Institutions, Policy and the Labour Market:
The Contribution of the Old Institutional Economics

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Abstract[**]

This paper seeks to examine the relationship and the interaction between institutions, policy and the labour market in the light of the ideas of the first generation of institutional economists, who, in contrast to neoclassicals, conceived of economy as a nexus of institutions, underlying, therefore, the significant role of institutional and non-market factors in the functioning of an economic system. They also argued that markets are generally imperfectly competitive, and criticized those who define (economic) welfare only in terms of efficiency and satisfaction of consumer interests; institutionalists instead focus on issues related to justice, human self-development and labourers' welfare. In addition, early institutionalists had paid considerable attention to the examination of the institutional framework of the labour market. In particular, the first generation of institutional economists highlighted the importance of institutions and other non-market parameters in determining the level of wages and employment (e.g. the role of the bargaining power of workers and employers). Furthermore, they made substantial contributions towards the field of labour policy and they were pioneers in the formulation of economic and social policy. Specifically, various modern institutions and labour market policies, such as unemployment benefits, industrial training and active employment policies, were implemented in the US, during the first decades of the 20th century, after the recommendation of the institutional labour economists. Therefore, their ideas, besides being interesting from a historical point of view, may also be useful in today's analysis of workers' problems and the functioning of modern labour markets.

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1. Introduction

It has long been recognized that labour market is different from the other markets due to the peculiar nature of labour as a “commodity”. Contrary to other “commodities”, labour has a soul. Thus, in order to understand the labour market functioning, we should not focus exclusively on the price mechanism, but should also take into consideration other crucial factors and parameters. Specifically, such factors may be the social norms, which influence – inter alia – the wage levels and workers’ behaviour, psychological factors affecting the workers’ effort and motivation, as well as labour institutions such as unemployment benefits or trade unions. The so-called Institutional Economics has long attached great significance to the above-mentioned factors, and that was one of the main reasons for its intellectual dominance in the economic analysis of labour markets during the first decades of the 20th century.

Early institutional economists conceived of economy as a nexus of institutions, arguing that markets typically operate under imperfect competition. Accordingly, besides price mechanism, institutional and non-market factors such as proprietary rights, professional and trade associations, traditions, customs, etc. play an important role in the functioning of an economy. In addition, they expressed the belief that the economic concept of welfare, in addition to the criterion of effectiveness and satisfaction of consumer desires, should include issues concerning e.g. the human “self-development”, justice and workers’ well-being.

This paper seeks to examine the relationship and the interaction between institutions, policy and the labour market in the light of the ideas of the first generation of institutional economists. The paper has the following structure: Section 2 briefly presents the main characteristics of the old institutional economics, while section 3 succinctly compares Institutional and Neoclassical economics focusing on labour market issues. The next section presents the main theses and approaches of institutional labour economics. After this discussion, section 5 looks at the old institutional approach with respect to the labour market functioning, labour policy and the role of institutions. Finally, the concluding remarks bring together some key arguments of the paper.

2. The Old Institutional School of Economics: A Brief Overview

Institutional school of economics emerged in the United States by the end of the 19th century and flourished in the first decades of the 20th century. The three generally accepted major figures of early institutional economics were Thorstein Veblen (1857-1929), Wesley Clair Mitchell (1874-1948) and John Rogers Commons (1862-1945). The first explicit (at least prominent) reference to the term "institutional economics" seems to have appeared in an article written by Walton Hamilton in 1919, entitled "The Institutional Approach to Economic Theory", which was published in the American Economic Review. However, as Hamilton pointed out, Robert Hoxie had first called himself an "institutional economist" in 1916 (Rutherford, 2003).[1] The old institutional school of economics reached its peak in the 1920s, while in the 1930s gradually began to decline, and until the end of World War II had lost much of its previous influence on economic thought (Kaufman, 2000; Rutherford, 2000; 2003; for a recent discussion about the causes of this decline see Hermann, 2018; Mayhew, 2018).

One of the fundamental institutionalist theses was that an economy should not be conceived only in terms of the market mechanism, but should also include all those institutions that operate through the market and interact with it (Samuels, 1987). In this context, the institutional structure and arrangements of the economy – and not the market mechanism – were the crucial factors for the good economic performance and the effective allocation of the productive resources; the market is nothing more than a mere, though very important, institution. But, how exactly is an institution defined? The answer to such a question cannot be absolute and unique. John Commons, for example, gives the following definition: "(...) We may define an institution as collective action in control, liberation and expansion of individual action. Collective action ranges all the way from unorganized custom to the many organized going concerns, such as the family, the corporation, the trade association, the trade union, the reserve system, the state" (Commons, 1931, p. 649).

The old Institutional school of economics composed many studies concerning practical economic issues, such as those on labour questions, and played a substantial

[1] According to Kenneth Boulding (1957, p. 3), "Wesley Mitchell claimed Richard Jones, a somewhat obscure contemporary of Ricardo, as perhaps the first institutionalist, though if we make the term vague enough Sir William Petty has a good claim to this somewhat dubious honor".

role in the formation of the US labour legislation during the first decades of the 20^{th} century (Katselidis, 2011). In the words of Edwin Witte, who was a prominent institutional economist at Wisconsin School, "Institutional economists are not so much concerned with the explanation of all economic phenomena as with the solution of particular economic problems of immediate significance. John R. Commons studied labour problems to find out what was the best way for dealing with industrial conflict, with child labour, industrial accidents, sweat shop wages, and many similar questions (…) It is the practical problems approach which above all others characterizes institutional economics" (Witte, 1954, p. 133). Furthermore, these reform-minded academic economists founded in 1906 the American Association for Labour Legislation (AALL), "launching a national movement for compulsory social insurance and protective labour legislation. The leaders of the AALL were motivated primarily by the problem of worker insecurity (…) They believed that state intervention was necessary because workers and their families were unable to protect themselves against potentially devastating industrial hazards" (Moss, 1996, pp. 2-3). Thus, they had a significant impact on the formation of the US welfare state and highly affected the making of the New Deal policy of President Roosevelt in the 1930s.[2] Finally, institutionalists, by adopting an interdisciplinary approach in their works, extended as well their contributions to non-economic fields such as sociology, psychology and labour history (Hermann, 2018).

Labour institutionalism had several roots, such as the "German Historical School" of economics, the progressive reform movement in America and some dissenting British economists, including Sidney and Beatrice Webb and William Beveridge (Kaufman, 2004). In addition, some late nineteenth-century American economists, such as Richard Ely and Henry Carter Adams, who both had studied in Germany and were influenced by the historical school of economics, were the main origins of the Institutionalists' emphasis on legal institutions (Rutherford, 2003). All the above-mentioned sources of influence "led the institutional economists to adopt an empiricist approach to theorizing, namely they first collect the data and the observations, involving themselves in the facts (Richard Ely's "look and see" method), and then adduce from the facts and other grounded empirical work the major

[2] Specifically, the institutional economists of Wisconsin school made significant contributions to the New Deal policies (Kaufman, 2003).

premises for theorizing, so as to draw conclusions about reality. This approach was opposed to the deductive, a priori method of mainstream economics" (Katselidis, 2011, pp. 988-989). Additionally, the interest of institutional economists for social reform, and their belief that the state can significantly contribute to this end, had also its roots in "historical economics" (Tribe, 2003).

The philosophical background (Weltanschauung) of old institutional economics was shaped by both European (e.g. Hegel, Darwin and Spencer) and American (e.g. Peirce, James and Dewey) intellectual influences, leading the institutionalists to «view the economic order as an evolving scheme of things or cultural process (...) [that is] as an open system subject to change and growth" (Gruchy, 1967 [1947], pp. 17 and 19). Within such a system, the individual is considered a social being whose behaviour is affected by the force of habit and formed by the individual's interaction with the other members of the community. Thus, in contrast to the mechanistic and static perception of classical and neoclassical economic tradition, institutional economists regarded the economic system as a dynamic and evolutionary process (Papageorgiou et al, 2013). Their methodological approach has been characterized as holistic since they were interested in the functioning of the economy as a whole, as opposed to the methodological individualism of the neoclassical paradigm (Biddle and Samuels, 1998).

Institutionalists argued that the understanding of the institutional structure of an economy is also a basic prerequisite for finding solutions to problems of economic and labour policy. Nevertheless, institutions should not be regarded as given, since they are human constructs and are subject to perpetual change (Witte, 1954). Furthermore, the (direct) observation of the real world – and not the construction of (abstract) models – was a main component of institutional economics, whose members did not regard economics as an exercise of logic, but as an endeavor to explain the behaviour of the real economies. As Bruce Kaufman put the matter (2004, pp. 16-17): "The labour institutionalist's methodological approach to research is distinguished by four key features: the emphasis on fact-gathering, the importance of realism of assumptions, the virtues of a 'go and see' participant/observer method of investigation, and the necessity of an interdisciplinary approach to theory construction. These methodological predispositions arose, in turn, from the institutionalist's dual focus on reforming both orthodox theory and national labour policy and workplace employment practices".

3. Institutionalism vs. Neoclassical Economics: A Brief Comparison Focused on Labour Market Issues

The early economic literature on labour institutions and their objectives was rather short and incomplete. Despite the fact that from the beginnings of economic science both the concept of the market and that of labour had a central role in economic thought, labour market analysis and the examination of industrial problems had been limited for a very long time. In particular, "classical economic thought advocated free labour markets and considered the relationship between labour and labour to be non-competitive" (Drakopoulos and Katselidis, 2014, p. 1135). In addition, classical economists were more interested in long-term economic processes under the assumption of perfectly competitive markets, and less about the actual conditions of the (imperfect) job market. On the other hand, marginalists and early neoclassical analysts, such as Stanley Jevons and Francis Edgeworth, asserted that the existence of labour institutions, like trade unions, renders the labour market problem mathematically indeterminate (Edgeworth, 1881; Jevons, 1882). Therefore, practical issues concerning labour did not pertain to economic science (see e.g. Jevons, 1882, pp. 154-155). In other words, "according to orthodox theory, labour problems either do not exist (e.g., unemployment is a voluntary choice) or are best solved by individual initiative and market forces" (Kaufman, 2004, p. 18).

Therefore, it was straightforward that neoclassical economics, under the hypothesis of perfectly competitive markets, could not shed light on fundamental labour market issues, including the role of collective bargaining, the interplay between labour unions and employers' associations, or labour legislation matters. Thus, the goal of the institutional economists was twofold: "On the one hand, they attempted to make labour problems more widely known, emphasizing the crucial role of labour issues both in the economy and the society. On the other hand, they tried to 'prove' that the neoclassical analysis could not contribute to any solution of this kind of problems; therefore, a different scientific approach was needed" (Katselidis, 2011, p. 988).

Neoclassical theorists have conceived of labour as a pure commodity or a factor of production. Hence, the payment of labour in the neoclassical system is determined by the marginal productivity theory, according to which wages are equal to the value of marginal product of labour, under the hypothesis of perfect competition both between workers and between employers (see e.g. Clark, 1899, pp. 166 and 179). Moreover, the marginal productivity condition determines also the level of the demand for labour. Nevertheless, the final magnitude of wages and employment is also influenced by the supply of labour. In the words of Alfred Marshall ([1920/1890]1949, p. 442), “demand and supply exert co-ordinate influences on wages; neither has a claim to predominance; any more than has either blade of a pair of scissors, or either pier of an arch”. The neoclassical supply of labour relied upon the utilitarian hedonic principle, according to which, the labour supply has a negative utility for the worker. Therefore, for Jevons, the founder of the neoclassical theory of the supply of labour, labour may be defined as follows: “Labour is any painful exertion of mind or body undergone partly or wholly with a view to future good (…) It is possible that the true solution will consist in treating labour as a case of negative utility, or negative mingled with positive utility” (Jevons [1879/1871] 1965, pp. 168-169). The neoclassical conception of labour was in full contrast to the institutional viewpoint; for instance, the institutional-Veblenian notion of the “instinct of workmanship”, which, according to Veblen, was one of the three fundamental drives or instincts that govern human behaviour, was diametrically opposed to the hedonistic interpretation of human behaviour (Veblen, 1898).[3] More precisely, “the ‘instinct of workmanship’ is a generic feature of human nature that guides the life of man in his utilization of material things and gives rise to a proclivity for purposeful action” (Cordes, 2005, p. 2).

Furthermore, during at least the first third of the 20th century, Arthur Pigou may be regarded as the most prominent early neoclassical author on the labour market analysis. Specifically, Pigou was one of the first neoclassical economists who found a strong positive correlation between real wages rate and unemployment level, attributing more and more importance to wage rigidities as the main cause of the unemployment problem. Additionally, in contrast to the institutional economists, he

[3] The other two were the “instinct of idle curiosity” and the “instinct of parental bent” (for more details, see e.g. Papageorgiou et al, 2013)

considered particular institutional factors like the trade unions' power or the minimum wages to be mainly responsible for labour market malfunctioning (Pigou, 1913; 1927).

On the other hand, the majority of the institutional economists underlined the importance of social and institutional parameters in determining the level of wages and strongly expressed their reservations as regards the connection of the principle of marginal productivity with the real firms' conduct (see e.g. Lescohier, 1935). Moreover, institutionalists argued that the nature of labour supply is totally different from the supply of other input factors or commodities. For instance, Wisconsin institutionalism emphasized the significant role of human will in economic life and tried to construct a human theory of labour as an alternative to a mechanical/physics type theory of mainstream/neoclassical economics (Commons, 1950; Kaufman, 2008). In the words of Don Lescohier, an influential member of the Wisconsin institutional school, "labour is an expression of the personal energy of a human being. The productive energy which the labourer sells to his employer is inseparable in existence and in use from the personality of the labourer (…) The labour supply has other interests than work. It is produced in response to other than economic motives. It comes into existence through human reasons, not for market demands" (Lescohier, 1919a, pp. 10-11).

In spite of the afore-mentioned differences - both in theory and methods - between early neoclassical and institutional economists, it is worth noting that there were also some convergent points of view. For instance, Arthur Pigou, in his work *Unemployment* (1913), endorsed some policies and labour market institutions proposed by institutional economists, such as insurance against unemployment or a net of labour exchanges (Katselidis, 2011). In particular, Pigou stated that "the volume of unemployment is likely to be diminished by any device which enables workpeople to ascertain where work is wanted and to move freely towards available vacancies. Labour Exchanges are a device of this kind" (Pigou, 1913, p. 245). In addition, he asserted that "besides investigating *remedies* (…) it has also been found necessary to investigate *palliatives*, in the sense of means to alleviate the evil consequences to which a given amount of unemployment leads. Among these palliatives the most important are the device of meeting periods of depression by organized short-time instead of the dismissal of hands, and the device of insurance against unemployment" (Pigou, 1913, p. 246, italics in original). Moreover, it is also noteworthy that Alfred Marshall did not piously adopt the abstract - deductive approach with respect to labour issues. Although Marshall's labour market approach was not differentiated from the competitive market reasoning, he developed some arguments which seem to bear close resemblance to the institutional analysis. As Marshall put the matter: "In fact there is no such thing in modern civilization as a general rate of wages. Each of a hundred or more groups of workers has its own wage problem, its own set of special causes, natural and artificial, controlling the supply-price, and limiting the number of its members; each has its own demand-price governed by the need that other agents of production have of its services" (Marshall, [1920/1890]1949, p. 442).

4. Institutional Labour Economics

As already noted, the first systematic and special studies on the labour markets and their problems emerged in the last decades of the 19th century and the first decades of the 20th century. During that period, the large Western economies were gradually driven to full industrialization and production concentrated in big factories where, in many cases, mainly in the US, a scientific organization of the work process (Taylorism) was adopted. At the same time, labour was taking the form of "regular employment", and a large part of the workforce consisted of salaried employees (Dedousopoulos, 2000; Wisman and Pacitti, 2004). Then, the trade union movement in Europe and America was significantly strengthened, and the first powerful factory unions, which enumerated thousand members, were created. Within this historical context, the first generation of institutional economists provided their analyses on numerous labour issues.

The labour market, as an imperfect human-made institution, may break down due to various reasons, causing thus a host of problems. Institutional labour economists tried to resolve these "labour questions" primarily through three means/methods: unions, labour law and (personnel) management. Firstly, mainly during the period from 1885-86 to 1905-06, there were a considerable number of labour studies and books focusing on the problems of organized-unionized labour. Accordingly, that trend in the labour studies placed emphasis on the various evils connected to the use of labour in an industrial system, on trade unionism and collective bargaining (McNulty, 1980). For example, a popular work in American literature related to the study of organized labour was the Thomas S. Adams and Helen L. Sumner's textbook *Labour Problems* (1905).[4] However, it is here noteworthy that the analysis of all these works published during the first phase of labour institutionalism concerned more the impact of labour problems on individuals than on the economy (Brissenden, 1926).

After about 1905, there was a shift as regards the ways to address the various labour issues, instigating thus the second "phase" in the study of labour problems and solutions. In particular, labour specialists and policy makers attributed more and more importance to labour law and specifically to social insurance and protective labour legislation (Kaufman, 2003). "That shift played also a role to the gradual emphasis given to the labour market as an institution and how the employment relationship is embedded and operates within a web of institutions" (Katselidis, 2011, p. 993). In addition, as has been mentioned, the "American Association for the Labour Legislation" was founded in 1906, encouraging this kind of research, and Commons and Andrews's book entitled *Principles of Labour Legislation* (1916) was regarded as the leading work in this area down to about the mid-1930s. Labour institutionalists, by underlying the peculiar nature of the labour contract, conceived of labour and the "free access to a labour market" as an intangible property right: "It is intangible because it is merely the act of offering and yet withholding services or commodities. It is property and becomes labour in the sense that it is the power of getting value in exchange" (Commons and Andrews, 1916, p. 8). For that reason, the government should intervene both in the economy and the labour market in order to protect the afore-mentioned property right.

Around WWI the field of industrial relations/personnel management emerged, commencing a third "phase" of labour institutionalism. Don Lescohier, who was one of the pioneers in the study and instruction of personnel management (see Lescohier, 1960), recommended the creation of employment departments within industries in order to "reduce labour turnover, improve labour selection, improve the training of workers, and increase per capita productivity" (Brandeis and Lescohier, 1935, p. 324).

[4] To be accurate, we should note that some (not many) chapters in the Adams and Sumner's textbook dealt with non-union issues.

In general, early labour institutionalists, such as John Commons, Don Lescohier, William Leiserson and Sumner Slichter, made a substantial contribution towards the examination, development and promotion of this new approach to labour management, stressing its positive impact both on employee relations as well as on firms' profits (Kaufman, 2008). For instance, Commons, in his book *Industrial Goodwill* (1919), strongly criticized the old personnel methods such as the so-called "drive" methods of management and the scientific management, known as Taylorism. On the other hand, he highlighted the positive consequences of more participative and collaborative practices like his "goodwill" approach. Specifically, in the words of Commons, "scientific management, since it begins and ends with individuals separated from their fellows, has the defects of autocracy. It means government by experts (…) But goodwill is reciprocity. It is not government at all, but mutual concession" (Commons, 1919, p. 19).

It is worth pointing out here that all the above-mentioned research approaches and programs were influenced both by the scientific progress in the labour studies field and by the real life phenomena such as the disorganized nature of the American labour market or the pervasive dissatisfaction displayed by workers. "Thus, the serious economic and political pressures generated by the WWI, in conjunction with the development of the institutional program of labour studies, help explain why institutional economists gave emphasis to certain subjects such as labour turnover, labour management or the organization of the labour market through an extensive system of labour Exchanges" (Katselidis, 2011, p. 993).

In short, as seen above, labour institutionalists strongly criticized both the unreal character of the various neoclassical assumptions and the overreliance on abstract mathematical analysis. For instance, in a review of the Paul Douglas's outstanding work *The Theory of Wages*, Lescohier held that "Professor Douglas relies too much upon the truth of assumptions and estimated probabilities which he incorporates as raw materials into his analysis; and that the reader must watch carefully lest he accept conclusions based in part upon foundations that are questionable" (Lescohier, 1935, p. 277). To sum up, in institutionalists' work can be found the "rejection of the three then-prevalent orthodox doctrines: the commodity conception of labour, a laissez-faire approach to market/employment regulation, and the monarchial or 'employer autocracy' model of work force governance" (Kaufman, 2003, p. 4).

5. The Labour Market Functioning, Labour Policy and the Role of Institutions

As has been stressed, the American institutionalists held that the labour market should be conceived as a major institution which significantly affects and organizes the employment relationship. This employee-employer relationship, as embedded in the employment contracts, is not regarded only as a kind of market transaction, but it is also formed through the interaction of legal, economic, social and political factors. For that reason, institutional economists contended that the study of labour issues requires the adoption of a multidisciplinary approach (Kaufman, 2006). In addition, they recognized that labour, even conceived as a commodity, displays at least two important peculiarities: (a) in a free labour market, the "labour commodity" is sold for a specified time period, preserving thus the worker's personal freedom, and (b) it is a commodity that cannot be separated from its owner. Therefore, institutionalists argued that the labourer is not just an input in the productive process or a tool of production. On the contrary, most emphasized the human and social aspects of work, regarding the worker as a citizen and a social being who has family, personal life, etc. (see e.g. Commons and Andrews, 1916; Lescohier, 1919b). They also considered that the monolithic perception of labour as a market commodity and a supplement to the other factors of production impedes the implementation of these policies which promote labourers' welfare, a better education system, health protection, improvement of living conditions of the working class etc. (Commons and Andrews, 1916; see also Gruchy 1967 [1947]). In short, "labour, unlike other inputs, is embodied in human beings and the condition and outcomes of work experienced by human beings carry a much higher moral significance" (Kaufman, 2006, p. 302).

Furthermore, institutional economists, by stressing the importance of collective action, rejected the neoclassical conception of society as a simple sum of individuals (Commons, 1934). Therefore, an additional essential characteristic that differentiates labour from the other factors of production is the collective behaviour of individuals that induce them to form groups and unions based on common interests and goals (Wolman, 1924; Perlman, 1928; 1936; see also Tarling, 1987, p. 87). Accordingly, early institutional economists, such as John R. Commons, were advocates of collective action through unionism, claiming that the bulk of the American union movement (the American Federation of Labour) was chiefly motivated by economic concerns (Rutherford, 2000; Drakopoulos and Katselidis, 2014). Moreover, old institutional economists, such as George Barnett, Robert Hoxie and Selig Perlman, by adopting an interdisciplinary – more sociological-historical – approach, did not seek to formalize their ideas on trade unions. This perspective, in accordance with their holistic methodological approach, placed emphasis "on the social nature of man, collective decision making, and particular institutional histories" (Drakopoulos and Katselidis, 2014, p. 1136; for a discussion, see Rutherford, 1989; 2009). In general, institutionalists "conceived of unions as politico-economic organizations whose members were motivated by relative comparisons and were concerned with issues of equity and justice (…) They also sought to place unions into different categories according to their structure, specific purpose, or social function[5] (…) Additionally, they described in detail the various duties and responsibilities of unions, and explained the factors that influenced the development of unionism" (Drakopoulos and Katselidis, 2014, p. 1136).

Institutional labour economists were at that time in front of a host of labour issues and questions that require investigation and resolution: first, workers were exposed to many risks, facing a variety of problems such as low wages, poor and unhealthy working conditions, frequent labour accidents, gruelling working hours, unemployment etc. Therefore, the creation of those institutions, like for example minimum wages and accident prevention statutes, that would protect employees and restrict their suffering was indispensable (Commons and Andrews, 1916). Second, cyclical as well as seasonal fluctuations were permanent in the US economy, making both product and labour markets highly volatile. Thus, the stabilization of these markets and the reduction of casual and unstable employment were also two crucial issues (Lescohier, 1919a). Third, the relationship between workers and employers was to some degree confrontational; institutionalists were in favour of the alleviation of this struggle through institutional measures and labour laws. In a similar vein, they also supported the equality of bargaining power of employers and workers

[5] Hoxie's discussion (1914a, 1914b) of various "types" of unionism is indicative of this direction.

(Commons, 1919). Finally, a fourth important issue, with adverse effects both in employees and employers, was related to the workers' behaviour and attitude. Specifically, workers were often indifferent to their work and their duties; for that reason, institutionalists proposed ways of improving work climate and employee involvement in the operation and management of the companies (Slichter, 1926).

The main pillars of the institutional school's agenda with respect to labour market policy and the creation of appropriate institutions were the following: first of all, the American institutional economists strongly supported the systematic organization of the labour market through the institution of manpower employment agencies that would contribute, inter alia, to the increase of market efficiency (Leiserson, 1914; 1917; Lescohier, 1919a). Second, they suggested strengthening regular and stable employment and reducing the very high rate of labour turnover, i.e. the workers' movement rate from one job to another, which was considered to be one of the most serious evils of the industrial life. Besides their attempt to find the causes and remedies of the problem, institutionalists tried to statistically analyse it so as to determine, if possible, the optimal-normal turnover rate (Slichter, 1919; Brissenden and Frankel, 1922). Thirdly, they underlined the importance of the systematic policy of vocational education and training with a view to further developing employee skills (Lescohier, 1919a). Institutional economists seem to have been influenced by the so-called industrial education/vocational guidance movement developed in the United States in the period under consideration. The "Vocationalists", like Frank Parsons and Meyer Bloomfield, argued that the school, viz. the education of the young people, and the labour market should be closely connected (Katselidis, 2011). In a similar vein, they stated that "social problems could be solved by changing the individual (…) and had long criticized industry for its 'wasteful' recruiting techniques" (Jacoby, 2004, pp. 51 and 68). Fourthly, institutional economists were the founders of the personnel management and industrial relations, developing progressive ideas about how to manage employees in enterprises (Commons, 1919; Leiserson, 1959). Here again we may find an intellectual connection between Institutionalists and Vocationalists, since the latter "became some of the most active proponents of personnel management, and they infused the new profession with an abiding interest in employee selection and career development" (Jacoby, 2004, p. 50).

Moreover, a fifth pillar of the early institutional labour market policy agenda is related to the institutionalists' aim to improve working conditions with an emphasis on healthy workplaces (Lescohier, 1919a). Sixth, they proposed a counter-cyclical macroeconomic policy aimed at smoothing both cyclical economic fluctuations and the destructive, as proved, rapid rises and falls in the size of the production activity and employment (Commons, 1934; for a discussion see Kaufman, 2006). Finally, institutionalists were pioneers in the issue of social security, proposing, for example, insurance against unemployment and medical insurance (Altmeyer, 1937; 1950; Witte, 1935). For instance, Edwin Witte writes: "Unemployment compensation is not conceived of as a complete protection against the hazards of unemployment. In no country in the world has it proved so. This does not mean that unemployment compensation is valueless. Far from it. It is a first line of defence, valuable particularly for those workers who are ordinarily regularly employed – the great majority of our industrial workers and the largest element in our entire population" (Witte, 1935, p. 90).

6. Concluding Remarks

The early institutional economists helped shape labour market policy in the US during the first decades of the 20^{th} century, aiming both at the improvement of working conditions and the rise in the labourers' standard of living. The observed labour market inequalities and malfunctions rendered imperative the creation of mechanisms for the redistribution and readjustment of power between employees and employers. The majority of the old institutional economists attached great significance and attention to real life economic phenomena and empirical facts, stressing that not only should economic theory of labour markets be relied on realistic assumptions, but it should also be tested empirically.

Institutional economists, in contrast to neoclassicals, regarded economy as a nexus of institutions, underlying, therefore, the important role of institutional and non-market factors (e.g. property rights, professional and trade associations, tradition, social norms and customs) in the functioning of an economic system. They also argued that markets are generally imperfectly competitive, and criticized those who define (economic) welfare only in terms of efficiency and satisfaction of consumer wants; institutionalists instead focus on issues related to justice, human self-development and labourers' welfare.

The classical and early neoclassical economists did not pay much attention to the economic analysis of labour market institutions since they contend that such an issue was outside the standard domain of economic analysis (e.g. Jevons, 1882), and that the institutional presence hampers the application of formalism to economics (e.g. Edgeworth, 1881). By contrast, early institutionalists had paid considerable attention to the examination of the institutional framework of the labour market. In particular, the first generation of institutional economists highlighted the importance of institutions and other non-market factors in determining the level of wages and employment (e.g. the role of the bargaining power of workers and employers). Furthermore, they made substantial contributions towards the field of labour policy and they were pioneers in the formulation of economic and social policy. Specifically, after the recommendation of the institutional labour economists, various modern institutions and labour market policies, such as unemployment benefits, industrial training and active employment policies, were implemented in the US during the period under consideration. Hence, judging by the number of their published papers in leading scientific economic journals and by their participation in various committees and councils, it seems that institutionalists were very influential both in the scientific circles and the government officials. Therefore, their ideas, besides being interesting from a historical point of view, may also be useful in today's analysis of workers' problems and the functioning of modern labour markets.

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