THE REVIEW OF INSTITUTIONAL THOUGHT

A Publication of the
Association For Institutional Thought

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Abstracts of Papers Presented at
Meetings of the Association For Institutional Thought

VOLUME III DECEMBER 1986

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Association For Institutional Thought

(Founded 1979)

The Association For Institutional Thought (AFIT) was founded for the purpose of encouraging and fostering the development of institutional thought in extension and modification of the contributions of Thorstein B. Veblen, John Dewey, Clarence Ayres, John R. Commons, Wesley C. Mitchell, and others as a basis for inquiry into the interrelationships of society.

Annual Meetings
of the
Association For Institutional Thought

1979
Lake Tahoe, Nevada
LOUIS J. JUNKER, *Program Coordinator*
(WSSA meetings during which AFIT was founded.)

1980
Albuquerque, New Mexico
DAVID HAMILTON, *Program Coordinator*
(First official meeting of AFIT.)

1981
San Diego, California
PAUL D. BUSH, *Program Coordinator*

1982
Denver, Colorado
BALDWIN RANSON, *Program Coordinator*

1983
Albuquerque, New Mexico
BALDWIN RANSON, *Program Coordinator*

1984
San Diego, California
JAMES I. STURGEON, *Program Coordinator*

1985
Fort Worth, Texas
GLEN ATKINSON, *Program Coordinator*

1986
Reno, Nevada
JOHN MUNKIRS, *Program Coordinator*

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Review of Institutional Thought
Volume III December 1986

Editor's Note

This third volume of *The Review of Institutional Thought* will be the last published for the foreseeable future. When the Association for Institutional Thought was founded in 1979, it was our intention to begin publishing, as soon as possible, a journal of relatively modest intentions. We wanted to produce a record of the proceedings of the Association that would include the abstracts of papers presented at the annual meetings, the president's address, and, as space permitted, the full text of one or two papers presented at the meetings that would be of general interest to institutionalists. There was a widely shared view among the founding membership that the history of institutional economics since the 1930s had been rather badly written by leading scholars in the field of economic thought. While an anti-institutionalist bias may have contributed to the shortcomings of some of these historical accounts, it is also true that institutionalists themselves in the past had not been very diligent in maintaining a faithful historical record of their ongoing research and deliberations. We did not wish to be guilty of the sins of inattention to our archival responsibility.

Our desire to fulfill this obligation was not, however, matched by our capacity to finance the project. Since we could not raise sufficient funds to have the *Review* printed commercially, we reverted to something of a cottage industry type effort. As many readers of the *Review* are aware, my colleague Dr. Eugene Zumwalt and I produced the first two volumes of the *Review* in the remarkable print shop he has set up in his garage. The only portion of the work that was done commercially on Volumes I and II was the typesetting. The typesetting on those volumes (as well as this) was done in "hot type" on a traditional linotype machine by one of the world's last great practitioners of that noble art, Ray Lucietta—a man whom Veblen would have admired for his noninvidious, matter-of-fact way of turning material things to account. Volume III was composed and printed in Ray Lucietta's shop with my assistance, and the binding was done by a commercial bindery.

When we began, we planned to publish the *Review* annually. We even entertained the hope that we might at some later date, under an expanded format, publish it quarterly. But in spite of all of our good intentions, hard effort, and institutional support, we have encountered unavoidable delays in financing and production which have thrown the publication of the *Review* way off schedule. Rather than being an annual publication, it has perforce become an "occasional" publication. [A comment on the dating of the volumes of the *Review* appears at the end of this note.]

While our effort to keep the *Review* afloat has faltered, the other work of the Association could not be more successful. Meeting in conjunction with the Western Social Science Association, AFIT has earned a reputation for providing a truly cordial intellectual environment for the exchange of views among institutional economists. On average approximately thirty sessions in institutional economics have been sponsored by AFIT at the WSSA meetings each year since 1979. Given its success during its first decade of existence, AFIT can look forward to a long and productive existence. The high quality of the scholarship that AFIT has nurtured in its annual meetings is adequately demonstrated by the large number of AFIT-sponsored papers published in the *Journal of Economic Issues*. Indeed, the high publication rate of AFIT-sponsored papers in the *JEI* is an additional, positive, reason for the suspension of the publication of the *Review*. The work of AFIT members is regularly being published in the premiere journal of institutional economics. In view of this happy fact (along with the less happy ones cited above), the AFIT Board of Directors decided that it would no longer be fruitful to continue to divert the Association's limited resources to the increasingly futile effort of publishing the *Review*. This, I think, was a wise decision, and I concur in it without reservation.

AFIT is grateful for the financial assistance provided by California State University, Fresno, for the publication of Volume II and that provided by Sangamon State University for Volume III. Dean Peter J. Klassen of the School of Social Sciences, California State University, Fresno, has also been most generous in providing additional university resources necessary to the publication and mailing of the *Review*. I am personally very grateful to him for this support.

In saying farewell as editor, I want to thank the Editorial Board of the *Review*, all those who have served on the AFIT Board of Directors, and the AFIT membership at large for the encouragement, cooperation, and, most importantly, the *patience* they have extended to me while I have served in this capacity. I shall always remember with great fondness the pleasure of the toil I shared with Eugene Zumwalt and Ray Lucietta in the editing and physical production of the *Review*. The *Review* could not have been published without their good humor and extraordinary skill. They have made this enterprise a truly rewarding experience for me. Finally, I want to thank my wife, Barbara, for her constant support and expert editorial assistance over all of the years of this project.

Dating of the Volumes of the Review

The dating of the Volumes of the *Review* has been somewhat arbitrary. The contents of Volume I, dated December 1981, are derived from the 1980 AFIT meetings. But Volume I was actually published in 1982. The contents of Volume II, dated December 1982, are derived from the 1981 AFIT meetings. Volume II was actually published in 1983. So we were lagging two years in our publication of Volumes I and II. We decided, however, to use consecutive years in dating the volumes in order to preserve at least the appearance of an "annual" publication, and to avoid confusion in library catalogues. The lag between the publication of Volume II and Volume III is five years (as an inspection of the copyright date will confirm), a period too long to permit the continued fiction of consecutive year publication. In addition, since it was known that Volume III would be the last, I decided for archival purposes to include memorial notes on J. Fagg Foster and W. Nelson Peach. Since they both died subsequent to 1983 (Foster in 1984, Peach in 1985), it was necessary to assign a date to Volume III that would cover this time frame; hence the December 1986 date.

P. D. B.

J. Fagg Foster: A Personal Appreciation

Baldwin Ranson

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John Fagg Foster died at his home in Englewood, Colorado, on July 15, 1985. He was 77.

Foster had retired from the University of Denver in 1976 after professing economics there for thirty years. During his career he had a profound influence within the field of economics and beyond.

Within the field of economics his influence was twofold. He influenced the thinking of many students who became economists; some of whom were identified in James Sturgeon's history of the Association for Institutional Thought in the first issue of this journal. And he proposed a theory of institutional adjustment that may yet be recognized as the intellectual tool vital to the reconstruction of economics sought by many institutional economists.

Foster chose to practice economics because he saw it as potentially the most comprehensive and coherent field in the social sciences. He defined economics not as the study of market proxies for psychic phenomena but as the study of all activities through which human groups provide themselves with the means of life and experience. Thus defined, the field forces economists to distinguish universals in the provisioning process from culture-bound constructs masquerading as continuing factors. It leads to analysis of the continuity of technological progress and of the discontinuity of institutions, those prescribed patterns of behavior that facilitate or obstruct the application of technology. Foster's long study of technology and institutions and of the valuations necessary to direct them to human betterment led him to formulate three principles of institutional adjustment which, in fact, constitute a reconstruction of economic analysis. The record of this intellectual achievement may be found in his papers, published in the December 1981 issue of the *Journal of Economic Issues,* and in his course notes available from the secretary-treasurer of AFIT.

Foster's influence beyond economics is nowhere recorded, but lives in the memories his students have of a rare person of great intellect and integrity. Two examples will provide a pale reflection of the memories this student has of his teacher's intellectual competence and human completeness.

Foster's ability to subject the whole of human experience to analysis and comprehension is reflected in his careful definitions of terms usually left hopelessly vague by others. Each definition sought to relate a word to the observable continuum of human experience. Love he defined as "the interpretation of two personalities"; freedom as "the area of discretion"; responsibility as "accountability for one's behavior"; value as "the criterion of judgment"; and capitalism as "the system based on the invidious notion that the capacity to pay is a valid index of 'relative worth' of individuals, and should therefore be the criterion in terms of which permission is granted or denied to participate in the determination of economic and social policy."

With key words clearly defined, Foster was able to apply his original analytical tools to any social issue. The following unpublished fragment shows how he took the occasion of an attack on the lecture method to develop an insightful analysis of the function of a teacher.

> The lecture *method* has been accused of all of the badness of bad lectures. This kind of imputation usually is accomplished through the assumption that the imperfections of a bad lecture are inherent in the method. One might draw a near parallel by saying that the use of a hammer to crush the skull of a neighbor invalidates hammers as instruments for building houses. It is true, you see, that if the hammer were made in such fashion that it could be used only for homicide (a pointed face, etc.), it becomes only a lethal weapon, and some lectures give that impression. But in that case it is taking a liberty with language to call it a hammer. To do so is simply camouflage.
>
> It is true that a lecture which is simply a preconceived sequence of words, based on the notion that a certain se-sequence of words is its constitution, is better presented in written form. A lecture which is read has no value beyond the added amusement of drama. Paper and ink are less expensive than some lecturers. But a lecture which is based on the notion that a sequence of ideas is the content, and which involves access to any pattern of repetition or emphasis—

> vocal, physical, or visual—to respond to evidenced reactions of students, is a very different matter.
>
> Since paper and ink are less expensive than some teachers, a teacher who has nothing to suggest beyond the literature and who has insufficient capacity to analyze student response as he proceeds had better do something else. And the attack on the lecture method, I suspect, comes mostly from those teachers who have nothing to contribute in content, qualitatively or quantitatively, except the words in the books. They simply are bad lecturers, and before that they are bad scholars. They are much nearer policemen.
>
> Where a body of organized analysis is to be considered, a batting around by several who are admittedly unaware of the structure and content of the analysis is the least efficient method possible of getting the analysis into common view. The efficient use of multilateral discussion is in sharpening and correcting comprehension after a structure is in view of all participants.
>
> Presumably the university teacher has something to contribute—something beyond the previous experience of the students and beyond what is available in less expensive or less adequate form. But if he hasn't, he can resort to the "discussion method," and his inadequacies may never be found out, even by the bright students. Many a "seminar" at the undergraduate level has served well as a camouflage of the teacher's failure to perform his function. But if he has something to say which requires more than the written word, and he says it, then he has delivered a lecture. And what is bad about that?
>
> The lecture method does not lend itself so readily to camouflage for the charlatan or for the inept. The good lecture: 1) requires a great deal of work, though skill varies on this axis; 2) appears "easy"; 3) requires more than phonographic functions (even the most elaborate electronic devices cannot judge student responses); 4) involves more real participation by more students than any other method; 5) is not a one-way activity; 6) requires great ingenuity and celerity. In fact, it requires so much that I dare not use it except where it and I clearly fit the circumstances.

Only time will reveal whether accumulating evidence will bring general acceptance of Foster's analytical tools, the principles of institutional adjustment. But for those of us who had the honor to know Fagg Foster, his passing is a current reminder that the significance of life lies in contributing to the developmental forces of life. His life of integrity and intelligence provides an inspiring example for us all of what Lewis Mumford defined as value:

> . . . value comes into existence through man's primordial need to distinguish between life-maintaining and life-destroying processes, and to distribute his interests and energies accordingly.

John Fagg Foster knew how to make this distinction, and he distributed his energies accordingly to the end.

In Memoriam: W. Nelson Peach

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W. Nelson Peach, Honorary President of the Association for Institutional Thought, died at age 72 in January 1984. He was born in Granite, Maryland. His parents were Frank and Mary Anna (Nelson). In 1939, the year in which he received his Ph.D. in Political Economy from Johns Hopkins University, he married Dorothy Jean Hausman. They had three children: Dorothy Jean, James Thomas, and Joseph William.

Dr. Peach began his teaching career as an instructor in the Department of Economics at the University of Texas. The story of his hiring at Texas was related by Peach to Kendall Cochran (Professor of Economics at North Texas State University) in a taped interview that is now contained in the Oral History Collection at North Texas State University. The following account is based on that interview. During the summer of 1938, George W. Stocking, then acting chairman of the department at Texas, was in Baltimore analyzing an oil company acquisition and looking for three people to join the faculty at Texas. He hired one from Columbia, one from North Carolina, and the third was to be Peach if enrollment reached the required level. While waiting to hear from Texas, Peach turned down two or three other offers. The fall term had already begun at Hopkins, but he still had not heard from Texas. As Peach tells the story, he wanted to go to Texas

> because I had heard about Clarence Ayres and the department and what they were doing and [I] wanted to be . . . a part of it. So it got to be about October 1, and we had not heard from the University of Texas. . . . Broadus Mitchell, who was one of my professors, sent a telegram, and he got back a reply saying: "Send Peach to start teaching on Monday." This was Thursday afternoon . . . my Dad signed a note for three hundred dollars to get me a couple of suits

> of clothes and a ticket, and I went to Texas that day. We looked at a map of Texas, and it looked like Austin was in the mountains, so I bought two winter suits. When I got to Austin, it was a hundred and ten in the shade, and I sweated and sweated. I finally got up enough money to buy a couple of summer suits. . . . Us Northerners closed the swimming pool at Austin in November.[1]

Peach taught at the University of Texas until June 1942, at which time he took a leave to work at the Federal Reserve Bank of Dallas. In 1943 he joined the U. S. Navy in which he served until the end of the war. Before entering the Navy, he returned for a brief teaching stint at the University of Texas and became involved in one of the more notorious incidents in the history of the Department of Economics at Texas.[2] Peach and three other members of the department, "the Texas Four" one is tempted to call them, were fired for speaking out against the misleading information being spread about the Wage and Hour Law of 1938. The controversy arose over a provision of the law that required time and a half for the hours worked over forty per week. This provision had irritated a number of employer groups, particularly in Dallas, Texas, which at that time was known as the greatest open shop city in America. Peach had covered the provisions of the Wage and Hour Law in his introductory economics class. One morning a student came in with a full page ad from *The Dallas Morning News*. He said to Peach, "Didn't you say that a man could work as many hours as his employers required, and that there was no limit on the number of hours a man could work in this country?" "And I (Peach) said, 'Yes, that is the law. As long as the employer and the employee agreed, there was no limit except that he had to receive time and a half for the hours over forty.' And he said, 'Ah, ha! That's what I thought.' And then he handed me this full page ad from *The Dallas Morning News*." The ad said that the law prevented many Americans from working more than forty hours and that it was causing the United States to lose the war against Japan. It invited all those interested in winning the war and saving America to a rally in Dallas at the State Fairgrounds to protest this terrible law. Peach told the student "that this was nonsense, it was fake."

> I (Peach) began talking with Wendell Gordon and Fagg Foster, who was a graduate assistant at that time, and a visiting professor, Valdemar Carlson, from Antioch [College]. We decided to write these people and ask if it would be possible for us to appear on the program in Dallas and explain the provisions of the act, and we sent it to *The Dallas News*. We got back a letter that they were not sponsoring the program.

A few weeks later the meeting was held, and Peach, Gordon, Foster, and Carlson decided to go to Dallas and try to explain the provisions of the law. They were told it would not be possible to speak even for the "two or three minutes" they requested because the program was all set. Speaker after speaker lambasted the law with no one speaking in its defense or explaining its provisions. Peach noted "We were very impressed by the kinds of automobiles that were there; they were mainly Cadillacs and Lincolns and other expensive cars."

They then went to *The Dallas News* and told the editorial staff that they thought the meeting was "loaded" and that no one had been allowed to speak for the law or to explain it. Subsequently, *The Dallas News* printed a story about the meeting. It reported that four University of Texas "economics professors" had said it was a rigged meeting and that they had been denied the opportunity to explain the law. This article set off a thunderstorm of controversy. Peach, Foster, and Gordon were fired. The controversy also contributed to the firing of University of Texas President, Homer Rainey, who had strongly supported them. As a consequence of these firings, the university was censured by both the AAUP and the Southern Association (a higher education accrediting agency). Eventually, both Peach and Gordon were rehired, although in Peach's case it was merely for the sake of appearance. He was offered such a low salary that, upon his release from the Navy in 1946, he returned to the Texas faculty for only one year. He then accepted a position at Syracuse University for twice the salary he received at Texas.

Peach taught at Syracuse during the 1947-48 academic year, and then took a position at the University of Oklahoma where he taught for the remainder of his career. In 1966 he was appointed the George Lynn Cross Professor of Economics. During his tenure at Oklahoma, he took several leaves to act as an economic advisor to various governmental entities. Among the advisory posts he held were: advisor in finance at the University of Pakistan and advisor to the U. S. Agency for International Development, 1956-58; special consultant to the Select Committee on Small Business, U. S. House of Representatives, 1960; fiscal and financial advisor, Agency for International Development, Washington, D.C., 1961; and consultant to the Joint Economic Committee of the U. S. Congress, 1973. He also served on the Board of Directors of the Norman Municipal Hospital. His memberships in professional societies included: the Southwest Social Science Association, the American Society of Public Administration, the Association for Evolutionary Economics, and the Association for Institutional Thought. During his long career, he published many articles and books. His books and monographs include: *Basic Data* *of the American Economy*, 1948; *Basic Data of the Economy of Pakistan*, 1960; *Principles of Economics*, 1960; *Zimmerman's World Resources and Industries*, 1972; and *The Energy Outlook for the 1980s*, 1973. At the time of his death he was working on a book about geothermal energy.

Dr. Peach was the mentor of many doctoral students at the University of Oklahoma, several of whom are members of the Association for Institutional Thought. He is fondly remembered by his students as a kind, but firm, taskmaster, and they share a profound sense of loss with his family, friends, and colleagues. When the history of institutional economics of the post World War II period is written, Nelson Peach and his intellectual legacy will occupy an important chapter.

NOTES

[1] All quotations used in this memorial note are taken from the Cochran interview.

[2] This account is also from the Oral History as told by Peach to Cochran.

REVIEW OF INSTITUTIONAL THOUGHT
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An Institutionalist's View of Reaganomics

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I

This institutionalist's view of Reaganomics is divided into three parts. The first part is concerned with the current economic and social consequences of what is widely known as Reaganomics. The second relates to how an institutionalist views Reaganomics in the adverse economic conditions that are widespread at home and abroad, and the third relates to what we as institutionalists propose to do about Reaganomics and its destructive economic consequences. I shall not spend much time on the first part of my topic, namely the current economic and social consequences flowing from Reaganite policies. Many here, as well as elsewhere throughout the country, know all too well the debilitating and destructive consequences of Reaganomics in the form of external imbalance, chronic unemployment, high interest rates, federal budgetary deficits, and inadequate environmental protection.

It should be pointed out what is meant by "Reaganomics" depends very much upon which branch or wing of the Republican Party one observes. It is clear that there is a wide spectrum between the Republicans represented by the Conservative Caucus and the National Conservative Political Action Committee, and more moderate Republicans like Senators Howard H. Baker, Jr., and Charles Mathias, Jr. For our purpose here we shall define Reaganomics as a program to reduce the role of the federal government in economic affairs, to deregulate private industry extensively, and to rely upon the upper income groups to invest their tax savings in new plant and equipment; all of which are expected

This paper is based on remarks that Dr. Gruchy originally presented at the annual banquet of the Association For Institutional Thought in Denver, Colorado, on April 25, 1982.

to increase production, lower unemployment, and reduce both prices and interest rates. Institutionalists challenge this overall program on the ground that it will neither work as planned nor produce a sustained economic recovery.

I would like to spend more time on the second part of my remarks which relate to how an institutionalist views Reaganomics. Before we can do this, however, we have to determine what an institutionalist is because what an instiutionalist is will profound affect how he or she views Reaganomics. I have been monitoring or observing the institutionalist movement ever since 1927 when I sat in a graduate economics course at the University of California at Berkeley. In that course Paul T. Homan, later editor of the *American Economic Review* and author of the widely known *Contemporary Economic Thought* (1928), declared that Thorstein Veblen could be regarded as a philosopher or literary critic but never as a social scientist.[1] This downgrading of the father of the American institutionalist movement did not set well with me, and at that moment I was launched on the trail of what John M. Clark has described as the "elusive institutionalist movement."[2]

Some institutionalists say that there can be no one right way of viewing institutional economics because by its very nature this type of economics admits of so many different definitions or interpretations as to make it useless to attempt to provide one definition of this heterodox science. Disregarding those who take this defeatist view of the nature of institutional economics, I shall move right ahead with my view of institutional economics in order to explain how an institutionalist views Reaganomics. It seems to me that a genuine institutionalist would be most unhappy with both Reaganomics and with what might be described as liberal Democratic economics. Let me explain the reason for this observation with respect to both Reaganomics and the economics of the leading Democrats. The institutionalist takes the economic system to be an evolving system or process that is spurred on to endless change by continuous advances in science and technology. He believes that we can neither stand still nor go back. In terms of the cultural process of which the economic system is a part, we can only go forward to grapple with the impending economic changes. It is clear that the economic system will continue to change as long as humankind inhabits this globe. This being the case, calling for a return to a formerly highly competitive economic system, to an era of small government, and to the family farm of some 300 acres is not valid. It may be that the new home computers and the "flex-time" employment that reverses the roles of husbands and wives may significantly alter our working and living habits, but these developments are not going to eliminate or reduce the environmental problem, the problem of the declining steel, auto, textile, and other industries, the problem of caring for millions of people over

65 years of age, the problem of shifting from the Frost Belt to the Sun Belt, the problem of coping with the vast sums of Eurodollars floating around the world, and the problem of securing cooperation in international affairs.

What the institutionalist deplores about Reaganomics is that it looks back to an era of restricted government and heavy reliance upon local efforts to deal with non-local national and international problems. What we need, say the institutionalists, is an anticipatory and not a reactive approach to our major pressing economic and social problems. We should not wait until recurring inflation, low production, chronic unemployment, raw material and water scarcities, high interest rates, and exploitation by multinational corporations are visited upon us. We should anticipate as far as possible the kinds of problems that profound economic and social changes will impose upon us.

To be sure, there are some problems that can be anticipated on local and district levels, problems such as land use, water availability, transportation congestion, and housing needs. Such a local or district anticipatory approach should go as far as it can in order to make use of local resources and human capabilities. But can local, district, or even state anticipation cope with the problem of revitalizing industries that compete in world markets, or with the Frost Belt-Sun Belt problems? With the preservation of our wilderness areas and unspoilt rivers? With the problem of the welfare needs of our rapidly aging population, or with the problem of the world destribution of scarce raw materials, oil, water, food supplies, and so forth?

The condemnation of the Reaganite approach to economic and social problems does not mean that the institutionalists are satisfied with the opposition or Democratic approach to these same problems. Far form it. In a recent appearance on television, Senator Edward Kennedy, a leading Democrat, emphasized that what was lacking in the Reaganite program was compassion, which Webster's dictionary defines as "sympathetic consciousness of others' distress together with a desire to alleviate it." He then reeled off all the problems of the Reagan Administration that in his opinion did not show compassion: the reduction in the availability of food stamps; the elimination of CETA or job training; the reduction, and in some cases elimination, of school lunches; the tax cuts that favored the rich; the reduction in financial aid to students; and the general tendency to cut holes in the social welfare net of the poor and disadvantaged. Institutionalists applaud this expression of human sympathty, but they deplore the lack of concern on Senator Kennedy's part, as well as on the part of other Democratic leaders such as Tip O'Neil and Walter Mondale, for the national economic guidance that would prevent us from plunging into another recession not long after we have recovered from the 1982-83 recession. It is clear today that when we recover from the most recent recession there is no assurance that we will not return to the old wage-price spiral which has repeatedly fed the inflationary process and eventually led to national economic breakdowns.

II

When one raises the question of an institutionalist's view of Reaganomics, one also raises the question as to what the institutionalist might offer in place of Reaganomics. Institutionalists believe that we will make no permanent progress in coping with our major economic and social problems until we establish a national consensus as to where we want to go as a nation. We will never solve our price and wage problems until we can get a consensus between business and organized labor with regard to what is a socially acceptable wage-price or incomes policy. It is true that some conventional economists now assert that we need to establish an incomes policy that would set guidelines for wage and price increases. A common form of this recommendation is known as TIP, or a tax-based incomes policy, in which unions would be rewarded by tax decreases for exercising restaint in demanding wage increases while business enterprises would be rewarded with tax concessions if they refused to grant excessive wage increases. Presumably, this policy would prevent excessive wage increases from being passed on to consumers in the form of higher prices.[3] But, unfortunately, the proposal for a tax-based incomes policy has been recommended without prior acceptance of the proposal by either business or organized labor, both of whom have expressed their disapproval of any such proposal without their prior agreement.

The voluntary wage and price guidelines that were adopted by the Kennedy Administration in 1962 proved to be unworkable because they were recommended to business and organized labor by the government of the day without their prior acceptance. The trade unions refused to accept the Kennedy proposed wage guideline while business ignored the proposed price guideline. When, in 1971, President Nixon imposed mandatory wage and price controls, organized labor refused to cooperate with the government in carrying out these controls which worked briefly only as long as they were imposed by the force of law. When these mandatory controls were lifted in 1972, the inflationary spiral once more took over.

It is now clear that no wage-price or incomes policy will ever be workable and acceptable to both business and organized labor unless they are brought into the process out of which is to come the wage-price program. Yet neither the Republican nor the Democratic Party today calls for the national consensus between business and labor under governmental guidance that is absolutely essential for the stabilization of our economic system. It is now quite clear that at some time in the near future business will again feel free to raise prices and organized labor will feel free to counter with increases in wage demands. Both will lead again to a wage-price spiral that will inevitably lead to our seventh recession since the end of World War II. It is for this reason that institutionalists assert that a national consensus between our large business enterprises and large trade unions is an indispensable precondition for achieving sustained economic recovery.

Some countries have already achieved a national consensus between business and organized labor. This has occurred in Austria, the Netherlands, West Germany, and the Scandinavian countries where it is accepted that business and organized labor should work in cooperation with the government to relate price and wage increases to the state of the economic system and the markets for exported goods and services. If we go back to the less calamitous years prior to the current recession—that is to say to the years 1974-1979, we find that the statistical record shows that the average annual increase in consumer prices in the United Kingdom was 15.5 percent and 8.1 percent in the United States while in West Germany the increase in consumer prices was only 4.2 percent, in Austria 5.7 percent, and in the Netherlands 6.7 percent. In 1980, a year of stagflation, declining national output, and rising unemployment, the inflation rate rose to 13.5 percent in the United States while remaining at more socially acceptable levels in West Germany, Japan, the Netherlands, Norway, and Sweden.

In 1983 the inflation rate in the United States was at the more modest level of 3.2 percent, but unemployment was 9.6 percent, and large trade unions had made hourly wage or fringe benefit concessions in order to maintain jobs. Once something like substantial prosperity returns, one can be certain that a more belligerent labor movement will again insist that wage increases at least parallel price increases. As things now stand, our choice is unfortunately quite clear: either we have economic recovery and a return to socially unacceptable inflation rates, or we secure reduced inflation by creating a recession as former President Carter did, and as President Reagan did until 1983. There is no third way unless we are willing to consider the institutionalists' call for a social consensus between big business and big unionism concerning what would be socially acceptable wage and price adjustments in the future.

But the institutionalist proposal that a national consensus between business and labor be sought is only a part of the solution. What is needed in opposition to the excessive deregulation and return to a relatively unregulated market system proposed by President Reagan is the adoption of a broad overall national consensus as to where we want the American economy and society to go. This nation needs a permanent national advisory council composed of outstanding men and women from all major fields of interest who would examine, on a continuing basis, the emerging domestic and international problems that are inevitable in a society subject to continual scientific and technological change. In the past we have had a number of presidential commissions concerned with desirable national goals, but they have been of a temporary nature, and their reports have for the most part been largely ignored.

III

It will take time to debate the issue of whether or not to establish a national council on economic and social issues. Meanwhile, how should institutionalists deal with Reaganomics? Statements on economic policy periodically come from various sources such as the Economic Policy Board of *Time* magazine, the *New York Times* group of economics professors, and the Shadow Open Market Committee of the University of Rochester and the Carnegie-Mellon University.[4] These boards and committees have included in their memberships only neoclassicists and Keynesians. Generally institutionalists have been ignored. When the National Science Foundation a few years ago made a survey of the various fields of economics with the aid of a panel of fourteen well-known American economists, no institutionalists were included in the evaluating panel, and no mention was made of the field of institutional economics. It is true that some of the fault lies with institutionalists themselves. They have not been active enough in providing a positive image to the economics profession and to the general public. The Association for Evolutionary Economics and its *Journal of Economic Issues* have left unchallenged the critical view of Paul A. Samuelson that institutional economics has died on the vine, or Kenneth E. Boulding's contention that institutional economics is an amalgam of bad psychology, bad sociology, and bad anthropology, or Robert A. Gordon's assertion that institutionalists have had no influence on either theoretical or applied economics.[5] It is my view that the time is now especially propitious for creating a positive image for institutionalism by establishing a continuing Institutionalist Economic Policy Board that would periodically issue statements that expose the inadequacies of the programs of the government of the day and explain what institutionalists believe should be done to cope with our major economic and social problems. Such statements should be purely voluntary and should not be associated with any specific organization such as the Association for Evolutionary Economics or the Association For Institutional Thought.

For example, such a statement could be issued to explain that what this nation needs is not a return to a past era of small government, deregulated competitive industry, and a heavy reliance on private charity, but instead an active program of national economic guidance supported by a social consensus among its various economic interest groups. It is incumbent upon institutionalists to offer alternatives to the views and programs of the conventional economists—the Milton Friedmans and the Arthur Laffers— who provide the theoretical support for Reaganomics. These alternatives would expose both the Republican and Democratic programs that say nothing about national economic guidance, the anticipatory approach, and the need for a consensus among the nation's economic interest groups.

It might be objected that these institutionalist views would not be widely accepted by the public. This may be true, but such an objection should not be a deterrent to an institutionalist effort to establish an image of positive activism. The science of economics is currently in a state of great ferment. Major economists such as Wassily Leontief and Robert A. Gordon in this country and E. H. Phelps Brown, G. D. N. Worswick, and Nicholas Kaldor in the United Kingdom have complained about the failure of conventional economics to cope with our pressing economic problems. Gordon asserted in his 1975 presidential address to the American Economic Association that conventional economists are not asking what he described as the "big questions," but instead they "shy away from the big question about how and why the institutional structure is changing—and where it is taking us." [6]

If one wants to understand the new economics that is emerging, he should not go to the standard textbooks of the conventional economists because he will find only the economics of the past—the economics of the narrowly abstract, the economics of unreality in a confused and directionless world. For example, if one goes to the most widely read textbook in the field of elementary economics, what does he find Professor Paul A. Samuelson recommending to millions of young American minds with regard to what we should do about our inflationary and depressed economy? In the most recent of the many editions of his textbook—the tenth since his textbook first appeared in 1948—what does Samuelson suggest in terms of policy to cope with Reaganomics? He tells us that we should establish a system of "workable competition"—something that he carefully avoids defining—by maintaining what he describes as "perpetual vigilance" on the part of the public.[7] All that is required to achieve sustained economic growth with price stability and reasonably full employment is, as he puts it, "Public vigilance and support for antitrust." [8] It is generally agreed that antitrust does not work and that public vigilance under our current economic programs is just a synonym for national neglect. In the ten editions of his economics textbook, Samuelson never once called attention to the need for some kind of national economic guidance and social consensus among the nation's economic and special interest groups with regard to our national objectives such as economic growth, price stability, full employment, a fair sharing of the national income, and the preservation of our social and natural environments.

If one wishes to grasp the new emerging trends in economic thought in the final quarter of the twentieth century and the early decades of the twenty-first century, one should go beyond the university classroom and the outworn views of the conventional economists. There one will find the views of the forerunners of the emerging twenty-first century economics who are prepared to indicate the direction in which unconventional economic thought, such as institutional economics, is moving as it presents a challenge to Reaganomics. I would like to illustrate this point by calling attention to the economic views of Leonard Silk, Robert J. Samuelson, and Walter W. Heller.

Leonard Silk, who regularly writes on economic issues in the *New York Times,* on March 12, 1952, declared that the way to avoid a depression is to establish

> a more cooperative spirit among labor, management, and government, recognizing the common stake in jobs and shares of world markets . . . the United States and other Western governments need to prepare plans for dealing with the threat of failures, bankruptcies, and defaults that might otherwise become epidemic. This is a fitting subject for the economic conferences of Western leaders in Versailles, France in early June.[9]

Robert J. Samuelson, an economics expert who writes for the *National Journal,* in April, 1982, wrote an article on the elusive subject of economic expectations in which he explained that the rivalry between Republicans and Democrats over providing what is held to be the best economic program for the nation results only in confusing the public and subverting the prospects for social consensus. As he put it:

> Therein lies the key. Most countries that have managed better to maintain economic growth with low inflation (West Germany, Japan) have done so only by establishing a modest social consensus about the limits of economic policy. No wage-price guidelines can work without it, nor can any tight-money policy. But if there is any United States consensus today, it is that everyone should have more even if the economy produces less.[10]

Attention should also be called to the views of Walter W. Heller, former chairman of the Council of Economic Advisers and currently the Regents' Professor of Economics at the University of Minnesota, who explained in March, 1982, that what is needed in place of the Reagan program is a "bold economic stroke." According to Heller,

> if the President called another summit conference, this one with leaders of business and labor, especially of the flagship unions and business organizations. The point would be, as part of his thrust for voluntarism in the private economy, to ask for their cooperation in restraining wage and price increases as the economy expands. . . . Germany and Japan . . . have set an impressive example of successful interplay of government, business, and labor in curbing price and wage appetites. All this would not be a panacea. . . . But it could put us on the path of solid economic expansion that would provide a framework within which it would be far easier to tackle our structural and distributional problems.[11]

Institutionalists are in agreement with the views expressed by Silk, Robert J. Samuelson, Heller, the Club of Rome and others, but they have not been in the vanguard of those who advocate these views. It is very important for institutionalists at this time to counter Reaganomics by stepping forward and vigorously presenting the arguments in favor of national economic guidelines and a social consensus with regard to how to handle our pressing economic problems. The proposal to establish an Institutionalist Economic Policy Board that would issue periodic statements concerning our serious structural and distributional problems is designed to meet this need.

If institutionalists do not take steps to create a positive image with regard to their position on major economic and social issues, they will be pushed aside by those who are more willing to stand up for what they believe would be best for the nation. Already economists described as post-Keynesian are moving in this direction. Post-Keynesians such as Alfred S. Eichner, Joan Robinson, J. A. Kregel, Richard X. Chase, and others have emphasized the limitation of standard Keynesian economics and the need to go beyond the Keynesian fiscal and monetary policies to achieve sustained economic growth with price stability and full employment. In their declaration of principles presented in *A Guide to Post-Keynesian Economics* (published in 1978), these post-Keynesians point out that the first step in developing a workable economic program is to secure a social consensus among the different economic interest groups as to how the gains from economic growth are to be shared.[12] They go on to say that securing a social consensus would be accompanied by the creation of a national social and economic council that would provide a forum for the discussion and resolution of the nation's major economic and social problems. These views and proposals of the post-Keynesians are precisely those of the institutionalists. The only theoretical difference, and a significant one at that, is that the institutionalists present their views and proposals within the historical framework of the evolving economic process. The post-Keynesians, like Keynes himself, lack the cultural anthropological approach and the historicity that are such major features of institutional economics.

Institutionalists should welcome the support of the post-Keynesians, but they should not permit the post-Keynesians to absorb them or to push them aside as the Keynesians did to the institutionalists in the 1930s. One of the leaders of the post-Keynesian group in this country, Alfred S. Eichner, has explained that his post-Keynesian economics is an amalgam of American institutionalism, continental Marxism, and the work of some of Keynes' closest associates such as Joan Robinson, Richard Kahn, Nicholas Kaldor, Roy Harrod, and Michael Kalecki.[13] In attempting to advance this amalgam Eichner has not done full justice to American institutionalism. Institutionalism, properly understood, would reverse the process and absorb post-Keynesian economics. The institutionalist light burned very brightly in the depressed 1930s when Lionel Robbins, the English arch-critic of the institutionalist movement, declared in 1932 that "in recent years, if they (the institutionalists) have not secured the upper hand altogether, they have certainly had a wide area of power in America."[14] We are now in the midst of another serious emonomic breakdown when an institutionalist exposure of the serious inadequacies of Reagonomics could serve to give institutional economics a positive and favorable image. It is greatly to be hoped that the institutionalists will take advantage of this important opportunity because it is very doubtful that such an opportunity will come a third time.

NOTES

[1] Paul T. Homan, *Contemporary Economic Thought* (New York: Harper, 1928), p. 181.

[2] John M. Clark, "Recent Developments in Economics," *Recent Developments in the Social Sciences* (Philadelphia: J. B. Lippincott, 1927), pp. 271-77.

[3] Henry C. Wallich and Sidney Weintraub, "A Tax-Based Incomes Policy," *Journal of Economic Issues* 5 (June 1971): 1-19.

[4] *Time* 118 (December 28, 1981): 60-63.

[5] Paul A. Samuelson, *Economics,* Tenth Edition (New York: McGraw-Hill, 1976), p. 847.

[6] Robert A. Gordon, "Rigor and Relevance in a Changing Institutional Setting," *American Economic Review* 66 (March 1976): 1.

[7] Paul A. Samuelson, *op. cit.,* p. 531.

[8] Ibid.

[9] *New York Times,* (12 March 1982), p. D-2.

[10] *Washington Post,* (6 April 1982), p. C-15.

[11] *Washington Post,* (9 March 1982), p. A-10.

[21] Alfred S. Eichner (ed.), *A Guide to Post-Keynesian Economics* (White Plains, New York: M. E. Sharpe, 1978), p. 176.

[13] Ibid., p. 4.

[14] Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* Second Edition (London: Macmillan, 1935), p. 114.

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On the Concept of Ceremonial Encapsulation

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In his article entitled "The Evolution of the Veblenian Dichotomy," [1] William T. Waller, Jr. provides an authoritative account of the transformation that the institutional dichotomy has undergone from the time of its original formulation by Thorstein Veblen through the treatments given to it by Walton Hamilton, Clarence Ayres, and J. Fagg Foster. Waller notes that Foster's formulation of the dichotomy improves upon the notion of the opposition of "institutions" and "technology" by showing that the institutional structure is composed of both ceremonial and instrumental aspects. This formulation has led to a refinement that the late Louis Junker and I have called the "concept of ceremonial encapsulation." It is the purpose of this paper to examine the meaning and significance of this concept.

Before launching into the discussion, I must beg the reader's indulgence as I make one or two observations of a personal nature on the origin of this project. If it had not been for his untimely death, Louis Junker and I would have coauthored a paper under this title. We had made plans for doing so shortly before his death, and I was looking forward with pleasure to the collaboration. Neither Professor Junker nor I had fully developed the concept to a point where others could pick up and run with it, or, finding it lacking, lay it to rest. We needed to do more work on it, and he looked forward to that challenge with enthusiasm. While writing this paper I have been painfully aware of the need for Professor Junker's insight and penetrating criticism. We will never know what direction the discussion might have

This paper is a revised and expanded version of the author's presidential address delivered to the Association For Institutional Thought in Albuquerque, New Mexico, on April 29, 1983.

taken had he lived. We can only hope that what discussion does take place will not fall too short of the mark he would have set for it. It should go without saying that even though I regard him as the joint author of the concept, his reputation should not be burdened with the responsibility for any of the deficiencies that may be found in this presentation.

The Logic of the Concept of Ceremonial Encapsulation

In his account of the evolution of the Veblenian dichotomy William Waller demonstrates how Veblen's formulation of the dynamic interplay between "institutions" and "technology" was transformed by Ayres into an analysis of the "ceremonial" and "technological" (or "instrumental") aspects of culture and how Ayres's treatment of the dichotomy was ultimately refined by J. Fagg Foster into the view that all institutions contain both ceremonial and instrumental aspects. Since Waller's article provides a complete discussion of the matter, there is no need to retrace that ground here. My concern at this initial stage of the discussion is to show how the concept of ceremonial encapsulation arises logically from Foster's definition of an institution.

Foster's Definition of An Institution

As one of the last great practitioners of the "oral tradition" in economic scholarship, J. Fagg Foster published little during his teaching career. Indeed it was not until after his retirement that one of his students, Baldwin Ranson, compiled and edited Foster's writings and arranged to have them published in the *Journal of Economic Issues*.[2] While these papers capture the scope of Foster's thought on institutional economics, most of the papers are fragments with the result that crucial arguments suffer from severe truncation or emerge only obliquely within the context of other arguments. Foster's treatment of the ceremonial and instrumental aspects of institutions suffers from these difficulties of exposition. The most coherent statement of his view that institutions perform both ceremonial and instrumental functions is to be found in the paper entitled "The Effect of Technology on Institutions."[3] It is also clear from the context of other papers in the collection that this treatment of the institutional dichotomy informs his theory of institutional adjustment.[4] But the most concise statement of his definition of an institution appears in an unpublished set of notes from one of his classes in which Foster is quoted as follows: "An institution is a prescribed pattern of relations among a group of persons organized for a definite purpose. . . . Institutions perform two different kinds of functions: 1) Instrumental. . . . 2) Ceremonial. . . ."[5]

Foster's students have followed this language very closely in their discussions of institutions. Professor Junker defined an institution as ". . . prescribed patterns of correlated human behavior with (a) instrumental aspects and (b) ceremonial aspects." [6] In one of his commentaries on Foster's contributions, Marc Tool says, "[i]nstitutions are defined as 'prescribed patterns of correlated activity and attitudes among a group of persons.' . . . All institutions perform two different kinds of functions. One is an instrumental function. . . . The other is a ceremonial function . . ." [7] Tool's own contributions to institutional economics are premised on this definition. And I have used the follong language in defining an institution:

> . . . an "institution" is defined as a set of socially prescribed patterns of correlated behavior. The "correlation" of behavior is prescribed by the value structure of society; that is, values function as criteria for the correlation of behavior within the institutional domain. The value structure, in turn, derives its social warrant from one of two systems of value formation. Values are either ceremonially warranted or instrumentally warranted. The essence of the "institutional dichotomy" is contained in this distinction between the two modes of social valuation existing within the society.[8]

A reading of the articles in which these statements appear will confirm that the authors are in general agreement on the meaning and implications of the dichotomy stated in these terms.

A number of observations need to be made concerning the meaning and significance of this way of incorporating the Veblenian dichotomy *within* the definition of "institution." First of all, the notion that "institutions" and "technology" exist in separate social realms is abandoned. The long-standing institutionalist view that both "institutions" and "technology" are cultural processes is made more precise by identifying both as "socially prescribed patterns of correlated behavior." The essential logic of the Veblenian dichotomy is preserved by emphasis on the fact that all institutions exhibit both ceremonial and instrumental characteristics. It is one thing to say, as institutionalists long have, that ceremonial and technological "aspects" or "characteristics" or "funtions" exist within the culture, but it is something else to specify their location within institutions and to identify precisely the nature of their interrelationship.

This is accomplished by clearly identifying the two modes of valuation by which behavior is correlated. Under this definition of an institution, "social prescriptions" are seen to be either ceremonially warranted or instrumentally warranted. Ceremonially warranted and instrumentally warranted behavioral patterns will occur in varying mixes from one institution to another within the society. Institutional analysis must be able to identify the nature and significance of the particular "mix" of ceremonial and instrumental behavioral patterns within society. Foster's approach makes such an identification possible.

The Fosterian treatment of the institutional dichotomy makes clear the basic hypothesis that underpins all institutional analysis from Veblen to the present, namely: that no institution can be totally free of either ceremonial or instrumental behavioral patterns. Ayres put the matter this way:

> There is no finite moment in the past at which human behavior is known to have been wholly ceremonial. As far back as our knowledge goes rudimentary tool-activities have been going on; and our knowledge of the present situation does not encourage any expectation of the total disappearance of superstition, status, and institutional coercion within the foreseeable future.[9]

Veblen, it will be recalled, tempered his penetrating analysis of the ceremonial character of "devout observances" by calling attention to the "noninvidious residue of the religious life."[10] In his view, not even the ceremonial labyrinth of organized religion was completely devoid of instrumental characteristics, which, in this case, he identified as ". . . the sense of communion with the environment, or with the generic life process."[11] But perhaps his best known treatment of the idea is to be found in his discussion of conspicuous consumption where he argues that ceremonial waste is seldom an exclusive attribute of a particular commodity or service.

> . . . an article may be useful and wasteful both, and its utility to the consumer may be made up of use and waste in the most varying proportions. . . . It would be hazardous to assert that a useful purpose is ever absent from the utility of any article or of any service, however obviously its prime purpose and chief element is conspicuous waste; and it would be only less hazardous to assert of any primarily useful product that the element of waste is in no way concerned in its value, immediately or remotely.[12]

But the recognition that all institutions are likely to possess both ceremonial and instrumental aspects begs the question of how they are combined within the institutional structure. The answer to this question takes the form of identifying dominance relations that hold between ceremonial and instrumental patterns of behavior within the institutional structure.

The Concept of Ceremonial Dominance

When Veblen lamented the "triumph of imbecile institutions over life and culture," he was speaking of the dominance of ceremonial patterns of behavior over instrumental patterns of behavior within the culture.[13] Throughout all of his works, Veblen examined this dominance relationship, but it is perhaps best exemplified in his discussion of the dominance of "pecuniary" employments over "industrial" employments in business enterprise.[14] It is also clear that the concept of ceremonial dominance lies at the heart of Clarence Ayres's theory of institutional adjustment. While he does not articulate it explicitly, it is most clearly implied in those passages of his articles and books where he stresses the fact that technological progress is constrained by the "past binding" nature of the ceremonial practices of the community. While Ayres stresses the fact that ceremonial practices always pretend to the putative efficiency of technological processes and that the standard of "ceremonial adequacy" is an imitation of "technological adequacy," [15] he consistently views the ceremonial aspect of culture to be dominant. This is the logic of his notion of ceremonial "permissiveness." [16] According to this notion, while ceremonial practices cannot generate technological progress, they very clearly affect its direction and the rate of change by their degree of "permissiveness" with respect to technological innovation. The degree of ceremonial "permissiveness" is, then, a measure of the dominance of ceremonial practices over instrumental practices in the social structure.

What Ayres failed to do in his theory of institutional adjustment was to develop the logic of this dominance relationship. This has been the theoretical task that both Louis Junker and I have attempted to undertake in our work on the concept of "ceremonial encapsulation." The problem that prompts further theoretical development of the theory of institutional adjustment beyond the point where Ayres left it arises in the recognition that technological innovation does not always imply progressive institutional change. It would appear that Ayres was well aware of this possibility,[17] yet his discussion of technological innovation almost always included the notion of the "displacement of ceremonial by technological functions," [18] which is his definition of "progress." One may accept Ayres's definition of progress without inferring that *all* technological innovation necessarily involves a *net reduction* in the level of ceremonial practices within the community. Unfortunately, many institutionalists appear to have drawn this inference from Ayres's writings and have based a good deal of their thinking on it.[19] As Louis Junker put it, the problem is ". . . . to escape the simple notion that technology under any system of control and domination functions as a dynamic tool for social welfare and human betterment." [20] The concept of "ceremonial encapsulation" offers a coherent approach to this problem. It also provides a way of dealing with what Ayres called "degeneration," [21] a process that will be identified below as "regressive" institutional change.

The Theory of Institutional Adjustment

The concept of "ceremonial encapsulation" contributes to a more detailed specification of the process of institutional adjustment than that provided by either Ayres or Foster. The work that both Junker and I have done leads to the view that the process of institutional adjustment occurs in two analytically distinct phases.[22] I have called the first phase "ceremonial encapsulation" and the second "progressive institutional change." [23] The dynamic force that brings about institutional adjustment is an expansion of the knowledge fund through the problem-solving processes of the community.[24] According to the principle of ceremonial encapsulation, the new knowledge will be incoporated into the institutional structure only to the extent that it can be made ceremonially adequate; that is, only to the extent that its incorporation can be accomplished without upsetting the existing degree of ceremonial dominance embedded in the value structure of the community. Ceremonial encapsulation occurs as follows [25]: 1) the new knowledge enters the system in the form of new instrumentally warranted patterns of behavior (technological innovation); 2) more often than not, these new instrumentally warranted patterns of behavior will displace ceremonially warranted patterns of behavior; 3) when this is the case, the vested interests of the community will innovate new ceremonially warranted patterns of behavior in an effort to "encapsulate" the technological innovation and prevent it from upsetting status and power relations of the community. As a consequence, some institutional adjustment to the new technolgy has occurred, and there has been some increase in instrumental efficiency within a limited range of activity; but the adjustment has occurred in such a way as to preserve the existing pattern of ceremonial dominance embedded in the value structure of the community.[26] In other words, although a technological innovation has occurred, there has been no change in the value structure of the institution.

Professor Junker formulated the concept of "ceremonial encapsulation" by drawing a distinction between "genuine" and "spurious" technological processes. "Genuine" technological processes, he says, break free of master-servant relationships and work against ceremonial constraints.[27]

> 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, direction and

> consequence 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.[28]

He goes on to say:

> 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.[29]

Junker's use of the term "institutions" in this paragraph is probably ill-advised given his systematic application of Foster's definition of the term through most of his work. In this paragraph "institutions" should probably be read as "vested interests" who benefit from, and exercise control over, the ceremonial processes of the community.[30] Irrespective of the interpretation one gives to the use of the term "institution" in this passage, what clearly emerges from Junker's formulation of "ceremonial encapsulation" is the immediate relevance of the concept to the study of power in social relations.

The second phase of institutional adjustment involves "progressive" institutional change. "Progressive" institutional change occurs when, for a given state of the arts and sciences (i.e., a given fund of knowledge), instrumentally warranted patterns of behavior displace ceremonially warranted patterns of behavior, thereby bringing about a change in the value structure of the community. Such changes in the value structure signify a diminution of ceremonial dominance within the institutional structure. The associated increases in instrumental efficiency reflect the fact that knowledge that was previously "encapsulated" in ceremonial patterns of behavior is now "embodied" in instrumental patterns of behavior.[31] Technology that was previously used primarily to enhance the differential advantage of the vested interests becomes available to the community at large. In Junker's terminology, the use of knowledge passes from "encapsulation" to "liberation."[32]

This second phase of institutional adjustment evolves out of conditions that are created in the first phase. Even though technological innovation is encapsulated in the first phase, with the exception of "Lysenko" type encapsulation (discussed below), it does, nevertheless, occur. No matter how tightly controlled, technological innovation requires the extension of instrumental valuation in the area of problem solving to which it is applied. This means that instrumental values are employed in the correlation of behavior in ways that were not possible prior to the innovation. Even though this may entail only a marginal increase in instrumental efficiency, the fact of such an increase in instrumental efficiency becomes known, in the first instance, to those directly involved with the technology, and, in later periods, to others. The demonstration of the applicability of these new instrumental standards of judgment to the correlation of behavior, sooner or later, creates a conscious awareness within the community of their broader application. At some juncture in the life of the community, these new instrumental standards will be used to displace the ceremonial standards that had been used to encapsulate the technology, and "progressive" institutional change takes place as the value structure of the institutional domain is thereby altered.

Veblen and "Ceremonial Encapsulation"

Professor Junker believed that Veblen's discussion of institutional change implied the concept of "ceremonial encapsulation." [33] I concur with his interpretation of Veblen on this point. It seems to me that a careful reading of Veblen not only reveals that he employed the logic of the concept, but that he also used it in a manner that strongly suggests the two phases of institutional adjustment outlined above. In support of this interpretation, I have selected a sentence taken from Veblen's discussion of the "merits of borrowing" in *Imperial Germany and the Industrial Revolution.*[34] It can be read as a statement of the two phases of institutional adjustment. The first part of the sentence, preceding the semicolon, describes the process of "ceremonial encapsulation"; the second part, following the semicolon, describes "progressive" institutional change. The sentence reads as follows:

> The innovation finds its way into the system of use and wont at the cost of some derangement to the system, provokes new usages, conventions, beliefs, and principles of conduct, in part directed advisedly to its utilisation or to the mitigation of its immediate consequences, or to the diversion of its usufruct to the benefit of given individuals or classes; but in part there also grows up new habits of thought due to the innovation which it brings into the routine of life, directly in the way of new requirements of manipulation, surveillance, attendance or seasonal time-schedule, and indirectly by affecting the economic relations between classes and localities, as well as the distribution and perhaps the aggregate supply of consumable wealth.[35]

This is only one of many passages to be found in *Imperial Germany* where Veblen presents arguments that I interpret—and that I believe Professor Junker would have interpreted—to be discussions of "ceremonial encapsulation." [36] Since space does not permit a review of Veblen's other works in which he can be interpreted as having employed the concept, this example will have to suffice.[37]

The Three Types of Ceremonial Encapsulation

Three analytically distinct types of ceremonial encapsulation can be identified as 1) the "past-binding" type; 2) the "future-binding" type; and 3) the "Lysenko" type,which involves "regressive" institutional change. Each will be discussed in turn.

The "Past-Binding" Type

The "past-binding" type of ceremonial encapsulation is that which emerges most clearly in the works of Veblen and Ayres. In this type of ceremonial encapsulation, the community responds to unanticipated technological innovations by attempting to achieve a *status quo ante.* The encapsulation takes the form of an attempt to preserve the immemorial traditions of the community in the face of the disrupting character of the innovation. The incorporation of the innovation into the patterns of behavior of the community is constrained by the effort to impose on the innovation the standard of "ceremonial adequacy" as prescribed by the traditional patterns of power and status. Those vested interests of the community empowered to preside over the maintenance of traditional values by keeping a watchful eye on the processes of inquiry are not themselves actively engaged in the promotion of new technologies but rather react to innovation as it appears on the scene. The requirement of preindustrial cultures that most, if not all, crafts be pursued in accordance with magic rituals falls into this type of ceremonial encapsulation.[38] Most forms of racism and sexism in modern cultures would also fall into this category.

The "Future-Binding" Type

The "future-binding" type of ceremonial encapsulation is of a different character. It arises in those modern cultures that are preoccupied with the use of science and technology as primary means of achieving and maintaining power. In this kind of cultural setting, the vested interests, seeking to impose and preserve a cultural hegemony that will nurture the values and attitudes most favorable to their own survival, will actively promote and control science and technology. This was the form of ceremonial encapsulation that Professor Junker investigated with such vigor. His essay on the "food power system" published posthumously in Volume II of this *Review* is based on his exhaustive study of the manner in which industrial clusters of giant corporations have effectively controlled scientific inquiry and influenced medical practices relating to the use of tobacco, food processing, and nutrition.[39] What makes this kind of ceremonial encapsulation "future-binding" is that it does not involve a resistance to technological innovation, but rather the active effort to develop, control, and choose among alternative technological paths through time; that is, it involves the selection among alternative "futures."

Whereas the "past-binding" type of ceremonial encapsulation has the effect of making the present conform to the past, the "future-binding" type has the effect of making the future conform to the present—that is, conform to the prevailing patterns of ceremonial dominance in the community.[40] The consequences that can flow from this type of ceremonial encapsulation are dramatically illustrated in the following passage written by F. Gregory Hayden.

> . . . the advertisements of United Technologies Corporation . . . [emphasize] the benefits of the modern international agribusiness technostructure for providing nutritional needs. This is the same technostructure which destroys cities by overloading them with displaced persons; destroys rural communities and their social services because there are not enough people to support them; destroys topsoil and water supplies; poisons ground and surface water supplies with chemicals, pesticides, and fertilizers; augments desertification; destroys soil humus and porosity, which means less water retention, which means that compacted soil needs larger tractors which further compact the soil; leaches nutrients from and adds salts to the soil through irrigation; uses more energy than it produces; causes worker sterility in the fertilizer factories; creates health problems for farmers who apply the toxic fertilizers, pesticides, and herbicides; uses fertilizers which prevent plants from absorbing nutrients necessary for human health; fills the food chain with carcinogenic pesticides, herbicide growth hormones, and antibiotics; creates an expensive and unnecessary transportation system; diverts millions of acres each year in Third World countries to nonfood production; processes the nutrients out of what food is produced with the profits being greater, the greater the amount of processing; and fills the processed product with carcinogenic preservatives, refined sugars, salt, and artificial colors.[41]

In other words, in its attempt to ensure its own future through the ceremonial encapsulation of technology, the "international agribusiness technostructure" has imposed on the community and its biosphere costs which neither it nor the community may ultimately survive. Whatever may be the short run increases in instrumental efficiency attributed to the agricultural and food processing methods described above for limited sectors of the community, they are more than offset by both the short run and long run losses of instrumental efficiency holistically considered. In the modern industrial economy, the preservation of the differential advantages of the vested interests requires the encapsulation of scientific and technological processes. Some increase in instrumental efficiency is contemplated and achieved, but care is taken to ensure that the existing pattern of ceremonial dominance and institutional hegemony is maintained.

The losses in instrumental efficiency may be identified analytically in terms of the instrumental efficiency that the community could enjoy if the increases in knowledge generated by the scientific and technological processes were not ceremonially encapsulated. In other words, the same fund of knowledge makes alternative institutional arrangements instrumentally feasible, but their adoption requires the kinds of changes in the value structure of the community that will reduce the ceremonial dominance of the "international agribusiness technostructure." [42] Thus, increased efficiency in the production and distribution of non-carcinogenic, nutritious food by relatively small scale, environmentally compatible farms is technologically feasible under the existing fund of knowledge. What is required are those "progressive" institutional changes that will eliminate the ceremonial constraints on their development. But before the discussion can turn to a fuller consideration of the concept of "progressive" institutional change, the third form of ceremonial encapsulation must be considered.

The "Lysenko" Type

The "Lysenko" type of ceremonial encapsulation might be called (after Veblen) the *ultimate* "triumph of imbecile institutions over life and culture," for it involves "regressive" institutional change. As indicated above in the discussion of the two phases of institutional adjustment, both the "past-binding" and "future-binding" types of ceremonial encapsulation create conditions out of which it is possible for "progressive" institutional change to occur. This possibility arises because in both of these types of ceremonial encapsulation some instrumentally warranted technological innovation actually takes place, thereby laying the foundation for the extension of instrumentally warranted behavior into other areas of the community's problem-solving processes. But in the "Lysenko" case, instrumentally warranted behavior is actually *reduced* through ceremonial encapsulation. It involves the displacement of instrumental patterns of behavior by ceremonial patterns of behavior, which is the definition given here to "regressive" institutional change. Analytically, the "Lysenko" type of ceremonial encapsulation entails only a single phase of institutional adjustment because the encapsulation process itself involves a change in the value structure as instrumental criteria are displaced by ceremonial criteria in the correlation of behavior. A notorious historical example of this phenomenon is to be found in the Lysenko affair from which the name given to this type of ceremonial encapsulation is taken.

T. D. Lysenko was the "agrobiologist" who came to political prominence in the Soviet Union under Stalin's patronage in the early 1930s.[43] His pseudo-scientific theories on various aspects of agricultural planting and breeding techniques enjoyed ceremonial predominance in the Soviet Union until the early 1960s.[44] Although his theories were demonstrably unverifiable and based upon concepts that contradicted well-established biological theories, including Mendelian genetics, they were touted by Lysenko and his supporters as being the only biological theories consistent with the fundamental principles of Marxist-Stalinist philosophy. This claim was based on two considerations: 1) Lysenko's theories appeared to conform to Stalin's dogma that the criterion of scientific verification is "practical" success; and 2) Lysenko's rejection of genetic theory appeared to conform to the "Marxian" view that human nature could be transformed by a change in the environment. During the three decades in which Lysenkoism reigned supreme, scientific progress in Soviet agriculture came to a virtual halt. It is a testimony to the remarkable ideological power of Lysenkoism that it prevailed so long even though the agricultural practices it dictated produced, at best, mixed results, and at worst, outright losses in productivity. But perhaps the most devastating effect it had on the reduction of instrumental efficiency in the Soviet Union was not its impact on the practice of agriculture, but its impact on the practice of science. As one historian puts it:

> In 1929 Stalin had decreed the end of agricultural economics as an autonomous discipline because it pointed to intolerable socioeconomic limits on the official will to modernize agriculture instantly. Now the agrobiologists [Lysenkoists] invited him to decree the end of natural sciences that pointed to the biological limits.[45]

Biologists who dissented from Lysenkoism were subjected to public ridicule, expulsion from the faculties on which they served, and even criminal prosecution during Stalin's periodic reigns of terror. Scientific inquiry in the biological sciences was utterly corrupted, and, apparently, it has not yet fully recovered its momentum even though Lysenkoism began to fall in official disfavor in the early 1960s.

The "Lysenko" type of ceremonial encapsulation is by no means a phenomenon peculiar to the Stalinist period of Russian history. There is a potential for this type of regressive institutional change in all twentieth century institutions. Afflicted with the absolutisms of twentieth century ideologies and the promise of material progress through the use of modern technology, there is the ever present temptation to order technology to do our ceremonial bidding. When the community goes beyond the ceremonial encapsulation of technologically feasible enterprises (such as that involved in "future-binding" encapsulation) and channels the processes of inquiry into efforts to achieve that which is not technologically feasible, ideology is substituted for inquiry and "regressive" institutional change is the result. Space limitations do not permit further discussion of this phenomenon, but additional examples readily come to mind, including, among others: Nazi racial theories and the genocide they rationalized; "creation science" and the corruption of the processes of inquiry it contemplates; the Strategic Defence Initiative and the political and economic consequences that may well flow from it; and those domestic economic policies of the Reagan Administration that are based on the doctrine that welfare programs, both in principle and practice, cause poverty.

"Progressive" Institutional Change: The Case of the G.I. Bill

As already indicated above, "progressive" institutional change is, at bottom, a change in the value structure of the community. It occurs when, for a given state of the knowledge fund, instrumental values displace ceremonial values in the correlation of behavior in some aspect of the community's problem-solving processes. The displacement of ceremonial values by instrumental values in the correlation of behavior lowers the degree of ceremonial dominance in the affairs of the community. An example of "progressive" institutional change is to be found in the World War II G.I. Bill.[46]

The enactment of the G. I. Bill signified major institutional changes in American life. While the manifest function of this public policy was rationalized by the ceremonially adequate notion that we were "rewarding our returning veterans for the sacrifices they made for our country," the instrumentally significant changes that it entailed were changes in the standards of judgment by which the society went about allocating educational resources. The invidious criterion of the "ability to pay" was displaced by an instrumentally warranted criterion of entitlement based on the "ability to learn." [47] Space limitations do not premit a detailed elaboration of all of the significant institutional changes associated with the passage of the G.I. Bill, but the major considerations can be briefly stated.

The G.I. Bill was a productivity-increasing investment in human capital that contributed significantly to post-World War II economic growth. But aside from both the short run and long run material benefits it contributed to the economy, the G.I. Bill substantially reduced the importance of such invidious criteria as social and economic status in the allocation of educational opportunities.[48] If nothing else, it represented a profound change in the criteria used for the redistribution of income through federal transfer payments. Except for the family allowance provision, direct cash payments were made to individuals for subsistence purposes without respect to need.[49] This constituted a clear break with the "means" test of welfare programs and with the criterion of previous earnings experience used in the Social Security program. In other words, the standards of eligibility applied under the G.I. Bill were unrelated to criteria based on the property-market nexus. By displacing the invidiously restrictive property-market nexus criteria with the "ability to learn" criterion, the society underwent a "progressive" institutional change.

This "progressive" institutional change was, however, bounded by certain ceremonial limits. The G.I. Bill did not entitle all scholastically qualified students to receive direct cash stipends, tuition, and book allowances. Only those who were "veterans" met the test of ceremonial adequacy. The community's willingness to extend this productivity-increasing investment in human capital to others could not be stretched beyond the invidious limits imposed by capitalist ideology. For all college students other than veterans, the "ability to pay" remained the primary operative criterion for access to educational opportunity. Under capitalist ideology, as it was generally understood at the time, the federal government had no legitimate function to perform in the allocation of resources for higher education. It was, however, ideologically proper for the federal government to provide for the national defense, and it was under this national defense rubric that the G.I. Bill could be made ceremonially consistent with capitalist ideology. Nevertheless, to use Ayres's terminology, these ceremonial constraints were more "permissive" than those that were displaced by the institutional changes associated with the G.I. Bill, and a higher potential for increases in instrumental efficiency in the allocation of educational resources was the result. Accordingly, the G.I. Bill was extended to cover Korean and, later, Viet Nam veterans. National defense was also the justification used in the late 1950s to extend federal support to students who were not veterans; this occurred when the National Defense Education Act was passed in response to the Soviet Union's launching of Sputnik. The benefits derived by society from federally funded programs in higher education clearly had a "demonstration" effect, and the desirability of extending educational opportunities to the largest possible cross section of the community, irrespective of an individual's "ability to pay," was well-established in the public consciousness. However, the extension of educational opportunities through federally funded programs began to decline in the 1970s, and it has been intentionally curtailed under the policies of the Reagan Administration, which has sought to extend the "ability to pay" criterion to all aspects of the allocation of resources in higher education. But we will abandon the analysis at this point rather than open up an investigation into the "regressive" institutional changes both contemplated and achieved under President Reagan's domestic economic and social policies.

Nonceremonial Limits to "Progressive" Institutional Change

J. Fagg Foster has shown that in addition to the ceremonial constraints that impede "progressive" institutional change there are other nonceremonial limits to the process.[50] Marc Tool has extended the discussion of these limits in his book *The Discretionary Economy*.[51] Foster identified these limiting factors as the "principle of recognized interdependence," and the "principle of minimal dislocation." [52] Tool discussed the limits under the headings: 1) the availability of warrantable knowledge; 2) the ability of the people to understand and accept the change being introduced; and 3) the requirement that institutional adjustments are minimally dislocative.[53] Tool's first two limiting conditions are the logical equivalent of Foster's principle of "recognized interdependence." A detailed discussion of these limiting conditions is beyond the scope of this paper, but a few remarks linking them to the discussion of the concept of ceremonial encapsulation and the case of the G.I. Bill are in order.

These nonceremonial limiting conditions identify the feasibility of "progressive" institutional change. "The principle of recognized interdependence," Foster says, "refers to the proposition that the persons whose behavior is correlated through the new structure must understand their respective patterns of participation." [54] In terms of the previous discussion of the two phases of institutional adjustment, this means that the transition from a state of "ceremonial encapsulation" to "progressive" institutional change depends upon the ability of those whose behavior will be affected to understand and accept the changes in behavior that the "progressive" institutional change entails. In the case of the G.I. Bill, a willingness to substitute the "ability to learn" for the "ability to pay" in the allocation of educational resources (at least for veterans) was born of a long term conditioning process that began in the Great Depression and culminated during the Second World War. The inability of even college graduates to find jobs during the Great Depression impressed upon the population the vital necessity of having the best education possible in order to achieve economic security. Thus, it made sense to the individual to strive for educational opportunities. The critical importance of science, technology, and highly-trained technical personnel to the mobilization of national resources during World War II left an indelible impression on policy-makers, making them particularly alert to the need to raise the overall skills level of the workforce in the post-World War II period. Emphasis on social policies promoting vocational training and higher education were understood by all to be in the best interests of both the individual and the community. Clearly, it was necessary to allocate more of the nation's resources to vocational schools and institutions of higher learning. As regards the break with the tradition that had forbidden the financing of education out of federal tax revenues, the community acted on the principle that "what is technologically feasible is financially possible." [55] The legitimacy of this investment in human capital was based on what it would produce in long term economic gains for the community at large; it was not based on the "saving-centered" theory of capital formation which dictates that only prior savings validate investment. Given these considerations, the "principle of recognized interdependence" was met in the case of the G.I. Bill.

"The principle of minimal dislocation," according to Foster, ". . . connotes the relationship between the current institutional pattern and proposed adjustments . . ." and "specifies that adjustments must be capable of being integrated with all of the existing institutions which have not entered the comprehension of the members of the community as problematic factors." [56] This does not mean that there can be no dislocation whatsoever; it means that what dislocation does take place must be minimal.[57] "Progressive" institutional change will always involve the dislocation of ceremonially warranted patterns of behavior which are attached to well-established vested interests. Hence, "progressive" institutional change may very well be associated with a certain amount of social unpleasantness as the vested interests are dislodged from positions of status and power. Foster did not flinch from this possibility; he fully recognized that outmoded institutional structures often make the loudest noises when crashing to the ground. His "principle of minimal dislocation" does not incorporate the view that social confrontation is somehow inhibitive of "progressive" institutional change; on the contrary, it fully anticipates that such confrontation may often be a necessary condition for such changes (as in the case of the civil rights movement). What is germane to this idea is the recognition on the part of the community that the dislocations must be "minimal" in the sense that they are not perceived to encroach upon areas of the community's experience that are not regarded as problematic.

Applying the "principle of minimal dislocation" to the case of the G.I. Bill, there were certain habits of thought and behavior and associated identifiable vested interests that were dislocated by this legislation. Those economic interests (e.g., taxpayer associations), who believed in "laissez faire" at all costs, and those academic elitists, who feared that an "open" university ensured the decline of civilization, could not be placated by any of the arguments in favor of the G.I. Bill. Nevertheless, the community took the risk that the diminution of the influence of these interests would not substantially weaken either the economy or the pursuit of higher learning. As anticipated at the time, and proven by subsequent events, the dislocation was minimal.

Conclusion

It has been the purpose of this paper to discuss the meaning and significance of the concept of "ceremonial encapsulation." It has been argued that although he did not use the term, the concept emerges logically from J. Fagg Foster's theoretical work on the nature of institutions and the process of institutional adjustment. The late Louis Junker used the concept to explore power relations and the manner in which technological processes are employed to thwart social progress. My work on the concept, while complementary to Professor Junker's, focuses more on the role "ceremonial encapsulation" plays in the process of institutional adjustment. In both lines of inquiry, we have attempted to use the concept to address a number of theoretical and applied problems which we felt had been neglected or treated in an unsatisfactory manner in the institutionalist literature. The concept of "ceremonial encapsulation" is by no means a finished piece of work; it requires a good deal more effort than either Professor Junker or I have given to it. Whether it will become a viable intellectual tool in the kit box of institutional economics will depend on the willingness of others to employ it.

NOTES

1 *Journal of Economic Issues,* 16 (September 1982) 757-71.

2 See J. Fagg Foster, "The Papers of J. Fagg Foster," *Journal of Economic Issues* 15 (December 1981): 857-1912.

3 Ibid., 907-13. See especially page 908.

4 Ibid., pp. 910-13, 920-21, and 923-942.

5 These notes bear the title "Transportation: Notes Compiled From File Cards of Professor J. Fagg Foster and From Class Notes of Gladys Myers," University of Denver, Spring, 1947. The quotation is taken from pages 1 and 2. I am grateful to Gladys (Myers) Foster for providing me with a copy of these notes.

6 Louis Junker, "Institutionalism and the Criteria for Development," *Economic Forum* 14 (Summer 1983): 30.

7 Marc R. Tool, "A Social Value Theory in Neoinstitutional Economics," *Journal of Economic Issues* 11 (December 1977): 837.

8 Paul D. Bush, "An Exploration of the Structural Characteristics of a Veblen-Ayres-Foster Defined Institutional Domain," *Journal of Economic Issues* 17 (March 1983): 36-37. This article contains an analytically rigorous formulation of many of the arguments made in this paper.

9 Clarence E. Ayres, *The Theory of Economic Progress,* 3rd. ed., Louis J. Junker, editor (Kalamazoo: New Issues Press, 1978 [1944]), p. 247. This proposition is formulated as Axiom #6 in Bush, "An Exploration...," p. 46.

10 Thorstein Veblen, *The Theory of the Leisure Class,* (New York: Augustus M. Kelley, 1975 [1899]), p. 334.

11 Ibid.

12 Ibid., pp. 100-101.

13 Thorstein Veblen, *The Instinct of Workmanship,* (New York: Augustus M. Kelley, 1964, [1914]), p. 25.

14 Thorstein Veblen, *The Theory of Business Enterprise,* (Clifton, N.J.: Augustus M. Kelley, 1975 [1904]), pp. 314ff.

15 Clarence E. Ayres, *Toward a Reasonable Society* (Austin: University of Texas Press, 1961), pp. 30-31.

16 Clarence E. Ayres *The Theory of Economic Progress,* pp. 175-178.

17 For example, see Ayres, Ibid., p. 176.

18 Ibid., p. 201.

19 This point was the subject of a heated debate between Louis Junker and Thomas DeGregori at the annual meetings of the Association For Institutional Thought in 1980 held in Albuquerque, New Mexico. Junker challenged what he believed to be DeGregori's reliance on this inference. There is no written record of this exchange, but the essence of Junker's critique of DeGregori is to be found in his posthumously published article "The Conflict Between the Scientific-Technological Process and Malignant Ceremonialism," *American Journal of Economics and Sociology* 42 (July 1983): 341-51. See especially pp. 344-45 for his comments on DeGregori. A similar disagreement between F. Gregory Hayden and DeGregori may be found in F. Gregory Hayden, "An Assessment Dependent Upon Technology," *Journal of Economic Issues* 14 (March 1980): 211-219; and Thomas R. DeGregori, "Instrumental Criteria for Assessing Technology: An Affirmation by Way of a Reply," Ibid., 219-225.

20 Junker to Bush, 19 May 1981, private correspondence.

21 Ayres, *Toward,* p. 136.

[22] This discussion of the two phases of the process of institutional adjustment is based on my article entitled "An Exploration of the Structural Characteristics of a Veblen-Ayres-Foster Institutional Domain," pages 35-66; and on my conference paper, "A Veblen-Ayres Model of Institutional Change: A Provisional Formulation," presented at the Annual Meetings of the Western Economic Association, Anaheim, California, 21 June, 1977, 97 pages (see especially, pp. 27-36 and 58-61). The 1977 paper used slightly different terminology in identifying the two phases of institutional adjustment which I have abandoned in favor of the terminology used in the 1983 article.

[23] While Professor Junker used the term "ceremonial encapsulation" in the way I am using it here; he did not speak explicitly of the two analytically distinct phases of institutional adjustment. He did, however, read the papers in which I have developed this theoretical structure and commented on them with approval. Moreover, my reading of his papers convinces me that he was implicitly working with the same kind of conceptual structure when dealing with the process of institutional adjustment. For example, the process I call "progressive" institutional change is analytically equivament to what he called "liberation." See Junker, "The Conflict Betweeen the Scientific-Technological and Malignant Ceremonialism," p. 343. We did not, however, reach a point in our correspondence or our conversations where we explicitly agreed to use the approach I have adopted. So he must be absolved of any difficulties that exist in the specific way in which I have formulated these ideas.

[24] The language "problem-solving processes of the communiity" is intended to include formal inquiry in the arts and sciences as well as the daily effort of people to bring instrumental knowledge to bear on the problems at hand.

[25] This discussion outlines the sequence of events associated with what will be called below "past-binding" and "future-binding" types of ceremonial encapsulation. It does not pertain to what will be called below the "Lysenko" type of ceremonial encapsulation. That type of ceremonial encapsulation involves "regressive" institutional change, as will be made clear in the sequel.

[26] An extreme form of ceremonial encapsulation would be the complete suppression of the technological innovation. A Stone Age tribe might well kill the inventor of a bronze axe and destroy the axe; a modern industrial society is more likely to sequester the innovation through the use of patent laws (in the civilian sector) or through the use of "top secret" classifications of the security system (in the government sector). This form of encapsulation will be discussed below as the "Lysenko Type" of ceremonial encapsulation.

[27] Louis J. Junker, "The Ceremonial-Institutional Dichotomy in Institutional Analysis," *American Journal of Economics and Sociology* 41 (April 1982): 143.

[28] Ibid.

[29] Ibid.

[30] The question of the use of "institutions" in this context is an example of the kind of reworking of our manuscripts that both Junker and I had hoped to collaborate on through systematic editing and reconciliation of usages and conceptual structures in arriving at a joint formulation of the concept of "ceremonial encapsulation." He might very well have objected to my suggested rewording on this point.

[31] This discussion of the two phases of institutional adjustment is of necessity painfully brief, and many subtleties of the analysis are neglected. For an analytically rigorous treatment of all of the arguments presented here, see Bush, "An Exploration...," pages 51-61.

[32] Junker, "The Conflict Between...," p. 343.

[33] Junker to Bush, 19 May 1981, private correspondence.

[34] Thorstein Veblen, *Imperial Germany and the Industrial Revolution.* (New York: Augustus M. Kelley, 1964 [1915]).

35 Ibid., p. 25.

36 Other passages in *Imperial Germany* that most clearly involve discussions of "ceremonial encapsulation" are to be found on pages 30, 73, 117-118, and 337.

37 A sampling of just two of Veblen's other works provides a number of passages which can be interpreted as examples of "ceremonial encapsulation": in the *Theory of Business Enterprise* (Clifton, N. J.: Augustus M. Kelley, 1975 [1904]), pages 39-41, 44-45, 375; in *The Instinct of Workmanship* (New York: Augustus M. Kelley, 1964), pages 25, 315-16, and 344-45.

38 Bronislaw Malinowski's description of the magic rituals that encapsulate the canoe building crafts of the Trobriand Islanders is a case in point. See his *Argonauts of the Western Pacific* (New York: E. P. Dutton, 1950 [1922]), especially Chapter Five, "The Ceremonial Building of a Waga."

39 Louis J. Junker, "Nutrition and Economy: Some Observations on Diet and Disease in the American Food Power System," *The Review of Institutional Thought* 2 (December 1982): 27-58.

40 Ayres used the language "past-binding" to describe the distinctive character of ceremonialism, yet it is clear that what is here called "future-binding" ceremonial encapsulation includes a range of considerations that are implied in Ayres's discussion of ceremonialism. He was obviously cognizant of the desire of vested interests to capture and appropriate scientific inquiry for their own purposes, and he fully understood the implications of such actions for the future well-being of the community. The "past-binding"-"future-binding" distinction is not offered here as something that he, Veblen, and Foster failed to comprehend; it is offered as a necessary analytical refinement to facilitate inquiry into issues implied, but not adequately developed, in their works.

41 F. Gregory Hayden, "An Assessment Dependent Upon Technology," p. 213. Footnotes superscripts have been eliminated from this quotation. It should be noted that for each of the factual assertions Hayden enumerates in this passage there is a footnote citation to the pertinent literature.

42 I have developed this line of argument using two different but logically equivalent models: one appears in "A Veblen-Ayres Model of Institutional Change," pp. 25-26; and the other in "An Exploration...," pp. 51-54.

43 This account of the Lysenko case is taken from my paper entitled "A Veblen-Ayres Model of Institutional Change," pages 50-51. It relies heavily on David Joravsky, *The Lysenko Affair* (Cambridge: Harvard University Press, 1970).

44 Even though Lysenko was stripped of all authority after Nikita S. Khrushchev's fall from power in 1964 and denounced as a fraud by a commission of top Soviet agricultural scientists in 1965, his proteges at the Mironovka Institute of Selection and Wheat Breeding in the Ukraine continued to employ Lysenko's methods as late as 1977. See *Los Angles Times,* 5 December 1977.

45 Joravsky, *The Lysenko Affair,* p. 96.

46 The following discussion of the World War II G.I. Bill is taken from my paper entitled "A Veblen-Ayres Model of Institutional Change," pp. 37-39.

47 This comment does not mean that the "ability to pay" is inherently ceremonial in character. It is ceremonial in this context because it identifies one's economic status as the appropriate criterion for determining one's educational opportunity. In contrast, the "ability to learn" is an instrumentally warranted criterion for determining one's participation in the educational process. Once the instrumentally warranted criterion for participation in the educational process has been determined, the question of how to finance the education of all those who have the "ability to learn" can be addressed. In other institutional contexts the "ability to pay" may be an instrumentally warranted criterion; as, for example, in the case of the determining the appropriate tax base for the financing of the G.I. Bill.

48 Blacks and women, being underrepresented in the World War II armed forces, did not benefit substantially from this reduction in invidious criteria. It

can be argued, however, that the noninvidious character of the G.I. Bill had a substantial "demonstration effect" that helped lay the foundation for federally funded educational opportunity grants that were to come later in the wake of the civil rights movement.

49 The living stipend feature of the G.I. Bill, both in character and scope, went far beyond anything previously contemplated in competitive scholarship programs or the philosophy of "tuition free" education offered, for example, by public institutions of higher learning in the state of California.

50 J. Fagg Foster, "Syllabus for Problems of Modern Society: The Theory of Institutional Adjustment," *Journal of Economic Issues* 15 (December 1981): pp. 929-35; and "The Fundamental Principles of Economics," Ibid., pp. 941-42.

51 Marc R. Tool, *The Discretionary Economy: A Normative Theory of Political Economy* (Santa Monica: Goodyear Publishing Co., 1979), pp. 172-176.

52 Foster, pp. 933-34.

53 Tool, pp. 173-174.

54 Foster, p. 941.

55 This is Foster's term. See Foster, p. 960.

56 Foster, p. 941.

57 Foster, p. 1092. It is important to note that Foster believed that the dislocations that occur during a "progressive" institutional change may involve the dislocation of some instrumentally warranted patterns of behavior.

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The Following Papers Were
Presented at the
Association For Institutional Thought

LOUIS J. JUNKER
MEMORIAL SESSION

The Contributions of
Louis Junker to
Institutional Thought

Denver, Colorado
Saturday, April 24, 1982

The Contributions of Louis Junker to Theoretical Institutional Economics

David Hamilton

Department of Economics
University of New Mexico

Louis Junker was a prolific thinker, but not a prolific publisher. I have always thought it to have been unfortunate that he never did see his dissertation on C. E. Ayres published although it was contracted for publication by the University of New Mexico Press. This was a study of Ayres that explored its intellectual roots and subjected it to searching analysis. Had Lou finished the minor emendations he planned for its publication, I believe it would have called attention to the serious nature of his theoretical contributions to institutional economics.

To me Lou's best effort was his paper, "Capital Accumulation, Savings-Centered Theory and Economic Development," which was delivered at the 1966 AFEE meetings in San Francisco and subsequently published in the JEI. In preparation for this presentation I indulged myself in the pleasure of going over that piece once again. I have long considered it the clearest treatment of the confusion which exists in conventional theory over that slippery eel, capital, as well as the best institutional clarification of the subject. It is one of three articles I always assign my students to read on capital, the other two being Edwin Cannan's *Economica* article on "The Heritage of Improvement" and Rosser Melton's article on Schultz's concept of human capital which appeared in the *Southwestern Social Science Quarterly* a couple of decades ago. This article of Junker's alone is a sufficient contribution to institutional theory for anyone to make. Of the three, Junker's stands first.

His distinction between money power and tool power is a very useful one, indeed, and was in the hopeful tradition of institutional economics. In the same vein as the capital article was his 1968 *American Journal of Economics and Sociology* article entitled, "Theoretical

Foundations of Neo-Institutionalism." In this article he makes the point that those who eagerly buried institutionalism, including Paul Samuelson and Paul Homan, the latter having participated in the last rites at least two times and some twenty years apart, might be burying a label, but certainly not a way of thought. In that article he points out that the particular analysis of institutions and technology, which I have always considered to be as general as, and an alternative to, but not compatible with, supply and demand, characterized a way of thought that was spreading beyond the small groups that may have originated it. As Lou put it,

> As ideas become more widely accepted they may lose their specific identification with the group that promulgated them, but this does not necessarily mean the group is being dissolved. It may mean the group is being expanded, while, at the same time, the labels by which it is identified are changing.[1]

At the end of that article he suggested that perhaps a marriage of Keynesian and institutional economics was called for. Certainly that was the direction in which Ayres pointed, more than pointed for that matter. Somehow the rest of the Ayresian message in *The Problem of Economic Order, The Theory of Economic Progress* (Read the back of the book!), *The Divine Right of Capital,* and *The Industrial Economy* got lost in all the discussion of the more general theory.

I have always regretted that Lou Junker did not follow up his suggestion at the end of the article. He just might have been able to save Keynes from emasculation. Keynes coupled with Veblen/Ayres becomes a radical Keynes, the Keynes that I read in the back of the *General Theory.*

In his more recent publications, Lou lost some of the optimism that had characterized his earlier ones. Admittedly, being optimistic in this world takes a rather tough personality. And I think Lou was a bit irritated at my unreconstructed optimism and my confidence that technology, or organized intelligence in action, was the only hope we had. Name me two others! But I believe that Lou looked at the only straw we have and became discouraged.

The magnitude of corporate power and the continuation of nationalism in an atomic age is certainly enough for discouragement. But at my age I think I can insist that things have always been bad. Having been born in World War I, with my father in France; having spent junior high school, high school, and college during the depression of the 1930s; having spent four and a half years in World War II, most of it in the Pacific; having been involuntarily recalled during the Korean War and dumped in SAC under "the great cigar"; and having spent a large part of my early childhood in Pittsburgh and northern New Jersey, two of the most polluted areas at that time in the United States; and having had a large part of one lung removed because of that pollution, I always thought I had more right to be discouraged than those following after me. But I tried to understand Lou's melancholy.

In going over his writings for this short contribution, I tried to locate the source of the discouragement, and I think I may have done so. Lou became enamored of a concept he referred to as encapulation, meaning that technology in some manner became the captive of institions. Technology thus could be used to enhance and agrandize the power of some institutional complex. In Junker's analysis, as I read it, this was a two-headed monster, the corporate/governmental complex. I think he had something here although I find the encapsulation idea not too useful. If we take the conventional view of technology, the view that sees technology as inert objects, as nuts and bolts, then it is perfectly feasible to look upon it as being encapsulated. Swords, just at atom bombs, are technology in one sense. But if we take the broader meaning of technology, that it is a process of socially organized activity, then it should be clear that the use of swords to enhance the power of the user, to use atom bombs actively or inactively to coerce, is not socially organized technological behavior. Nationalism, within which swords and atom bombs are used, is saturated with institutional elements. The greater glorification of the national state, of the Herrenvolk, of my country *uber alles,* no matter how verbally couched, is the essence of institutionalism and status. Certainly tools and skills can be turned to account to the glorification of the state, of god, and motherhood. This is the essence of institutionally organized behavior. After all, kings and emperors are quite adept at wielding scepters in the grossest cases of ceremonial function. And in a traditional and very narrow sense, scepters are technology.

Lou's treatment of technology in the last few years seemed to ignore the importance he gave to technological continuity in those earlier articles and with this I did not agree. But I have already indicated that I thought he had something in this bit of melancholy. Institutionalists are American and apt to be provincial. They view economics from the perspective of what has been over the past six decades the most advanced nation technologically. But today we have problems, problems that resemble those of Great Britain four or more decades ago. We have a problem of power within our society that is at the root of our losing the technological lead.

In a way it does look as though the business institutions of this country have "encapsulated" technology. The business system seems to stifle technological activity. At least that is what I read as having happened in steel, in automobiles, in rail transportation, and probably in oil and other resources. As Veblen pointed out at the conclusion of *The Theory of Business Enterprise*, the future just might belong to our imbecile institutions.

After all there is no certainty in this world despite our abiding quest for it. But as for the whole human enterprise, we may just be experiencing a period in which the technological lead is being lost by one nation and one group of people.

This is a point I intended to make to Lou at these meetings. I am sure that he would have argued strenuously against me, and I am sure that he would have won by exhausting me. But I am sure that we were both right and that our points of disagreement were largely semantic—but both of us would never have agreed to that, and both of us would have known we were each right.

NOTES

[1] Louis Junker, "Theoretical Foundations of Neo-Institutionalism," *American Journal of Economics and Sociology* 27 (April 1968): 199.

REVIEW OF INSTITUTIONAL THOUGHT
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Louis Junker's Institutional Analysis of the Political Economy of Food and Nutrition

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How often do we portray our agricultural system—the agribusiness complex—as the most efficient in the world without duly assessing the meaning of the word "efficiency" in the context of an energy criterion or evaluating its human consequences?

Our orthdodox economic analysts have minimized the synergistic effects of a train of developments in the food supply system: the growing concentration of power in the food industries, the misuse of land, the destruction of the family farming system and the rising power of the agribusiness complex, and the role of corporate-directed media in shaping our lives, our diets, our attitudes, and our perceptions of the world. —*Louis Junker*

Introduction

Approximately one year ago after hearing Louis Junker explain the food and nutrition system, Larry Swanson said, "Louis Junker is a national resource." I could not have agreed more. My purpose today is to review Lou's work so we can continue to develop the resource he has given us.

If you study Lou Junker's explanation of how and why malnutrition and disease is delivered, you start to understand why a simple message such as, "eat whole grain bread and lots of fresh fruit," is so threatening to the primary agencies of our society—the corporations, the foundations, and the medical and land grant universities. His analysis is that of an institutionalist looking at the ceremonial and instrumental — and finding the ceremonial dominate. It dominates through a system of conspiracy, producing a society against itself. Our society has provided a food system which is anti-nutritional and anti-health.

My purpose today is to outline his explanation of the nutritional system. The mode I have chosen to develop the explanation comes from Lou's own methodological statements. He said that we must understand a system in terms of multi-dimensional relations. Levels of complexity require us to postulate levels of causality leading to a central problem.

Mind Management

Let us begin by looking at the mind management system. We are in a nutritional and disease crisis, and, yet, our minds have been managed to the point that we call the system efficient. *Why?* Our minds have been programmed to call junk, *food,* and catastrophe, *efficiency* because of the corporations' influence through our universities and media. Their influence on economics departments, medical schools, agriculture schools, agribusiness, and medibusiness enhances their capacity to convince generation upon generation to exchange their income for empty calories. The medical schools are the hand maidens of the medibusiness establishment. Instead of teaching nutrition, orthomolecular cures, and disease prevention, they turn out technicians whose knowledge is mainly that of matching symptoms to drugs. The agricultural schools see their mission as one of producing the technicians and technologies that enhance agribusiness. Not surprisingly, these schools turn repeatedly to agribusiness for their research funds.

The crucial link between malnutrition, profits, and technology are filtered and explained to us through our universities and informational systems, both of which deliver education and dietary habits to our children. In truth, the informational failure constitutes an additional ingredient in the general crisis. Most of us are unable to comprehend the full dimensions of what is happening in the food economy because the media are unable, *actually institutionally incapable,* of presenting the true character of what is occurring. *Why?* Because the structure of the media is indistinguishable from that of industry. Powerful corporations control a large part of the world food system *and* the media system by which their products are advertised and sold. We cannot divorce the behavior of consumers from the propaganda and media forces which surround them.

Capital and Chemical Intensive Farming

Farming to produce profits has replaced farming to produce food. This has led to a farming system built around the financial enhancement of the corporations and the technology that can be encapsulated by them. The consequences have been the replacement of food production by the production of cash crops such as tobacco and flowers. And the technology used has damaged the soil, concentrated ownership, destroyed communities, wasted water and energy, and filled the food chain with pesticides, herbicides, and antibiotics. The result has been expensive, low-quality food.

Food Processing

The food supply from the farm has been so altered by the time it reaches the consumer that it in turn alters the human body—sometimes causing diseases such as cancer. Between production and consumption is the food processor—one who creates junk out of food and "Cool Whip" from polyesters. Driven by an inherent tendency for profits, modern private enterprise has seized upon massive technological innovations that are often instruments of nutritional destruction. Because cost-plus pricing is legal, the more costs created, the greater the percentage add-on. Studies have shown that the greater the processing, the greater the profit. The result is the removal of nutrients and the injection of chemicals as perservatives, taste enhancers, and enrichment agents. The nutritional value is destroyed. The nutrients are packaged and dispensed at health food stores and put in pet food, and additional nutrients must be imported from Third World countries.

In a nation deprived of complex carbohydrates, the potato is peeled, sliced, heated until the vitamins and juices are gone, oiled, injected with freon, frozen, shipped, salted, cooked in additional oil, and served in school lunchrooms and McDonalds all across the nation. It is expensive, and it is not a potato. The corn at Kelloggs is degermed to get rid of the source of life; it is then cooked, and boiled, the skin removed, squashed between rollers, given a squirt of artificial enrichment, and glazed with sugar. They call it breakfast food.

Deficient Diet

The United States diet, after processing, is not only deficient in life giving nutrition, it has been laced with harmful ingredients. Many of the chemical additives have been found to be carcinogenic and to cause allergies and mental problems. But these additives that are the most responsible for the disease of civilization are sugar and salt. Sugar is a leading cause of breast cancer and arthritic conditions, and salt is the main culprit behind the explosion of hypertension.

The high protein diet, especially the high intake of red meat, leaves excessive nitrogen residues which damage the kidneys, change the blood ph toward acidity thereby leading to the withdrawal of minerals from the skeletal structure, and lead to cardiovascular problems. The correct way to acquire protein, and not in excess, is through complex carbohydrates. Simple and refined carbohydrates such as sugar and refined flour should be avoided, but that is impossible since they are processed into the food.

Fats and oils are also added to processed food and made a regular part of the diet. Current research emphasizes the relation between fats, blood aggregation, reduced oxygenation capacities, and plaque formation. There is a close relationship between the fat-cholestrol and protein-diet explanation of cardiovascular diseases. Those who feed on high protein diets tend to have high fat diets because they eat confinement-produced meat which is excessively fatty. These feedlot animals are also loaded with antibiotics and hormones which further insult the body.

There might be some hope of the body cleansing some of the poisons if the natural cleaner—dietary fiber—had not also been removed. The low fiber diet leaves more poisons and toxins in the colon which are absorbed back into the system, which, in turn, throw a heavier load on the already overworked liver. The low fiber diet leads to breast cancer, liver damage, colitis, diverticulitus, constipation, and varicose veins. It is no wonder that Lou found the voluminous fiber-filled, East African feces so exquisite.

To this diet the habit of smoking is added, and it adds carbon monoxide to the blood that kills the oxygen carrying red blood cells so that the blood does not have a chance to overcome the high fat content of the diet.

So what most of us have come to think of as human diseases are not inevitable. They do not exist in tribes where poeple eat correctly.

Medical Treatment

Once the diseases of civilization are upon us, we are in severe trouble because the medical treatment centers cannot be expected to diagnose the cause of the problem or provide treatment that is not also damaging.

Medibusiness cannot accept the simple rules of good health-prevention and correction of disease through nourishment. The medical profession, with notable exceptions, is nutritionally illiterate. Its training and practice do not prepare doctors to give nutritional advice. They are health crisis managers. They see as many patients per hour as possible and depend on detail men from the pharmaceutical industry to inform them on the latest hot drug. The AMA opposed the watered-down Dietary Guidelines of the Senate Select Committee on

Nutrition and Human Needs even though the literature in medical journals substantiated the suggestions of the committee.

While the established medical profession depends almost exclusively on drug treatment, stainless steel replacements, excessive surgery, antibiotics, and cancer inducing diagnoses such as nuclear scans, the orthomolecular physicians place themselves in direct opposition to all forces which create destructive insults to the body. These physicians are also usually kept out of our hospitals and medical centers. The established ceremonial methods of medicine often not only do damage but make it impossible for the body to absorb the nutrients from which life and healing comes. For example, antihistamines make B-vitamin utilization impossible.

Seed Germ Destruction

The final step in the control of the global food system is to gain control of the world's seed germ by replacing all indigeneous seeds with hybrids. This is probably the biggest issue in world hunger.

Seed companies have been bought up at a rapid pace by oil, pharmaceutical, and high technology companies. For example, ITT owns Burpee, Sandoz owns Northrup-King, and Royal Dutch Shell owns a whole host of seed companies. In addition to corporate acquistion, courts and governments are acting to give exclusive control of seed germ to the corporations. The right to patent life forms turns seed germ into private property in order to create a marketable commodity with exchange value.

The spread of nonreproducing hybrid seeds has been accomplished through the research stations all over the world established by the Rockefeller group, the Ford Foundation, and the Kellogg Foundation. The hundreds of varieties of rice in the Philippines are being destroyed and three main hybrids are being pushed by the companies and foundations. Ninety percent of all banana seed germ is now controlled by one corporation.

This is Phase II of the "green revolution." Seed is now engineered to match the global corporation's pesticides, fertilizers, and technology in order to guarantee a world market for their chemicals and equipment and to provide technology consistent with concentrated land holdings. It also guarantees a very frightening world as genetic diversity is destroyed and vulnerability to plant disease and to a change in climatic conditions is increased.

Conclusion

With the capture and control of the seed germ, the circle is completed for global corporations. They have captured the food system from mind management to the very source of life itself—the seed germ supply.

Louis Junker's Role in the Formation of the Association For Institutional Thought

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This brief note outlines Louis Junker's role in the formation of AFIT. It is brief, not because I do not have the details of Lou's role in AFIT etched in my memory—I do, and I will share some of them in a moment. But how can one fully describe the impact of Lou's commitment and contribution to institutional thought—his life's work—on all those who formed and joined AFIT? The intensity of that commitment and impact is beyond description. But I suppose I do not have to say that. My point is that what I have to say about Lou's role in AFIT must be understood in the context of that commitment.

I first encountered Louis Junker when I read his article, "Capital Accumulation: Savings Centered Theory and Economic Development," in the *Journal of Economic Issues*. It was great. I still think that article is one of the best statements of the institutionalist position on the theory of capital and production. I require it of all my students in institutional economics, and it is required reading for anyone who professes to be an institutionalist. I read that article in 1969 but did not meet Lou until several years later. In the meantime, I had taken to regarding him as one of the major thinkers and forces in institutional thought.

I first spoke with Louie Junker by telephone in September, 1975, if memory serves me correctly. In April of that year a few of us met to discuss the possibility of forming a regional branch of AFEE. One thing we talked about was getting more institutionalists involved in the Western Social Science Association (WSSA) meetings. So I called Lou, introduced myself, and asked if he were interested. He was, of course. I still remember how I felt talking to Lou about setting up sessions at the meetings; it was heady stuff for me. The next spring the WSSA meeting was in Tempe, Arizona, and Lou and Fran drove there from Kalamazoo, a distance of about 2,000 miles.

Lou was involved in a number of sessions, and I do not recall now if he presented a paper, but he gave excellent comments on papers at two sessions. One of those sessions is my most vivid memory of the WSSA meetings in 1976. It was lively to say the least. My second most vivid memory of the meeting was Lou taking a photograph of a group of us who went to lunch one day. I wonder whatever became of that photo? The meetings at Tempe were the first in the movement toward the formation of AFIT. The movement picked up momentum because Lou was there, and his presence excited people and brought new ones to the meetings in the following years.

The next three years, 1977, 1978, and 1979 were the ones in which the movement toward forming AFIT made its most headway, and Lou was a significant part of that. He came to all the meetings, presented papers, discussed them, helped organize sessions, and brought other institutionalists to the meetings. He was on the steering committee that was responsible for organizing AFIT. In 1979 at the Lake Tahoe meetings when AFIT was formally organized, Lou was the program chairman for the economics session. He put together that program, and many will remember it as one of the best ever at the WSAA. There were 23 sessions, and most were well-attended, and all were well-organized. I especially remember John Livingston's excellent presentation at our dinner meeting. His remarks were later published in the first volume of the *Review of Institutional Thought.*

Each year I looked forward to seeing Lou, hearing his papers; listening to him present arguments. He always focused on the important points. In 1977, we had a session reviewing a book about Veblen. Lou approached the meeting with some trepidation. He was concerned about how far he should go in his criticism of the book. He thought the book was an abomination, and in the end he said. That took courage.

At the AFIT organizational meeting, during the WSAA meeting at Lake Tahoe, it was Lou who urged us to adopt the language in the constitution which reads "in extension and modification of the work of Veblen, Dewey, Ayres, and others." He was not content to allow institutional thought to rest on the work of its founders; he pushed to have it develop into a continually more effective analysis of society.

Louis Junker was elected a member of the first directing board of AFIT; the next year he was elected vice president, and as most know, he died in the year he was president. I was looking forward to his presidential address. I know it would have been memorable.

Louie J. Junker's role in AFIT was, then, much more than organizing sessions, serving on the steering committee, and all of the other nuts and bolts of putting together an organization. Whenever Lou was present, it always seemed that the intellectual climate was more forceful and important—just because he was there. Lou dedicated himself to institutional economics, and he worked long and hard to keep it flourishing. We will miss him.

Louis Junker's Contribution As A Teacher

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Louis Junker's intellectual contribution was cut short just as he was hitting his stride. With regard to his published contributions this is true, and it is a tremendous loss. Yet, in another respect, we are more fortunate; as a teacher, Lou had hit his stride much earlier.

Lou's contribution as a teacher was acknowledged when he was awarded Western Michigan University's Distinguished Teaching Award. He was the only member of the economics department ever to be so honored. This was highly significant since the selection process for the award favors instructors who lecture to large classes and give high grades rather easily. Lou did neither. Nevertheless, at least three quarters of the economics students to go on to pursue doctorates while I was at Western were Lou's students. Many other students he inspired went on to do graduate work in other fields such as the food and health sciences, psychology, anthropology, social work, philosophy, and political science.

Lou viewed the university as a place where the pursuit of warranted knowledge and its application to the life processs would flourish. He thought of the faculty much in the sense of Jacob Bronowski's "community of scholars." He discussed the responsibility of the university faculty in an essay he entitled "On Consensus." In a key passage of that essay Lou stated that

> men of good will must pay attention and take care to sustain the process by which the "truths" within their own knowledge patterns are constantly honed and sharpened against the "truths" within the knowledge patterns of alternative systems. It not only means that, it also means that if we are truly men of good will we must construct the organization

> of the University (and all our institutions) to give organizational recognition to the testing process by which warranted knowledge is continuously achieved. In plain language that means live and let live. It means something even stricter than that. It means that I cannot possibly live and thrive intellectually unless I not only let you live and thrive but see to it that you do.[1]

Lou realized that this process would lead to disagreement, but he concluded that disagreement is a necessary part of the process of inquiry.

> If a profession is to remain alive to the world it must continuously refresh itself. The only way that it can do that is to let alternatives mix it up, not only to let alternatives confront each other, but to see to it that this comes to pass and continues to do so. This is the best way to challenge contrary ideas and it may turn out that it is the only realistic way to do so.[2]

Unfortunately, it was not a community of scholars engaged in tolerant inquiry that Lou encountered among his colleagues. He fully anticipated the intransigence of the neoclassical economist when confronted by a challenge to orthodoxy. Coping with such intransigency is a common problem for heterodox economists. But he found it difficult because of his having once encountered a true community of scholars at the University of Denver. He often referred to the intellectual excitement he experienced there and his gratitude and affection for those involved, particularly his teacher, J. Fagg Foster.

Rather than being disappointed with the fact that this community of scholars did not exist among his colleagues, Lou created it in his classroom. I can only speak for myself, but I think it is safe to say we were third-rate scholars at best. But no question, comment, or issue was too small to receive serious discussion in Lou's classroom. His reading assignments were ridiculously long, his exams incredibly difficult. He never kept a fifty minute class under an hour and fifteen minutes, with the rest of the day for questions, if necessary. Few students ever left early; and there were no complaints about the assignments. All this at a time when Robert Lekachman wrote he could not understand why an intelligent and otherwise right-minded student would want to study economics.

The economics taught in Lou's classrom was not the dismal science of Malthus and Ricardo; it was not the meaningless scholasticism of neoclassical orthodoxy; it was a living science. It was important and exciting. He made economics touch each student's life (or at least their stomachs) through his choice of examples. And he related economics to the major issues of the day. He portrayed economics as a social science in flux, or to put it in Thomas Kuhn's terms, a discipline where the paradigm was under attack and was in a stage of revolutionary science. He did warn us of the stubbornness of the old paradigm, but his enthusiasm was contagious. A good number of his students decided to pursue careers in economics, using the methodology of Institutional Economics.

When Lou presented a paper at professional meetings he always attempted to present a new idea, and he gave the strongest case for that idea. The role of his peers was to attack the weaknesses of his argument, and his role was to defend the idea the best he could. This is a vital part of the process of inquiry. The continuation of this process is the reevaluation of those ideas. Unfortunately, reevaluation was the part of the process not often apparent to his peers. But the reevaluation process was something he stressed to his students. When the evidence contradicted his position, he changed his position to one that was consistent with the best knowledge available at that time. In sum, he was adamant in his opposition to dogmatic thinking.

During the WSAA meetingss in Albuquerque in 1980, David Hamilton showed Lou a phrase attributed to Max Otto. At the time Lou thought it extremely interesting. When I last saw him in June 1981, this phrase was on a placard in two inch letters on his office door. It served the dual purpose of being an expression of defiance to his critics and encouragement to his friends and students. It read: "Illigatima Non Carborundum" (loosely translated: "Don't let the bastards grind you down.").

There was also a side to Lou's teaching that is very difficult to describe. There was a gentleness and a playfulness that kept the process of learning going and kept students from taking themselves too seriously. For example, Lou did a fantastic impression of an oscillating, "homogeneous globule of desire of happiness," and he could imitate a chimpaneze dipping a twig into an ant hill perfectly. On one occasion he gave a pop quiz consisting of a nonsensical question to an economics principles class on April Fool's Day. By the same token, if discussion had gotten too heated in a seminar in the previous session, he might begin the next session by reading some poetry by James Kavanaugh. In total there was a balance of seriousness and humor that made his classroom a pleasant and comfortable place for his students.

There was also another important element to Lou's contribution as a teacher that deserves mention. Lou did not confine his teaching to the classrooms of Western Michigan University. Consistent with the instrumental philosophy he taught, he also applied his efforts to solving the problems of his community. His most important contributions as a teacher may have been in making the people of Kalamazoo, Michigan, aware of the problems of the American food distribution system. He joined with the efforts of others in educating and organizing the community to develop alternatives to that food system. He was never more deeply engaged than he was when spreading warranted knowledge to the people of his community.

While Lou's career as a teacher ended with his death, his contribution as a teacher did not. His community activities have made lasting changes. He affected the lives of many of his students in their varied pursuits. His intellectual contribution in institutional thought and teaching will continue through his students. To paraphrase an expression used by former apprentices of a mastercraftsman on his passing, "when we practice our craft as he taught us," and I would add, with honesty, tolerance and open-mindedness, "his work goes on."

NOTES

[1] Louis J. Junker, *Economic Forum* 13 (Winter 1982-83): 115-20.

[2] Ibid.

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Some Concluding Observations on Louis Junker's Life and Thought

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Louis Junker's mentor, J. Fagg Foster, was accustomed to saying that the determination of an idea as being true requires "the placement of the items in the continuum of which it is a part." There is no warrantable truth that is unattached, disconnected, or isolated unto itself; there is no warrantable truth that is absolute, final, and fixedly given. He was affirming what is a commonplace for this group—that instrumental inquiry is a quest for conjugate correspondence between theory and fact. He was affirming the existential continuum of causal relations which denies the relevance of first causes and final outcomes.

Lou's professional career, in his quest of truth seeking, similarly was placed prominently, imaginatively, and courageously in the continuum of which it is a part, that is, among those engaged in the common effort to extend the frontier of the instrumentalist-institutionalist paradigm. His career was not unattached or disconnected; he presumed no fixed or final setting; he was intimately linked with, and immersed in, the common effort.

In describing himself as a "radical institutionalist," Lou sought to affirm and fulfill his own sense of purpose which was creatively to work at the leading edge of heterodox theory building and meticulously to employ that theory in areas of extraordinarily significant problems: nutritional sabotage in the food industry, real and continuing threats to intellectual freedom, coercive behavior of private power centers, and the militant deference shown to orthodox analysis and policy derivatives by segments of the academic and political communities.

Most are aware of the remarkable degree to which Lou actually fulfilled that purpose. As in any inquiry continuum worthy of the characterization, Lou drew substantially, carefully, imaginatively, and at times, ecstatically on the work of his peers in diverse areas. Often his concern to deepen his understanding and expand his insights led him to seek out and become personally acquainted with authors and teachers whose work he respected: He was, of course, one of Fagg Foster's finest intellectual progeny; he was a rigorous student of Clarence Ayres' work and was later his friend and editor as well; he was profoundly affected by his philosophic and personal contacts with Jacob Bronowski; he explored the provocative insights of Nicholas Georgescu-Roegen with their author; he pursued the frontier literature of the connections between nutrition and health with leading scholars and practitioners. Lou reveled in his participatory involvement in the creation and explanation of the interrelatedness and interdependencies existing across the spectrum of knowledge-gaining and knowledge-using processes.

As Lou drew on others, so also, of course, did he contribute major scholarly contributions on which others have drawn and will continue to draw. His clarification of the infirmities of the saving theory of capital formation, following Keynes and Foster in part, remains as one of the very few pieces capable of eroding the current nonsense about the virtues of tax breaks for the rich to generate savings that generate investment and promote recovery. His careful reworking of the ceremonial-technological dichotomy refurbishes what is perhaps the fundamental construct of institutional thought. His work (converging with that of Paul Dale Bush) on the concept and phenomenon of "ceremonial encapsulation," which depicts the nature and significance of self-serving control over technology by large private and public power systems, is exceedingly useful in diagnosing the current use and abuse of achieved economic and political power. His extensive and exhaustive research concurrently into the physiological implications of ingesting various foods, drugs, and other substances on the one hand, and the institutional structure which constitutes the food and drug industries on the other hand, may well be unmatched by any other scholar in this country.

In sum, although it probably was not Lou's explicit purpose, it remains his lasting contribution to have become a model inquirer to those who have been and will continue to be a part of his inquiry continuum, of his shared realm of interdependent and interconnected determinants of belief and conduct. His career demonstrates the excitement of inquiry, the pervasive commitment to truth seeking, the marshalling of deep emotional commitments in the service of instrumental ends, the practicality and the inevitability of conjointly pursuing both positive and normative facets of inquiry. He provides a model of an exceedingly competent and effective scholar-teacher whose reasoning was incisive and cogent, whose sense of pertinence was astute, whose underlying compassion and humanity were continuously apparent, and whose creativity and imagination in scholarly areas were virtually boundless.

On the *Vita* he sent me shortly before his death, he had listed, in addition to the books, articles, reviews, and miscellaneous papers already completed, a large number of projects then underway. Some were manuscripts almost finished; some were preliminary drafts for articles, or outlines for books; some were projects still in the embryonic and speculative idea stage. But the aggregate was a research agenda for perhaps half a dozen professional careers. Our shared tragedy is that these projects cannot be continued by Lou.

Yet the one career he lived, though sadly terminated in mid-course, leaves a remarkably full, rich, and exciting legacy on which his peers and students will build. Knowledge, we are reminded, grows only incrementally. Some contributions or increments, like Lou's, are larger and more significant than others. His placement in the continuum of inquiry did and does matter.

Finally, let us consider Lou's emulative role by reminding ourselves of two of his most distinctive personal traits: his humanistic integrity and his personal courage.

As most are aware, he held a deep and genuine affection for his family, his friends, his colleagues, and, indeed, for people generally. He demonstrated repeatedly that it is possible to be both tough minded and humanely sensitive. To be sure, he was sometimes vigorously impatient with ideas (and their holders) which were, in his view, being used invidiously to obscure reality, sustain power, misdirect inquiry, injure people, or generate inept or fraudulent policy. But the vigor of such dissent was not against the integrity or personality of the individuals, but rather the character, credibility, and adequacy of the ideas expressed and of the consequences which the employment of such ideas invoked. Lou was his own man; he knew well his own mind; he revered intellectual challenge. His primary concern was the clarification of ideas.

Let us also remain mindful of the personal courage of Lou. He taught long and well and did exemplary research in an immediate academic environment that was rarely supportive and sometimes threatening. He vigorously challenged the adequacy of reasoning and the policy proposals offered by peers whose status and position were substantial. He addressed his own health problems as an area of inquiry to be carefully explored and as a pattern of habits critically to be examined.

In reflecting on Lou's life and career as a model, we can all strive to reach higher, probe deeper, hang tougher, and work harder for that necessary shift in perspective and paradigm in political economy which the exigencies of the day require and which the work of Lou helps significantly to make possible. His career attests to both the ethical and analytical credibility and feasibility of that shift. We all are, and will remain—sadly, happily, and gratefully—in his debt.

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ABSTRACT

Worker Discontent, Wages, and Stagflation

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This paper examines the limitation of the economy to achieve price stability even when unemployment is rising ("stagflation") in the light of a thesis on worker discontent proposed by Irving Kristol, a leading neoconservative. Kristol has argued that there is a growing gap between the worker's take-home pay and the total wage package, a gap consisting primarily of social security taxes and other union-negotiated fringe benefits. This "gap" is a source of anger and frustration on the part of the worker because of its growing size and because the individual worker has lost control over the allocation of a significant part of his income to the bureaucrats of the federal government and the trade unions. This leads workers to bargain for ever-larger settlements in take-home pay to offset the growing gap between take-home pay and the total wage package. Kristol argues that because the latter determines labor costs, the result is inflation, the blame for which rests with the bureaucrats of the federal government and the trade unions.

This paper first examines the statistical evidence to see if there is empirical support for Kristol's "gap" argument. Second, it looks at the implications of these findings, but from a perspective different from Kristol's.

There is solid statistical evidence to support the "gap" analysis. Between 1948 and 1981 *real* compensation per hour grew by 130.4 percent, *real* hourly earnings by 62.3 percent (hourly earnings exclude

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employer contributions to fringe benefits, while compensation per hour includes them), and *real* spendable weekly earnings by only 22 percent. The latter reflects after tax income. For most workers the payroll tax is the relevant tax. In 1948 supplements to wages and salaries totaled but 4.2 percent of total compensation; by 1980 this percentage had risen to 15.8. Other data point to the same conclusion, namely that there has, in fact, been a growing gap between total and take-home pay.

To put these findings in a broader perspective, the paper examines the trend relationship between output per hour (worker productivity) and compensation per hour during the post-war era. Clearly, from these data, with the exception of the 1961-65 period, worker compensation (including fringe benefits) has risen at a much faster rate than productivity, thus leading to a steady rise in unit labor costs and rising prices. This finding agrees with Keynes's view (found in the much-neglected Chapter 21 of *The General Theory*) that the long-run stability of prices depends upon the strength of the upward trend of the "wage unit" (worker compensation) compared to the rate of increase in the "efficiency of the productive system" (worker productivity). This finding does not necessarily mean that workers "cause" inflation, for money wages can and do lag behind price changes. But wage increases in excess of productivity gains are at the root of the economy's basic, or "built-in", inflation rate.

Do these findings support Kristol's argument that worker anger over the "gap" causes a continued escalation in demands for higher take-home pay? Does the real blame for inflation rest on liberal governments and trade union leaders because they are responsible for the "gap"? Perhaps. But a less superficial view is that the observed and persistent tendency for compensation to outrun productivity lies in our failure as a society to reach a genuine consensus on how income ought to be distributed. As Keynes noted early in *The General Theory,* the struggle over money wages is really a struggle over income distribution. Until we resolve the basic issue of fairness in income distribution, the struggle over the distribution of income will exacerbate inflationary pressures. Conservatives prefer to squeeze inflation out of the system by recessions painful enough to keep wage increases below productivity gains. A more acceptable approach is to develop an incomes policy which rests upon a belief that income is being fairly distributed.

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ABSTRACT

The Contemporary Relevance of the John R. Commons Reform Method

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The Commons reform method has something for embattled reformers — it works. It is the method of gradualism, of amelioration rather than revolution, making it ideal for a conservative nation like the United States. Commons always began his inquiry into a problem with a study of the organizations involved. These organizations were going concerns continually engaged in transactions. To keep the transactions from breaking down in conflict, some kind of sovereignty was required to create and maintain order by settling disputes and enforcing agreements. Working rules evolved out of conflict resolution and sovereignty. An imaginative and egalitarian exercise of sovereignty could reform as well as maintain working rules.

Commons employed what he called the common law method, based on the best existing practices of going concerns. The best practice is the one which either maximizes a desired quality or minimizes an undesired quality. Reform, to Commons, meant choosing the best existing practices and turning them into the new working rules. His reform method was similar to the evolution of common law. Common law evolved through the selection of the best precedent; Commons proposed that working rules be reformed by selecting the best ones in use. The result was an evolutionary survival of the fittest, the fittest

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legal precedents, the fittest working rules. Furthermore, the result was a revolving codification that came *up* from the practices of the common man rather than *down* from the dictates of authority. Change, then, would be gradual but cumulative. Over decades a truly radical reformulation could take place through a series of gradual changes.

When the working rules are made and enforced in ways which enlarge the opportunities and rewards of the poor and dispossessed, the result is reform as John R. Commons defined it. There is always a crack in the status quo. No matter how tiny, it provides leverage. The vested interests of any society are protected by law, custom, and usage, in short, by working rules of some kind. But this protection, as Commons saw it, is in constant flux, for it is like a pyramid built on a shifting foundation. The foundation of the pyramid is composed of the changing practices of going concerns. Moving up from the foundation of the pyramid, these numerous and variable private practices, if adopted by other going concerns, become somewhat stabilized into common usages. These usages, still somewhat variable due to their origin in shifting private practices, if enforced by some kind of formal or informal body, become more compulsory and evolve into customs. Yet customs are still variable. At the top of the pyramid, customs become enforced by the courts as laws.

With all this variation at the bottom of the pyramid, new practices which aid the underdog are constantly in danger of spreading. This vitality and variability of common practices provides the crack in the status quo, and that crack, in turn, provides the leverage method to make the John R. Commons reform method work, for it works from the bottom up. From the improving practices of the common man into new working rules and finally into new laws, reform moves its way into the establishment. That is, it does so if given a push by the common man and if the push is reinforced by an enlightened system of sovereignty.

REVIEW OF INSTITUTIONAL THOUGHT
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ABSTRACT

Through A Glass Darkly: Value, Corporate Power, and Political Elites in Contemporary America

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Theories of social value (criteria of choice), perspectives of corporate power, and interpretations of political elites are closely linked in contemporary American political economy. Not surprisingly, much of the literature of the sociology of knowledge suggests such linkages, and all the exhortation of positivist epistemology and its methodological derivatives are unlikely to weaken them. Textual exegesis of leading theoretical work will also buttress this claim. However, the nature of the linkage between social value theory, corporate power, and political elites is not self-evident as the political spectrum is traversed from left to right. Thus, further inquiry must be made into how adherence to particular social value theories affects the interpretations of corporate power and, in turn, relates to analysis of political elites. Specifically, I shall ask: (1) which social value theory the theorist adheres to; (2) how this theory affects the theorist's perception of corporate power; and (3) how it affects the theorist's view of political elites. My central thesis is that the acceptance of a particular social value theory such as utilitarian, Marxist, or instrumentalist fosters a mind set or ideological syndrome that results in a particular view of corporate power and political elites. To support this claim I will analyze the reaction of critics—radical, liberal, conservative, and libertarian—to Charles Lindblom's recent *Politics and Markets.*

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The more that the critic is the ideological captive of utilitarian theory, the more likely he or she will be to deny the dominance of corporate economic and political power. On the other hand, the more the critic subscribes to the Marxian labor theory of value or the neo-institutionalist instrumentalist theory of value, the more likely he or she will be to emphasize the political and economic potency of the corporation and business-oriented political elites. Although it would be difficult to delineate the exact perceptual and psychological processes by which this occurs, textual exegesis has shown that a linkage of the suggested sort does, indeed, exist. Are we back where we were fifteen years ago when dissident elements in the social sciences revolted because they recognized the impossibility and futility of value-free social science? Certainly social scientists who believe in the reality of a value-free, "objective" social science can take little comfort from this analysis. Massive political cleavages exist within the social sciences and the amount of value assimilation, political compromise, or methodological convergence needed to change this state of affairs is not going to materialize. There is no more chance of agreeing on the merits, empirical validity, and value judgments of Lindblom's *Politics and Markets* than there is of reaching agreement on Ronald Reagan's foreign and domestic policy.

Obviously, the methodologies and epistemological assumptions employed by political economists are permeated with value judgments. Consequently, the conceptual apparatus employed by the scholar is structured by his or her cultural environment and is thus a cultural artifact. Also, the ideological and moral presuppositions of a society and the mores of social studies are not merely casual or sporadic, but pervasive, powerful, and penetrating for a scholar's work.

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ABSTRACT

Integration of Economy and Society: A Review Essay

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This paper examines alternative taxonomies of institutional patterns of economic activity. How do societies produce and allocate resources and products? How are economic activities and the other elements of the social fabric interwoven?

The familiar tradition-command-market taxonomy is reviewed and found inadequate. Then the Veblenian line of thought is traced from Thorstein Veblen through Clarence Ayres and J. Fagg Foster to contempories Marc Tool and John Kenneth Galbraith, who view the private planning system as the principal decision-making unit in post-WWII America. Galbraith and Tool agree that the large corporate sector controls the bulk of resource allocation for narrow and often socially wasteful or destructive purposes with unjust consequences. Both argue for an extension of political democracy into the large corporation, calling for economic democracy and some degree of socialization of decision-making. While "How to Produce" is determined by technology, "What to Produce" and "For Whom" are largely determined by a small group at the top of the planning system. Political and economic democracy are needed to reduce this power and open the resource allocation process to public scrutiny.

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Karl Polanyi argues that three *forms of integration*—reciprocity, redistribution, and exchange—have answered the economic questions. Reciprocity requires symmetrically placed groups, redistribution requires centricity, and exchange requires price-making markets. While there exists a one to one correspondence between the integration form and the general institutional type, many specific sets of institutions are possible within a general institutional type. Each specific set of institutions will reward certain attitudes and behaviors and punish others. A particular set of institutions is successful if it integrates ecological, technological, and societal economic elements without disrupting community continuity. Review of specific historical institutional sets within each institutional type/integration form leads to the conclusion that free market capitalism was a short-lived institutional set which represented an initial adjustment to the industrial age.

Polanyi agrees with the Veblenian school that technology is the agent of major economic advance in the long run, and with Foster that minimal dislocation is desirable. To Polanyi, however, successful adjustment must integrate societal and ecological, *as well as* technological values. Moreover, institutions as well as cause and effect material facts determine the character of human experience, and since different institutional arrangements can be created to adjust successfully to changes in science and technology, truth or true values are not solely the product of the scientific process as the Veblenians claim.

Kenneth Boulding argues that all societies organize economic activity with three forces—integration, coercion, and exchange—which are driven respectively by love, fear, and gain. Boulding's taxonomy shares with Polanyi's the absence of a particular set of institutions for each type. Unlike Polanyi's, Boulding's division is based not on general forms, but on the primary motivations for economic behavior.

Boulding's taxonomy complements Polanyi's because it suggests that, of the gamut of human emotions and motives, essentially three drive humans to solve their economic problems. The three motives of love, fear, and gain are always present in some (im)balance, regardless of the particular institutional structure. Thus, different supporting structures emphasizing different motives are possible for each form of economic integration. The mixes of both the motives and the general forms of economic integration are subject to human influence over time through the choices among various institutional structures which will adjust society toward that part of the possible which is also good. In other words, desirable institutional adjustments toward achieving the good parts of the possible should be based on the dual criteria of minimal dislocation and maximal adjustment toward ecological and societal as well as technological goals.

REVIEW OF INSTITUTIONAL THOUGHT
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ABSTRACT

Veblen and Galbraith on the Economic Significance of "Woman's Place" in Society: What New Contributions Could Institutional Thought Provide?

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While neoclassical labor market theory has been unsuccessful in its attempt to analyze the social and economic behavior of women and of the family, institutionalist thought contains the roots of a much fuller analysis of the traditional woman's role in society. This is quite clear in the writings of Thorstein Veblen, who analyzed the social and economic position of women as an integral part of the economic system rather than as a separate topic to which traditional economic theory might be applied.

Veblen saw that the unique role of women in society provided a window through which economists might gain deeper insights into the value systems dominant in society—the attitudes toward work, property, and status which many neoclassical economists accept as given and which institutional economists seek to explore. *The Theory of the Leisure Class* and *The Instinct of Workmanship* contain most of the important theories which Veblen proposed about the role of women in society. Earlier articles entitled "The Beginnings of Ownership," "The

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Barbarian Status of Women," and "The Economic Theory of Women's Dress" further develop his theories. Veblen addressed four areas in which women play a key role in his analysis of the economy: 1) the prehistoric origins of property ownership in the capture of women; 2) the division of labor into "exploit" vs. "industry" based on male-female distinctions; 3) the substitution of vicarious consumption for production as women's chief economic role; and 4) the resurgence of the instinct of workmanship in the upper middle class feminist rebellion.

While Galbraith has provided some very interesting extensions to Veblen's analytical treatment of "woman's place," particularly in modern consumer theory, it has been ignored in most modern institutionalist thought. This is unfortunate, because the holistic approach of institutionalism is well-suited to the analysis of the complex causality of women's labor force decisions and the strong vested interest which traditional elements of society have in preserving "woman's place."

Where mainstream microeconomic choice models focus on maximization within a set of constraints, institutionalism at its best addresses the interaction between choices and constraints. This is particularly necessary when looking at the occupational choices, between market and non-market labor, and among the various career tracks in the labor market. It would be useful for institutional economists to extend the Veblenian tradition and provide an alternative to the rather limited neoclassical analysis of women's roles.

ABSTRACT

Why Economics Is Not An Historical Science

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Since the seventeenth century, the attempt to make a distinction between the "positive" statements of the "Science of Political Economy" and the "normative" doctrines advocating various programs for social reform and welfare has occupied a prominent place in the literature of political economy. In essence, the goal of positive economic science, as it has developed over time, is to derive the implications of a set of propositions about the nature of an economy which are independent of the values or ideological predispositions of the theorist. As Lawrence Nabers has put it, the desire is for an analytical approach that is "objective in the sense that anyone starting with the same data and using the same rules of logic must arrive at the same conclusions." On the other hand, positivists argue that value judgments (or the "mutable opinions of men") are considered to lie outside the realm of scientific economics. When it has been suggested that economic analysis is infused with ideology and value judgements, the response by orthodox economists is best exemplified in this statement of Joseph Schumpeter:

> The rules of procedure that we apply in our analytic work are . . . exempt from ideological influence . . . and . . . they tend to crush out ideologically conditioned error from the visions from which we start.

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This paper outlines the development of positive methodology in economic analysis and argues that the postulation of the positive-normative dichotomy is the principal reason orthodox economic theory is essentially ahistorical. First, positivist economists present science rather simplistically as a realm of inquiry that is inherently free of value judgments and is, hence, suprahistorical. In other words, science inherently contains definite rules of procedure that "crush out" values and ideological predispositions. Therefore, the "box of tools" that economists develop on the basis of these rules of procedure is believed to have universal applicability. This has been the principal goal sought by economists since economics became a distinct discipline, and especially since the "Marginalist Revolution." Second, positivists reduce social values and value judgments to nothing more than unverifiable, emotive statements of opinions about the world that have no place in scientific economic analysis. So far as institutionalists (and to some extent, Marxists) are concerned, this must be considered an inadequate conception of the nature of social values and value judgments. Through concrete, practical experience value judgments which guide the process of scientific inquiry are continually re-examined and modified. Science is a matter of human practice and human values. Therefore, the view that scientific inquiry need not include reference to concrete historical circumstances or value judgments involves nothing less than truncating the process of inquiry at its starting point.

Finally, it is argued that the positivist analytical bias has involved a continual constriction of the scope of economic analysis and has thus excluded many significant problems from economic analysis that would require an historical approach.

REVIEW OF INSTITUTIONAL THOUGHT
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ABSTRACT

Concepts for Comprehending Economic Growth and Development Sources: Synergy, the Combination of Tools Principle, and the Instrumental Theory of Value

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For more than 200 years economists have witnessed economic development, formulated a host of ideas about it, advocated policies in pursuit of it, and pondered its essential sources. Nevertheless, a "causal" theory of the sources of economic growth and development has not yet emerged.

In a sense there is broad agreement about the *domain* in which the sources lie, but to the extent that notions about sources are offered, there is little agreement about what they are. Progress in economic science depends in part, however, on confronting, identifying, and understanding these sources.

One aspect of the "Western" world view is the notion of linear causation, according to which "events" derive from a set of conditions that are "necessary and sufficient" to cause them. But much more is involved. An obstacle to our comprehension of the "more" arises from the limitations and inaccuracies in our notions of time. These difficulties are not addressed here, but it is tentatively submitted that under contemporary circumstances the sources of economic growth and development include both past conditions that have "propelled" us to the present *and* potential future-to-present "impelling" ones.

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The discussion is developed as follows: first, the combination of tools principle (COT) and notions about the nature of synergy are reviewed; then synergy ideas are expanded and developed in the context of ecological selection dynamics; finally, principles indentified by the instrumental theory of value are introduced and their interaction with COT and synergy processes are examined.

The basic COT principle states that all existing tools (physical, mental, and institutional) are novel combinations of previously "invented" ones. An important corollary is that at any "point in time" the set of potential new tools is a function of the number of current tools. Another is that the set is also a function of the *nature* of the existing individual tools. In a direct, simple sense, tools can be thought of as any artifice employed in the pursuit of human objectives.

A basic source of economic development possibilities, then, involves the existence of COT principles. But COT dynamics are "permissive." Whether or not new tools are invented and introduced to generate economic development is a different matter, and which particular tools are introduced is another. One determinant of whether new tool combination potentials are actualized is the extent to which correlations of existing tools can generate synergy.

Synergy is a dynamic efficiency process characteristic of some systems, one which differs from economies of scale and agglomeration. A separable "returns to synergy" principle deriving from particular correlations of tool-using activities seems to exist. Synergy expands *potentials* for economic development through "feed-forwards" and "feed-laterals," in a larger inter-system context than the amplification "feedbacks" of relatively closed systems of concern in optimal control theory. Synergy expands existing productivity and generates potentials for its further expansion, in part through provision of impetus to COT processes.

The operation of COT process dynamics permits those activities which may have synergistic (or "dis-synergistic") consequences. Human choices under the constraints and opportunities afforded by conditions which include social institutions and organizations configurations, however, determine whether new tools are sought and whether or not synergistic activity structures emerge. It is here that the operation (or lack of it) of instrumental value theory principles come into play. They emphasize present-to-future selection of current COT activating, synergy-searching activities. In combination, the operation of COT, synergy, and instrumental selection processes are powerful source determinants of economic growth and development.

REVIEW OF INSTITUTIONAL THOUGHT
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ABSTRACT

The Simultaneous and Independent Development of Instrumental Philosophy by Clarence Ayres, Jacob Bronowski, and Robert Pirsig

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Clarence Ayres in *Toward A Reosonable Society,* Jacob Bronowski in *Science and Human Values,* and Robert Persig in *Zen and the Art of Motorcycle Maintenance,* working independently, formulated similar versions of instrumental philosophy. This philosophy rejects the logical positivist view of the "gulf-fixed" between science and value and reconstructs knowledge into the realms of instrumental thought and non-instrumental (or ceremonial, according to Ayres) thought.

Instrumental thought involves simple calculation of cause and effect in all areas of life. Science is not simply a reconstruction of static reality, but the continuous creation of an evolving reality in response to human needs. There is no line between science and value. The sole test of trust and goodness is "Does it work to further the life process?" Ceremonial thought is concerned with ultimate ends. "Rightness" derives from the gods, or from tribal practice of long standing, or from some other non-rational source.

Ayres was concerned primarily with the problem of economic policy. The philosophy of logical positivism manifests itself in classical liberalism and market capitalism. The latter doctrine is a melding of hedonism, individualism, and natural law. It is assumed that values originate in individual wants and are knowledgeable only to

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individuals. These wants are revealed by the natural and automatic functioning of the market. Thus, the appropriate policy of government is laissez-faire because no government can know what is best—in other words, know value. Before Ayres could attack this attitude toward policy, he had to attack the underlying theory of value. He probed deeply into the process of instrumental, as well as ceremonial, symbolization. He argued that the life process involves developing symbols and giving them meaning. Symbols are manipulated and combined instrumentally to achieve certain ends within a means-ends continuum.

Bronowski, as a mathematician and scientist, was concerned with the use of technology in general and the atomic bomb in particular. He refuted the notion that the values of science are contrary to the values of humanity. By this route, he arrived at an instrumental theory for both "science" and values. Bronowski held that all "discoveries" in science and art are creative acts, not simple photographic recordings of "reality." He said that we can think only in analogues we already know, and that the "act of fusion is the creative act. All science is the search for unity in hidden likenesses."

Pirsig arrived at his rejection of the positivist view of science and value in an extraordinary manner. As a fifteen-year-old college student, he became obsessed with the origin of hypotheses. He concluded that they did not derive from just looking at the "facts" of nature. Nor did they lead you to "truth." In frustration Pirsig suspended his pursuit of the source of hypotheses and turned to the seemingly unrelated pursuit of "Quality" by which he meant "value." His quest led him through the study of oriental philosophy in the Far East, through the teaching of rhetoric in several colleges, and through failure in the doctoral program in philosophy at the University of Chicago. He thought it obvious that Quality existed. Some things were clearly better than others, but how can one define or measure his "betterness"? Was it objective or subjective? He concluded that it was not objective because it was not perceptible by the scientific method. He then turned to utilitarian, subjective concepts of value and rejected them. Quality was more than "just what you like." He then proceeded beyond the subjective objective view of reality and looked at the source of the dualism. Persig concluded that there is preintellectual awareness, a process by which we sort facts and choose those most relevant to the question. It is the source of the mysterious "hypothesis." It is neither subjective nor objective but the source of subjectivity and objectivity.

All three writers demonstrated the instrumentality of values, and all three recognized the interrelatedness of "values." Specific values are not accidents of history; they are part of an instrumental complex.

ABSTRACT

Post-Keynesian Economics: Future Prospects

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Post-Keynesianism is a unique blend of Keynesian, institutional, and Marxian theory. It is generally reformist in philosophy and sharply critical of modern industrial capitalism, quite far toward the left of the political-economic spectrum, but short of socialism. From the work of Keynes, post-Keynesians share the general perspective that capitalism is not a Newtonian mechanism, self-correcting, seeking equilibrium, but a dynamic system in continuous disequilibrium prone to perpetual crises. Post-Keynesianism also involves a definite institutionalist perspective which combines the cultural holism of Veblen and the pragmatism of Mitchell and Commons. De-emphasizing without rejecting theoretical formalism, it explains our business system within a broader social context. It also accepts the dualistic theory that competitive industries function in justaposition to concentrated industries. From Marxian political economy, post-Keynesians borrow a theory of social stratification which departs from the individual orientation of orthodox economics. Capitalism is viewed as a class divided system in which the workers are adversaries of capitalists. Workers receive wage and salary income, whereas capitalists receive a residual, or surplus income which then circulates as profit, rent, and interest.

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Post-Keynesians recommend far-reaching economic reforms and policy measures likely to dismiss most of the conventional macroeconomic policies suggested by both monetarists and neoclassical Keynesians. These policies are designed to operate through the market mechanism, but the volume of employment, hence unemployment, has little to do with the workings of the market.

The rate of inflation is seen by post-Keynesians to be essentially determined by the rates of change of money wage rates (as determined by collective bargaining), labor productivity, and corporate markups. Each of these three variables moves in certain persistent patterns over the course of the business cycle, and their values are jointly determined by the concentrated industries and the workers employed in them.

Once wages, investment plans, and prices are established in the concentrated industries, the rates of unemployment and inflation will also be determined. Because the commodities produced by these industries appear as inputs to competitive industries, the patterns negotiated by the former are reproduced in the latter. Therefore, any successful attempt to resolve unemployment and inflation problems must, according to post-Keynesian analysis, take the form of a social contract between government, big business, and labor. Such a contract would in turn have to be realized through indicative national economic planning.

Two major obstacles stand in the way of the development of post-Keynesian economics. The first is the absence of systematic analyses of power relations. Post-Keynesians have therefore been unable to answer successfully the criticism that the chief partners to a social contract would encapsulate the institutions which make up the planning mechanism and perpetuate their own interests rather than society's.

The second obstacle is the limited development of production theory in post-Keynesianism. Those who have been working on the Sraffaian approach have claimed that a price theory rooted in classical political economy would provide us with a true production orientation. But it only partially fulfills that promise because neither neo-Ricardian nor classical Marxian value theory take us directly into the workplace itself. The notion of a "workplace" and the daily lives of working people in post-Keynesian economics remain, therefore, mere abstractions. Without a sound theory of the internal dynamics of the workplace, we cannot really claim to have developed a theory of production.

ABSTRACT

Some Methodological and Political Issues Surrounding Productivity

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Today, nearly every public policy must be supported by an economic analysis. However, many of these analyses are theoretically unsound, mathematically obfuscated, and ideologically poisoned. To illustrate the kind of weakness that affects many arguments in support of public policy options, recent discussion of productivity growth are compared.

George Gilder's advocacy of supply-side policies to boost productivity is shown to be mere assertion, lacking even the pretext of empirical support. Some of Harry Magdoff's analyses of productivity data are reviewed to demonstrate that even the available empirical data ignored by Gilder are dubious both in concept and content. Finally, John Kendrick's 1980 econometric study of productivity decline in 20 two-digit industries is subjected to methodological criticism which reveals the absence of empirical connection between empirical data and the economic concepts upon which he calls to explain the causes of productivity decline.

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A detailed analysis of one of the two (of fifteen attempted) variables which had statistical significance demonstrates the absence of relationship between available numbers and economic concepts. Kendrick uses a ratio which represents the percentage of employees who were union members in order to capture the effects of union-induced inefficiencies, those resulting from "restrictive work practices" and "other aspects of labor-management relationships that may hinder greater efficiency." The ratio is not a reasonable measure of the intended phenomena because of the intrusion of several factors between union membership and the inefficiencies which interest Kendrick. In principle, each of the introducing factors is measurable and the mere absence of measures for them does not render the available measure an adequate one. In the absence of elucidation of the relationships among the available numbers, the missing factors, and the respective economic concepts, the presence of a significant correlation has only the weakest meaning. Hence, Kendick's policy preferences are plausible not only because of their empirical support but because they reasonate with the beliefs attached to the fashionable supply-side ideology.

REVIEW OF INSTITUTIONAL THOUGHT
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ABSTRACT

Power Transitions

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The traditional concept of "power" has been one of the eternal great mysteries surrounding all phenomena. Neo-institutionalists will quickly recognize that the word "mystery" has at least two different meanings: one referring to the ultimate forever beyond the pale of human understanding, the other indicating phenomena which remain an enigma at the present time but will sooner or later become less "mysterious." The history of inquiry has been moving the referents of the meaning of mystery to the latter meaning.

Increased specification of human relationships may replace "power" with more concrete descriptions of the series of eventts from other frames of reference or levels of analysis. Replacement of the word "power" with such descriptions may make "power" obsolete as a term usefully descriptive for differentially effective social relationships. Where used, the concept of "power" will be less "mystical." Psychological and social psychological studies attempting to specify interpersonal relationships may not use the concept of power. They raise the possibility that such relationships in groups and organizations may be so biased toward preservation of the status quo that it may be difficult to "get the rascals out" when unfit persons occupy positions of "power."

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Changes in social relations (power) are not different from any other social relations. Differential effects of persons on each other are present in all social relations though they may be difficult to observe in many cases where persons appear to be "equal." Differential effects are evidenced in persons not having an equal influence on each other. Equal (the same) behaviors by different persons produce different results (behavior). For example, the same words used by two different persons will be responded to differently because of where they are in the social structure. Studies of differential effects at social and psychological functioning levels reveal the perpetuation of existing social structures, deviancy being unrewarded or punished. Psychological functioning also seems to lead to systematic "errors" in judgment which contribute to persons already in "power" being judged as more adequate than they really are. The Sherif, Hovland, et al. studies in social judgment—involvement approach to attitude, attitude change, and communication—are examples of these studies.

The tendency towards static social structures requires deliberate efforts to construct new social structures which will be more flexible as changes are needed to solve problems. Differential effects have both technological and ceremonial aspects in the Veblen-Ayres dichotomy. The description of differential effects using the term "power" leaves out information. Ceremonial aspects of "power" hopefully will decline in the future, and technological aspects will be increased. The findings which suggest the static nature of psychological functioning in interpersonal and group contexts may also have some bearing on the slow development of cultures. While the stifling of cultural change in the past may have been an unplanned process, Louis Junker and others have expressed concern that increased understanding of cultural processes may allow vested interests to "encapsulate" cultures by using the technological aspects within them to prevent change. Hopefully, knowledge of such possibilities may lead to avoiding them.

If we wish to "get the rascals out" we must work on processes of valuation by which to judge when persons are behaving as "rascals" and also judge processes by which such valuations may be put into effect. Psychological processes can clearly work toward maintaining the status quo. Whether they always do, or whether they need to in the future are exciting frontier questions. Being on frontiers may be dangerous, however; the establishment is powerful.

ABSTRACT

Countervailing Interests: The Invisible Warp in Decision Making

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The development of complex value systems emphasizing predictable and rational socal and business interactions were essential for industrial societies to emerge. Predictability and rationality may be achieved by value systems which emphasize either cooperation or competition. Western societies, particularly the United States, relied on the competitive mode by creating systems of adversarial relationships in which one opposing faction would be offset by another. In the economic sphere, the system was based on the market whose hallmarks were easy entry and exit, many sellers, and many buyers. In the political sphere, the system was democratic with power fragmented so that no one segment was strong enough to dominate another, of which our constitutional system of checks and balances is illustrative. Conceptually, these economic and political systems of fragmented power would produce the public good through a competitive process in which one individual, group, or sector exerts countervailing power against the other. Since relative equality of bargaining power was a prerequisite for producing the public good, any interference with the process would be restricted by either equalizing bargaining power or replacing it with a process in an alternate sphere.

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Reliance on countervailing power systems can be traced to Adam Smith who equated self-interest to economic self-interest and economic self-interest with what Maslow would call self-actualization. By subsuming all other factors of life—love, hate, valor, courage, honor, and so forth into one economic variable, it became safer to predict the behavior of others and logic became restricted to that which could be reduced to economic rationality. The public good was caught in per capita income!

The great catalyst in this alchemy of "private vice into public virtue" was the philosophical argument that the appeal to human avarice was a more reliable predictor of behavior than appeals to other values such as patriotism, love, or honor. Although Smith legitimated this concept, its antecedents predate Hobbes, Locke, and Mandeville. Francis Bacon talked of "bridl[ing] one faction with another"; while Hume said that "nothing can oppose or retard the impulse of passion but a contrary impulse." Hobbes added that some passions were "tamers" and some "required taming." "Tamers" were "passions that incline men to Peace" particularly "the Desire of such things as are necessary to commodious living; and a Hope by their Industry to obtain them."

The demise of the dialectic resulted in the emergence of a contract society where adversarial relations are referred to lawyers, judges, and arbitrators. Only recently, as American firms are forced to confront competitive forces from other cultures, particularly the cooperative culture of Japan, have they become more familiar with alternative systems of thought. For businesses in both types of cultural value systems, it may be beneficial to analyze the appropriateness of interaction mode to the type of interdependency involved. The benefits of competition seem to be pretty well restricted to situations of either group autonomy or pooled situations of sequential and reciprocal interdependence. For example, the adversarial relations of labor and management may be inappropriate in situations where they exist under conditions of reciprocal interdependence. For the Japanese, reliance on consensus may be inappropriate in pooled interdependence.

ABSTRACT

"Effective Competition" and the Soft Drink Interbrand Competition Act of 1980

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Competition is the *sine qua non* of classical and neoclassical theory—a necessary ingredient for the perfect efficiency that justifies the free market. The term enjoys prestige in our political and social ideology; hence the protection of competition has been public policy for decades.

Antitrust policy has suffered from much confusion and controversy derived from the inaptness of the economist's concept of competition as a guide for policing business practices. In the literature of economics, competition is a set of conditions that requires sellers to operate with maximum productive efficiency. In the conventional sense competition refers to active pricing tactics, product variation, and advertising for the express purpose of improving one's position relative to rival sellers and increasing pecuniary gains.

The history of the Soft Drink Interbrand Competition Act of 1980 provides an excellent example of the difficulties faced by jurists and legislators in attempting to translate the theoretical concept of competition into a pragmatic policy for the soft drink industry. The industry makes a good case study because it is an oligopoly characterized by the type of intense rivalry for market shares that is considered the ultimate in competitive behavior by the non-economist.

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The point at issue for antitrust policy was the use of the exclusive territorial franchise in the soft drink industry. The use of this type of franchise carries the market dominance of Coke and Pepsi at the national level down to local level by eliminating intra-brand competition among franchised bottlers. Indeed, since minor competitors such as Seven-Up and Dr. Pepper have issued franchises to already existing Coke and Pepsi bottlers, the two-firm dominance is often greater at the local level than at the national level. Congress became involved as a result of conflicting decisions by the Supreme Court and the FTC as to the legal status of the exclusive franchise in the soft drink industry.

In 1967 the Supreme Court held in the Schwinn case that exclusive territorial franchises were a per se violation of the Sherman Act, an apparent reversal of previous court rulings. In 1971 the FTC filed complaints against the seven major soft drink franchisers. Almost immediately the soft drink industry began to lobby congress for new legislation to "restore the rule of reason" to the soft drink industry. Meanwhile, a FTC administrative law judge ruled in favor of the soft drink companies. The Supreme Court reversed the Schwinn decision in the Sylvania decision in 1977, and the FTC in 1978 overruled the administrative law judge by finding that Coca Cola's territorial franchises did not pass the rule of reason test laid down in Sylvania. In 1980 the Soft Drink Interbrand Competition Act was passed providing that soft drink exclusive franchise agreements should not be rendered unlawful provided there exists "substantial and effective competition" in the relevant market.

The effect of this legislation tends to do little more than equate "substantial and effective" competition with ordinary business activity in the soft drink industry. This has resulted, at least in part, because economics has failed to provide meaningful guidance to the courts and congress. The profession remains tied to models that are totally unrealistic (pure competition and pure monopoly) or models that add descriptive relevance at the cost of determinancy. Indicators of "workable competition" such as structure, behavior, or performance provide topics for discussion but are not subject to practicable quantification. The net result of the new legislation may be to cause structural market tests to be outweighed by vigorous rivalry for market dominance without regard to either the effects on efficiency or to the interests of society.

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ABSTRACT

Economic Democracy: The Rawls-Vanek-Sraffa Connection

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John Rawls, Jaroslav Vanek, and Pierro Sraffa have each made landmark contributions to what may appear to be three unrelated fields. There exists a critical connection between these three authors. Together they have formulated a skeletal outline of a formal theory of economic democracy.

Moreover, the Rawls-Vanek-Sraffa model of economic democracy represents separate strains of two different intellectual traditions which are beginning to show some signs of convergence. One strain is a logical extension of liberal ideology and is called "radical liberalism." The other strain is a branch of democratic socialism.

The requirements for a reconstituted liberalism are provided by Rawls' theory of social justice. In that theory, Rawls identifies what he believes are the principles of justice which individuals would rationally choose in a hypothetical, pre-social state of nature. In this state of nature everyone is equally free and equally ignorant of their class status and of their opportunities for success in society. The two main principles of Rawlsian justice are liberty and equality. The principle of liberty is similar to that which serves as the foundation for most Western liberal democracies. Rawls explicitly extends that principle to everyone in society.

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The principle of equality is divided into two subprinciples. The first, equal opportunity, states that everyone in society must have an equal opportunity to occupy all positions and offices in organizations. The second subprinciple, the difference principle, states that social and economic inequality can be allowed to exist so long as that inequality provides the greatest benefit to the least advantaged.

This second principle suggests a solidaristic view of society, similar to the French revolutionary slogan "*fraternite*." In simple terms, it says that we are all in the same boat and we must travel in the same direction without leaving anyone behind. It is inconsistent with meritocracy, hierarchy, and authoritarianism, all of which are attributes of capitalist and state socialist societies.

The principles of solidarity and democratic participation are the basis for the Vanek-Sraffa economy. The work of Vanek provides the participatory basis of such an economy while the work of Sraffa provides the solidaristic basis. Vanek's theory of a labor-managed economy consists of a quasi-neoclassical theoretical framework, devoid of neoclassical ideology. Its principal elements are: 1) worker participation in management; 2) the sharing of net income by workers; 3) worker control of all enterprise activities; 4) a market economy with free entry and exit; and 5) freedom of employment. What is missing from this perspective is a theory which would explain the *reproductive* qualities of the labor managed system as a whole, and a logical principle which would help determine which sectors of the economy need to be subject to planning and what form that planning should take. Such a principle is found in Sraffa's general theory of production.

Combining Vanek's participatory, labor-managed economy with Sraffa's dual economy of basic and non-basic sectors, we obtain a general model which is capable of dealing with the essential features of a democratized economy. These features consist of: 1) collective capital formation; 2) solidaristic incomes policies; and 3) organizational democracy.

ABSTRACT

Administrative Expense and Institutional Quality: Some Evidence

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Efficiency in higher education is becoming a critical topic. The question of whether or not colleges and universities are getting the maximum output for every dollar spent is a research topic of consuming interest. While literature on efficiency in higher education probes many interesting relationships, rarely is the connection between administrative expenditures and quality of output addressed. This oversight is interesting because it appears that the area of administrative expenditures is one of the easiest in which to economize.

Lawrence Southwick (1967) in an unpublished Ph.D. dissertation indirectly dealth with administrative cost efficiency. His data set consisted of observations for each of the 146 institutions which accounted for 64% of total current expenditures. Southwick formed several variables of interest to the current study. The "Cost of an Administrator," "Cost of a Senior Teacher," "Cost of Capital," and, finally, institutional quality variables were compiled from the 1964 Cartter study on quality in higher education.

Spearman rank correlation coefficients were calculated for the cost variables and measures of institutional quality. Not surprisingly, the correlations show a positive and significant relationship between the cost of a senior teacher and either measure of educational quality.

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The lack of a significant relationship between capital cost and quality is not unexpected either. However, the relationships between administrative costs and quality are quite curious. When the cost of an administrator is correlated with the variable intended to measure the quality of the associated graduate program, no significant relationship emerges, but when the same correlation is calculated using the variable intended to measure the quality of the graduate faculty, the coefficient is negative and significant at the 10% level. The possibility emerges that administrators concentrate their discretionary spending on the pursuit of various perquisites instead of concentrating on expenditures which would substantially improve the quality of their individual institutions, colleges, or departments.

Using a slightly different data set and methodology, this study attempts a more thorough investigation of the hypothesized relationship between administrative costs and quality. Correlations were run for three created cost variables and five different measures of quality. The data set was segregated into two groups. One group contained only the universities which were determined to be "national universities" according to the study by Petrowski, Brown, and Duffy. These comprise the fifty highest rated universities in the country. The second group included only the institutions in the data set which did not qualify for the "national" ranking.

Six of the nine correlations between administrative costs and quality for institutions with a national ranking take on a positive sign. Also three of the six are significant at the .01 level. However, when the same correlations are run with universities not receiving a national ranking, all but one of the coefficients takes on a negative sign.

The unmistakable conclusion that can be drawn from these results is that high quality institutions tend to hire administrators who are themselves predominantly interested in institutional quality. Alternatively, institutions considered lower overall in quality tend to hire administrators who concentrate discretionary expenditures in other areas. Consequently, there appears to be room for one or two changes in these latter institutions. Either discretionary expenditures can be redirected toward goals that correspond more directly to institutional quality, or a cost saving can be obtained through reduction of administrative expenditures. This conclusion is not inconsistent with those of other researchers interested in this topic. For example, Howard R. Bowen (1980) concluded ". . . the data do leave a strong impression that there are important economies of scale in higher education that tend to be realized through the federal allocation of resources, but which *could* be realized in the form of lower overall unit costs."

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ABSTRACT

The Darwinian Economic Approaches of Veblen and Engels: A Comparison

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Many writers have addressed the similarities and differences between the analytical approaches of Marx and Veblen. The crucial concerns in these interpretataions center on Darwinian evolution and the analysis of capitalism. By focusing on the analysis of capitalism, most Marxists have found considerable compatibility between Veblen's writings and those of Marx. Many institutionalists, on the other hand, have tended to stress the Darwinian content of both Veblen and Marx and have found Marx's analysis decidedly inferior to Veblen's.

Veblen adopted the Darwinian perspective in his analysis of Marx. However, comparing the two writers in terms of the degree to which they incorporated Darwin into their analyses can be both difficult and frustrating because of the lack of clarity in their writings and because Marx failed to incorporate effectively Darwin into his analysis. It was Engels rather than Marx who attempted to incorporate the Darwinian evolutionary approach into Marxian thought. Indeed, Veblen cited Engels more than Marx in Veblen's discussion of Hegelian philosophy. It is, therefore, far more appropriate to compare the influence of Darwin on Veblen and Engels rather than on Veblen and Marx.

Veblen's dictotomy is similar to the Marxian forces of production and relations of production. The tool-using activities of mankind, the technological aspect of this dichotomy, served as the evolutionary force

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in society. "Ceremonialism," the other aspect, served to retard change. Veblen contended that for economics to become a truly evolutionary science it must employ this dichotomy to analyze the process of change. Veblen explained the nature of this antithetical process in terms of his theory of instincts. However, it is difficult to gain a clear idea of Veblen's notion of instincts. Viewed from the Ayres-Junker perspective, Veblen's instincts are culturally determined. From another perspective, Veblen's instincts, and thus his conceptual framework, appear more biologically conditioned. The extent and character of his Darwinian content thus depends on the perspective one adopts.

Engels made his contribution to the establishment of a Darwinian Marxism during the latter phase of his career when his writings were highly polemical and creative. Engels, the polemicist, wrote of a "dialectical materialism" and "historical materialism," giving each a Darwinian face. Engels, the creative Marxist, however, stressed the biological side of Darwinism in his *Origin of the Family, Private Property and the State* and, to a much lesser extent, *The Dialectics of Nature*.

Veblen showed an awareness of this distinction. In his evaluation of Marx and Engels he avoided explicit reference to dialectical materialism and referred to the "materialist conception of history" rather than historical materialism. In evaluating other aspects of Marx and Engels's writings, Veblen was not quite so perceptive. What is most important, however, was that Veblen clearly saw the life process as the crucial aspect of their writings. In doing so, he called attention to the biological factors mentioned by Engels in his preface to the *Origin of the Family*. Veblen's perception of economic change did not have economic determinism as its central focus. To Veblen, an effective economic analysis must take into account procreation. This stress on procreation served as a bond between him and Engels. Veblen's perspective of procreation had a Mathusian-Darwinian flavor although it did not preclude him from appreciating the Darwinian but non-Malthusian perception of procreation and the life process advanced by Engels.

ABSTRACT

An Institutional Analysis of the Electric Utility Industry

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The S-Curve Model—The emerging theory of technological development posits that any specific technology follows an S-shaped pattern. The advance of knowledge, as embodied in technology, leads to change in structure, both smoothly and incrementally with refinement of a given technological structure (which yields the S-Curve), as well as in relatively discrete steps when transitions occur between sequential S-Curves. Improvement in some functional measurement, such as efficiency, is an envelope curve which is composed of sequential S-Curves, each associated with a specific structure such as incandescent light or fluorescent lights. During the middle portion of a sigmoidal surge, mainstream economic analysis (such as cost-benefit analysis) is most likely to provide correct signals in choosing among technologies. This is to be expected because, during this period, the mainstream assumption that technology is constant is most reasonable as the rate of technological advance is relatively constant. In the transition period between technologies, however, mainstream analysis frequently leads to the wrong choice of technology.

Indicators of Limits—Foster (*Business Week,* May 24, 1982, pp. 24-33) provides an excellent summary of the track record of businesses confronting the transition between successive technological

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structures. His conclusion: Few businesses have been able to move to new technologies as their products or production technologies become obsolete. Instead, most companies suffer substantial losses. His call is to improve on the record by recognizing the need to manage technological transition. To that end, he offers 10 "key signals" which indicate that a technology has run its course. Four of these indicators, relevant to the electric utility industry, are clearly present today. Consequently, I have formed the following hypothesis: the electric utility industry is presently within a transition period regarding its technology of generation.

Application of the S-Curve model of technology leads to the prognosis that the primary choice of generation technology must eventually undergo a transition from coal and nuclear to a new alternative. The presence of Foster's indicators, and those additional indicators offered here, implies that this transition is now occurring. My examination of the options and their developmental patterns leads to the conclusion that the transition will be largely complete by the end of the decade and that one or more of the small scale renewable resources is likely to become the next "traditional" technology.

Barriers for the Utility Industry—The institutional concept of the changing force of technology and resistance to that change by the ceremonial function is given empirical support by Foster's observation that the most common strategy businessmen make when faced with new technology is to continue to invest in and defend the old technology rather than adopting the new. This strategy repeatedly fails, and it is failing today in the electric utility industry.

One major barrier to acceptance of new technology is certainly adherence to neoclassical theory and the absence of a substantiated theory of technological change to guide decision making during technological transition. This incrementalist approach assumes all relative factors are correctly weighted in the marginal decision with future costs and benefits "adjusted" by a discount rate and implies that, should a new technology emerge, the utility can, through future decisions, correct any inappropriate investment. The substantial corporate disruptions and related societal losses in the examples that Foster discusses contradict this assumption. A technological transition by definition shatters the *ceteris paribus* assumption of the neoclassical analysis. Also, the neoclassical reliance on quantifiable data is a bias supporting the status quo. Other barriers are also discussed.

Institutional thought, with its focus on technology and Richard Brinkman's *Cultural Economics,* which links that focus to the S-Curve model of technology development, provides the rudiments of a theory for managing technological transitions.

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ABSTRACT

Resisting Economic Concentration Through Worker Insurrection

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Conglomerate mergers have exploded on the American economic scene in the past several years. A sampling of recent mergers is stunning: Arco bought out Anaconda for $680 million; Exxon paid $1.2 billion for Reliance Electric; and, more recently, DuPont paid a record-setting $7.3 billion for Conoco while U. S. Steel bought Marathon Oil for $6.5 billion.

Beyond the issue of the staggering amount of capital involved, the reluctance of the party being acquired to submit to the ordeal is increasing. The traditional means for expressing resistance to a takeover have centered around antitrust litigation. An alternative strategy for combating mergers has appeared in the recent attempt by Texas International to purchase Continental Airlines in 1981. The innovative counterattack took the form of a strategy by Continental employees to buy their own jobs—a conversion of the firm to a worker-owned enterprise that could be safe from outside, hostile takeovers.

The struggle for managerial control and economic power began in early 1981 when Texas International acquired 48 percent of Continental stock, a move which mobilized Continental pilots to organize a counter strategy. Their fears were that Texas International would cut wages, lay employees off, and emasculate labor relations. The Continental

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Employees Association obtained outside expertise and designed an employee stock ownership plan (ESOP) through which they would purchase controlling interest and thereby block the merger.

Top management felt the employee plan was superior to Texas International's offer because it would provide capital to reduce significantly, the company's $213 million debt as well as to modernize and expand its fleet. The proposal would have ensured employee job security by giving them 51 percent of Continental stock. Worker ownership promised the potential of productivity gains, higher morale, and better customer service.

To Texas International the Continental workers' plan was blatant insurrection. The Texas firm was not dissuaded by arguments that amalgamation would create labor strife, reduce airline competition, and result in a dangerous debt-equity ratio. Texas International filed suit in a federal court to block the ESOP and began a public relations campaign with Continental stockholders to discredit the employee ownership idea. Texas International lobbied long and hard with the New York Stock Exchange, eventually eliciting a ruling that Continental must put the ESOP proposal to a shareholder vote or it would be delisted. With Texas International's 48 percent voted as a block, it would obviously be victorious in a ballot. Although 95 percent of Continental's employees had voted for the ESOP and against Texas International, the CAB approved the Texas carrier's acquisition, and Texas International representatives took over Continental's Board of Directors in the Fall of 1981.

The costs of a takeover can be high in terms of time, energy, legal fees, political maneuverings, and emotional stress. In the Continental case, the aftermath included suicide, hundreds of layoffs, massive debt, and labor strife. Although the Continental workers' struggle to combat a takeover ultimately was unsuccessful, the case has several implications for the future. State and federal legislation are needed to facilitate a company's right to self-preservation through stock ownership plans. A right of first refusal should be enacted to give employees the first option to buy their companies when threatened by outside takeovers. Instead of incentives which encourage mergers, the government should foster better corporate planning, investment in equipment, and disincentives to merger efforts among large corporations.

ABSTRACT

Labor Law and Corporate Flight

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Unrestricted capital mobility has had devastating effects on many communities. These include extensive economic dislocation caused by plant shutdowns and relocations, difficulties for individuals in maintaining physical and mental health, and rapid increases in the demand for public services at a time when the tax base supporting these services is often drastically cut. Capital mobility can take a number of forms, including plant shutdowns, mergers, corporate takeovers, and relocation. Current government policy favors this mobility primarily through such devices as differential treatment of capital gains and dividends, rapid depreciation allowances, and investment and foreign tax credits. Ideological support is based on the supposed efficiency of the market system in allocating resources. Restriction would, it is argued, reduce the ability of the economy to respond to changes in the demand for particular goods and services.

In attempting to protect community interests against the negative impacts of plant shutdowns or corporate flight, this paper examined three possibilities: use of existing labor law, development of specialized legislation, and importation of European practices.

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Initially considered very radical, the 1935 Wagner Act has been consistently emasculated by judicial interpretation and subsequent legislation. While no specific community protections are contained in the Act, it could be argued that the community was protected because the employees were protected. However, judicial interpretation of the Act consists of divergent and often irreconcilable holdings. Interpretation has made "motive" a factor in plant closings and relocations. If the relocation was made primarily to avoid unionization, then it may be an unfair labor practice. The law permits a variety of employee (and by extension, community) protection issues to be mandatory subjects of bargaining, e.g., contracting out, mechanizing operations, and consolidating functions. These, however, are all short term features and, given the court's ruling in the Bildisco case, are of limited utility. Labor law, as currently interpreted, offers scant protection to communities faced with plant shutdowns.

In examining the development of specialized legislation to protect community interests, the outlook is equally grim. A number of bills have been introduced at the federal level aimed at developing a comprehensive national policy for easing economic dislocation caused by plant relocation and closures. None, so far, has been successful. At the state level, the situation is similar. Eighteen states have introduced legislation, some of it very far-reaching, but to date only two states have passed bills, and these provide minimal community protection. Effective lobbying by commercial and industrial interests has been successful in preventing passage of such legislation.

In Europe, where the EEC is developing an integrated economy that supersedes national boundaries, legislation and regulation protecting community rights has existed for some time. Many European countries have also devised specific national programs to cope with economic change and dislocation. In Great Britain industrial relocation permits may be denied if it can be shown that another community would be adversely impacted. Additionally, extensive notice must be given in the case of large scale redundancies. Sweden has similar legal provisions and a responsible government agency deals with social problems caused by disclosures. Sweden's Co-Determination Law requires bargaining over plant shutdowns. In Germany government is extensively involved in controlling unemployment, and firms are required, for example, to provide at least a year's notice of impending closures.

Some elements of the European law are obviously not appropriate in the United States, but many could be used effectively to protect social and community interests. To date, such innovations represent the sole hope against the devastation of unrestricted capital mobility.

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ABSTRACT

Ayres's *Theory of Economic Progress* Revisited

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Clarence E. Ayres, in the *Theory of Economics Progress,* hypothesized a dichotomous relationship between technological behavior and ceremonial behavior in the pursuit of progress. He summarized this relationship in the following statements: "technological and ceremonial behavior would stand as in the most literal sense obverse and reverse of each other . . . technology is of its own character developmental, while the ceremonial function is static, resistant to and inhibitory of change." (p. 174). Thus, technological behavior is essentially dynamic and the cause of progress. On the other hand, he concluded that despite the fact that ceremonial behavior may play an important role in society, but, in the pursuit of progress its role has been essentially passive. It is the purpose of this paper to investigate how Ayres came to view ceremonial behavior as inhibitory of change and to suggest some possible adaptations to the *Theory of Economic Progress.*

In order to understand how Ayres arrived at this conception of ceremonial behavior, it may help to review the context in which Ayres wrote the *Theory of Economic Progress.* Ayres stated, in the foreword of the 1962 edition: "The effort which resulted in this book was begun years earlier, and was an attempt to define the 'institutionalist' way of thinking." (p. xi). It was only as a consequence of history,

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with the close of World War II and the subsequent introduction of economic development literature, that Ayres presented the theory of economic progress within the context of explaining the general forces of economic development. Within this context Ayres presented an analysis of feudal institutions and their resistance to change during the incipient period of the industrial revolution. He then proceeded with an analysis of more recent history and the dominant institutions of the western industrialized economies. From this analysis he drew the above stated conclusion that ceremonial behavior is always resistant to and inhibitory of change.

A rather different conclusion can be drawn if one differentiates between established institutions with their ceremonial behavior and involving institutions with their new ceremonial behavior. Among other differences, established institutions and ceremonial behavior tend to be associated with existing dominant groups and, thus, reinforce the status quo while evolving institutions and new ceremonial behavior are contrary to the status quo. Yet, to attribute progress to institutional change alone would, as Ayres implied, exclude from the analysis the all-important physical causes of progress. However, to exclude the ceremonial and institutional changes, as Ayres did, is to leave out the equally important philosophical justification that accompanies unproven behavioral change.

Rather than viewing the process of adopting changes in behavior as inevitable and the benefits thereof as being immediately obvious, it would seem more accurate to consider new behavior as precarious and its benefits, at least in the short run, as unproven. Thus, during the incipient stage, new behavior is introduced only with some justification. It is only after some indeterminate time period that the new behavior can be judged as technological behavior. Thus, if one differentiates between evolving ceremonial behavior and established ceremonial behavior one can draw a somewhat different conclusion than did Ayres about the role of ceremonial behavior in the pursuit of progress. The role of evolving ceremonial behavior can be viewed as providing the philosophical justification whereby a society can test new ways of doing things. Without such evolving ceremonial behavior, new behavior would not likely be given an opportunity to be proven beneficial. This implies that evolving ceremonial behavior can play a positive role in the pursuit of progress. However, as Ayres showed, established ceremonial behavior will be in opposition to progress.

ABSTRACT

Wilhelm Reich: His 20th Century Connection of Marxism and Psychoanalysis

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The importance of studying Reich's theories lies in the limitation of Marxism and psychoanalysis in explaining social entrenchment of power relations and exploitation. Reich's attempt was to unite Marxian and Freudian paradigms; the targets of the unification were capitalism and its supporting institution of family life and complementary morality. Reich's analysis is of special significance to feminism as he viewed women as a central class—exploited and alienated in both the economic and social realms.

Reich did not limit his analysis to class inequities, economism, or the inner realm of private consciousness. Reich looked at the importance of a generated human character structure embedded in a population. He viewed the authoritarian family as a locus point of socio-economic conditions and ideological reproduction. Economic forces are prime movers of history, but so are ideological forces once they are embedded in the human character structure. It is here the nexus between Marx and Freud emerges.

Freud's concept of reality was of interest in individual therapy; Marx's concept of reality was of interest in social revolution. Reich starts by explaining both viewpoints with their respective limitations and

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then goes beyond both with his analytical unification of material conditions and character structures. Reich saw the "ego psychology" of his time as apologetic for bourgeois mentality and yet found the abstract critique of Marxism incapable of relating to the concrete needs of the masses. In essence, Reich called for the personalization of social criticism in relation to the problems individuals face in an authoritarian society.

Reich turns to work by anthropologists in search for the relationship between economic gain and productive organization and repressive and exploitative sexuality. With psychoanalytic tools, Reich looks at the psychic change in individual character structure which resulted from productive changes and moralistic demands in the context of primitive clan development.

Reich looks at the work of Engels and the idea that if one moves back in time, eventually there is a point where economic and sexual organization flow into each other. The subsequent progression in productive realms was offset by a retrogression in "healthy" morality, an authoritarian family, and a subsequent character structure which Reich segments into three layers.

Reich then suggests that a Marxian view of class distinctions as bourgeoise or proletariat is too limited because repressive morality manifests itself in both classes, albeit in different ways. Economic determinants alone lead to superficial explanations because social ideology never is a pure reflection of economic conditions. The craving for authority by the masses resulting from approximately 6,000 years of patriarchal family structure was overlooked by intellectual Marxists who considered only mechanistic economic condition of the last 200 years.

Capitalism and its supporting institution of family life and complementary morality were targets of the Reichian paradigm and led to his contemplation of communism in Russia and fascism in Germany as variations upon authoritarian regimes of the 20th century. The Russian experiment in the early 1900s failed because collective living per se could not alter the ideological force already embedded in human habit due to thousands of years of repressive patriarchal morality. On the other hand, Hitler translated family fixation to a national honor and exploited the contradictions of family life for his goals.

Reich's analysis points us away from viewing social change within the context of superficial solutions—either based upon Freud's individual therapy or Marx's abstract social critique. Reich's analysis is radical in that it dispenses with marginal concepts and goes to the root of power inequities.

ABSTRACT

The Effect of Employee Ownership Upon Participation Desire: An ESOP Case Study

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Employee Stock Ownership Plans (ESOPs) have become increasingly popular in the last decade due to congressionally-legislated tax incentives. In most cases there has been no change in the traditional management-controlled decision making in ESOP firms. Using qualitative and quantitative data, this study looks into the effect of employee ownership on employee desires for participation in decision making. The study site was a 100% employee-owned, 500-employee machinery manufacturer in the northeastern United States with a traditional decision-making structure. Data collection took place seven years after the ESOP implementation.

The findings show that, while employees generally conceive "real" ownership as including participation rights, the ESOP did not generally raise participation desires. This could have resulted from the lack of realistic opportunities to participate; a number of employees indicated that initial desires for increased participation were unmet. An exception to the general finding is that unionized shop-floor workers were much more likely than outside control group members to desire union effort in getting workers some say in job-level decisions; this suggests that the union may have been viewed as the

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appropriate vehicle for increasing employee participation. The importance of the union was also illustrated by a wage-motivated, month-long strike occurring one year before the data collection.

The situation of employee-owners striking "against themselves" further confirms the interview comments that employees did not see themselves as "real" owners and displayed cynicism toward the label "ownership." Clearly more than the label is needed to improve employee attitudes, including satisfaction and motivation, under employee ownership. The current experimentation with different decision-making structures for employee-owned firms should provide insights into better methods of improving the quality of worklife and the restructuring of power relationships.

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ABSTRACT

The Reagan Administration and International Monetary Reform

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Prior to the election of 1980, Ronald Reagan was widely quoted as being a firm believer in supply side economics and the gold standard. Less than a year-and-a-half after the election, Reagan's economic theories look less like serious proposals and more like campaign rhetoric. Reagan's trickle down economics has not worked, and there has been no significant move toward adopting an international gold standard. What the Reagan Administration has opted for is an old-fashioned recession induced by monetary restraint and fiscal austerity. This provides the connection between domestic and international policies since the Administration has sought to impose austerity on a global basis as well. In the past two years, the U. S. dollar has risen in value in response to high real interest rates. This raises the price of U. S. exports and results in capital outflows from the rest of the world to the U. S. With respect to global institutions, the U. S. has stressed the need for harsher IMF borrowing terms and a greater role for private financial markets. In the Administration view, the appropriate role for international institutions is to facilitate the implementation of global austerity. The basis for a new period of growth, according to this view, is decreased consumption, declining real wages, increased savings and capital formation, and higher profits. Whether "development through austerity" will be successful is an open question that will be answered in the years ahead.

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