THE DECLINE OF THE "ORIGINAL INSTITUTIONAL ECONOMICS" IN THE POST WORLD WAR II PERIOD AND THE PERSPECTIVES OF TODAY+

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Contents

Abstract

As is known, original, or "old", institutional economics (OIE) ─ we also indicate it as "institutionalism" ─ played a relevant role in its first stage, and it can safely be said that it came to be, although perhaps by a slight margin, the "mainstream economics" of the time. That period ran approximately from the first important Thorstein Veblen's contributions in 1898 — the article "Why Is Economics Not an Evolutionary Science?" — to the implementation of the *New Deal* in the early 1930s, where many institutionalists played a significant role.

However, notwithstanding its promising scientific and institutional affirmation, institutional economics underwent a period of marked decline, that spanned from, approximately, the mid-1930s to the late 1980s, when a new season for institutional economics was set in motion.

In order to cast some light, without any pretense of completeness, on this complex issue, we have organized the work[1] as follows: in the first paragraph we consider the main interpretations of this phenomenon. Then, in the subsequent paragraphs we analyse a number of "endogenous" aspects which might have played a significant role in such decline: **(i)** the relations of institutional economics with Keynes's macroeconomic theory; **(ii)** the links between theoretical and empirical analysis and the supposed lack of a clear theory; **(iii)** the interdisciplinary orientation.

[1] This is a substantially revised version of a chapter previsouly published in my book *The Systemic Nature of the Economic Crisis: The Perspectives of Heterodox Economics and Psychoanalysis*, London and New York: Routledge 2015, and in the Journal *Il Pensiero Economico Moderno*, 2015 (4).

1. The Decline of Institutionalism and the Main Existing Interpretations

The Ascendence and Decline of Institutionalism

Institutional economics originated in the United States in the first decades of the XX century. Its cultural roots can be identified in the philosophy and psychology of Pragmatism — in particular in the theories of Charles Sanders Peirce, John Dewey and William James — and in the German historical school, whose principles were developed by a scholar, Richard T.Ely, who had a considerable influence on the formation of the first generation of institutionalists.

The main founders of institutional economics are Thorstein Veblen, John Rogers Commons, Walton Hale Hamilton, Wesley Clair Mitchell and Clarence Ayres.

Relevant contributions were also provided by L.Ardzooni, A.A.Berle, J.C.Bonbright, J.M.Clark, M.A.Copeland, J.Fagg Foster, I.Lubin, Gardiner C.Means, Walter Stewart and many others.

Significant contributions with important connections to institutional economics were provided by, among others, John Kenneth Galbraith, Fred Hirsch, Albert Hirschman, Gunnar Myrdal, Karl Polanyi and Michael Polanyi.

Within institutional economics, two main strands[2] can be identified: **(i)** the *Original (or Old) Institutional Economics* (OIE), constituted by the first institutionalists and by subsequent scholars who shared their main concepts; and **(ii)** the *New Institutional Economics* (NIE), which was born in the post WWII period, composed of economists adopting principles mainly related to the Neoclassical and Austrian schools.

In this regard, it is interesting to observe the significant links between the OIE and, among others, the following theories: **(a)** various strands of sociology and social psychology, including the "Sociological or Ecological School of Chicago", the social psychology of William James and of William Ogburn; **(b)** a number of theories of technological innovation, often referred to as neo-Schumpeterians, which share important concepts with the OIE: for instance, the importance of path-dependency processes in explaining the characteristics of science, technology and innovation in any given context.

The pivotal concepts characterizing the OIE can be summarized as follows: ceremonial/instrumental behaviour, instincts, culture, evolution, habits, path-dependency, tacit knowledge, power, technology, collective action, social provisioning, market

[2] As clarified in the introduction, in this work we do not address the relations between OIE and NIE but concentrate our attention on the factors underlying the evolution of the OIE.

imperfections, social planning, working rules and social valuing. As noted by numerous authors, the OIE does not present a completely unitary framework. Within this ambit, two main strands can be identified:

(I) An approach Veblen-Ayres, stressing the dichotomy between ceremonial and instrumental institutions; the role of habits of thought and action; the cumulative character of technology in its relations with the workmanship and parental bent propensions.

(II) An approach put forward in different ways by J.R.Commons, W.H.Hamilton and W.C.Mitchell., which centers on the evolutionary relations between economy, law and institutions; the nature of transactions, institutions and collective action; the role of conflicts of interest and the social valuing associated with them; the theoretical and empirical analysis of business cycles and their relations with institutional setting and policy action; the role of social psychology for understanding economic and social phenomena.

Notwithstanding a number of differences between (and within) these approaches, the elements of convergence are remarkable. In our view, the observed differences tend to concern more the issues addressed than the basic aspects of the OIE.
Within this conceptual framework, OIE stresses that the presence of an institutional context — with its values, norms, conflicts, organizations, routines, habits and customs — constitutes a necessary factor for the human activity of social provisioning. In other words, every economic action embodies, at the same time, also a social, institutional, historical and psychological dimension. Thus, an understanding of economic actions demands a joint analysis of all these dimensions which, for this reason, necessitates the adoption of an interdisciplinary approach.

In extreme synthesis, the leading ideas of the OIE are the following: **(i)** the belief in the complex and interactive character of “human nature”, and the consequent importance of the social and institutional framework for its amelioration; **(ii)** the refusal of any abstract and deductive theorizing detached from the observation of reality, and the consequent emphasis on inductive methodology based on case studies and statistical analysis; **(iii)** the importance attributed to the notion of “social control”, by which it was meant a proactive role of institutions and policies in addressing economic and social problems; **(iv)** an interdisciplinary orientation — in particular with the philosophy and psychology of

pragmatism and other related contributions of social psychology — in order to acquire a more realistic account of the characteristics of human nature in its individual and social unfolding.

These ideas had their origin in important universities — in particular, Amherst, Chicago, Columbia, Wisconsin, which were associated with the various strands of OIE — which became the springboard of collaborations with numerous research institutions and governmental bodies.

The general sentiment pervading these initiatives was one of optimism about the possibilities of social progress. Such orientation was by no means confined to institutional economists as it involved the philosophy and psychology of pragmatism, and various strands of psychology, sociology and political science.

In this context, OIE played a relevant role in its first stage, and it can safely be said that it came to be, although perhaps by a slight margin, the "mainstream economics" of the time. That period ran approximately from the first important Veblen's contribution in 1898 — the article "Why Is Economics Not an Evolutionary Science?" — to the implementation of the *New Deal* in the early 1930s, where many institutionalists played a significant role.

In the analysis of such issue, the question poses itself, what are the main causes of the subsequent decline? As noted by a number of contributions (see, for instance, Hodgson, 2004; Myrdal, 1972; Rutherford 2011), one relevant factor that triggered the decline of institutional economics was the eruption of the Great Crisis of 1929. How much relevant was that factor? The answer is two-fold: **(i)** institutionalists were unable to forecast the eruption of the crisis; **(ii)** the proposed remedies for the crisis were (or, at least, seemed) not so path-breaking as those advocated by Keynesian exponents.

As regards the first point, it is true that in the period before the crisis, no economist (neoclassical, institutionalist, or otherwise) was neither able to predict the crisis nor, shortly after its burst, to fully grasp its structural and far-reaching dimension.

As regards the second point, the picture is more complex. In fact, many institutional economists provided significant contributions[3] for overcoming the economic crisis. Among other relevant issues, these contributions centred on the role of market power and sticky prices in creating a high margin of profits and an unfavourable income distribution for working classes which, in turn, led to their insufficient capacity to consume. This situation

[3] See in particular Rutherford (2011).

was not counteracted by new investments, as a large part of the profits was saved or invested in financial activities.

Also in policy action, and in particular in the framing of the *New Deal*, institutional economists[4] played an active role. Their proposals centred on realizing some forms of economic planning, with a view to reduce mark ups and so obtain prices more oriented to costs. In this way, a more equitable distribution of income could ensue, which would steer a parallel increase of the capacity to consume of the citizens. Also a programme of public works was proposed by a number of institutionalists, but the widespread feeling was that a high level of a public budget deficit and public spending would "crowd out" private initiative in the middle-long run.

This aspect is partly true, but, as the arguments employed by institutionalists partly resonated with neoclassical theory, they conveyed the impression, no matter how well founded, that their policy proposals were not sufficiently innovative to really lift the economy out of the crisis. This impression was reinforced, as we will see presently, by a rather sceptical attitude of many institutionalists towards Keynes's theory.

For this reason, since the kind of economic planning advocated by institutionalists was applied only to a limited extent and that a significant part of the *New Deal* was focused on public spending — and as the policy of public (and deficit) spending was considered eminently a Keynesian innovation — the main merit of this programme was on the side of Keynesian theory.

Another related aspect that concurred to this decline was the parallel strength not only of Keynesian economics but also of more orthodox fields of economics. As we know, in the late 1930's, and much more in the post WWII period, there came about a massive development of the field of "micro-foundations" of economic action. This was realized also through the development of the "New Institutional Economics" (NIE) which, while recognizing the importance of institutions, tends to interpret their functioning through the lens of rational agent model.

These more "orthodox" contributions formed a kind of "alliance[5]" in the post WWII period between economic models based on an extensive use of mathematics and econometric techniques trying "to validate" the underlying hypotheses. This is not the place for detailed

[4] See in particular, Berle and Means (1932); Levin, Moulton and Warburton (1934); Mills (1936); Moulton (1935, 1943); Nourse (1944); Nourse and others (1934); Tugwell (1924); Tugwell and Hill (1934).

[5] For more details on this process refer to Yonay (1998)

assessment[6] of these models. In this respect, as we will try to show, the crisis of institutional economics can be traced to the circumstance that such discipline set an over-arching agenda which, however, has not been fully developed. Before going on, it is interesting to consider, without any claim of completeness, the main interpretations of the OIE's decline.

The Main Interpretations of the Institutionalism Decline

But what are the main interpretations of the institutionalism decline? According to Geoffrey Hodgson (2004), the weak aspects lie in the different opinions of its exponents on many relevant issues:

(a) The prevalence in the post WWII of the Ayres's tradition which had a negative effect on the development of OIE. This came about for two reasons: **(i)** the emphasis put by Ayres ─ who followed a narrow interpretation of Veblen's analysis in this respect ─ on **(a)** the "always progressive role" of technology and in **(b)** the "always negative character" of institutions appraised only as a "ceremonially-based" obstacle to economic and technical progress; **(ii)** the abandonment, in the Ayres's tradition of the OIE, of the analysis of prices and of microeconomic relations in favour of a faith in the progress based on a kind of technocratic determinism. As a result, OIE lost interpretative power of many relevant phenomena.

(b) The lack of agreement on the "fundamentals" of institutional economics: these are, in Hodgson's words, "the necessity of 'metaphysical presuppositions' for theory, the principle of determinacy, the degree of emphasis on human agency or volition, the degree of application of Darwinian principles to economics, the recognition of the enabling as well as the constraining possibilities of institutions, the degree of acceptance of Jamesian instinct-habit psychology, and the degree of accommodation to behaviourist psychology.", (Hodgson, 2004: 393).

[6] As we will also remark later on is that these contributions, while often focusing on important aspect of economic action, are too much trapped in the typical shortcomings of a positivist methodology─namely, reductionism and simplification. In this sense, the approach of OIE can help analyse more deeply concepts ─ like market imperfections, agency, expectations ─ that, although more developed in the "mainstream" domain, have a strong institutional foundations.
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(c) These problematic aspects were reinforced by the abandonment of a "truly Darwinian program" from Veblen and even more by his followers who, in Hodgson's view, adopted only a mild version of evolutionism.

Malcolm Rutherford (2011), in his reconstruction of the institutionalist movement in America during the period 1918-1947, provides a different account for its decline.
One reason is that OIE did not fulfil its intention to provide a strong psychological foundations to its theoretical framework. There were various contributions in this respect, but they were rather fragmented and rarely went beyond the stage of acute intuitions. This situation was reinforced by a similar situation in psychology (see also later).
Another reason for OIE's decline was that the theory of business cycles, despite its relevant developments, remained in a rather confused state at theoretical and policy level.
In fact, the comprehensive work of Wesley Mitchell on business cycles, while contributing with factual data to detect their complexity and unpredictability, did not provide a clear theoretical explanation for their evolution. This circumstance opened the door to the massive attack on institutionalism as being "a narrative without a theory". In Rutherford's words,

"Perhaps the most important displacement of all [of institutionalism] was that produced by the arrival of positivist ideas of science. These ideas allowed Keynesian and neoclassical economists to successfully adopt the mantle of scientific method while characterizing institutionalism as naïve empiricism….Under these circumstances, institutionalism could maintain little of the appeal that it had in the early 1920s….The rhetoric of science had been taken over by Keynesian and neoclassical economics supported by econometric methods, and the ideas of social control had been adapted and rebranded by those associated with Keynesian policy and the welfare state. Indeed, the appeal of Keynesian economics was, at base, exactly the same appeal to science and social control that institutionalism had held out previously, and generated the same enthusiasm and success.", (Rutherford, 2011: 353).

While agreeing with most of the aspects underscored by Hodgson and Rutherford, we also think that there are a few of less convincing aspects. As for Hodgson, the role attributed by him to Darwinism in economics seems a bit one-sided. True, some Darwinian concepts can help understand the characteristics of socio-economic evolution, but it seems also true

that our behaviour cannot be reduced only to a biological metaphor. In fact, human behaviour is much more open than that of animals to the manifold influence of cultural conditions. For instance, it is easily observable nowadays in western Countries a relative decline of jazz music from its golden time, with a parallel rise of various versions of pop music. True, the application of Darwinian concepts of struggle for survival, replication, selection and evolution can help understand the dynamics of this phenomenon. However, we should not forget that we are dealing only with a metaphor, for the simple reason that, in the example, the evolution of musical tastes has little to do with any "objective necessity" related to the imperatives of "natural selection". Conversely, such evolution constitutes an utterly cultural phenomenon which can find different expressions in various contexts. The same applies, of course, to many other economic and social issues.

Also technological progress, for instance, does not show a deterministic pattern but is heavily "embedded" in the economic and social structure

In this respect, an interdisciplinary approach can help attain a more far reaching understanding of these phenomena.

As for Hodgson's stress on the negative role of the abandonment of the theories of pricing, we can note that a relevant tradition in this respect existed in the institutionalist tradition.

A tradition that began with the seminal contributions of J.R.Commons and W.H.Hamilton, who elaborated central concepts for the theory and policy of competition, industrial relations and public utilities regulation. We can mention, among others, the legal foundations of transactions, markets and competition, the notion of reasonable value and due process of law, the complex character of policy action.

In this respect, even if we agree that the Veblen-Ayres's tradition can have in some way weakened the focus on microeconomics, we believe that the critical factor for the crisis of institutionalism rests, as also underlined by Hodgson, in an insufficient clarification of central aspects of method and theory. And that such weakness left OIE relatively defenceless against the increasing adoption in the profession of a positivist stance, which found expression in a widespread employ of a maths and econometrics.

As for Rutherford's analysis, we think that, in dealing with Keynes's approach, it mainly rests on a quite simplified account of his theory as a mere advocacy of deficit spending. In this regard, we believe that a distinction needs to be made much among three aspects: **(i)** the complexity of Keynes's macroeconomic theory; **(ii)** the subsequent neo-Keynesian

developments most often including neoclassical elements; and **(iii)** the simplified account of Keynesian theory in public debate as a mere advocacy of deficit spending.
On the last aspect, as we will see presently, Keynes remarked that large deficits cannot be considered a permanent solution for economic imbalances.

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We will now consider in more detail three factors which can help explain the OIE's decline: **(i)** the relations of institutional economics with Keynes's macroeconomic theory; **(ii)** the links between theoretical and empirical analysis and the supposed lack of a clear theory; **(iii)** the interdisciplinary orientation.

2. Original Institutional Economics and Keynes's Macroeconomic Theory

In this regard, it can safely be said that, in the main and with a number of exceptions, institutional economics has never been much enthusiastic[7] about Keynes's macroeconomic theory (in particular, 1931 and 1936). In fact, the main message — although very far from the complexity of Keynes's theory — that this theory seemed to convey was that the main way to push the economy was through public spending and deficit spending. And, furthermore, that large deficits could maintained over time without much damage for the economic system.
In relation to this interpretation, many institutional economists were rather critical and suspicious of Keynesian theories. Most of them remain unconvinced of Keynes's macroeconomic approach which, in their view, did not consider enough the variety of microeconomic aspects; and, in particular, they underscored the danger of a policy of deficit spending[8] on the inflation rate and on the crowding out of private sector.
This, of course, does not mean that the OIE paid little attention to macroeconomic issues. In this respect, it is worth stress that many economists belonging to institutionalism (or to fields close to it) provide relevant empirical and theoretical contributions to macroeconomic imbalances. We can mention: **(i)** the contributions to the issue of business cycle provided

[7] See also Rutherford (2011), ch.10.
[8] In this regard, Keynes remarked that large deficits cannot be considered a permanent solution for economic imbalances. In his view, what is needed for a structural solution of economic imbalances is a combination of macroeconomic and structural policies (see also later) able to reduce the tendency of economic systems to get easily trapped in under-employment equilibria.

by Veblen and Mitchell, and the analysis of the relevance of macroeconomic stability expounded by John R.Commons; **(ii)** the important but rather neglected field of underconsumption; **(iii)** the macroeconomic approach of, among others, Alvin Hansen and M.Ezekiel, which have various parallels with Keynes's theory.

However, notwithstanding this progress, it seems safe to say that the dialogue between institutional and Keynesian economists has not been very effective from both sides.
On that account, the weak aspect of the institutionalist attitude does not lie in pointing out the limitations of Keynes's theory but in not fully grasping, on the one side, the inadequacy of mainstream "macroeconomics" based on the "Say's law" and, on the other side, the challenge posed by the Keynesian approach that, although flawed by some weak aspects[9], goes well beyond a simple advocacy of deficit spending. In fact, such theory does nothing less than building anew, and virtually from scratch, the modern macroeconomic theory. As a matter of fact, before that time, no real macroeconomics existed at all. As is known, both classic and neoclassic economics strictly adhered to the so-called "Say's law", according to which aggregate supply "automatically creates" its own demand. Should economic systems work like this, no macroeconomics would be needed at all, since the sum of the individual behaviour (in particular, consumers and firms considered in severalty) would explain the aggregate outcome[10].
In this world, optimization and economic progress would proceed in tandem, provided only that the market would be let to work free from interferences on the part of the public sector. This picture was completely reversed by Keynes's theory (and also by theories close to institutionalism, such as those of underconsumption[11]). Here, while it is assumed a reasonable "perfection" — or, at least, no major imperfections — of markets at microeconomic level, it is expounded the thesis that the macroeconomic outcome can easily be at variance with an optimal allocation of resources. This is due to the structural tendency of aggregate demand to lag behind aggregate supply.
The main causes of this phenomenon are **(a)** a relative low level of the propensity to consume, which is to be traced back to the wide differences in income, since the

[9] We have addressed in more detail the main aspect of Keynes's macroeconomic approach, also in relation with the theories of underconsumption, in Hermann (2016).
[10] It can be interesting to note that it has been the adherence to such "law" that has permitted "the logical shift" from classical to neoclassical economics. In fact, classic economics, although relying on the hypothesis of perfect markets, is still constructed through the identification of neat social classes (in particular, workers and capitalists), whereas in neoclassical economics there exist only economic agents.
[11] These economists (in particular, J.A.Hobson, A.F.Mummery, W.Catchings, W.F.Foster) stressed, in different ways, that one source of economic stagnation is the insufficient capacity to consume of the working classes, which is accompanied by an excess of saving by wealthy individuals and by corporations.

propensity to consume for higher incomes is likely to be less; and **(b)** the effects of technological progress which, by tending to make redundant many jobs, require an increasing aggregate supply in order to secure the full employment level.

This is, however, not the end of the story, as at the least three other factors should be added for "closing" such macroeconomic system: **(i)** the tendency of nominal wages to lag behind inflation rate, with a consequent diminution of real wages[12]; **(ii)** the dynamics of real interest rates, their dependence upon monetary policies and their (negative) effects on the expected profits of firms (or marginal efficiency of capital, MEC); **(iii)** the role of "animal spirits", namely, the tendency of persons to embark on economic initiatives not so much on account of the prospective returns but owing to an instinctive proclivity to action.

To these aspects, which mainly pertain to the short-term dimension, it should be added Keynes's analysis of the long term perspectives in economy and society, which was developed in particular in the *Essays in Persuasion*. In that perspective, focusing attention on short-term problems constitutes only a part of a more profound awareness of the structural transformations of society. The full unfolding of these tendencies can open up new avenues of progress, in which the "economic motive" associated with the more negative traits of capitalism — selfishness, greediness, avarice — can gradually become unimportant and be replaced by social and cooperative relations.

In all this account, Keynes is fully aware — also by making explicit reference to Commons's taxonomy — of the transformation of individual capitalism into a "concerted capitalism", in which the role of public action, also in the form of semi-autonomous agencies, would play a pivotal role.

Turning to our theme, this forward-looking and articulated theory ─ which, of course, needs to be developed in various respects ─ was partly overlooked by institutional economists, as they tended to consider a simplified version of it. Relatedly, the same holds true for Keynesian economists, who paid little attention to institutional theories.

The result of the gulf so created has been a delay in better clarifying fundamental aspects of the economic systems that would have much benefited from a more systematic collaboration between these theories. We can mention, in particular, the following intertwined aspects: **(i)** the role of legal and institutional framework in promoting a balanced economic and social development; **(ii)** the role of public spending and credit

[12] This diminution performs in Keynes's analysis a complex effect: in fact, if, on the one side, the diminution of the cost of labour can incentivate investment, on the other side, the reduction of real wages can reduce effective demand, also because the propensity to consume is likely to be higher with lower incomes.

creation in the formation of effective demand; **(iii)** the links between macroeconomic and structural policies; **(iv)** the nature of expectations; **(v)** the manifold expression of market imperfections and their relations with social structure.

3. The Relations between Theoretical and Empirical Analysis

One motive of the ascendance of institutional economics lies in its claim to be more concerned with the investigation of the facts and data of the real world. This world, and in particular the economic domain, was becoming more and more complex and was characterized, along with the emergence of the modern corporation, by a growing importance of market imperfections.

In this situation, neoclassical economics, with its abstract[13] and deductive theorizing, was considered unfit to adequately address these new phenomena. Hence, a novel approach was highly needed, and institutional economics seemed ready to take up the challenge.

As noted above, institutional economists became heavily involved in many relevant issues, such as labour legislation, structure of costs and prices, business cycles, antitrust policies, public utilities regulation, public works and other areas of public intervention. As noted by Rutherford,

"All of this [activity] seems to indicate the strength of the institutionalist movement. Well established at leading universities and research institutes, with excellent access to external funding sources, involved with important government legislation and programs, and linked to recent developments in related disciplines. In all of these respects, institutionalism had as much or more strength than neoclassical economics….Nevertheless, when Wisconsin and Columbia resumed hiring in 1946-1947, it was not institutionalists who were hired, but Keynesians and neoclassical economists, indicating that some very significant shifts in the academic environment must have taken place between the 1930s and 1946-1947 when hiring resumed.", (Rutherford, 2011: 350).

Thus, the question poses itself, why occurred this decline, in spite of the matter of fact orientation of institutional economics? One reason, as we have just seen, is constituted by the affirmation of Keynesian economics. But this is by no means the sole aspect. In fact,

[13] As noted before, in that period neoclassical economics had not yet established a systematic collaboration with econometrics.

another and related reason for such decline rests in the unclear and often contradictory way in which institutional economics addressed the central issue of empirical analysis.
In order to better develop this issue, let's have a closer look at the methodological underpinnings of empirical work carried out by institutional economists. This work went along three main headings: **(i)** statistical analysis of the main economic categories (consumption, investments, profits, prices) at various levels of disaggregation, in order to enquire into the dynamics of business cycles and the characteristics of industrial sectors; **(ii)** analysis of the legislation and court decisions, with particular reference to the issues of industrial and competition policies, and of public utilities regulation; **(iii)** case studies related to particular firms, industrial sectors and other economic realities.

These activities were flourishing and produced significant results, but something stood in the way to hinder their full unfolding. As also noted before, this factor can be located in the massive development, in the post WWII period, of mathematical models and econometric analysis on the part of both neoclassical and various strands of the new Keynesian economics.
Of course, mathematical models and econometric models are quite different things — a mathematical model might not be amenable to econometric analysis and we can perform econometric estimates without a clear model, mathematic or otherwise, underlying them — but in the widespread opinion both were considered as a step towards a more "scientific and objective way" of investigating the economic phenomena. In fact, mathematical models, whether or not allowing econometric estimates, were constructed as "a piece of theory" amenable, actually or at least potentially, to empirical testing. The philosophical base of this development was the positivism, which found a development also in a narrow conception of behaviourism.

The institutionalists' reaction to these events was largely ineffectual, because they partly shared (at a higher or lesser degree) a kind of positivist attitude. For this reason, notwithstanding their relevant contributions on all the three headings '**i-iii**', they often considered "empirical and scientific" only statistical analysis (the heading '**i'** above).
In this regard, their philosophical background oscillated between pragmatism and positivism, and was never sufficiently clarified.

In fact, they adopted John Dewey's notion of behaviourism, but this was often intermingled with a positivist notion of behaviourism. However, these notions are very different and cannot be mixed up, as they refer to the following aspects:

(A) The pragmatist conception of behaviourism refers to the importance of analysing the "experience" of a person in its entirety. Hence, we should consider not only the more directly observable and "measurable" behaviour, but the whole set of feelings and orientations in their individual and collective dimension.

(B) In the positivistic conception only directly observable behaviour is considered "scientific", because, it is claimed, only this kind of behaviour can be "measured" in a more neutral and objective way.

These notions carry very different implications for social analysis. We can see this with a simple example: let us suppose we are investigating children behaviour at the school. Following a positivist orientation, the researchers will try to find a set of factors which identify the "normal" or "optimal" behaviour at the school — for instance, rate of attendance and level or proficiency — and then they will proceed to estimate, by a variety of statistical and econometric techniques, the degree of fulfilment of these objectives.

Conversely, pragmatist oriented researchers would probably carry out the same kind of analysis, but would not stop there. In that perspective, the results obtained would not be the end of the story, but would constitute only the basis for further investigation of the individual and social factors leading to a certain behaviour.

In fact, if we are studying children's behaviour, we should not forget that we are dealing with persons living in a social context. Hence, in order to get a more complete assessment of the "normality" of their behaviour, we should ideally get a profile for each child of its personal life, with the related emotions and conflicts. This study would involve also the main characteristics of its family and social relations, and of the social and institutional framework surrounding each child. For instance, social classes and groups, the organization of education, with all their values and conflicts.

Needless to say, we are aware of the difficulty of such analysis and of the expediency of identifying single parts in a complex phenomenon. Within this ambit, it can be useful to look for correlations between aggregate phenomena, namely, between phenomena involving a collective dimension.

However, we should be aware that every generalization involves a simplification, in the sense that many other factors are left out of the door. This applies especially when we try to establish a causality between factors in order “to demonstrate” the validity of a theory.

In this regard, what seems pertinent to remark is that aggregate analysis, however important, cannot become a substitute for a more comprehensive study of each person (and situation) considered. For this reason, as we will presently see, a plurality of methodologies is needed in order to carry out a comprehensive empirical analysis.

In facing these issues, institutionalists did not clearly identify and confront the various meanings of empirical analysis. They swung between a (relative) uncritical endorsement of positivist methodology and an advocacy of the importance of a far reaching approach which however, remained mostly a kind of “petition principle”.

If we consider that this came about when neoclassical and Keynesian economics — and, later on, other fields significantly related to neoclassical economics such as public choice, new institutional economics and new regulatory economics — were investigating a number of relevant phenomena (in particular, macroeconomic imbalances, market imperfections, the role of public action and of interest groups) the reasons for the crisis of institutionalism appear clearly.

A good strategy for institutionalism to cope with this challenge would have been to chart an open and thorough confrontation on the various theories dealing with these issues.

For instance, in discussing the hypothesis of rational economic behaviour, institutional economists can point out that, certainly, economic incentives can be important but cannot be reduced to the maximization behaviour implied in the neoclassical conception of *homo oeconomicus*.

In fact, as underscored by various contributions, a host of psychological and social factors are likely to enter the picture in the motivation of economic action. For this reason, the quest for money can indicate not only a desire for money as such but also a need of obtaining social approval by following a socially accepted behaviour.

In order to thoroughly address these aspects, the empirical analysis would require a plurality of methodologies. In this sense, statistical and econometric estimates should be coupled with case studies, historical analysis of larger contexts, focus groups on particular problems, also with a view of obtaining a more active involvement of the actors implied.

One relevant consequence of this broadened enquiry is that it would lead to a more pluralistic interpretation of the examined phenomena. In fact, considering these

phenomena in their real complexity would make it easier a comprehensive confrontation of different explicative theories.

A possible drawback of this methodology — pointed out in particular by mainstream economists — is that, by putting too many factors in the basket, would engender uncertainty and confusion.

These aspects can be true in a degree but, at the same time, are largely overstated. In fact, complexity does exist, and trying to overlook relevant factors in order to simplify the picture would run a double risk. Not only of leaving out of sight a number of factors but also of not making clear the underlying criteria and values of the researcher.

In this perspective, what is needed for clarifying the criteria and values employed in the analysis is a thorough process of social valuing. A central aspect of this more comprehensive analysis relates to the interdisciplinary orientation of institutional economics.

4. Data without Theories" versus 'Metaphysics' Driven Theories

The title of this paragraph refers to the harsh polemic that arose[14] between neoclassic and institutional economists over the theoretical foundations of the discipline. This debate centred about Mitchell's Presidential Address[15] before the American Economic Association in 1924. Let us now briefly address the main contents of this controversy.

The View of Wesley Clair Mitchell

In such work he started by stressing the complementarity existing between the "qualitative analysis" ─ which he relates in particular to the work of neoclassical economists on the "utility function" of an individual ─ and the quantitative analysis of more objective factors, like prices and quantities in the market.

However, in Mitchell's opinion, as quantitative analysis cannot directly demonstrate if individuals really maximise their utility, it becomes more expedient to employ and develop the techniques of quantitative analysis. In this way, by obtaining more information on a set

[14] For more detail on these aspects refer to Rutherford (2011) and Yonay (1998).

[15] This took the form of an article "Quantitative Analysis in Economic Theory", Presidential Address delivered at the 37th Annual Meeting of the American Economic Association, held in Chicago, December 1924. It was then published in *American Economic Review*, vol XV, pp.1-12, March 1925. This was followed by a rejoinder "The Present Status and Prospect of Quantitative Economics", Round Table discussion at the American Economic Association meeting, December 1927, reprinted in *American Economic Review*, vol.XVIII, supplement, pp.39-41, March 1928.

of aggregate economic phenomena ─ for instance between prices and quantities ─ some interesting “inference” can be drawn on the behaviour of economic agents considered as a group. In his words,

“It seems unlikely that quantitative workers will retain a keen interest in imaginary individuals coming to imaginary markets with ready-made scales of bid and offer prices. Their theories will probably be theories about the relationships of variables that measure objective processes….the “psychological” element in the work of these men will consist mainly of objective analysis of the economic behaviour of groups. Motives will not be disregarded, but they will be treated as problems requiring study, instead of being taken for granted as constituted explanations.”, (Mitchell 1925: 26, 27, “Quantitative Analysis in Economic Theory”, quoted from W.Mitchell *The Backward Art of Spending Money and Other Essays*, New York, Kelley, 1950).

We can note that, by anticipating a bit our subsequent discussion, that Mitchell’s position, however innovative in many respects, is weakened by a kind of positivist stance according to which only “measurable” phenomena are amenable to scientific verification. This can be seen in the following passage where, after stressing that “Motives will not be disregarded”, he adds,

“Psychologists are rapidly moving toward an objective conception and a quantitative treatment of their problems. Their emphasis upon stimulus and response sequences, upon conditioned reflexes; their eager efforts to develop performance tests, their attempt to build up a technique of experiment, favor the spread of the conception that all of the social sciences have a common aim─the understanding of human behaviour; a common method─the quantitative analysis of behaviour records, and a common aspiration─to devise ways of experimenting upon behavior.”, (Mitchell, 1925, quoted: 27).

The Neoclassical Rejoinder

The neoclassical answer was that theory should be constructed independently of real data, in particular those having a supposed “narrative character”. In this sense, theory should guide the empirical analysis, and not the other way round.

On this ground, neoclassic exponents sharply attacked institutionalism as a discipline without a theory, mainly based only on data-gathering. This can be true in a degree ─ owing to the above mentioned limitations ─ but it is also true that neoclassical position is quite weak. In order to see the shortcomings of neoclassical methodology, let us quote some passages from the Norwegian economist Ragnar Frisch,

“Let us imagine a scientist who is watching the shifting aspect of the surface of water. An empirical description of the ups and downs of the surface of the water would not lead anywhere, however minute the description was. In order to gain a real understanding of the phenomenon, our scientist would have to introduce at least three different sets of *ideas*: first, the idea of direct action of wind on the surface of the water. This would account for small waves. Next, the idea of propagation of long smells coming from the ocean. And third, the idea of ebb and flow caused by the attraction of the moon. Without introducing a model world containing these three kinds of waves, he would be hopelessly lost in his attempting at understanding the phenomena….Or…..Let us imagine that somebody wanted to explain the movement of the moon around the earth, and in order to do so, obtained the co-operation of a number of observatories on the earth. The observations obtained in this way would be interesting enough in themselves, but they would not contain any significant contribution to the problem at hand: the explanation of the orbit of the moon. The man who indicated the road to a real explanation of the phenomenon did it without any telescopes. His tools were just a pencil and a sheet of paper, and is name was *Isaac Newton*. In his imaginative mind he constructed a model world where bodies attracted each other with a force proportional to the masses of the bodies and inversely proportional to the square over their distance….The real discovery was brought about by a brain, not by a staff of patient observers. It seems to me that much of the work which has been done in economics in the recent years in its significance is comparable to minute observations of the surface of the mon in order to find out its orbit.”, [(R.Frisch, in O.Bjerkholt and D.Qin (eds.), 2011: 41-42].

Further Remarks

What can we say about such controversy?

We agree on the need to provide theoretical foundations to the phenomena under examination, but believe R.Frisch's remarks rather ungrounded. This happens because it is untrue that, in the examples, these "laws" have been construed by an abstract deduction based on an abstract reasoning. Quite the contrary, these laws have been inferred inductively from a careful observation of reality. In this regard, we can note that Newton himself derived the law of gravitation from induction, namely, from observing natural phenomena. And that, from Newton's time onwards, such law and its underlying theory have been (and are being) more and more refined and clarified as a result of a better knowledge of physical world. To that purpose, we need more powerful telescopes to see better the characteristics of the outer space but we also need more powerful microscopes in order to enquire better into the physical characteristics of the Earth and other planets.

Therefore, the supposed similarity of the neoclassical method with the one typical of natural sciences is misplaced. In natural sciences, the scientific laws do not "reduce and simplify" the complexity of the world, but add some elements to its explanation.

This comes about because in natural sciences the degree of synthesis and abstraction required to the formulation of every scientific "law" is checked by a continuous interaction between theory and observation.

Conversely, in our view, neoclassical economics' methodology seems more similar to metaphysics than to scientific enquiry. As we know, this theory is based on two basic and grand postulates ─ the "(instrumental) rationality" of economic behaviour and the optimizing properties of the market ─ which have much the character of a wishful thinking and are not open to any real "confirmation".

In fact, even when empirical analysis is held useful for studying the performance of these "laws" in real situations, the results so obtained can never change or refine such postulates, just because they have the nature of metaphysical entities. For instance, if an empirical analysis indicates that individuals behave rationally according to some proxy (for instance, if consumers choose the lowest price of an item) the theory is "confirmed". If, however, empirical observations point out the presence of "irrational behaviour" (when, for instance, consumers systematically do not choose the lowest price), this does not impinge on the prime postulates, but tends to be "rationalized away" by treating these results as exceptions or due perhaps to some unwelcome "exogenous" factor.

It is plain that this methodology can open the door to a process of simplification and misinterpretation of economic and social reality.
In this regard, it is interesting to note that the positivist methodology relying only on "quantitative phenomena" opens the flank to the supremacy of the basic tenets of neoclassical theory.
In fact, as quantitative enquiry alone cannot reach the "soul and the heart" of the phenomena, the implicit philosophical and psychological foundations underpinning the "basic principles of a theory" can never be really questioned.
In some way, a similar story took place in psychology, where the progressive affirmation of a narrow conception of behaviourism was not effectively questioned by more humanistic fields of psychology.

On these issues, institutionalists' reaction was not very effective. We can see this, for instance, Mitchell's answer (1928) to the criticisms levelled at his previous position on the importance of quantitative analysis. In such rejoinder, true, he clarified the possible limitations of quantitative analysis, which stem from the circumstance that economic and social phenomena can never be investigated with the precision of a laboratory experiment.
However (see also the next section) his view that the qualitative phenomena can properly be investigated only through identifying some measurable proxy weakens and confuses his (right) stress on the importance of empirical analysis.
In this regard, a fairly obvious rejoinder would have been that every theory should find confirmation in the empirical evidence writ large. This would include the whole set of observable[16] phenomena, both measurable and not measurable.
Considered in this light, the neoclassical claim to build a theory on the properties of an ideal economic system without reference to the real features of such system, is tantamount to a wishful thinking devoid of scientific basis.

[16] This issue brings to the fore the problem of how qualitative aspects, which most often have the character of "tacit knowledge", can be "demonstrated". For instance, how can we demonstrate that Monet's paintings are better than ours, or that we love our friends, or that Andrew is more easy-going than Peter? Of course, as noted before, we can identify quantitative proxies for many phenomena, but this does not eliminate the necessity ─ in order to avoid the danger of simplification and reductionism ─ of considering the qualitative and specific aspects of the phenomena considered. In this regard we think that, although in these matters there is no direct demonstration as in the case of, say, identifying the fastest runners, a more "qualitative oriented" demonstration is possible. For instance, arts criticism has elaborated many criteria for assessing artistic creations, and psychology has devised many criteria for understanding the qualitative aspects of feelings.
Needless to say, this kind of demonstrations will always be more tentative and open to question than the speed of runners. However, this does not imply that they are "less scientific", but only that the issues addressed are more complex.

5. The Need of an Interdisciplinary Approach

As we have seen, one distinctive aspect of institutional economics was its interdisciplinary orientation. This applies in particular to psychology, where institutionalists explicitly set out on their research agenda a close collaboration with such discipline. This can be seen, for instance, in the following passage of Mitchell,

"As soon as an economist has assimilated this idea that he is dealing with one aspect of human behaviour, he faces his share in that problem so conspicuous in current psychology, nature and nurture, the propensities with which men are born and their modifications in experience. I do not imply that the economist must read all the literature upon instincts and repressions which the psychologists publish. Doubtless acquaintance with that literature is helpful; it suggests a wide variety of hypotheses, and it makes one critical of the naïve theories of human mind which each mind proffers in profusion.", (W.C.Mitchell, "The Prospects of Economics", in R.G.Tugwell, 1924: 23).

However, despite this far-sighted agenda, institutionalism did not fully realise its promises. True, there were in the institutionalism heyday several contributions that employed (and even created) psychological concept for explaining economic behaviour.
These contributions, however, despite their innovativeness, rarely went beyond the form of acute intuitions. They remained ─ with the partial exceptions of Veblen's theory of instincts and Commons's "negotiational psychology" ─ in a rather undefined and "liquid" state and hence never hardened into a more systematic theory able to constitute an alternative to neoclassical economics. There are several reasons for this outcome, some "endogenous" and other "exogenous". Among the "endogenous factors" we can mention:

(I) In the first decades of the XX century, both neoclassical and institutional economics were still "young disciplines" and, also for this reason, were characterised by an intense debate, within and between their fields, over their core concepts and the implications for policy action. These aspects, although of course apply more to the newly born institutional economics, were relevant also for neoclassical economics. One consequence of this situation was that the boundaries[17] between neoclassic and institutional economics were more blurred than today. Hence, on the one side, **(a)** many neoclassical economists

[17] Refer for more detail to the interesting reconstruction of Yonay (1998).

seemed more willing to acknowledge that their basic hypotheses ─ the rationality of economic agents and the perfection of markets ─ constituted most often only approximation and that public intervention was needed in many cases to reduce market imperfections. And, on the other side, **(b)** many institutional economists accepted in various degrees the principles of neoclassical economics.

(II) In this situation, manifold influences intervened between institutionalists and neoclassicists, which created a lively intellectual atmosphere. Such process was strengthened by the parallel developments in the psychology and philosophy of Pragmatism, and by various developments in sociology and social psychology. We can remember, among others, the contributions of John Dewey, William James, George Herbert Mead, Charles Sanders Peirce in the sphere of Pragmatism and of Ernest W.Burgess, Charles Horton Cooley, Everett Hughes, William F.Ogburn, Carleton H.Parker, William Thomas in the realm of sociology and social psychology.
As already noted, these contributions were infused with a feeling of optimism about the potentialities of public policies to foster economic and social progress, and a positive intellectual bridge was laid out with many institutional economists. In our view, this process, while providing interesting insights on many particular aspects, had also a weak side. This can be located in a partial lack of awareness that, in order to go beyond the simplistic hypotheses of neoclassical economics ─ in particular, rational economic behaviour and perfect markets[18], with the consequent optimising equilibrium ─ and to explain the positive and negative aspects of the real world, a brand new theory of human mind was highly needed.

These aspects can also be related to the following “exogenous factors”:

[18] As already noted, many neoclassical economists were aware that these hypotheses were too simple to capture the complexity of the real economic behavior. However, they tended to regard such hypotheses as a useful approximation and to consider unnecessary any interdisciplinary collaboration. For instance, in the case of rational behavior, they tend to think that, true, there are complex reasons underlying economic behavior but it is not the business of economists to enquire into them. For the purpose of economics, it is sufficient to hold that, at least in ordinary situations, people behave in a sufficient rational way─or, at least, not in a persistent irrational way. After all, why should we not suppose a kind of “natural” rationality in human action? Put in this way, such reasoning has some strength and may be useful for a first approximation to some issues. However, in our view the unconvincing aspects of neoclassical hypotheses remain. In fact, as highlighted by many contributions of social and psychological sciences, while it is untrue that people behave in a persistent irrational way, it is likewise unrealistic to suppose a tendency towards an abstract and rational economic behavior. This comes about because such behavior is heavily embedded with the evolution of social and cultural spheres, with all the related set of values, motivations, conflicts and contradictions at individual and collective level. Hence, only a careful study of the given situation can cast light on the real social and psychological forces underlying economic action.

(III) Psychology was characterized, in the early decades of XX century, by a first development of various and often conflicting theories, which made it difficult for social scientists to get a clear orientation between them. Also for this reason, it became difficult for social scientists to employ a number of relevant psychological concepts — for instance, cognitive limits and biases, the role of emotions, the interrelations between cognitive and emotional sphere, which only later on reached a more fully-fledged development — to the study of economic and social phenomena.

(IV) At the same time, and in parallel with the relative slow progress of other fields of psychology, there was during that period a quick affirmation of behaviouristic psychology, meant in the positivistic meaning referred to above, according to which the only relevant behaviour is the one which can be observed and "measured" through a number of proxies.

The Relevance of Qualitative Analysis

For all these reasons, the institutionalists' theory of economic behaviour was not strong enough to constitute a well framed alternative to the narrow conception of *home oeconomicus*. Their contributions were significant but piecemeal and sometimes tended to shift towards a narrow conception of behaviourism. This can be seen in Mitchell's Presidential Address mentioned before. Also the following passage constitutes a good synthesis of Mitchell's position,

"…'Institutions' is merely a convenient term for the more important among the widely prevalent, highly standardized social habits. And so it seems that the behavioristic viewpoint will make economics theory more and more a study of economic institutions….The extension and improvement of statistical compilations is therefore a factor of the first consequence for the progress of economic theory. Gradually economics will become a quantitative science. It will be less concerned with puzzles about economic motives and more concerned about the objective validity of the account it gives of economic processes.", (*ibidem*: 25, 27).

The rationale underlying Mitchell's position was, however, at that time, quite innovative: in fact, it rested on the purpose of getting more precise data in order to go beyond a mere theoretical speculation not in contact with facts. This was particularly the case for the

analysis of business cycles, where he clearly recognized their complexity, their relations with the characteristics of the context, the specificity and common aspects of the various cycles.
In this sense, we believe that Mitchell's position on the importance of data is quite appropriate, with its limitation resting on considering as reliable data only those based on statistical aggregates.
In this context, the stress on the quantitative side of phenomena gradually became a common sentiment in that period, and was emphatically expressed by the following passages of F.C.Mills,

"The modern economist enumerates, measures, weighs…'When you cannot measure what are you speaking about, when you cannot express it in numbers', said Lord Kelvin, 'your knowledge is of a meager and unsatisfactory kind; it may be the beginning of knowledge, but you have scarcely in your thoughts advanced to the stage of a *science*, whatever the matter may be'….In summary: Our useful knowledge of events in the world about us is essentially statistical in nature; that is, it is not concerned fundamentally with unique, individual events, but with aggregates of events which may be described in terms of averages, of typical characteristics. In generalizing about such aggregates we are of necessity precluded from speaking in terms of invariant laws.", (F.C.Mills, "On Measurement in Economics", in R.G.Tugwell, 1924: 37, 46).

Now, it is beyond question to acknowledge the pertinence of statistical analysis for gathering a better knowledge of economic and social phenomena. The aspect we cannot agree is that the relevant data can be obtained only from statistical enquiry.
For instance, in the above example of children behaviour at school, it is certainly useful to collect statistics on attendance and performance, as well as on the characteristics of the school system and of the family and social structure of the children. But these data are neither the only relevant ones nor the only obtainable ones.
One solution to this problem, which lies at the bottom of the positivist attitude, is to broaden and refine statistical procedure by including more variables, by rendering the proxies more precise, and by devising more effective indicators.
Also this pathway can be useful, of course, but it is also true that statistical analysis cannot capture all the complexity of the phenomena under examination. The reason for this is simple enough, and consists in the circumstance that statistical data are obtained by

comparing some measurable dimension of phenomena which are composed of many other aspects. Hence, these phenomena (and in particular the complexity of persons in their individual and collective expression) are always something more than (and hence cannot be reduced to) the sum of their "more measurable" aspects. For this reason, the latter aspects, however important, can never touch directly "the soul and the heart" of the living persons. In fact, when we deal with, say, children behaviour, consumers behaviour and firms behaviour, we are dealing with the behaviour of persons, in their individual and collective dimensions, which are highly specific for each situation and unique for each person.

For this reason — and in order to avoid the well known dangers of simplification and reductionism — statistical analysis should always be coupled with case studies and other methods for acquiring more "direct and qualitative[19]" data on the phenomena under investigation.

As can be seen, these two conceptions of scientific analysis carry very different perspectives on the scope of institutional economics, also in its relation with psychological sciences.

In the case of positivist attitude, the only aspects deemed scientific are those amenable to quantitative expression whereas, in the case of pragmatist and humanistic perspectives, the analysis tries to consider all the relevant aspects — both "qualitative" and "quantitative" — which concur to identify economic and social phenomena at individual and collective level.

In this regard, the failure of institutionalists to single out the two different conceptions of empirical analysis have impaired their potential for a more comprehensive investigation of economic and social phenomena. Also for this reason, economics in its main developments (in particular, neoclassical and neo-Keynesians) in the post World War II period has become more and more "quantitative" by relying almost exclusively on econometric analysis. In this way, as already noted, the validity of the basic neoclassical hypotheses of market perfection and rational economic behaviour can never be really questioned.

However, this rather gloomy picture requires a corrective. First, despite the mentioned limitations, some interdisciplinary synergy has always occurred in the institutionalist domain. This applies especially to the philosophy and psychology of pragmatism, with the

[19] It is interesting to note that, from a different perspective, also N.Georgescu-Roegen (1971) underscored that one central implication of the entropy law for economic analysis is to facilitate the analysis of the qualitative transformations of the system.

use of the concepts of habits, social norms, social identity, cognitive faculties, purposive action for the interpretation of economic and social phenomena.
Second, and relatedly, two important institutional economists, Thorstein Veblen (1914) and John Rogers Commons (1934), developed an economic theory which makes explicit use of psychological concepts.
However, these insights remained largely undeveloped and in the shadow for many years. In fact, as already noted, the various contributions provided by institutionalists mostly remained in the stage of intuition and did not reach the state of a more organic theory. One reason for this was the notable fragmentation of the institutional field. In this sense, not only there was little synergy between the main fields of institutionalism; but also within each field, each contribution seemed to go its own way, as an intellectual island without much synergy with the others.

Conclusions: The Institutionalism's Eclipse and the New Wave of Today

As a consequence of the limitations outlined above and of more "exogenous factors" as well, institutional economics became progressively marginalized in the profession and in the society at large in the post Second World War period.
In fact, from the more orthodox perspective, it was all too easy to dismiss such school as "a narrative without a theory". But, and perhaps even worse, institutional economics largely failed to make waves even in the field[20] of heterodox oriented theories. We have seen before its problematic relation with Keynesian theories.
But also the interchange with Marxism and other theories of social justice was not a smooth one. Here, however, the situation seems slightly better. In fact, contrary to Keynesian economics, institutionalism has established a more systematic collaboration with Marxism, in particular as regards the concept of power, and the character and evolution of capitalistic institutions. However, and despite this interchange, in Marxism and other more "radical fields" of social sciences institutionalism has most often not gained a great appeal — it was not even much known within the progressive field — as it was considered either a kind of utopian radicalism à la Veblen or a kind of reformism à la Commons, "too gradualist" to fit the impatience of the revolutionary aspirations.
In this very difficult situation, institutionalists were nonetheless able to survive and produce notable contributions on a wide range of theoretical and applied issues. And, despite the

[20] Needless to say, this is a broad assessment that requires a much more careful analysis of specific factors: for instance, what happened in this respect in Europe and USA; and what had been the evolution of the various fields of OIE, also in relation to the parallel evolution of other fields of heterodox economics.

insulation and fragmentation which characterized institutionalism, and as well the whole realm of social and psychological sciences, some useful reciprocal influence did occur in the economics field. This influence occurred both ways and, for this reason, it would be mistaken to infer that institutionalists' contributions — owing to their relative marginalized position — went unnoticed among the economics profession at large.

In this respect, concepts like the importance of the institutions in economic and social life, the role of habits, the structure of power, the imperfection of markets, the distinction between the instrumental and ceremonial aspects of institutions, the role of social valuing, the relevance of the formal and informal rules, the characteristics of cultures, and the overall evolutionary perspective pervading all these aspects, have exerted a discreet but enduring influence on the way of reasoning of many economists.

This situation characterised the post Second World War period until, approximately, the late 1980's. After that period, there has been a kind of new spring of institutionalism and other heterodox perspectives, which — even if it has not pushed them to their best times — is notable and still on the ascendance.

In this phenomenon we can see the probable influence of, among many others, the following factors: **(i)** the crisis following the shocks oil of the 1970s made evident the insufficiency of the simplest versions of Keynesian policies; **(ii)** the growing awareness of the inadequacy of the more extreme versions of both central planning and neo-liberalism to address the imbalances of economic and social phenomena: in particular, highly uneven distribution of income and wealth, unemployment and deterioration of working conditions, environmental decay, political and social conflicts.

These imbalances culminated in the recent economic crisis, which has triggered a kind of a general reshuffle of all the received economic and social theories.

This has happened also within mainstream domain. True, even in our time neoclassical oriented theories are still in a "mainstream position" but their leading role is much more blurred and problematic than before.

With regard to heterodox economics, there has been a flourishing of new initiatives. New Associations have been created — for instance, the Association for Heterodox Economics (AHE), the European Association for Evolutionary Political Economy (EAEPE) and the World Economic Association (WEA) — and the existing ones (in particular, AFIT, AFEE, ICAPE, URPE) have become more active and influential. They organize an annual Conference and other initiatives, in particular for students. They also promote, or are involved in, the activities of a number of scientific Journals.

There is a growing attention to heterodox issues and there is a steady increase, although not impressive, of the people involved in these activities.

The *spectrum* of subject-matters covered by heterodox contributions is ample and continually widening. There are also many works which apply these theories to the study of specific economic and social problems, often considered in their cultural and historical perspective.

Despite this progress, the situation for heterodox economics remains troublesome.

One reason is that this germination of ideas and contributions has not succeeded in securing for heterodox economists an adequate foothold as regards financing and academic positions.

This situation is particularly dangerous for the future of heterodox economics because it does not offer adequate perspectives of tenure and career for the younger generation of economists.

A detailed analysis of this side of the problem[21] is beyond the scope of the work.

Perhaps, what is needed for the advancement of heterodox economics is a more systematic attention to policy issues. As a matter of fact, if we present our activities as a forum for pluralism, this looks fine, but risks to be perceived both by the more informed audience and by the lay people as an interesting intellectual venture with, however, no tangible results in terms of better policies. And this in a period where there is a high, explicit and latent, demand for new policy solutions for the major economic and social problems.

In order to attain this purpose, an adequate strengthening of the interdisciplinary potential of institutional economics seems paramount. In particular, a more systematic collaboration between institutional economics and psychological sciences can help locate the multiple levels of collective action, and in particular: **(i)** the complexity of individual motivations and systems of values, where the relational and social dimensions play a paramount role; **(ii)** the complexity of policy action, which involves not only governmental institutions but also every other level of collective action; **(iii)** consequently, the fact that dynamics of institutions and dynamics of policies represent complementary aspects of collective action, where, in the first (the institutions) the stress is on structure, decision-making process and cultural evolution, while in the second (the policies) the focus is on action and results.

[21] For more details see Elsner and Lee (2008), Lee (2009), Lee et.al. (2010), Reardon (2009).

In the analysis of these problems, by clarifying the needs and conflicts arising at individual and social level, institutionalism, also in collaboration with other strands of heterodox economics, can help formulate policies more based on the motivations and experiences of people involved in collective action.

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