and bad times rely on some standard measure of costs. Prices are set to exceed costs by a percentage markup that displays only minor variations over the business cycle.[55]

Prices are discretionary for sellers. Sellers do not merely respond to a price set by the market; they administer price as an overt decision subject to whatever constraints are operative at the time.

Joan Robinson has recently come to a similar conclusion. After observing that it is "rare for the 'free play of market forces' to be entirely free,"[56] she goes on to describe how "manufacturers set prices for themselves" by employing the "full cost principle." This principle connotes discretionary control over prices as they are set to cover all costs plus a profit margin at whatever the market will bear. That pricing discretion is coextensive with the extent of general market power achieved and used. The upshot is that "prices of manufacturers are quite insensitive to swings of demand, but react quickly to change in costs."[57]

Similarly, wages do not move up and down as markets adjust supplies of workers to fluctuating demand of employers. Employers set wages with long term interests in mind. According to Okun:

> The key to wage decisions in both union and nonunion areas is the common long-run interest of skilled workers and employers in maintaining their job relationships. Employers make investments in a trained, reliable and loyal work force as well as in plant and equipment. They know that if they curbed wages stringently in a slump, they would pay heavily for that strategy with swollen quit rates during the next period of prosperity. Thus, during recession and slack periods, nonunion firms with workers on layoff and queues of eager job applicants find it worthwhile to raise the wages of their workers, in order to protect their longer term personnel relationships. . . The basic test of equity is that the pay of workers is raised in line with the wage increase of other workers in similar situations.[58]

More recently, Okun elaborated this theme with a defense of "the theory of implicit contracts" and the concept of "the invisible handshake."[59]

The point has recently been made even more directly and unequivocally by Gardner Ackley in an essay on "The Costs of Inflation."[60] In the context of examining the redistributive effects of inflation, Ackley asserts: ". . . in modern economies almost all wages and the bulk of all prices are 'administered' rather than market clearing. They change only periodically, through discrete decisions made by individuals or groups that possess varying degrees of market power (and hold particular price level expectations). Those who decide are applying their particular 'policies'—practical rules of thumb, usually reflecting some concept of 'equity'."[61] When Ackley considers the inflationary implications of this institutional characteristic, he comes strikingly close to a theory of "administered inflation" as developed by Gardiner Means and others of the institutional school.[62] Continues Ackley:

> . . . some of us believe that an important force making our economy so inflation prone is the ability of many organized groups in our society to obtain—through market or political action—changes in relative prices that are expected to be favorable to them, although these expectations are repeatedly frustrated through the delayed rise in other prices. Thus, changes in relative prices are an integral part of the means by which inflation is propagated.[63]

(2) Once the shift is made from the presumption that the normal case is market pricing to the recognition of the omnipresence of administered pricing, a substantially new approach to economic analysis is required. The inquiry focus has been transferred from one which is an exercise in determining approaches to or departures from a market equilibrium to one of examining the locus and use of economic power with special reference to pricing power in both the product and factor markets. The latter, of course, has been a major research interest of institutional economists for a very long time.[64]

Having tacitly acknowledged that wage-price spirals (or better, price-wage-price spirals) are the prime stimulus to inflation and that they are a product of discretionary acts by persons and groups holding economic power, Okun, Ackley, and others have perforce been prompted to recommend policy shifts, institutional adjustments, which will constrain the fragmented and self-serving use of such pricing power to achieve a differential advantage over the rest of the economy. Okun's major proposal was "the development of a tax-based incomes policy [TIPS] that would reward compliance or penalize noncompliance with the [nationally established price and wage] guidelines. The social interest in wage and price restraint can better be pursued by providing market-like incentives through the tax system than by relying on voluntary appeals or rigid mandatory rules."[65] More recently, he recommended "sweetening the kitty" for those who comply with wage-price guidelines by extending to them significantly expanded tax writeoff privileges via accelerated depreciation allowances.[66]

To complement this tax based incomes policy, Okun advocated federal cost-reducing initiatives,[67] and most cautious use of fiscal and monetary restraint.[68] His caution on the latter was grounded in the contention that "the nation squanders about $200 billion of real production and roughly 5 million worker-years of jobs for every point that it reduces the inflation rate"[69] through heavily restrictive monetary and fiscal policy.

Okun was also aware of what Heller above called "external-shock or special-sector" or "commodity-price surges" induced inflationary pressure. The classic case is obviously the OPEC generated increase in petroleum prices over the last decade. As Okun argued: "'a jump in the price of any major product raises the price level and indeed the inflation rate."[70] Since, in his view, this inflationary influence operated as an excise tax imposed on the American consumer, the institutional adjustment needed was to "neutralize" the effects by "cuts in state sales taxes or in federal payroll taxes on employers."[71] In addition, he speculated that "subsidies to low-income workers could substitute for the minimum wage; and acreage controls on farm products could be eliminated."[72]

Although space here does not permit a critique either of the adequacy of Okun's theory of inflation or of the virtues of his recommended structural changes, the foregoing does unequivocally demonstrate that Okun, Ackley, and others, recognized that the problem of stagflation is a product not of impersonal market forces but of overt discretionary acts. And the consequences of such decisions must be channeled sufficiently to bring them into conformity with what Okun called "the social interest." As a de facto institutionalist in this context then, he acknowledged the need for creative institutional adjustments (policy shifts) to move toward a solution of the problem. Okun thought that pecuniary incentives of a tax-based incomes policy would have a substantial impact and, accordingly, he rejected mandatory controls on political and other grounds. Some institutionalists are not so sanguine about the outcome and suggest the probable need for selective (major prices only) and permanent mandatory controls over prices.[73] Recent polls show an increasing public support (now a majority) for mandatory wage and price controls.[74] If major prices were controlled, the need for wage controls might not arise on the supposition that wages tend to follow, not to lead, prices.

(3) Implicit with Okun, as it was above with Keynes, was a shift in the criteria of judgment on the basis of which problems are identified and some institutional adjustments were chosen over others. Throughout these papers, Okun was concerned fundamentally with continuity in the flow of real income to the community at large. The continuing and accelerating inflation coupled with substantial, if not rising, unemployment clearly threatens that continuity and, accordingly, threatens civil peace. Okun was an instrumentalist in this regard.

Moreover, Okun made no special reference in these papers to maximized utility, individually or collectively. There was no elevation of particular institutions to a normative status or criterion. He offered no apologia for an elitist power system; he made no discriminatory putdowns of some economic interests in deference to others. Okun was a practicing normativist. He was tacitly employing the instrumental theory of social value much of the time. In his efforts to rethink the theory of inflation he was seeking new knowledge of inflation's actual determinants and was engaged in incorporating the substance and implications of such knowledge in his policy recommendations. He shifted

direction and focus; but he probably would not have identified himself with the institutionalists.

III

The erosion of the credibility and usefulness of orthodoxy and the drift to institutional thought is not only reflected in a fresh reflection on the Keynesian revolution and in the compulsive scramble to understand stagflation determinants, it is manifest also in the gradual crumbling of philosophical and psychological underpinnings of mainstream orthodoxy. Space constraints preclude a broad, full view of the latter, but the curtains can be parted sufficiently to obtain a glimpse of the departures from micro orthodoxy in theories of human nature and motivation which have been emerging recently from some individuals intimately familiar with and generally supportive of traditional theory. Brief consideration here will be given to Harvey Leibenstein's "X-efficiency thesis" and to Herbert Simon's "decision theory."

As a prologue, it will be useful to recall the pervasive and continuing attack of institutionalists on the psychological assumptions of orthodoxy which began with Veblen's characterization in *The Place of Science*: "The hedonistic conception of man is that of a lightning calculator of pleasures and pains who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum."[75] Although references to "hedonism" have mostly vanished from economic discourse, this view of people as egoistic (hedonistic), rationalistic, quietistic, and atomistic organisms,[76] remains implicit (and at times explicit) in conventional micro theory. The orthodox perception of people as utility and/or profit maximizers (Marshall, et. al.) or as individuals who have preferences which can be rationally ordered (Hicks, et al) rests in large part upon the submerged methodological and psychological individualism alluded to above. Institutionalists and instrumentalists have for nearly a century sought to displace this truncated and archaic view of human nature with a perception of man as a producer and product of culture whose attitudes, beliefs, and behavioral modes are acquired and who is a continuously emergent agent-actor engaged in learning, valuing, and choosing.[77] Consider now the institutional drift of Leibenstein and Simon respectively.

Harvey Leibenstein's cautious "dissatisfaction with contemporary micro economics" and its psychological base emerged from his "attempts to understand the processes of economic development of developing countries" and from his personal experience with the operators of business firms.[78] As tools of analysis, the utility maximizing or optimizing assumptions seemed "inappropriate for the understanding of the problem at hand."[79] Leibenstein evidently confronted both the disjunction of traditional theory and observed fact and the questionable relevance of traditional views. Methodologically, Leibenstein is questioning the wisdom of *starting* inquiry, with, say, an assumption of profit maximization. Instead, inquiry should be focused on the nature and intensity of individual motives among which one may find profit maximization. The assumption is converted into a question. With regard to the latter, institutionalists would applaud.

"Insufficiently considered" in orthodox micro theory, argues Leibenstein, is the analysis of "effort." He urges that research be directed to an examination of "effort, and the effort decision." While "reward aspects" are of interest, "monetary rewards" are not "the only elements that determine effort decisions."[80] Leibenstein is also aware of the logical futility and the analytical sterility of presuming that *all* behavior is that of utility maximization.[81]

In distinguishing between "allocative efficiency" of conventional micro theory and the "X-efficiency" of his revised formulation. Leibenstein broadens the concept of motivation to consider other determinants of effort left unaddressed by orthodoxy. "X-efficiency" refers to the latter. In particular areas of productivity, long run supply determinants, oligopolistic and quasi-oligopolistic enterprise, the dependence on the conventional theory "can lead to serious errors."[82] Orthodoxy here becomes a special case, actually "an extreme variant," not the general case.[83]

Leibenstein's fundamental psychological postulate follows: "We assume that basically an individual effects a compromise between his desire to do as he pleases and internalized standards of behavior acquired through background and environment. Thus, we assume that individuals are influenced by others and that their psychology requires them to strike a balance between conflicting desires."[84] People thus employ a "selective rationality" in the context of their emergence from and interaction with other persons and their environment.

An exploration and appraisal of "X-efficiency" is beyond the reach of this paper, but some generalized observations are feasible concerning Leibenstein's shift from orthodoxy: (a) Only individuals have motives; firms and organizations do not. (b) Economic motives are matters to be examined; they are not pecuniary or hedonistic motives to be assumed at the outset of inquiry. (c) Motivations for economic behavior are acquired; people are both conditioned beings and learning organisms. (d) Rationality is broadened to focus on choice and constraints causally perceived. (e) Motivations are complex; they are not simplistic or linear. (f) The nature and extent of effort is socially and individually determined; its character and intensity may not be assumed a priori.

An institutionalist could join Leibenstein in his identification of the limitations of the psychological creed of orthodoxy. An institutionalist could also support the substance of a number of the foregoing observations. Leibenstein's departure from orthodoxy is clear enough. "The existence of X-efficiency," he insists, "implies that except in extreme cases firms do not minimize costs, maximize profits, or optimize

the rate of technological change."[85] What is not so clear in Leibenstein's work is the extent to which he recognizes the subversive impact of the foregoing on orthodoxy's continuing claims to general theory status and mainstream standing.

Nobel Laureate Herbert Simon, and others, who work in the area of "decision theory" are also raising profound and significant questions concerning the adequacy of psychological assumptions in orthodox theory.

Simon's concern with the realism and relevance of theory is explicit: "It is a vulgar fallacy to suppose," he insists, "that scientific inquiry cannot be fundamental if it threatens to become useful, or if it arises in response to problems posed by the everyday world. The real world, in fact, is perhaps the most fertile of all sources of good research questions calling for basic scientific inquiry."[86] Institutionalists share this position.

Simon questions the realism of orthodox analyses of choice behavior. "The axiomatization of utility and probability after World War II and the revival of Bayesian statistics," he writes, was an effort to determine whether or not "people behaved in choice situations so as to maximize subjective expected utility (SEU)," The results were virtually conclusive that "SEU theory does not provide a good prediction—not even a good approximation—of actual behavior."[87]

What Simon makes clear is that the rejection and refutation of the psychological postulates of conventional theory "has to do with the *substance* of the decision, and not just the process by which they are reached." "It is not," he argues, "that people do not go through the calculations that would be required to reach the SEU decision—neoclassical thought has never claimed they did. What has been shown is that they do not even behave *as if* they had carried out those calculations, and that result is a direct refutation of the neoclassical assumptions."[88]

Simon's disaffection with orthodox maximizing and optimizing postulates is both specific and extensive on several counts: Factual support for the postulates is lacking. "Evidence that consumers actually distribute their purchases in such a way as to maximize their utilities, and hence equate marginal utilities, is nonexistent."[89] Or again, ". . . the observed data make it exceedingly doubtful that the cost curves are in fact generally U-shaped."[90] as is required on maximizing assumptions. And finally, "specific phenomena requiring a theory of profit or utility maximization for their explanation . . . simply have not been observed in aggregate data."[91]

Drawing initial inspiration from some early work of John R. Commons and Chester I. Bernard,[92] Simon seeks a behavioral theory of the firm to replace the neoclassical theory of the firm. He seeks premises regarding decision behavior that are descriptively credible and empirically demonstrable. He recommends the analogy of evolutionary biology in place of physics in formulating decision theory. He wishes not only quantitative information but also bases for qualitative judgments. He would displace maximizing and optimizing postulates with the concept of satisficing. For the ungrounded assumptions of perfect rationality, he would offer the demonstrable principle of "bounded rationality."

"Rationality," for Simon, is always "bounded" because people are not omniscient. The complexity of situations and problems is so great that no person or group of persons can know all the alternatives, can avoid uncertainty about exogenous influences, or can calculate major outcomes with complete confidence.[93]

Simon's "bounded rationality" implies a deliberative process in decision making in which if the alternatives are not provided a priori, a search must be undertaken to identify them. The individual is in part an information generator, an information processor, and an information assessor. The decision maker is in quest of accessible, satisfactory choices, not maximizing or optimizing ones. He replaces "abstract, global goals with tangible subgoals"[94] progress towards which can be evidentially checked. In organizations, decision responsibilities may be fragmented and specialized where communications and authority permit.[95] In such fashion the referential content of "bounded rationality" is provided by Simon.

Simon summarizes as follows:

> "Bounded rationality" incorporates the need to search for decision alternatives, the replacement of optimization by targets and satisficing goals, and mechanisms of learning and adaptation. If our interest lies in descriptive decision theory (or even normative decision theory), it is now entirely clear that the classical and neoclassical theories have been replaced by a superior alternative that provides us with a much closer approximation to what is actually going on.[96]

He concludes by saying:

> . . . we do understand today many of the mechanisms of human rational choice. We do know how the information processing system called Man, faced with complexity beyond his ken, uses his information processing capacities to seek out alternatives, to calculate consequences, to resolve uncertainties, and thereby—sometimes, not always—to find ways of action that are sufficient unto the day, that satisfice.[97]

Now from the institutionalists' perspective, the "decision theory" view of Simon's may still fall substantially short of the theory of human nature and motivation incorporated in the general theory of institutional economics. But in its critique of the a priori (and now hidden) hedonism of orthodoxy, it is to be commended. In addition, Simon should draw accolades for the methodological shifts from orthodoxy he recommends and for his recognition of the limits to and constraints on choice making.

But most important is his recognition of the human organism as

being perpetually engaged in a learning process. Man is a deliberative agent; he makes choices; he is educable. A person is transferred both by the activity of making choices and by the consequences experienced and appraised following such choices. The theory of "bounded rationality" may not yet be a sufficient critique and reconstruction to upend traditional micro theory, but it is philosophically, psychologically, and methodologically, a major step in the direction of positions held by institutionalists.

What Simon and the decision theorists seem not yet aware of is that sooner or later their inquiry into choice behavior must directly confront the inquiry question of criteria of choice—value standards in terms of which choices are made. When *that* Rubicon is crossed, the normative aspects of economic inquiry can be moved by them onto the inquiry agenda of priority concern which its significance warrants.[98] Then Simon and others will have additional and conclusive grounds for a total abandonment of the neoclassical utility maximizing and optimizing theories of economic motivation.

IV

Present constraints do not permit the inclusion of additional analyses of instances and departures from orthodoxy that move in the direction of institutional thought. But a provisional agenda for such an extension might well include the following, among others: (a) an examination of the theory and practice of democratizing the work site with industrial democracy, models of a participatory economy, job power, and the like;[99] (Dewey's democratic theory applies to nongovernmental as well as governmental institutions.) (b) The vast expansion of the scope of inquiry in theories of economic growth and development as reflected in the writings of Albert Hirschman and others[100] (Hirschman's theory of "reformmongering" has substantial, but not total, common content with the institutionalists' theory of institutional adjustment.); (c) the area of environmental inquiry and the problems of pollution, ecological deterioration and destruction as these force consideration of an environmental ethic to displace pecuniary and utility maximizing criteria of conventional analysis[101] (Even the benefit-cost analyses which retain dependence on ethical relativism in this area must be expected eventually to give way to counterpart formulations of the instrumental social value theory.); (d) the investigation of the development and economic power role of transnational (and multinational) corporations which compels movement beyond conventional "market mentality" orientations to consideration of multi-goal and strategic concerns of these "private industrial governments"[102] (At issue in part is a concern for holding economic power accountable by those affected by such power as institutionalists have long favored.). The agenda could, of course, be extended.

All are aware that "one robin does not make a spring" and that the examples cited may not be sufficiently persuasive or representative to generate the conviction that "a compulsive shift in institutional analysis" is in fact under way. Claims of proof are doubtless premature; suggestions of drift and indicative shift are not premature. Years ago Dewey reminded us that it is not the number of cases marshalled that proves the point, but whether or not those cited can be shown to be representative. Such a demonstration can only be suggested by this paper. The hope is that readers will wish to make their own assessments and perhaps, extensions.

NOTES

1 President, Association for Institutional Thought, 1979-80. This paper was presented as Dr. Tool's Presidential Address to the First Annual Meeting of the Association for Institutional Thought in Albuquerque, New Mexico, on April 25, 1980. A shorter version of this paper was subsequently published in the *Journal of Economic Issues,* Vol. XV, Number 3, September, 1981, pp. 569-592.

2 Clarence E. Ayres, *The Theory of Economic Progress* [1944], Kalamazoo: New Issues Press, Western Michigan University, 1978, (Louis Junker, editor), p. 283; John Maynard Keynes, *The General Theory of Employment, Interest, and Money,* New York: Harcourt, Brace, 1936, pp. 383-4.

3 But in this connection, see Robert Lekachman, "The Spector of Full Employment," *Harpers Magazine,* February, 1977, pp. 87-91.

4 Robert Aaron Gordon, "Rigor and Relevance in a Changing Institutional Setting," *American Economic Review,* Vol. 66, No. 1, March, 1976, pp. 1-4.

5 For purposes of this paper, the referent for "institutional analysis" will be, unless otherwise indicated, the author's formulation of a synthesis of the neoinstitutionalists' position in *The Discretionary Economy: A Normative Theory of Political Economy,* Santa Monica: Goodyear Publishing Co., 1979.

6 Keynes, *The General Theory,* p. viii.

7 On Keynes and the Institutionalists see: Dudley Dillard, *The Economics of John Maynard Keynes,* New York: Prentice Hall, 1948, especially Chapter 12; Allan G. Gruchy, "Keynes and the Institutionalists: Some Similarities," and "Keynes and the Institutionalists: Some Contrasts," in *Economic Theory in Review,* ed. by C. Lawrence Christenson, Bloomington: Indiana University Press, 1949, pp. 96-126; Gladys B. Myers, "Some Institutional Aspects of Keynesian Economics," an unpublished graduate paper presented to C. E. Ayres, January, 1950, pp. 1-57; J. Fagg Foster, "Understandings and Misunderstandings of Keynesian Economics," a paper presented at the meetings of the Association for Evolutionary Economics, San Francisco, 1966 (later published in *Rivista Internazionale di Scienze Economiche e Commerciali,* XV (No. 12, 1968), pp. 1234-1244.); Richard X. Chase, "Keynes and US Keynesians: A Lack of Historical Perspective and the Decline of the New Economics," *Journal of Economic Issues,* Vol. IX, No. 3, September, 1975, pp. 441-479; R. X. Chase, "The Failure of American Keynesianism," *Challenge,* March-April, 1976, pp. 43-51; Wallace C. Peterson, "Institutionalism, Keynes, and the Real World," *Challenge,* May-June, 1977, pp. 22-32; W. C. Peterson, "Financial Instability and Economic Concentration," a paper presented at meetings of the Western Social Science Association, Denver, April, 1978, pp. 1-26; Dudley Dillard, "A Monetary Theory of Production: Keynes and the Institutionalists," Presidential Address, meetings of the Association of Evolutionary Economics, Atlanta, December, 1979.

8 John Maynard Keynes, *"Essays in Biography* [1933], New York: Horizon Press, 1951, p. 103.

9 Dr. F. Gregory Hayden suggested to me that John R. Commons in his *Legal Foundations of Capitalism* [1924], Madison: University of Wisconsin, 1959), is concerned with pecuniary expectations in a manner somewhat anticipatory of Keynes' MEC; see pp. 166-167.

10 "There is the economic life process still in great measure awaiting theoretical formulation." Thorstein Veblen, *The Place of Science in Modern Civilization* [1919], New York: Russell & Russell, 1961, p. 70.

11 Gladys Myers, "Some Institutional Aspects. . .," pp. 32, 52 & passim.

12 Keynes, *The General Theory,* p. 374.

13 Ibid, p. 297.

14 On "explanation" vs. "prediction" see Harvey Leibenstein, *Beyond Economic Man,* Cambridge: Harvard University, 1976, pp. 12-17.

15 The distinction comes from lectures of Professor J. Fagg Foster, University of Denver.

16 Veblen, *Place of Science,* passim.

17 Foster, "Understandings and Misunderstandings. . . ," p. 11.

18 John Maynard Keynes, *The End of Laissez Faire,* London: Hogarth Press, 1926.

19 Ibid., pp. 39-40 (emphasis in original).

20 Ibid., pp. 40-41 (emphasis in original).

21 Roy F. Harrod, *The Life of John Maynard Keynes,* New York: Harcourt, Brace, 1951, p. 192.

22 Keynes, *The General Theory,* pp. 378-9.

23 Ibid., pp. 95, 324-5, 373-8.

24 Ibid., p. 164.

25 Ibid., p. 376.

26 Ibid., pp 372-3.

27 Harrod, *Life of . . . Keynes,* p. 436.

28 Ibid., p. 535.

29 Ibid., pp. 525-585.

30 Marc R. Tool, "A Social Value Theory in Neoinstitutional Economics," *Journal of Economic Issues,* Vol. XI, No. 4, December, 1977, pp. 823-846.

31 Tool, *The Discretionary Economy,* p. 293.

32 John Maynard Keynes, *How To Pay for the War,* New York: Harcourt, Brace, 1940.

33 Dillard, "A Monetary Theory of Production . . .,"

34 Tool, "A Social Value Theory in . . .," p. 827.

35 Dillard, "A Monetary Theory of Production . . .," p. 20.

36 Tool, "A Social Value Theory in . . .," p. 827.

37 Dillard, "A Monetary Theory of Production . . .," p. 21.

38 Keynes, *The General Theory,* p. 129.

39 Ibid., p. 131.

40 Ibid., pp. 155-6.

41 Veblen, *The Theory of the Leisure Class* [1899], New York: Modern Library, 1934, passim.

42 Harrod, *Life of . . . Keynes,* p. 75.

43 Keynes, *The General Theory,* p. 157.

44 Tool, "A Social Value Theory in . . .," pp. 827 and 835.

45 Keynes, *The General Theory,* p. 372.

46 Ayres, *Theory of . . . Progress,* Chapter 6.

47 *American Economic Review,* Vol. 65, No. 1, March, 1975, pp. 1-26.

48 Ibid., p. 21.

49 Ibid.

50 See, for example, Gardiner C. Means, *Administrative Inflation and Public Policy,* Washington, D. C.: Anderson Kramer Associates, 1959; G. C. Means, "Pricing Power and the Public Interest," in *Administered Prices: A Compendium on Public Policy,* Congress, United States Senate, Committee on the Judiciary, Subcommittee on Antitrust and Monopoly, Washington, D. C.: U. S. Government Printing Office, 1963, pp. 213-239; G. C. Means, "The Administered-Price Thesis

Reconfirmed," *American Economic Review*, Vol. 62, No. 3, June, 1972, pp. 292-306; G. C. Means, "Simultaneous Inflation and Unemployment: A Challenge to Theory and Policy," in *The Roots of Inflation*, New York: Burt Franklin & Co., 1975; John M. Blair, "Inflation in the United States: A Short-Run Target Return Model," in *The Roots of Inflation*, ibid.

51 Arthur M. Okun, "The Great Stagflation Swamp," *The Brookings Bulletin*, Vol. 14, No. 3, Fall, 1977; A. M. Okun & George L. Perry, "New Ways to Slow Inflation," *The Brookings Bulletin*, Vol. 15, No. 1, Summer, 1978; A. M. Okun, "An Efficient Strategy to Combat Inflation," *The Brookings Bulletin*, Vol. 15, No. 4, Spring, 1979; A. M. Okun, "The Invisible Handshake and the Inflationary Process," *Challenge*, Vol. 22, No. 6, January-February, 1980.

52 Okun, "Great Stagflation Swamp," p. 7.

53 Ibid., p. 3.

54 Okun, "An Efficient Strategy . . .," p. 2.

55 Ibid.

56 Joan Robinson, "Solving the Stagflation Puzzle," *Challenge*, Vol. 22, No. 5, November-December, 1979, p. 42.

57 Ibid.

58 Okun, "An Efficient Strategy . . .," p. 2.

59 Okun, "The Invisible Handshake . . .," pp. 1-12.

60 Gardner Ackley, "The Costs of Inflation," *American Economic Review*, Vol. 68, No. 2, May, 1978, pp. 149-154.

61 Ibid., p. 150.

62 Means, "Simultaneous Inflation & Unemployment . . .," and other sources cited above.

63 Ackley, "The Costs of Inflation," p. 150.

64 For example, Walton H. Hamilton, Mark Adams, & Irene Till, *Price and Price Policies*, New York: McGraw-Hill Book Co., 1938; John M. Blair, *Economic Concentration*, New York: Harcourt, Brace Jovanovich, 1972.

65 Okun, "An Efficient Strategy . . .," p. 5. See also, Lester Thurow, "Towards a U. S. Incomes Policy: Strategy and Tactics," *ADA World*, June-July, 1978.

66 Okun, "The Invisible Handshake . . .," p. 11.

67 Okun, "An Efficient Strategy . . .," p. 4.

68 Ibid.

69 Ibid.

70 Okun, "The Invisible Handshake . . .," p. 10.

71 Ibid., p. 11.

72 Ibid.

73 John Kenneth Galbraith, "Social Balance and the Tax Revolt," Plenary Address, Southwestern Social Science Association, Fort Worth, Texas, March 29, 1979. The present author shares this view.

74 Louis Harris, "Wage, Price Limits Favored," *The Sacramento Bee*, February 28, 1980, p. A26.

75 Veblen, *Place of Science*, p. 73.

76 Harry K. Girvetz, *The Evolution of Liberalism*, New York: Collier Books, 1963, pp. 27-47.

77 This literature includes the following, among others: John Dewey, *Human Nature and Conduct*, New York: Modern Library, 1922; Wesley Clair Mitchell, *The Backward Art of Spending Money* [1937], New York: Augustus Kelley, 1950, pp. 149-202 & passim; John M. Gambs, *Beyond Supply and Demand* [1946], Westport, Conn.: Greenwood Press, 1976, Chapter 3; Clarence E. Ayres, *Theory of Economic Progress* [1944], Kalamazoo: New Issues Press, Western Michigan University, 1978, Chapter 5 & passim; David Hamilton, *Evolutionary Economics*, Albuquerque: University of New Mexico, 1970, Chapter 3 & passim; Tool, *The Discretionary Economy*, Chapter 3.

78 Leibenstein, *Beyond Economic Man*, p. viii; see also his "X-Efficiency: From Concept to Theory," *Challenge*, Vol. 22, No. 4, September-October, 1979, pp. 13-22.

79 Leibenstein, *Beyond Economic Man*, p. viii.

80 Ibid., p. 7.

81 Ibid., p. 8.

82 Ibid., p. 9.

83 Ibid., p. 71.

84 Ibid.

85 Ibid., p. 95.

86 Herbert A. Simon, "Rational Decision Making in Business Organizations," *American Economic Review*, Vol. 69, No. 4, September, 1979, p. 494.

87 Ibid., p. 506.

88 Ibid., p. 507 (emphasis in original).

89 Ibid., p. 496.

90 Ibid., p. 497.

91 Ibid.

92 Ibid., pp. 499-500.

93 Ibid., p. 502.

94 Ibid., p. 501.

95 Ibid.

96 Ibid., p. 510.

97 Ibid., p. 511.

98 In this connection, see also, Kenneth Arrow, "The Limitations of the Profit Motive," in *New Challenges to the Role of Profit*, edited by Benjamin M. Friedman, Lexington, MA: D. C. Heath (Lexington), 1978. Reprinted in *Challenge*, Vol. 22, No. 4, September-October, 1979, pp. 23-27.

99 David Jenkins, *Job Power*, New York: Penguin Books, 1974; also Theodore Geiger, "The Movement for Industrial Democracy in Western Europe," *Challenge*, Vol. 22, No. 2, May-June, 1979, pp. 14-21.

100 Albert O. Hirschman, *Journeys Toward Progress*, New York: 20th Century Fund, 1963; A. O. Hirschman, *Exit, Voice, and Loyalty*, Cambridge: Harvard University, 1970.

101 For example, Aldo Leopold, *A Sand County Almanac*, New York: Sierra Club/Ballantine, 1970.

102 For example, Richard J. Barnet & Ronald E. Muller, *Global Reach: The Power of the Multinational Corporations*, New York: Simon & Schuster, 1974.

Review of Institutional Thought
Volume I December 1981

The History of the Association for Institutional Thought

James I. Sturgeon

Department of Economics
University of Missouri—Kansas City
Secretary-Treasurer, AFIT

Introduction

The Association for Institutional Thought (AFIT) is an organization devoted to encouraging and fostering the development of institutional thought in extension and modification of the contributions of Thorstein Veblen, John Dewey, Clarence Ayres, John Commons, Wesley Mitchell and others. It is dedicated to the promotion of institutional analysis as a basis for inquiry into the interrelationships of society. AFIT was officially organized on April 27, 1979, at the 21st annual conference of the Western Social Science Association held at Incline Village, Lake Tahoe, Nevada.

Institutional thought is a holistic way of thinking about science and society. It has evolved from a broad spectrum of philosophical and economic thought and is truly an interdisciplinary approach to social science. While somewhat less than 100 in number (in 1981), AFIT's members come from most of the traditional social science disciplines such as economics, sociology, political science, social psychology, psychology and public administration. The process by which this group joined together is a historically important chapter in the history of institutional thought, and it is the purpose of this article to give an account of that process.

The Intellectual Heritage

AFIT's intellectual heritage has been referred to as the "cactus branch" of the institutionalist school. And it is true, at least in part, that AFIT resulted from the effort to organize the geographically dispersed intellectual progeny of those scholars identified with this branch of institutional thought. Most of the people who initiated the formation of AFIT trace their intellectual roots to Clarence E. Ayres, who taught at the University of Texas (hence "cactus branch"), and through him to Thorstein Veblen and John Dewey. The genealogy of the "cactus

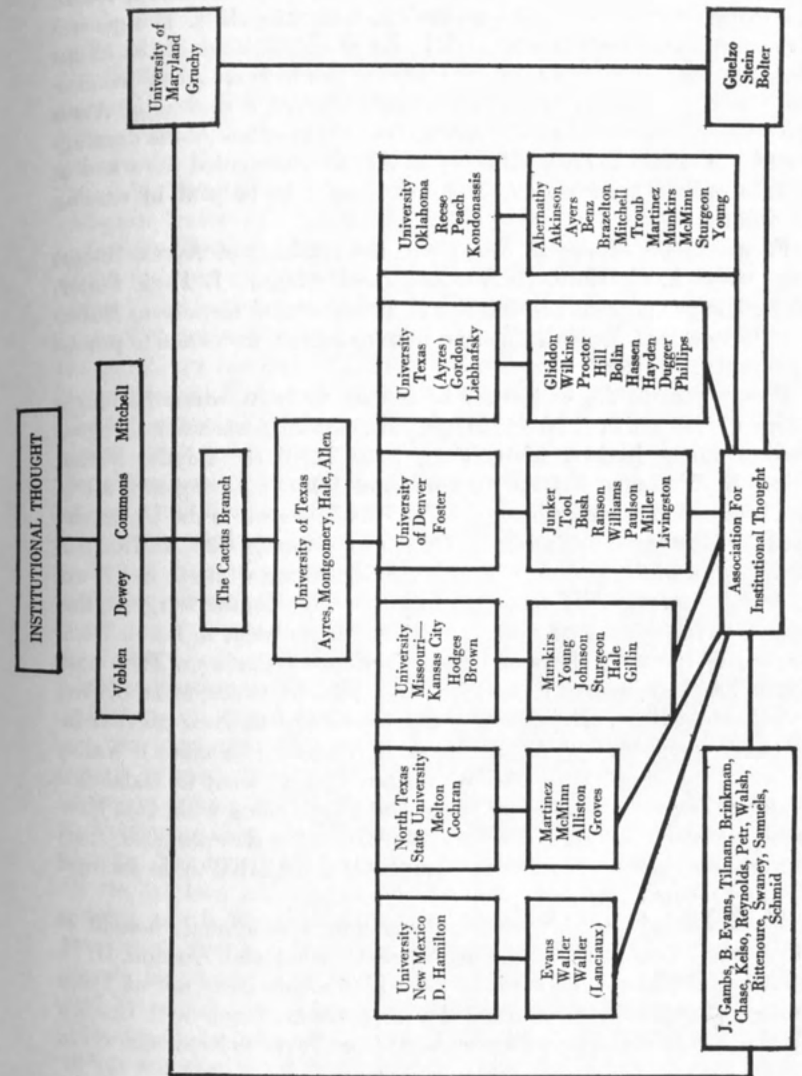

Figure 1. The Genealogy of AFIT

branch" now spans five generations. Beginning with Veblen and Dewey as the first generation and Ayres as the second, AFIT is mainly the creation of the third and fourth generations, i.e., the students of Ayres and the students of Ayres' students. Its members include third, fourth and a growing number of fifth generation institutionalists. The generations concept applies to a substantial part of the heritage of the cactus branch but there are a number of instances in which an AFIT member is both a third and fourth generation student, i.e., a student of Ayres and a student of one of Ayres' students. Only that portion of the development of the cactus branch relevant to AFIT is presented here and at that it is only a brief sketch. Figure 1 should be helpful in reading what follows.

From the University of Texas and the teaching of Ayres, Robert Montgomery, E. E. Hale, Ruth Allen (and others), J. Fagg Foster, John R. Hodges, Joe E. Brown, Jim E. Reese, David Hamilton, Rosser (Abe) Melton, and Kendall Cochran went to other universities to pursue their teaching careers.

Foster went to the University of Denver in 1946, where he taught until his retirement in 1976. He influenced many students and colleagues including Louis Junker, Marc Tool, Paul D. Bush, Edythe Miller, William D. Williams, Kristin Paulson, and John C. Livingston, all of whom became charter members of AFIT. Hodges went to the University of Kansas City (now University of Missouri—Kansas City, UMKC) in 1945 and is teaching there as of this writing. Along with Joe E. Brown, he influenced future AFIT members John Munkirs, James Sturgeon, Ben Young, Willadee Gillin and Thomas Hale. Melton went to North Texas State University where he was joined by Kendall Cochran. They have influenced AFIT members Robert McMinn, John Martinez, Mike Groves, and Willey Alliston. Hamilton at the University of New Mexico influenced William Waller, Mark Evans, Bernadette (Lanciaux) Waller and Jeff Baxter. Jim Reese and W. Nelson Peach* went to Oklahoma University. The collaboration of Reese and Peach along with Alex Kondonassis created a hospitable climate for institutionalist students. Several came from schools like North Texas State and UMKC to do doctoral work at Oklahoma University.

A number of people continued teaching institutional thought at the University Texas. In addition to Ayres, were Wendell Gordon, H. H. Liebhafsky, and Carey Thompson. Several students came out of Texas after the 1940s group. Some studied with Ayres and some with Gordon *et al.* For example, Gregory Hayden went from Texas to Nebraska where

* Peach was trained at Johns Hopkins, but after joining the faculty at Texas, took classes from Ayres and claims him as his "intellectual granddaddy." During an intellectual purge of the University, Peach, J. Fagg Foster and Wendell Gordon were fired. Gordon later rejoined the faculty.

he has influenced several students who became AFIT members.

Each of the schools, the University of Denver, UMKC, and North Texas, which were master's degree granting schools, and the Universities of New Mexico, Oklahoma, and Texas, which are Ph.D granting schools, has had an institutionalist heritage since the 1940s or 1950s. That heritage has been renewed with the influx of later generation institutionalists. It has also been expanded to include schools such as the University of Nebraska, West Texas and East Texas State University, Boise State, California State Universities at Fresno, Sacramento and Bakersfield, Sangamon State University, Western Michigan University, Colorado State University, University of Nevada—Reno, Texas Technological University, University of Nevada—Las Vegas, Oregon State University, Portland State University and others. There are no members of the fifth generation included in Table 1, but there are six who might properly be in generation four and one-half. In order to include those in the fifth generation and some of those in generation four and one-half the genealogy has to be expanded to include at least Western Michigan University, the University of Nebraska, and Sangamon State University. The University of Missouri—Kansas City, and North Texas State would also be included in the fifth generation of the cactus branch. Each of the above named schools is presently influencing students in the institutional tradition and several of AFIT's members come out of these schools. In the last five to ten years most of them would be considered to be members of generation four and one-half or five.

Even though the cactus branch shares a very common heritage for many years interaction among its members was sporadic and unorganized. One of the accomplishments of AFIT has been to unite this geographically dispersed group of scholars into a more closely knit group and allow organized and regular communication and interaction.

An important segment of AFIT is not descended from the cactus branch, though its origins (Veblen, *et al.*) are similar. A number of charter members of AFIT trace their roots in institutional thought back to Veblen or Commons through the University of Maryland and Allan Gruchy. Though Gruchy was not involved in the initial organizational efforts, he lent his support in the later stages. Following his lead a number of his former students and associates joined AFIT in the first two years. Another important segment of the AFIT membership can clearly be identified as having been influenced by the work of Veblen and Ayres, but their direct intellectual heritage is unknown to the author. This group includes a number of charter members. Members of this group are also listed in Figure 1. Thus, AFIT has provided a forum to unite not only the "cactus branch", but other institutional scholars as well.

The Organization Process

There is a sense in which the organization of AFIT goes back to the late 1950s when J. Fagg Foster, Kendall Cochran, and some of their students began having "rump" sessions at the Western Social Science Association meeting (then the Rocky Mountain Social Science Association). Regrettably not much is known to the author about these sessions or their participants. But it is clear that a linkage with the WSAA was established by Foster and Cochran. From these meetings and the linkage thus established evolved the next phase in the organization process. This phase took place during the period 1970 through 1974. Again the WSSA was an integral part of the process. At the 1970 WSSA meetings there were seven economics sessions; one was entitled "Institutional Economics." This session had three participants, two of whom, Glen Atkinson and Lewis Hill, later became members of AFIT. While there was only one formal session there were a number of other institutionalists in attendance, and there was a sense of anticipation that more would participate in the coming year. However, there was no purposeful movement toward the formation of an institutionalist organization.

TABLE 1

Participation by AFIT Members in the Western Social Science Association Meetings, 1970-1981

Year	Location	Chairperson	Number of (Economics) Sessions	Number of Institutional[1] Sessions	Number of AFIT Members Participating
1970	Denver	Edward Claiborn	7	1	2
1971	Laramie	Richard Leftwich	—	0	2
1972	Salt Lake City	Baldwin Ranson*	10	3	6
1973	Denver	Kathleen Camin	9	1	4
1974	El Paso	Lewis Hill*	10	2	6
1975	Denver	Kendall Cochran*	10	3	9
1976[2]	Tempe	Glen Atkinson*	16	5	13
1977	Denver	Roger Troub*	15	5	19
1978	Denver	Gregory Hayden*	11	7	25
1979	Lake Tahoe	Louis Junker*	23	15	31
1980	Albuquerque	David Hamilton*	21	15	31
1981	San Diego	Paul D. Bush*	25	13	29

Source: Western Social Science Association Program, each year except 1971 and 1975. The source for 1971 is W. D. Williams, and the source for 1975 is James I. Sturgeon, these latter two sources may be subject to some memory error. However the programs for those years were unavailable to the author.

[1] Note that what is defined as an institutional session is not limited to those by that title but varies depending on participants and the author's judgement of the overall makeup of the session.

[2] In this year two sessions were organized by James I. Sturgeon under the title, "Evolutionary Economics"; there were six persons who later became AFIT members who participated in these sessions. These have been added to the total for 1976.

* Denotes person who became or is an AFIT member.

The chairperson for the economics sessions in 1971 was Richard Leftwich from Oklahoma State University. He organized a heavily orthodox program which had no institutional sessions and only one or two institutionalists participated. The program for that year did not have a topic which could be legitimately—or remotely—called institutional. This foreclosure of institutionalists no doubt led to a concerted effort to assure their participation in future programs. Thus, ironically, the denial of formal participation to institutionalists in 1971 contributed to the movement which led to AFIT's formation.

The following year the WSSA meetings were held in Salt Lake City, Utah, and Baldwin Ranson, later a charter member of AFIT, was the economics section chairperson. One of Ranson's goals for the meetings was to assure the formal participation of institutionalists in the meeting. Under his direction the program was expanded to ten economics sessions, with three of them being on topics directly associated with institutional economics. Six people on the program later became AFIT members. The next year, 1973, the WSAA meetings were held in Denver, Colorado. The progress of the previous year was dealt a slight set-back. The chairperson organized nine sessions, only one being "institutional" in nature. And only four future AFIT members participated in that program.

The following year resumed the progress toward expanded participation started under Ranson's direction in 1972. Lewis Hill, another charter member of AFIT, was named to chair the economics section. Under his direction two of the ten sessions were institutional in content and six future AFIT members participated. This year was the last in what might be called the pre-organization process. In the following years there was a decided increase in the institutionalists' participation in the WSAA meetings. There was also a perceptive change in the tone of the programs. More sessions in the economics programs were clearly institutional in nature and content. They carried "institutional" in the title. Prior to this time, institutional sessions had to be detected as such by someone explicitly looking for institutionalist topics. For example, in the early period, 1970-74, institutionalists would participate in sessions with titles such as "The Economics of Social Issues," "Public Policy" or "Environmental Issues." In fact the only way to have known that these sessions were institutional in nature was to have known the people participating. After 1974 most of the sessions which are classified as institutional for purposes of this history carried a clear identifying title, such as, "Contributions to Institutional Thought and Method," "Thorstein Veblen and Modern Social Science," or "Institutional Theory and Practice."

It was largely due to the efforts of Baldwin Ranson, Roger Troub, Lewis Hill, Kendall Cochran, Glen Atkinson and Edythe Miller that institutionalist participation in the WSSA meeting was sustained during the early 1970s. At the 1975 meeting of the WSSA in Denver, Kendall Cochran, the economics chairperson, organized ten sessions, three of them were institutional in content and nine future AFIT members were on the program. This was an increase over the past year and marked the beginning of a steady increase in both the number of institutional sessions and the number of AFIT members on the program. The data in Table I show the number of institutional sessions increased to 15 in both 1979 and 1980, and 13 in 1981, while the number of AFIT participants rose from 9 in 1973, to 31 in 1979 and 1980, and 29 in 1981. At the same time the total number of economics sessions also continued to increase; thus, the growth in institutionalist participation did not crowd out the standard or orthodox sessions.

One reason that more institutionalists had the opportunity to participate was that the chairperson of the economics section either became, or was, a member of AFIT. In fact, all sections between 1972 and 1982, with the exception of 1973, were chaired by those who later became AFIT members.

The first organizational rumblings which eventually gave birth to AFIT began in April, 1975, at the WSAA meeting in Denver. Gregory Hayden and William Hildred convened a "rump" session for anyone interested in institutional thought. The session was held in a guest room at the Cosmopolitan Hotel, and about twenty people attended. Professor George W. Zinke from the University of Colorado discussed his ideas on the modern U. S. economy. Included in this discussion was his proposal to regulate the forty or so "key" industries. After Zinke's presentation, Hayden and Hildred initiated a discussion on organizing a regional branch of the Association for Evolutionary Economics (AFEE). Two objectives of the proposed organization were to bring institutionalists together and to influence some of AFEE's programs. William D. Williams and James Sturgeon volunteered, along with Hayden and Hildred, to take steps toward some type of organization involving institutionalists. In the months following that meeting concerted efforts were made to contact institutionalists in various parts of the country and discuss with them ways of organizing and communicating. The most readily available forum was the WSSA meeting and other regional meetings.

At the 1976 WSSA meeting in Tempe, Arizona, there were several sessions covering topics in institutional thought. Under AFEE's auspices, Sturgeon and Williams organized two evolutionary economics sessions. In addition to these sessions, a number of informal discussions took place concerning the problems of institutionalists. For the purpose of involving more institutionalists throughout the western United States, a session was organized at Western Economics Association (WEA) in June of 1976. This session focused on the "Institutionalist View of Finance Capitalism." John Munkirs gave a lengthy paper on "The Evolution of Finance Capitalism," and Ben Young gave one on "Technologicial Exploitation in Mexico." Following their presentations an audience of perhaps forty people had a lively discussion. This meeting is of interest because it expanded the circle of participation. A short story about this meeting may help convey the growing sense of excitement that was occurring as more people began to be involved.

Both presentations were controversial and highly critical of orthodox theory, to say the least. During the program, Williams elaborated on the institutionalists' critique of both capitalism and socialism. He also introduced the concept of the four generations of the cactus branch, i.e., Veblen, Ayres, Ayres' students, and the students of Ayres students. With a fairly large audience, it seemed almost impossible to avoid irritating or offending someone. As the session progressed one fellow seemed to be stirring in his chair with a somewhat pained expression on his face, apparently dismayed and unhappy about the ideas being discussed. Near the end of the discussion, he spoke, and with due apologies for memory here is what he said: "Well, I guess I must be . . ." (I remember thinking—here it comes, neoclassical "truth") ". . . from generation 3½, since I studied with one of Ayres students and with Ayres. And I just want to say that I haven't had so much fun since I left Austin." That man was Bill Wilkins, a student of Joe Brown and later Ayres. Later he wrote to Brown telling him how much he had enjoyed the session and meeting some of his (Brown's) other students.

The two regional meetings, WSSA and WEA, in 1976, were important in attracting the attention and participation of institutionalists. Institutionalists who had not previously met or known of each other met for the first time at these sessions. Others renewed acquaintances. For example, the Tempe meetings were the first at which Williams, Junker, Hayden, Sturgeon, Hodges, Atkinson, Ranson, Hill, Cochran, Hamilton, Troub, Young and others were all present. The San Francisco meeting brought together Wikinson, Bush, Tool, Munkirs, Ayers, Atkinson, Sturgeon, Young, Williams, and others. Some members of these groups knew each other before and had even gone to school together, but others had not previously met.

The following year, 1977, the WSSA meetings were held in Denver, and institutionalist participation increased markedly. Many of those who had attended both the WSSA and WEA the year before gathered at these meetings. The program had more institutionalist participants than previously. In addition, a luncheon was organized as a forum for those interested in formally discussing various aspects of continued participation at the meetings and forming an organization.

During 1976 and 1977 the contacts established at earlier meetings and at the WEA were strengthened and some new ones were initiated. Bill Williams, who had gotten a pilot's license, flew around the country (at his own expense) to talk to institutionalists about many things (including organizing a group). He visited Tool and Bush in California, Munkirs and Ayers in Illinois, Junker in Michigan, and Sturgeon in Missouri. These visits served to strengthen the interest in organizing. They also helped to plan sessions at future WSSA and WEA meetings.

The WSSA meetings returned to Denver the following year. Past participants were joined by an influx of new ones. The number of institutional sessions had grown to seven and those on the program numbered twenty-five. Prior to the meetings, a letter was sent to about eighty people announcing an organizational meeting and inviting their participation. The letter included a postcard to be returned which asked the respondents to indicate if they would attend, were interested but could not attend, or were not interested in the organization. Twenty-four cards were returned, all indicating interest. Additionally, at least six letters were returned. Three raised questions and concerns about another organization, while the others favored it and had some suggestions for organizing the group.

From 1975 to 1978 the organizational emphasis drifted away from forming an AFEE regional branch to forming a new and separate organization. This was not, it seems, a completely conscious decision, but rather a consensus which emerged over the years. On April 28, 1978, at the Radisson Hotel in Denver, the first formal organizational meeting was held. About 36 people attended. The group agreed to form a new association, and even though the formal organization did not take place until the next year, this marked the founding of AFIT.

The group identified three general purposes for the new association:

1) To provide a formal mechanism to ensure the continuation of institutional sessions in association with the WSSA;

2) To provide a clearing house vehicle to exchange ideas and papers in the area of institutional analysis; and

3) To refine, extend, and publicize institutional theory and policy.

No dues were established, but $99 was collected as "seed money," and additional contributions were made later in the year.

The group elected a steering committee composed of Gregory Hayden, Louis Junker, John Munkirs, Kristin Paulson, Baldwin Ranson, James Sturgeon, and Marc Tool. The committee was to undertake two charges:

1) To prepare the necessary materials in draft form to organize a new association; and

2) To draft a statement of comments and concern about the policies of AFEE and the handling of the *Journal of Economic Issues.*

There was, however, general agreement among the group that the new organization was not intended to compete with or supplant AFEE. Most indicated their intention to continue to support AFEE.

One reason for the statement to AFEE was to attempt to clarify the role of the new organization and to voice some of the members' concerns. Throughout the period from 1975 on, some dissatisfaction with AFEE was expressed. Some in the WSSA group wished to form an alternative to AFEE; others wanted to organize informally to redirect some of AFEE's activities, others wanted both. Most saw no objection to another organization representing institutionaists. Perhaps the sentiment of the group was best expressed by David Hamilton, who said, "I see nothing wrong with having two institutionalist associations and journals; in fact, I look forward to the prospect."

After the Denver meeting, a letter was sent to 75 or 80 people inviting their participation in the new organization and requesting their input for the report to be given at the AFEE Board of Directors meeting. In August, 1978, at the AFEE Board meeting in Chicago, a report, prepared by James Sturgeon, and based primarily on the responses to the letter, was read. The report detailed a number of concerns held by the WSSA group about the direction and purposes of AFEE. The report stirred a lively discussion and several suggestions were entertained. The report is on file with the Secretary-Treasurer of AFIT.

The remainder of the efforts of the steering committee were aimed at organizing. Louis Junker had been named to head the economics section at the WSSA meetings in 1979. He took the responsibility to organize the "AFIT" section as well. Other efforts centered around drafting a constitution and arranging a meeting to form the new organization. That meeting was held at the Hyatt Hotel at Incline Village, Nevada, on April 28, 1979. It was during that meeting that the Association for Institutional Thought (AFIT) was officially organized. Though there were more than thirty people present, some inadvertently did not sign the "attendance" sheet. The names of those who signed are listed in Appendix 1.

Allan Gruchy and John Gambs were invited to attend the organizational meeting and conference. They, along with David Hamilton, J. Fagg Foster, Joe Brown, and eight others founded AFEE at a meeting in Washington, D. C., on December 28, 1959. Both Gruchy and Gambs were past presidents of AFEE and had become dissatisfied with its direction and purpose. They are well known institutionalists of long standing and came to the meeting to lend their counsel and support to the new organization.

The meeting began with a general discussion of AFIT's purposes and background, and then turned quickly to the constitution. One item of discussion was the name of the organization. The draft constitution proposed the name—Association For Institutional Thought. The issue of whether it should be broadened to include theory *and* policy was raised. John Gambs spoke to this issue. He related that when AFEE was named, the word Evolutionary was selected because of Veblen's use of the term to describe his economics. This Gambs thought had turned out to be a mistake. He urged the group to include the word "institutional" in the title of the organization. Allan Gruchy joined him in this view. Sturgeon indicated that the term *Thought* in the title was intended to include both theory and policy and to prevent a restriction to economics, i.e., to broaden it into all social thought. The name was left unchanged.

The draft constitution was modified in three ways. First there was an addition to Article 2, Purpose and Objectives. This addition served to expand and clarify the Article. The expansion was aimed at removing the possible interpretation that the purpose was the dogmatic adherence to past institutional analysis. The clarification indicated that the body of *thought* being fostered and extended was that of Veblen, Dewey, Ayres, Commons, Mitchell and others in that heritage. Second there was a deletion from Article 3, Membership. This article raised a controversy over the membership process. Some viewed the draft article as containing an exclusivity provision. The Article was changed to remove this interpretation. The third change centered on the drafting and passing of policy resolutions. There was not really a controversy but the language could not be explicitly agreed upon by the group. It was decided to delete Article 8 and have the Directing Board to redraft it for future consideration. With these changes the Constitution was approved.

The next item of business was the election of the Directing Board. After a brief discussion, the president, vice president, secretary-treasurer and other board members were nominated and elected. Elected to the first AFIT Board of Directors were: Marc Tool, president; David Hamilton, vice president; and James Sturgeon, secretary-treasurer. Gregory Hayden and Louis Junker were elected as members at large. Other nominees for the board were Michael Ayers, John Munkirs and Baldwin Ranson.

After the election of the Board, the first official action was to designate John Gambs and Allan Gruchy "sponsors" of the organization. The group also promptly and unanimously passed a resolution naming J. Fagg Foster and W. Nelson Peach "Honorary Presidents."

The Board held its first meeting the next day and began planning for the future of AFIT. During the first year, 73 members joined. The charter members are listed in Appendix 2. Most of those who joined are decidedly the progeny of the "cactus branch." But within the first year the membership began to expand to include students and colleagues of John Gambs and Alan Gruchy.

Conclusion

At the present writing, the Association for Institutional Thought is in its third year of existence. It has already proven to be a viable organization for the promotion and dissemination of scholarly inquiry in the field of institutional thought. In addition to sponsoring annual meetings (in conjunction with the Western Social Science Association), AFIT has established a clearinghouse for the exchange of unpublished papers; and, with the appearance of this first volume of the *Review of Institutional Thought,* it has launched a publication unique in its commitment to the promotion of institutional analysis and thought. While AFIT now boasts of a national membership representing all branches of institutional thought, the rapid development of the structure and functions of the Association must be attributed to that small but dedicated group of the "cactus branch" who worked so tirelessly over the last decade to revitalize institutionalist scholarship. What is past is prologue.

APPENDIX 1

List of Participants at the Formal Organization Meeting of AFIT on April 27, 1979, Incline Village, Nevada

Member	*Affiliation*
Michael O. Ayers	Sangamon State University
Charles Burbridge	Sangamon State University
Paul D. Bush	California State University—Fresno
Arthur H. Chan	University of Nebraska—Lincoln
Kendall Cochran	North Texas State University
William Dugger	North Texas State University
Bert Evans	University of Nebraska—Lincoln
John Gambs	Hamilton College
Allan G. Gruchy	University of Maryland
Thomas Hale	University of Missouri—KC
David Hamilton	University of New Mexico
F. Gregory Hayden	University of Nebraska—Lincoln
William Hildred	Central State University
Alexander J. Kondonassis	Western Michigan University
Louis Junker	University of Oklahoma
Robert D. McMinn	Corpus Christi State University
Mary R. McQuigg	Sangamon State University
Edythe S. Miller	Colorado Public Utilities Commission
John R. Munkirs	Sangamon State University
Ron Phillips	University of Texas
N. Neel Proctor	University of Missouri—KC
Baldwin Ranson	Western State College
R. Larry Reynolds	Weber State College
James I. Sturgeon	University of Missouri—KC
Marc R. Tool	California State University—Sacramento
Roger Troub	Texas Technological University
William T. Waller, Jr.	Western Michigan University
William D. Williams	Semo Airlines
Ben E. Young	West Virginia Wesleyan University

Source: From the "Sign Up Sheet" circulated at the organization meeting April 27, 1979, Incline Village, Nevada.

APPENDIX 2

List of Charter Members of The Association For Institutional Thought and Their Affiliation at the Time of Formation

Member	*Affiliation*
Glen Atkinson	University of Nevada—Reno
Michael O. Ayers	Sangamon State University
George A. Benz	St. Mary's University
Meb Bolin	Eastern New Mexico University
Walter G. Bolter	National Telecommunications Administration—Consultant
W. Robert Brazelton	University of Missouri—KC
Richard L. Brinkman	Portland State University
Paul D. Bush	California State University—Fresno
Arthur H. Chan	University of Nebraska—Lincoln
Richard Chase	University of Vermont
Kendall Cochran	North Texas State University
Mark Evans	California State University—Bakersfield
J. Fagg Foster	University of Denver
Gladys Foster	
John Gambs	Hamilton College
Wendell Gordon	University of Texas—Austin
Alvin K. Grandys	Illinois Office of Consumers Service
Miles E. Groves	North Texas State University
Allan G. Gruchy	University of Maryland
Carl M. Guelzo	Catonsville Community College
Thomas Hale	University of Missouri—KC
David Hamilton	University of New Mexico
Rafa Hassan	Private Business
F. Gregory Hayden	University of Nebraska—Lincoln
Steven R. Hickerson	University of Nebraska—Lincoln
Lewis E. Hill	Texas Technological University
John R. Hodges	University of Missouri—KC
Joel Jalladeau	Faculty De Sciences Economiques—France

Karl F. Johnson	University of Missouri—KC
Louis Junker	Western Michigan University
Patrick R. Kelso	West Texas State University
Alexander J. Kondonassis	University of Oklahoma
John C. Livingston	California State University—Sacramento
Robert D. McMinn	Corpus Christi State University
Mary R. McQuigg	Sangamon State University
Edythe S. Miller	Colorado Public Utilities Commission
John R. Munkirs	Sangamon State University
Kristin Paulson	University of Colorado
W. Nelson Peach	University of Oklahoma
Jerry L. Petr	University of Nebraska—Lincoln
Ron Phillips	University of Texas—Austin
N. Neel Proctor	University of Missouri—KC
Baldwin Ranson	Western State College
R. Larry Reynolds	Weber State College
R. Lynn Rittenouer	University of Tulsa
Jean Kufrin Rosales	Sangamon State University
Warren J. Samuels	Michigan State University
James I. Sturgeon	University of Missouri—KC
James A. Swaney	Wright State University
Rick Tilman	University of Nevada—Las Vegas
Marc R. Tool	California State University—Sacramento
Roger Troub	Texas Technological University
William T. Waller	Western Michigan University
Bernadette Waller	Western Michigan University
Richard G. Walsh	Colorado State University
William Wilkins	Oregon State University
William D. Williams	Semo Airlines
Ben E. Young	West Virginia Wesleyan University

Source: Compiled from the membership records of the Secretary-Treasurer, Association for Institutional Thought.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

Abstracts of Papers Presented at the First Annual Meeting of the Association For Institutional Thought

(Held in Conjunction with the Economics Section of the Western Social Science Association)

ALBUQUERQUE, NEW MEXICO
APRIL 24-26, 1980

EDITOR'S NOTE: Photocopies of the complete text of the unpublished papers abstracted in the following pages may be purchased for a nominal reproduction and mailing fee from the Association for Institutional Thought. Please send inquiries to:

PROFESSOR JAMES I. STURGEON
Secretary-Treasurer
Association for Institutional Thought
Department of Economics
University of Missouri, Kansas City
205 Haag Hall
5100 Rockhill Road
Kansas City, Missouri 64110

ABSTRACT

The Current Status of Institutional Economics

ALLAN G. GRUCHY

Department of Economics
University of Maryland

This paper evaluates the current status of the institutionalist movement which has persisted over three quarters of a century. Even many of those who are favorably disposed towards institutional economics would agree that the current status of this type of economics is not as high as it very well could be. This evaluation of the current status of institutional economics is made in the light of four basic questions: 1) what theoretical needs has institutional economics met over the past three quarters of a century that have contributed to its continued existence; 2) what developments have tended to weaken the institutionalist movement; 3) what developments have strengthened it; and 4) what can be done in the future to improve the status of institutional economics and to make it a more vigorous challenge to conventional economics?

While the institutional movement has shown no tendency to fade away as its critics have hoped that it would, nevertheless the movement's exponents have not always functioned in a manner that would serve to give institutional economics a higher status than it has achieved up to now. The performance of these exponents is analyzed and some corrective suggestions are made. It is essential that the institutionalists be more clear-cut in their economic policy proposals in order to be distinguished from orthodox Marshallian and Keynesian economists, and that they devote more attention to issues relating to the nature and significance of institutional economics than they have done up to now. The past two generations should be aware of the need to work along these lines, and to get beyond special issues such as business cycles, the market behavior of large industrial enterprises, and incomes policies. My conclusion is that much can be done to raise the current status of

institutional economics, if institutionalists will take stock of their current situation and then take steps to improve it. Current trends in social science such as those favoring a more interdisciplinary economics and the development of the policy sciences would serve to enhance the status of institutional economics if institutionalists were prepared to take advantage of these developments.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

Markings on the Nature, Scope and Radical Implications of the Ceremonial-Instrumental Dichotomy in Institutional Analysis

LOUIS J. JUNKER

Western Michigan University
Department of Economics

This paper examines the nature and scope of the Veblenian dichotomy from a slightly altered angle of vision. Its central thesis is that instrumental concepts are not simply "technological" in whatever context. They are the linkages, connections and patterns between and among instruments and tools in a liberating, democratizing relationship—that is, in an institutional setting in which the relations of production taken at large are liberating rather than domineering, exploitative, and master-servant oriented. In the same light, ceremonial behavior relationships and contexts cannot thoughtfully be designated simply mythological or traditional without indicating that myths and ceremonial traditions are used to manipulate and control human beings. Ceremonial behavior contexts and functioning also create connections, linkages and patterns between "instruments" and "tools"—the surrogate relationship—which, however, operate in a decidedly different context with a different outcome. They operate in a context of power set into form by a master-servant relationship which determines the "use," nature and application of the "instruments" and "tools." In other words, they are relationships in which the relations of production taken at large are domineering, elitist and exploitative rather than sharing, democratizing and liberating. Genuine technological-instrumental forces are not only a constant

This abstract was prepared by the editor from the manuscript of the late Louis Junker. A revised version of this paper is forthcoming in the *American Journal of Economics and Sociology.*

pressure against all master-servant systems, ceremonial constraints and controls working against institutional exploitations. They also serve to identify, examine, and critique outworn and outmoded systems and perspectives and to set the intellectual tone for conceptualization, reconstruction and destruction of ceremonial institutional forms. Spurious "technological" developments, on the other hand, are those which are encapsulated by a ceremonial power system whose main concern is to control the use, directions and consequences of that development while simultaneously serving as the institutional vehicle for defining the limits and boundaries upon that technology through special domination efforts in the legal system, the property system and the information system. These limits and boundaries are generally set to best serve the institutions seeking such control and designed to avoid acceptance of responsibility for the generated waste and social costs of their enterprise while setting the additional price to be paid for access to the means of life by the community at large. This is the way the ruling and dominant institutions of a society maintain and try to extend their hegemony over the means of life of its people.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

John Dewey and Thorstein Veblen: An Intellectual Relationship

RICK TILMAN

Department of Political Science
University of Nevada, Las Vegas

The intellectual parallels between John Dewey and Thorstein Veblen are widely acclaimed by historians of American thought. Dewey and Veblen are portrayed by those who believe in the unity of Progressive social thought as part of the indigenous pragmatic movement which revolted against formalism in philosophy, law, history and economics. This is so even though Veblen was critical of pragmatism and had a very ambiguous relation to it. From the time of the publication of V. L. Parrington's *The Beginnings of Critical Realism in America* in 1930 to the most recent writings on the subject, historians of Progressive social thought have been firm either in their overt endorsement or in their tacit assumption of its fundamental unity. For example, it is claimed that both Dewey and Veblen, a part of a broader intellectual movement, were historicists and cultural organicists of a particular kind; that they shared a common theory of value and cultural lag; and that they had similar attitudes toward institutions and a mutual dislike of false dualisms. It is also asserted that as Progressives they both had a liberal political outlook which implies that they wished to harness the vested interests without actually resorting to socialism. Consequently, Veblen in particular, badly needs rescuing from sweeping generalizations about the "Progressive Mind." Differences between Veblen and Dewey are best explained by focusing on the discontinuity between certain aspects of Dewey's liberalism and Veblen's radicalism. Dewey depicted as the quintessential liberal and Veblen as the stereotypical radical constitute an interesting and suggestive contrast. This is evident during the Progressive Era in their differing views over (1) the potential and actual role of human intelligence in promoting reform, (2) the extent to which the individual is a product of the social environment, (3) the problem of cultural lag and radical versus incremental change, (4) individual

and social praxis, (5) aesthetics, and (6) Marxian theory and Soviet policy. What is new here, and controversial, is the assertion and documentation of major differences between Dewey and Veblen and recognition of the weakness of existing historiography of their intellectual relationship. It is also time to reappraise the claim that a fundamental unity of some sort existed in Progressive social thought through a comparison of the ideas of two of its leading figures.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

Changes in Economic Methodology As A Hindrance to Progress

WILLIAM M. DUGGER

Department of Economics
North Texas State University

At the core of mainstream neoclassical economics is a general faith in nonintervention by government in the general economic system. Of course, specific nonintervention caveats are supported by specific assumptions, and although not all neoclassical economists believe in all the assumptions and corresponding policy implications, a general agreement exists in the 1980s. But by the turn of this century a growing number of institutional economists had already argued that the core neoclassical assumptions and their nonintervention implications were not valid. They did not fit modern conditions. Later, the Keynesian revolution raised doubts about Say's Law of Markets. But the neoclassical core, the faith in nonintervention, remains largely intact, and is even being revitalized to the point that the old neoclassical core is labeled "the new economics" and the Keynesian heresy is labeled "the old economics."

In short, progress in economics has come to a halt. In particular, economists seem unable to explain, let alone remedy, the stagflation of the 1980s because the old neoclassical core has become the "new" orthodoxy. The neoclassical core is incredibly durable. The reason is simple: The assumptions supporting the core are completely protected from the conflicting empirical evidence regarding the nature and significance of social control in the modern economy. Economic historians trace out how the visible hand of management has replaced the invisible hand of the market. Social psychologists question the autonomy of consumer preferences. And institutional economists continue their relentless critique of "price theory." But the core holds.

The core holds because, as the empirical evidence began to cut too deeply, new twists were given to neoclassical methodology. The

William M. Dugger joined the faculty of the Department of Economics at DePaul University in the fall of 1981.

new twists were positivism, supplied by the Monetarists, and subjectivism, supplied by the Austrians. Led by Milton Friedman, the Monetarists tell us that unrealistic assumptions can be ignored because "prediction" is the only empirical test. The new Austrians, on the other hand, go even further by supporting a methodology which asserts that economic principles cannot be refuted at all by empirical observations because economics is the logic of *unobservable* subjective choice.

With the acceptance by many economists of these new methodologies, the slow progress encouraged by empirical and historical research has ground to a halt. These methodologies have become hindrances to progress.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

Thorstein Veblen and His Marxist Critics

J. L. SIMICH
and
RICK TILMAN

Department of Political Science
University of Nevada, Las Vegas

Few American theorists have attracted as much attention from Marxists as Thorstein Veblen. This includes such luminaries of the Marxist world as Nikolai Bukharin, Antonio Gramsci, Theodor Adorno, Paul Baran, Herbert Marcuse and Paul Sweezy. While many hold positive attitudes toward his work and see important similarities between him and Marx, they do not agree entirely on the salient "radical" themes in his writing, or on the broader ideological and political significance of these themes. Also, there is both disagreement and consensus on Veblen's intellectual relationship to Marx and the Marxist tradition. One group has argued that the parallels between Veblen and Marx are very limited and that Veblen's real position in the history of economic thought is in the "line of petty bourgeois reformers which includes such diverse but ideologically related figures as Pierre Proudhon, Henry George, Edward Bellamy, Silvio Gessel and Major Douglas." Others claim that while he occupies a position on the far left of the political spectrum, he is not really a Marxist. A third group contends that, while his vocabulary and eccentric style have sometimes bewildered his readers, his theoretical system is largely Marxist. Finally, there are those who believe that the basic issue is not whether Veblen was a Marxist but whether Veblenism and Marxism are to "function within a unified and serviceable social science." From this perspective Veblenism and

This article is scheduled to appear in *The History of Political Economy*, Spring, 1982.

Marxism might be combined into a viable theoretical synthesis.

This article describes and evaluates the Marxist interpretation of Veblen. Methodologically it focuses on (1) the chronological evolution of Marxist criticism of Veblen with emphasis on the sharp discontinuity between past interest in him and present neglect of his work, (2) the accuracy of Marxist textual exegesis of Veblen's writing, and (3) the political and economic significance of this analysis in the social environment in which it was formulated. Topically, it centers on Marxist views of Veblen's work on (1) Darwinian versus dialectical methodology, (2) class structure, class conflicts and class consciousness, (3) the system of power and related theory of the state under capitalism, (4) the structural linkage of imperialism, colonialism and war and their roots in the class system, (5) capitalist business cycles and their broader political significance, and (6) the problem of both individual and social praxis.

ABSTRACT

Humans As Tools? Confoundings, Clarification, and Consequences Significant for Neo-Institutional Thought

N. NEEL PROCTOR

Division of Management and Administration
University of Missouri—Kansas City

A major confounding exists if humans are differentiated from the concept of tools. Humans are not external to technology, but one aspect of a larger cultural phenomenon which neo-institutionalists define as the technological process, with its conception of science as "pure technology." The inclusion of humans within the concept of tools result (hopefully) in their being treated according to the better information gleaned from all of the disciplines. Such a concatenation points toward the enhancement of humans ranging from food, shelter, clothing, etc., to more complex social phenomena, including the elaboration and proliferation of conceptual functioning and social organizational processes.

The failure to include humans within the concept of tools relegates them to being treated as fetishes, i.e., in terms of the sacred myths and legends of the tribe, whatever they may be. The consequences of such beliefs are seldom questioned and may be very harmful to humans. Tools are not "mere" tools. Actually humans have taken better care of tools than fetishes, e.g., the first air conditioners were developed for machines.

An "operating manual" governs the use of tools making important the preparation of a "looseleaf" human "operating manual." The absence of "manuals" other than the "great mythical books" of the past cannot be tolerated in the future. It must be recognized that future generations will be the product of such manuals.

Another relevant confounding arises from the failure to recognize continuity; that is the failure to conceive of tools in a means-end-means continuum. It must be recognized that ends "in view" are means to still further ends in the human life process. Another confounding involves

using the most relevant frame of reference for solving the problem, avoiding conflict and contradiction. The improper conceptualization of units and sub-units compounds misunderstandings in and between individuals, groups, organizations, and society. Levels of abstraction in describing the unit under consideration, the role of variables entering individual behavior, and unfortunate dualistic categorizations, e.g., natural-supernatural, are all sources of confounding the relevant consideration of humans as tools.

Better information about individual and group behavior is provided by the social psychologists Carolyn and Muzafer Sherif who avoid many, if not all, of the above confoundings. They supplement the work of C. E. Ayres. Their use of various frames of reference avoids confoundings and appears to indicate that valuing humans as tools, rather than as fetishes, promotes humanness.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

Pecuniary Controls to Alleviate the Technological Degradation of Rural America

F. GREGORY HAYDEN

Department of Economics
University of Nebraska—Lincoln

As has been clarified by Paul D. Bush and Louis Junker, the technology of agriculture and the food delivery system has been ceremonially encapsulated, in the Veblenian sense. The purpose of this paper is to explain how the Community Reinvestment Act of 1977 (CRA) can be used to alleviate the degradation resulting from this ceremonial process.

Given the communitarian evolution of U. S. ideology, a credit allocation act such as the CRA should have been expected for the revitalization of urban and rural communities. A change in the *status quo* came about because of dissatisfaction in two areas. First, a dissatisfaction with the present system arises because some people believe that the marketplace does not allocate the right to credit, and hence the right to real resources, in an appropriate way. The argument is that social priorities may differ from those expressed through a free market for credit, hence direct intervention via taxes or controls is necessary to ensure that credit is somehow reallocated in a way more consonant with social priorities. Second, the nation has a large number of rural and urban communities which have been disintegrated and destroyed. This is not to argue that these communities have not been damaged because of systematic aspects other than credit policies. It is to argue that credit flow policies are essential to any policy of community revitalization and maintenance.

The values and societal beliefs have been expressed in CRA legislation. Now the job is to embed the legislative intent in the sociotechnical community. This will require building a policy interface among relevant social actors in the technical, ecological, and institutional settings upon

A different version of this paper was published with coauthor Larry D. Swanson under the title "Planning Through the Socialization of Property Rights: The Community Retirement Act," in the *Journal of Economic Issues*, XIV (June, 1980), 351-369.

which the CRA must impact in revitalizing rural communities. In order to design a policy interface, the actors must be identified, their roles integrated into the new policy, and an information system of societal indicators constructed to allow for decisions and performance evaluation. To do this, a process must be designed to interface all the social actors — bankers, community members, examiners, etc. This process must also take into consideration the unique requirements of the legislation to be embedded.

ABSTRACT

The Sulfur Dioxide Emissions Problem: An Inquiry Into Values and the Public Purpose

CHARLES A. BURBRIDGE

Illinois Economic and Fiscal Commission*

Air pollution adversely affects society as a result of sulfur dioxide emissions from the generation of electricity. "Solutions" to the problem are mired in a technological/sociological debate that serves only to increase energy supply uncertainty and costs, thereby affecting the industrial system.

Proposed solutions are as varied as the schools of thought which spawn them. There are three schools of thought which dominate discussion of proposed solutions — More, Less and Instrumental. The More school *a priori* sees increased production as a good and necessary goal and focuses on adherence to the "market system" philosophy. "More" actions may include reducing government interference in the market allowing consumers to "vote" in the marketplace for the amount of air pollution they are willing to tolerate.

The Less school *a priori* focuses on attaining a lifestyle consistent with the "natural laws" of ecology. "Less" options may include expanding government's role in developing new technologies and/or changing society's consumption/production patterns to maintain the ecological system.

The Instrumental school contrasts with the More and Less schools in that solutions are based upon the current knowledge of the problem and are subject to continuous open-ended inquiry rather than preconceived notions as to proper solutions. The Instrumental school may call

*The views expressed in this paper do not necessarily reflect those of the Commission.

initially upon the public institutions of government to determine the "best" solution which *coincidentally* may be a solution proposed by another school, a derivative/synthesis of other solutions, or a unique solution.

Each school has both weaknesses and strengths. A deficiency of the More and Less schools is that the assumptions implicit in their rigid fundamental beliefs may not be valid. If so, remedial actions are not possible. The Instrumental school's inadequacy is that conditions necessary for "Instrumental" inquiry do not exist. For the instrumental problem-solving process to work, knowledge must be available to all members of decision-making institutions from a source that is both accurate and impartial. Currently, information may be biased as groups which develop and disseminate information may be motivated by self-serving interest. Furthermore, development of such a source does not ensure complete utilization of the instrumental problem-solving process as many decision-makers would interpret information by use of a system of beliefs taken from the More or Less schools. Remedial action could require a revolution in education and information designed to reduce the prejudices used to filter information and provide the institutions of a democracy an adequate source of non-biased information.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

Resources, Energy, and Diminishing Returns

BEN E. YOUNG

Department of Economics
West Virginia Wesleyan College

There is a tradition among some institutionalists, oral if not written, to minimize the problems of growing global population, shortages of food, depletion of natural resources, and environmental decay. A blasé attitude toward these problems is unwarranted and unnecessarily detracts from the institutionalist paradigm.

The instiutionalists' perception of resources along with their attack on the mystery of price, the mysticism of capital, the all important focus on process, and the Veblenian dichotomy constitute the most advanced paradigm in the social sciences. It is unnecessary to weaken this body of thought by overstatement and careless assertion. The Ayresian attack on unlimited wants and limited resources may be abused by overzealous advocates. An examination of population, food, resources, and the environment should make the point.

"There is no population problem." "The planet can feed fifty billion, maybe 100 billion people or more." "We could feed the world out of one flower pot." All of these comments have been stated at least verbally by some institutionalists. Malthus is routinely dragged out and mutilated for his lack of technological insight. Diminishing returns in agriculture, as everyone now knows, were offset by technological change.

But it is unlikely the planet can feed fifty billion people (or 25 billion) without seriously pressing on the carrying capacity of the planet. There are other constraints as well.

The Green Revolution is an example *par excellence* of the triumph of technology over diminishing returns—temporarily. By 1967 wheat production had tripled, and per capita consumption was up 40 percent in Mexico. Similar advances occurred around the world. The Green Revolution continues but at a slower pace—the first quantum jump will not be repeated.

The immediate constraints on food production are land, water, and

energy. It is a fact that most of the good land on the planet is already being utilized. Water was once considered a free good. This is no longer so. The cheap potential of most of the world's rivers is already being utilized. The prodigious consumption of fossil fuel energy in recent decades has threatened their exhaustion and the environment unless dramatic changes are made in our energy use patterns. Coping with these problems is a challenge well-suited for institutionalists who are not tradition bound and who assert that knowledge is our most important resource.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

Some Notes on the Technological and Institutional Remedies for the Energy Crisis

LEWIS E. HILL

Department of Economics
Texas Tech University

The purpose of this paper is to seek technological and institutional remedies for the energy crisis from the instrumental economic theories of the institutional economists. The contemporary energy crisis has resulted from the manner in which the people of the United States have wasted their birthright of exhaustible and irreplaceable fossil fuels in an orgy of wasteful conspicuous consumption and ceremonial behavior. The technological remedies for the crisis are implied by Erich W. Zimmerman's functional interpretation of resources; the institutional remedies are implied by Clarence E. Ayres' instrumental economic theories.

According to Zimmerman's interpretation, natural resources are defined by technology and redefined by every technological innovation. This interpretation implies that the appropriate remedy for the energy crisis is a technological revolution which will render the fossil fuels obsolete before they are exhausted and replace them by creating new more efficient technologies and new abundant or inexhaustible energy resources. This technological remedy will require the largest, longest, most intensive, and best financed technological research and development program of all history.

Ayres' instrumental economic theories imply that the remedies for the energy crisis will require extensive institutional adjustment. Uncontrolled population growth must be halted; socioeconomic and politicoeconomic institutions must be adjusted to operate effectively with zero population growth. But the most important adjustment must be to change the American life style away from wasteful consumption and ceremonial behavior. It can no longer be assumed that the performance of the American economy should be judged by the speed with which resources are converted into junk. The "American standard of living"

must be broadened to include a serious concern for the quality of life. In short, if we would save our civilization from self-destruction, we must abandon the destructive, exploitive, and wasteful institutions and ceremonial behavior of the past. We must seek to replace dead and deadly vestiges of the past with a future which will be controlled by creative, constructive, and productive technology and technological behavior. It is the destiny of institutionalists to provide the leadership necessary to achieve this transition from the dead past into a living future. Let us fervently hope that we have the wisdom, the strength, and the perseverance to fulfill this destiny.

VOLUME I DECEMBER 1981

ABSTRACT

Analyzing the Energy Problem: Pecuniary Logic Versus Institutional Analysis

PAUL D. BUSH

Department of Economics
California State University, Fresno

According to the pecuniary logic of neoclassical economics, both the short run problem of "shortages" and the long run problem of "scarcity" in the energy industry can be solved through a reliance on the "free market" pricing mechanism. Since energy "shortages" have been caused by the imposition of government price controls, the solution to this problem is found in the elimination of these restrictions on the movement of "free market" prices. The long run problems posed by the "scarcity" of fossil fuels will be resolved as the development of alternative energy technologies becomes profitable for private enterprise to undertake. It is the neoclassical view that government imposition of conservation programs and other forms of governmental interference with the "free market" will delay the successful development of alternative energy technologies.

A critical review of the application of the pecuniary logic to both the supply and demand sides of the energy question reveals that the neoclassical paradigm offers little more than "ceremonially adequate" formulae for the rationalization of monopoly pricing practices in the allocation of energy resources. The neoclassical economists invite us to consider how the "free market" works under the circumstances presented by the energy problem. But there is no "free market" in the circumstances described. In this instance, the assumption of the "free market" cannot be excused on the grounds that it is merely a good "first approximation" for there is no "second approximation" of the facts that squares with the assumption.

Institutional analysis defines the energy problem in terms of the "ceremonial encapsulation" of energy technology within an institutional

structure that cannot long sustain the life processes of the community. The solution to the problem is formulated in terms of the need for institutional change. Specifically, institutional analysis indicates the need to divest the oil industry of its control over alternative energy technologies.

The industry exercises this control through its ability to dominate not only the allocation of present energy resources, but also the development of future energy resources. The de facto concentration of economic power in the industry, rationalized under "free enterprise" ideology, has permitted the "energy companies" to prevent the development of any alternative energy systems which are incompatible with their short run and long run profit strategies. If the future development of alternative energy technologies remains under the control of the present "corporate state" energy system, the potential for preserving a free society, not merely a "free market," is placed in jeopardy. The ceremonial encapsulation of the processes of inquiry into alternative energy systems, as in all other areas of science and technology where giant enterprise has a vested interest, is quite literally an encapsulation of the human prospect.

VOLUME I DECEMBER 1981

ABSTRACT

The Optimum Utilization Rate of Stock Resources

JAMES A. SWANEY

Department of Economics
Wright State University

This paper critiques the neoclassical, neoinstitutional and entropy law positions on nonrenewable resource utilization, and develops the concept *dynamic ignorance* as a cornerstone of a holistic natural resource economics.

Two distinct positions, theory and practice, encompass the neoclassical perspective. The theoretical position states, with a number of unworldly assumptions, that a perfectly competitive market system will optimally allocate stock resources over time. Policies are oriented around property rights or second best "solutions." Fearlessly assuming the birth of a perfectly competitive world, the market system serves to highlight the obsolete market mentality of the neoclassical position; specifically, the ensuing "optimum" use rate would reflect only that dominant motive in market integration, shortsighted greed.

The neoinstitutional position rests on the instrumental/ceremonial dichotomy, with instrumental resource use inextricably bound to knowledge development, an unqualified good. New knowledge connotes new resources. Without new knowledge all resources will be depleted. With new knowledge some new resources will be created. Ayresian institutionalists conclude that if resources are used *only* instrumentally, a net increase in resources will necessarily result. Therefore, an optimum use of stock resources is the maximum instrumental (and minimum ceremonial) rate. The core policy implication: allocate toward education and other knowledge-promoting uses. While nonrenewable resources consist of matter as well as knowledge, only knowledge need concern us because matter is indestructible.

This appeal to the conservation of matter-energy ignores the Second Law of Thermodynamics, which states that, in a closed system, bound (unusable) energy continuously and irreversibly increases until all energy is bound (heat death). As argued by Nicholas Georgescu-Roegen, this implies that we should promote solar and biomass conversion while curtailing all animal populations as well as the use of stock energy resources.

While more encompassing than neoinstitutionalism, the entropy law position falls short of holism. This paper combines these two perspectives and adds knowledge and ignorance vectors. The "knowledge vector" suggests that knowledge develops not randomly or universally, but in directions and with magnitudes that depend on the human knowledge quest and other factors. All knowledge vectors are instrumental, but some more so than others. As manipulation of the environment expands, so likewise does the need for knowledge of the ecological consequences. Hence, application of knowledge continually creates ignorance vectors. The continuity of human life, a fundamental value, requires redirection and development of knowledge vectors to reduce or minimize the risks accompanying dynamic ignorance.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

Adam Smith and Milton Friedman on the Role of Government: The Different Philosophical Premises

THOMAS R. MCKINNON

Department of Economics
University of Arkansas

Adam Smith is generally associated with laissez faire economic policy and Milton Friedman is often considered his modern counterpart. However, a study of the writings of each man reveals important differences. Moreover, their views of the role of government are constructed on different comparative premises.

According to Smith's system of natural liberties, the sovereign has three responsibilities: 1) the duty "of protecting the society from the violence and invasion of other independent societies;" 2) the duty "of protecting the society, as far as possible, every member of society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice;" 3) the duty of erecting and maintaining certain public works and public institutions, which could not be profitably erected and maintained by any individual or small number of individuals.

Friedman's view of the proper role of government includes: 1) the provision of a framework for law and order by protecting individuals from external enemies and from coercion by their fellow citizens; 2) the promotion of economic freedom by providing, interpreting, and enforcing the rules of the game; 3) the use of coercive government action in the cases of Pigovian externalities (or market failure) and technical monopolies; 4) the paternalistic supplementation of private charity and the family to protect irresponsible children and madmen.

Similar as the two roles of government seem to be, the overall context in which they appear is different in important ways. The Friedman view is that government is a coercive power that requires conformity from a heterogeneous population and therefore puts unnecessary stress on the social fabric. Since the market system allows diversity and promotes a more stable society, all decision-making, except that narrowly

defined above, should be left to the private sector. Adam Smith has a far more flexible view of government activity. Although he strictly defined the role of government, Smith in earlier passages makes clear that he views contemporary British government as incompetent, inefficient and corrupt. If by exception, good government makes its appearance as in Venice and Amsterdam, Smith is willing to grant it a wide range of activities.

Moreover, in a passage from the *Theory of Moral Sentiments*, Smith suggests that government is an agency of the order of nature and by implication its activities are as "natural" as those of individuals. The doctrine of natural law, which is often cited in support of laissez faire, would, according to Smith, embrace government and its functions. It is this writer's conclusion that Smith would support a broader role for government in the modern economy than Friedman and that Smith is incorrectly considered the precursor of Friedman.

VOLUME I DECEMBER 1981

ABSTRACT

Bellamy, George and Gronlund: Philosophers of Economic Democracy in the Far West

JEFF LUSTIG

Deep Springs College
Deep Springs, California

and

MICHAEL SHEEHAN

Graduate Program in Urban and Regional Planning
University of Iowa

The richness and vigor still evident in the literature of the agrarian awakening and the radical workingmen's movements of the late nineteenth century flow from their clear grasp of the issues posed in the confrontation between democratic liberal culture and the ascendent form of industrial organization occurring at that time. *Looking Backward, Progress and Poverty* and *The Cooperative Commonwealth* have been recently regarded as exercises in abstract utopianism, if not as "crank" panaceas. But their power to galvanize two generations of reformers followed from the fact they were rooted in concrete reality and they successfully articulated the consciousness of a culture in motion.

In *Looking Backward*, Edward Bellamy presented a vision of an ideal society that combined a gentility reminiscent of New England Unitarianism with an administrative outlook suggestive of Saint-Simon. Bellamy's efforts issued in numerous Nationalist Clubs the purpose of which was to pave the way for a new order that would humanize and harmonize, by "trustifying," industrial life in America. The movement tended to be middle class in appeal.

Henry George was more agrarian in his sympathies and outlook. In *Progress and Poverty*, he provides a compelling analysis of the reverses being suffered by the small farmer and landless pioneer. His analysis focussed on the preemption of public domain by land monopolies, an occurrence which permitted them to bleed off, through rent, the productivity of both capital and labor. Currently ignored because of the extravagant claims of his Single Tax proposal, George nevertheless anticipated modern approaches to land use planning and modern understandings of the structural roots of inflation. Though anti-socialist, he

also surpassed current understandings of the class character of technological "progress."

Gronlund in his *Cooperative Commonwealth* gave voice to yet another disadvantaged class in the era when large combinations of capital were first enclosing and organizing the resources of the West. By the '90s westward immigration was made up of a large number of working class Europeans, familiar with revolutionary doctrines and receptive to a Marxist analysis of American conditions. Gronlund's book was influential in the cities and mining camps of the West and provided the philosophic foundations for several functioning utopias in California. It also influenced socialist political organizations upon to the great watershed of the First World War.

Each of these philosophers developed a program for defending democratic principles in politics and developing them in economics. Each dealt with the impact of large economic organizations on individual producers, and each was concerned with fundamentally reforming society so as to control if not suppress the anti-communitarian and anti-democratic activities of the great corporations.

This paper presents a critical exposition of the ideas of Bellamy, George and Gronlund, and the movements they led, and demonstrates the importance of their ideas in the historical development of the western United States.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

The Foundations of Post Keynesian Economics

W. ROBERT BRAZELTON

Department of Economics
University of Missouri—Kansas City

The post Keynesian analysis expoused by Robert Clower, Axel Leijonhufvud, Paul Davidson, Hyman Minsky, Sidney Weintraub, Paul Wells, Alfred Eichner, Richard Chase, Joan Robinson, and myself reject the "post-Keynesian neoclassical synthesis" developed by Paul Samuelson based upon the IS-LM analysis of J. R. Hicks. The Hicks-Samuelson analysis (as Hicks admits) is too simplistic; misses or obscures essential points of Keynes; and is too determinate.

The post-Keynesians begin with the concept of uncertainty as emphasized in Keynes' reply to Jacob Viner. As uncertainty is stressed, zero elasticity of expectations is diminished. At least an implicit emphasis is placed upon the concept of business cycles and their causations inherent in the concepts of liquidity preference and marginal efficiency of capital. The concept of equilibrium is questioned, but not rejected. Also questioned are the "choice theories" of neoclassical economics.

Specific points emerge from post Keynesian analysis. John R. Hicks points out that the multiplier assumes either unemployment or a high, short-run elasticity of output (which I fear, is overlooked by "supply-side Reaganomics"). In a related area, Weintraub has pointed out that Keynes stressed that the summation of the elasticity of output and the elasticity of prices (or wage) equaled one. Thus, the 45° aggregate supply schedule of the "Keynesian cross" becomes curvilinear, not linear, as full employment is approached. Furthermore, Weintraub stresses that prices in a modern capitalist society are determined more by wages than merely by supply and demand factors. Thus, money wages are determined exogenously.

Monetary analysis also becomes less certain than in the analysis of either Samuelson or Milton Friedman. For example, the "financial instability" thesis of Minsky stresses that as the investment boom continues, more speculative investment emerges and a subsequent collapse becomes possible. Anti-recessionary monetary policy may advert the collapse by validating the debt, but such may limit the effectiveness of anti-inflationary policy.

Three major policy issues emerge: the difficulty of controlling cost-push inflation; the imperfect ability of macro policy to control micro sectors; and the instability of the macrosystem precludes the possibility of "fine-tuning." The essential point of post Keynesian analysis is that the economy is a more complex, institutionalized, indeterminate and "spirited" animal than the prevailing, orthodox, "Keynesian," analysis (which misinterprets Keynes) assumes.

VOLUME I DECEMBER 1981

ABSTRACT

Stagflation and the Macroeconomic Policy Mix

J. KIRKER STEPHENS

Division of Economics
University of Oklahoma

The recent disarray of macroeconomics has had several causes, probably the most important being the simultaneous increase in average levels of inflation and unemployment during the 1970s. The apparent failure of mainstream macroeconomics as constituted circa 1970 to explain adequately this phenomenon engendered a search for alternative approaches, both inside and outside the mainstream tradition. One such alternative approach is "supply side economics."

This paper summarizes the arguments, both theoretical and empirical, for a moderate version of supply side economics which is termed "selectivism." Selectivism emphasizes the importance of selecting a proper mix of fiscal and monetary policies in order to achieve the best possible combination of inflation and unemployment, i.e., the least possible stagflation.

Selectivists argue that generally the best macroeconomic policy mix will be one combining tax cuts with restriction of the money supply. Workers are primarily interested in their after tax, rather than before tax, wages. Thus a tax increase will lead to demands for higher wages to compensate, and a tax reduction can lead to wage moderation. Firms also will treat taxes as a cost, so that higher taxes will lead to higher prices. High taxes will also create inflationary pressure by lowering the useful output obtainable from any set of inputs because of the diversion of productive resources into tax avoidance.

There are a number of reasons why an expansionary monetary policy may be an especially inflationary way of expanding aggregate demand. People may simply *believe* that monetary expansion is especially inflationary, particularly if they have absorbed monetarist doctrine. Second,

A different version of this paper has been published as, "The Current State of the Selectivist Alternative to Keynesian and Monetarist Macropolicy," *Journal of Economics, 6,* 1980, pp. 157-160.

an open market purchase will increase wealth by raising bond prices, and with more wealth people will require a higher price (wage) for them to supply a given level of input. Other arguments are also given.

This paper reports empirical verification based on 18 quarter Almon lag regressions of change in real GNP and change in the GNP deflator on change in full employment government expenditure, change in full employment government receipts, and change in the money supply. The results indicate that increasing government spending, cutting taxes, and restricting the money supply are all desirable policies in that they will reduce inflation and—if they affect it at all—increase output.

Nothing in the selectivist position requires that the use of a desirable policy mix stand alone in attempting to end stagflation. It may be combined with whatever other policies are deemed useful.

ABSTRACT

The European Economic Community's Development Policies: A Comparative Study

A. J. KONDONASSIS

Division of Economics
University of Oklahoma

To expand our general knowledge about the European Economic Community's external economic relations and to discover their nature and extent, this study: 1) provides a historical statement of the evolution of the three main external economic initiatives of the EEC, i.e., agreements with the Mediterranean Basin Countries, the Lome Conventions and the generalized system of preferences; 2) presents a comparative review of EEC's economic aid programs using the criteria of the United Nations Conference on Trade and Development; 3) makes an assessment of these initiatives and programs in an effort to answer a major question of the study which is whether or not the EEC has now or is in the process of developing a common, cohesive and global economic development policy.

The review of the EEC involvements in the Mediterranean, in Africa, the Pacific and the Caribbean and globally suggests that the EEC's external relations have been evolving and expanding. Thus, *ad hoc*, regional and bilateral involvements have gradually been replaced by more consistent, global and multilateral programs. A similar conclusion is derived from the analysis of the data on EEC aid programs. On the basis of the United Nations Conference on Trade and Development criteria the study also demonstrates that, over a number of years, several EEC countries individually and the EEC countries as a whole have met the UNCTAD quantitative and qualitative criteria for economic aid better than the U.S.A. or Japan.

However, notwithstanding the progress that the EEC has made toward developing consistent, multilateral and global development programs, national goals among the EEC countries continue to have priority ranking over collective goals. A great deal of horse trading prevails concerning any effort to develop common external relations goals, and

the degree of consensus appears to be low. A variety of bilateral aid programs exists and the majority of Official Development Assistance funds to the LDCs are channelled on a bilateral basis. In other words, it appears that development assistance programs are viewed by the donor countries as instruments of national foreign policy. Thus, to the extent that the EEC countries do not establish a common foreign policy, the development of a truly common, cohesive and global development policy would continue to be an elusive goal.

ABSTRACT

The Pure Theory of International Trade and the New International Economic Order

RICHARD L. BRINKMAN

Department of Economics
Portland State University

This paper questions the neoclassical pure theory of trade as a basis for analysis and policy formulation for the world economy. It attempts to show that the static theory of comparative advantage, in its current formulation, utilizes an incorrect conceptualization of economic development. The real opportunity cost of freer trade between the North and the South, and the structuring of the world economy along the nineteenth-century lines of international specialization, has been the foregone industrialization of the LDC world.

Basic to neoclassical theory is the notion that free trade promotes economic growth and that such growth, viewed as an outward shift of the production frontier, serves as the conceptual equivalent of economic development. A correct analysis of the relation between trade and development requires the formulation of a general theory of economic development which relates trade to the overall process. A modified Veblen-Ayres matrix, as a nascent general theory of economic development, is presented in the conceptual framework of culture and its evolution. The dynamics of the process concern the advance of knowledge which, in its application, appears as technology, and in its store, as culture.

In the process of advancing technology, mankind also advances and transforms culture. By advancing the levels of energy control, the long-term trend toward entropic degradation is avoided. The overall growth of the world economy has been exponential, exhibiting an underlying structure of logistic surges which reinforces the "principle of similitude." Growth without structural change leads to an asymptotic ceiling of stagnation. Consequently, a growth is not the conceptual equivalent of development. The continuity of ongoing exponential growth requires a discontinuity of structure. Such economic development is characteristic of advanced countries and is predicated on the transformation of a given culture to higher levels of energy control currently characterized by modern economic growth.

In relating trade to development, the primary focus is whether or not trade promotes the advance of technology required for the advance and evolution of culture. In the framework of the "wheel of economic development," the circular and cumulative causation of G. Myrdal and the "productivity doctrine" of A. Smith are integrated into a dynamic theory of trade and development. The theory is then used to analyze policy recommendations in the North-South debate and the proposals embodied in the NIEO.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

The Economics of Malnutrition

JOHN O. WARD

Associate Dean, College of Arts & Sciences
University of Missouri—Kansas City

During the 1960s the "Green Revolution" offered the prospect for dramatically reducing the spectre of world famine in future decades, but this optimism has been shattered by the reality of world hunger in the 1980s. Moral and political concerns for human welfare and political stability have given impetus to a variety of studies of the magnitude and causes of world hunger.

The two most notable studies have been those of the World Bank and the President's Commission on World Hunger. These studies provide sensitive and informative appraisals of the magnitude and issues of world malnutrition, but they are lacking in several respects. First, they place too great of a reliance on traditional market mechanisms and second, they assume, often by omission, that meaningful nutritional improvements in LDCs can occur within the frameworks of existing political-economic institutions and patterns of consumption.

Nutrition has traditionally been considered a residual of economic development rather than an integral component. Development programs of less developed countries have tended to emphasize capital intensive industrial and agricultural development, while giving low priority to human resource development. The belief, however, that industrial and agricultural growth would automatically solve such problems as low labor productivity, illiteracy and malnutrition has not proven true. Shlomo Reutlinger and Marcelo Selowsky, for the World Bank, estimate that 1.1 billion people in the developing world suffered from moderate to severe calorie deficits in the early seventies. Expectations that traditional development processes would naturally improve nutritional levels in the LDCs have not been realized during the past two decades.

If anything, more people suffer from malnutrition today than two decades ago, and the outlook for the future is just as pessimistic. Nutritional improvement in LDCs should be viewed in the context of the

dynamics of the development process. The four most important aspects of that process, as they effect nutrition, are: 1) the transformation of agriculture from subsistence to market production; 2) rural to urban migration; 3) capital intensive production and technology and; 4) the international demonstration effect. Most LDCs have only become full participants in the development process during the last half century. The process has brought them numerous advances, but the transformation from peasant to industrial society has left many susceptible to chronic malnutrition.

REVIEW OF INSTITUTIONAL THOUGHT
VOLUME I DECEMBER 1981

ABSTRACT

Economic Regulation: An Institutionalist Perspective

R. LARRY REYNOLDS

Department of Economics
Boise State University

Economic regulation is viewed as a composite of many factors. Explicit regulation by governmental units, firms, trade associations, unions and similar groups is complementary to a set of implicit regulations which consist of habits, mores and values. As the enforcement of the implicit regulations becomes less efficient there is a shift to explicit regulations.

These regulatory forms are classified as "industry-specific" and "function-specific." "Industry-specific" regulations are more easily controlled by interest groups and therefore are more acceptable to those interests. "Function-specific" regulations impact a broad range of industries and interest groups and are therefore more likely to come under attack from interest groups. This explains why the earlier forms of regulatory agencies are more acceptable to business interests than the "function-specific" regulations of EPA, OSHA and those regulations that span a wide spectrum of industries.

A revised version of this paper was published in the *Journal of Economic Issues,* Vol. 15, Sept. 1981, pp. 641-656.