

**The Psychological Contributions of Pragmatism and
of Original Institutional Economics and
Their Implications for Policy Action**

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Introductory Abstract

The aim of this work is to illustrate the psychological contributions of Pragmatism and of the Original Institutional Economics (also referred to as OIE or institutionalism), and their relevance for improving the process of social valuing and then the effectiveness of policy action.

As a matter of fact, both institutionalist and pragmatist theories were well acquainted with various strands of psychology, and some of them also provided relevant contributions in this respect. Moreover, these theories present significant complementarities both between themselves and with important concepts of social psychology and psychoanalysis. The work will address the following aspects:

(I) The main characteristics of pragmatist psychology, especially in their social implications. We will chiefly analyse the main works of William James and George Herbert Mead, with particular attention to their social implications. We will also underscore the relevance of John Dewey's seminal article, "The Reflex Arc Concept in Psychology", which reached out to many domains of social and psychological sciences.

(II) The psychological contributions of institutionalism. We will pay particular attention to Thorstein Veblen's theory of instincts and John Rogers Commons's theory of negotiational psychology.

We highlight the circumstance that these theories present, despite a number of differences, relevant complementarities.

For instance, it seems true that, **(i)** as underscored by Veblen, persons are driven in their action by their instincts (or propensities), which interact in a complex way with the characteristics of the institutional context; and that **(ii)**, at the same time, as highlighted by Commons, persons acquire in their reciprocal interaction an "institutionalized mind" that orients the expression of their propensities according to their role in economy and society.

(III) The interdisciplinary potential of pragmatist and institutionalist psychologies and some difficulty for their unfolding. We then look at the role that psychoanalysis can play in understanding economic and social phenomena and in promoting social change.

(IV) The implications of the previous analysis for improving the process of policy formulation. We will address in particular the intertwined issues of social valuing and democratic planning.

Such interdisciplinary perspective, by rendering "endogenous" many aspects usually treated as "exogenous variables" in orthodox domain, will open the way to a better understanding of many complex and interrelated phenomena. These include consumers' and workers' motivations, micro and macroeconomic imbalances, the structural transformations of the system, the issues of social justice and environmental sustainability. For instance, in devising policies for promoting workers' motivations, the focus will be not only on the monetary side but also on the adoption of measures aimed at promoting participation in the management of their institutions.

1. The Main Characteristics of Pragmatist Psychology

Introduction

In this paragraph we will focus some relevant contributions of the psychology of pragmatism, also in relation to their links with OIE's psychological perspective.

We will consider some aspects of the contributions of William James and George Herbert Mead. For space reasons, we do not address another important author, John Dewey, whose interdisciplinary perspective on freedom, culture and democracy we have considered in another work (Hermann, 2011).

Now we briefly consider Dewey's seminal article, "The Reflex Arc Concept in Psychology", which has exerted a far reaching influence not only in pragmatist field but in the larger domain of psychological sciences.

The main objective of the article is to explain the mechanism of body reactions to external events. A typical example is that of a child and a candle: it is first attracted by visual stimulus to touch the candle, but when he got burnt he suddenly withdraw the hand.

In this instance, the most obvious explanation, which was elaborated in the notion of reflex arc, assumes a dichotomy stimulus-response, according to which an "exogenous" factor would trigger a kind of automatic response in the body. In his article, Dewey strongly underscores that such apparently obvious dichotomy is totally fallacious. Moreover, such dualism opens the way to a parallel dichotomy between mind and body which, in turn, lies at the basis of behaviouristic (and positivistic and reductionist) psychology, according to which only external and measurable phenomena are truly "scientific".

The reason for the fallacy of the dichotomy stimulus-response rests in the circumstance that, in Dewey's words, "the so-called response is not merely *to* the stimulus; it is *into* it."

In fact, while the stimulus most often originates from external factors, it is also true that such stimulus must be interpreted and mediated by the person according to previous experiences. For instance, in the case of the candle, only the burning experience will teach the boy to withdraw the hand. In this sense, the response is a part of a more ample coordination process, similar not to an arc but to a circuit.

In his words, "It is the coordination which unifies that which the reflex arc concept gives us only in disjointed fragments. It is the circuit within which fall distinctions of stimulus and response as functional phases of its mediation and completion. The point of his story is in its application; but the application of it to the question of the nature of psychic evolution, the distinction between sensational and rational consciousness, and the nature of judgement must be deferred to a more favourable opportunity."

From this passage emerges clearly that Dewey was well aware of the implications of a more encompassing conception of human action.

1.1 The *Principles of Psychology* of William James

We will analyse some relevant and intertwined concepts of his psychology.

Habits

The concept of habit has played a key role within the Pragmatist approach, also for its influence on institutional economics. In this regard, important contributions were provided by William James, who, in his *Principles of Psychology*, investigated the role of habits in both individual and collective dimension. In the individual dimension, the disposition of the person to form habits is explained by James as a result of the circumstance that,

"Man is born with a tendency to do more things than he has ready-made arrangements for in his nerve centres....If practice did not make perfect, nor habit economize the expense of nervous and muscular energy, he would therefore be in a sorry plight.", [James, *The Principles of Psychology*, vol.I, 1950 (1890): 113].

In this sense, the set of personal habits performs the important function of reducing the conscious attention upon them. This entails the apparent paradoxical result that the person, although routinely performing a number of actions, is largely unable to know *how* he or she has performed them. This concept is expressed in the following passage,

"We all of us have a definite routine manner of performing certain daily offices connected with the toilet, with the opening and shutting of familiar cupboards, and the like. Our lower centres know the order of these movements, and show their knowledge by their 'surprise' if the objects are altered so as to oblige the movement to be made in a different way. But our higher thought-centres know hardly anything about the matter. Few men can tell off-hand which sock, shoe, or trousers-leg they put on first. They must first mentally rehearse the act; and even that is often insufficient—the act must be *performed*.", (*ibidem*: 115).

The interesting aspect of this analysis is that, in describing some important features of personal habits, it also casts light on the role of collective habits in social dynamics. As a matter of fact, habits constitute the normal way of working not only of personal life but also, in a complex interplay of reciprocal influences, of collective life. The following passages convey these concepts vividly,

"Habit is thus the enormous fly-wheel of society, its most precious conservative agent. It alone is what keeps us all within the bounds of ordinance, and saves the children of fortune from the envious uprising of the poor. It alone prevents the hardest and most repulsive walks of life from being deserted by those brought up to tread therein. It keeps the fisherman and the deck-hand at sea through the winter; it holds the miner in his darkness, and nails the countryman to his log-cabin and his lonely farm through all the months of snow; it protects us from invasion by the natives of the desert and frozen zones....It keeps different social strata from mixing.", (*ibidem*: 121).

This analysis of habits is significantly linked to the role that the continual flux of actions plays on their formation. In fact, habits are acquired or eliminated cumulatively and are intimately connected with the system of values of the person. This is related to an important concept of Pragmatism, namely, that individuals do not unfold their personalities in abstract terms but out of their actions in both the individual and collective spheres. In this light, the person is considered as an active agent seeking to attain his or her goals

which, however, cannot be reduced to a simple hedonistic principle. These goals, in fact, embrace all the complex set of values and motivations of persons in their interaction with the social structure and, for this reason, should be studied in their evolutionary patterns. Consequently, habits are not "neutral and automatic behavioural blueprints" as they carry with them, partly at an unconscious level, all the complex, often conflicting, aspects making up the individual personality. In this sense, habits constitute the "psychological procedures" through which the emotions, motivations and values of the person find their concrete expression. Thus, it is necessary to continually improve personal behaviour through the acquisition of "sound habits" and the elimination of bad ones:

"No matter how full a reservoir of *maxims* one may possess, and no matter how good one's *sentiments* may be, if one have not taken advantage of every concrete opportunity to *act*, one's character may remain entirely unaffected for the better....There is no more contemptible type of human character than that of the nerveless sentimentalist and dreamer, who spends his life in a weltering sea of sensibility and emotion, but who never does a manly concrete deed....Every smallest stroke of virtue or of vice leaves its never so little scar. The drunken Rip Van Winkle, in Jefferson's play, excuses himself for every fresh dereliction by saying, 'I won't count this time!' Well! He may not count it, and a kind Heaven may not count it; but it is being counted none the less. Down among his nerve-cells and fibres the molecules are counting it, registering and storing it up to be used against him when the next temptation comes. Nothing we ever do is, in strict scientific literalness, wiped out. Of course, this has its good side as well as its bad one. As we become permanent drunkards by so many separate drinks, so we become saints in the moral, and authorities and experts in the practical and scientific spheres, by so many separate acts and hours of work.", (*ibidem*: 125, 127).

By developing these insights, pragmatist thinkers have stressed in many contributions the twofold nature of habits. Indeed, habits embody and synthesize, in an evolutionary way, the principles, values and knowledge accumulated over time. In this sense, they exhibit in every context both the ceremonial and instrumental aspects pointed out by institutional economists (later in the paper). As described effectively by Veblen, ceremonial behaviour is rigid, past-binding and based on a passive acceptance of the norms followed. In contrast, instrumental behaviour possesses a matter-of-fact quality aimed at problem solving activities. Within this ambit, technology-based activities are considered, especially in Veblen's and Ayres's analyses, the best example of instrumental behaviour. From these insights, it follows that habits constitute a necessary factor for accumulating knowledge within institutions and, at the same time, an element which may hinder this process.

Other Relevant Concepts: Emotions, Instincts, Will

We will now make a sketch of some other relevant concepts developed by James especially in his *Principles of Psychology*. Surely one of most famous is his theory of emotions. Here he put forward the counter-intuitive hypothesis that in presence of an emotion stirred up by an external event (e.g., fear, anger, etc.) it is not the mental perception that engenders bodily modification — for instance, trembling in case of fear and swelling and contraction in case of anger — but it is the other way round. Namely, it is bodily excitation that engenders and reinforces mental reactions.

The gist of his view is that emotion is a feeling of bodily state and is related to a purely bodily cause. By this he does not mean that the mental states are irrelevant but that they have as bodily reactions as their central medium. In fact, a mental state without bodily changes would amount to a pure intellectual activity. One can agree more or less with this

theory. Probably, it can be a bit exaggerated to say that if we run away from a lion we are afraid only because we run. It seems more reasonable to suppose that if we see a lion mental and bodily reaction reinforce each other. In this sense, it is true James's intuition that the more we run the more we are afraid; and the corresponding pedagogical maxim that a bodily control of our emotions can help control the expression of the emotions.

For instance, if we are angry at someone's behaviour and then start shouting this is likely to reinforce in an uncontrolled way our anger. This is true, of course, but we also believe that also too much repression can be negative.

Anyway, whatever might be the true sequence of mental-bodily reaction, the pertinence of his analysis rests in introducing a holistic approach in the study of psychological phenomena. This allows us to consider in a more integrated way the links between mind and body and the cognitive and emotional aspects of the person.

Related to his analysis of emotions stands his theory of instincts. Here he makes the interesting observation that almost all human instincts are made up by a pair of opposite: for instance, audacity and timidity, liveliness and apathy, sociability and aloofness, love and hate, solicitude and indifference. These instincts are in dialectical struggle and the prevalence of one or other aspect depends on a host of internal and external circumstances. Among the latter, social habits plays a central role in inhibiting some instincts and/or directing their expression in a socially approved way.

A significant implication of this analysis is that, contrary to what may appear at first sight, persons often behave in a more uncertain and conflicting way not because they are less "instincts-driven", but because their instincts are more numerous and complex than those of animals. In this sense, an action driven by instinct cannot be opposed by "reason", but by a contrary instinct. However, reason can help the "right instincts" to make their way in shaping human personality. Another relevant factor in this process is the effort related to will. Here James notes that, while it is always arduous to know the degree of freedom of human will, such freedom increase with the prevalence of the bright aspects of personality. In this sense, "will is a relation to the mind and its ideas....with the prevalence, once there as a fact, of the motive idea, the *psychology* of volition properly stops...the *willing* terminates with the prevalence of the idea [which can be accompanied by action, as the case may be.]", [W.James, *The Principles of Psychology*, vol.II, 1950 (1890): 560].

Another interesting field of application of this theory pertains to human motivation.

Here James clearly departs from a hedonistic approach by noting that the related criteria of searching pleasure and avoiding pain are by no means the sole drivers of human action. In fact, the sphere of actions related to habit, and the whole realm of instincts and emotions are driven by totally different principles. In the former case, as noted before, by a functional criterion and in the latter instance, by a set of forces much more complex than mere hedonism. In his words,

"If a movement feels agreeable, we repeat and repeat it as long as the pleasure lasts. If it hurts us, our muscular contractions at the instant stop....so widespread and searching is this influence of pleasures and pain upon our movements that a premature philosophy has decided that these are our only spur to action....this is a great mistake, however. Important as is the influence of pleasures and pains upon our movements, they are far from being our only stimuli. With the manifestations of instincts and emotional expression, for instance, they have absolutely nothing to do....[for instance]....who smiles for the pleasure of the smiling, or frowns for the pleasure of the frown? Who blushes to escape the discomfort of not blushing?", (ibidem: 550).

Hence, if we have to identify a more encompassing criterion for accounting human motivation, this can be located in the interest attached by the person to various groups of action. This “interest” is something decidedly more multifarious than a simple pleasure/pain dichotomy. In fact,

“The ‘interesting’ is a title that covers not only the pleasant and the painful, but also the morbidly fascinating, the tediously haunting, and even the simply habitual, inasmuch as the attention usually travels on habitual lines, and what-we-attend-to-do and what-interest-us are synonymous terms.”, (ibidem: 559).

Further Remarks

As can be seen from the previous account, William James provides a far-reaching theory of relevant psychological phenomena. Perhaps for the first time, the bodily and mental dimensions of psychological phenomena have been treated in a systematic way.

This goes in tandem with an analysis of the cognitive and emotional aspects of human personality, which renders possible to consider the role of conflicts in mental life. From this basis, a number of significant implications for individual and collective life are drawn. The analysis of habits is of particular significance, as it contributes to explain the relative sticky and past-binding nature of individual and collective behaviour. This aspect was taken up by Veblen and other institutionalists to explain the persistence of ceremonial and ineffective institutions not conducive to the social good (however defined).

There are also in James’s theory some weaker aspects. One of them refers to a certain lack of relational contents in his psychology: in fact, there is little explanation of what factors — from the birth onwards — would lead a person to interact with others and with what effects on his/her intellectual and emotional life. The psychological conflicts are appraised, in a “Faustian” spirit, like a struggle between good choices and bad choices — for instance, between drinking and being sober — in rather abstract moral terms.

True, there is an analysis of the various “selves” of the person and of the possible conflicts between them: for instance, one cannot be at the very same time a sport champion, a scientist, a musician and an adventurer. Hence, there is a trade off (namely, a conflict) between various objectives. However, these choices — and in particular the most disfunctional ones, like drinking too much — seem to bear no clear relation to the economic, social, psychological aspects of the person’s living context.

Also for this reason, his theory does not deal enough with the analysis of the collective life and of the possibilities of social change. For instance, after saying that habit, “saves the children of fortune from the envious uprising of the poor....[and that].... keeps different social strata from mixing”, he remarks that, in the main, such outcome is better for social life, but he does not explain why. Relatedly, in discussing the social unrest of his time, he notes that a better dialogue between social classes could improve the situation, but he does not seem to believe in any structural change of capitalistic societies.

Last but not least, James’s account of the tangled issue of the scientific character of psychology is somewhat influenced by positivism. In fact, he states in the preface of *The Principles of Psychology* that,

“This book, assuming that thoughts and feelings exist and are vehicles of knowledge, whereupon contends that psychology when she has ascertained the empirical correlation of the various sorts of thought and feeling with definite conditions of the brain, can go no farther—can go no farther, that is, as a natural science. If she goes farther she becomes metaphysical....this book consequently rejects both the associationist and the spiritualist

theories; and in this strictly positivistic point of view consists the only feature of it for which I feel tempted to claim originality....[then he adds, probably not very convinced about this aspect]....Of course this point of view is anything but ultimate.”, (ibidem, preface, vol. I: vi).

Then, he goes on by remarking that he certainly appreciates metaphysics but that nonetheless cannot be considered as a science. This opinion, however, flies against his overall treatment of psychological phenomena — in particular feelings and emotions — which is inherently qualitative in nature.

Here we can note that James’s position — oscillating between positivism and a more humanistic approach — is typical of the social scientists of the early XX century (and also, in a degree, of our time). How can we go beyond the reductive dimension of positivism in psychology and in social sciences? A simple path could be the following: if we consider as scientific not only quantitative/measurable phenomena but everything going on in our inner and external world, then it follows that also qualitative aspects — for instance, the emotional life of a person, literary criticism and the assessment of students in music schools — although not amenable to quantitative assessment can be nonetheless, in our view, scientifically investigated. Needless to say these assessments will tend to be more indirect and uncertain than clear-cut (but most often quite illusory) measurable scientific evidence, but this depends on the complexity of the issues addressed.

1.2 The Social Psychology of George Herbert Mead

Introduction

In this context, the social psychology (also indicated as “symbolic interactionism”) of George Herbert Mead appears quite significant for our theme.

He brings together philosophical and psychological aspects to the analysis of the dynamics of human mind and social evolution. Perhaps more than other pragmatist authors, he places the analysis of human mind in the social context, to the point that individual and collective aspects appear but two dimensions of a manifold but unitary phenomenon.

This aspect is closely related to the intense activity that Mead performed as a social reformer. We will analyse, without any claim of completeness, some relevant aspects¹ of his theory of the “social self”.

The Theory of Social Self

A good starting point is the article “The Mechanism of Social Consciousness”, where he makes interesting remarks on the definition of “social object” and its link with the development of personality. In his words,

“The social object will then be the gestures, i.e., the early indications of an ongoing social act in another plus the imagery of our response to that stimulation....In the organization of the baby’s physical experience the appearance of his body as a unitary thing, as an object, will be relatively late, and must follow upon the structure of the objects of his environment. This is as true of the object that appears in social conduct, the self....The child’s early social percepts are of others. After these arise incomplete and partial selves – or “me’s” – which are quite analogous to the child’s percepts of his hands and feet, which precede his perception of himself as a whole[and such perception can be realised only when]....the child is able to experience himself as he experiences other selves.”, [“The Mechanism of Social Consciousness” (1912), in Andrew J.Reck (ed.) *Selected Writings – George Herbert Mead*: 137, 138, 139].

Hence, not until the person interiorizes the role of others does he/she develop a complete self-consciousness. This implies the capacity to observe and talk to oneself. In this sense, “the ‘me’ is a man’s reply to his own talk”, (ibidem: 140).

The “me” of a person, then, is formed gradually out of the process of his/her development. Such “me”, however, which constitutes in a way the psychoanalytic *ego*, does not exhaust the mental life of the person. There are in fact other instances, indicated by Mead as the “I” and that broadly corresponds to the psychoanalytic notion of the “unconscious”, that are no less important in psychic life.

In this sense, “The ‘I’ therefore never can exist as an object in consciousness, but the very conversational character of our inner experience, the very process of replying to one’s own talk, implies an ‘I’ behind the scenes who answers to the gestures, the symbols, that arise in consciousness. The ‘I’ is the transcendental self of Kant, the soul that James conceived behind the scenes holding on to the skirts of an idea to give it an added increment of emphasis.”, (ibidem: 141).

¹ We will employ to that purpose the book edited by Andrew J.Reck *Selected Writings – George Herbert Mead*, Chicago, University of Chicago Press, 1964. All the quotations are taken by the quoted reference.

In a cognate article, "The Social Self", Mead carries on with the previous analysis by underscoring the capacity of human mind of self-observation: a process whereby both the observer and the observed appear and where the "me" can observe the "I" acting.

Of course, the observing instance can remain in some way unconscious. Moreover, we can certainly observe us when speaking, but this detracts from the spontaneity of the act. In fact, it is more difficult to observe our speech if we are emotionally involved.

However, in normal circumstances this capacity to observe and assess our behaviour allows for the emergence of the social self. In his words,

"The self which consciously stands over against other selves thus becomes an object, another to himself, through the very fact that he hears himself talk, and replies. The mechanism of introspection is therefore given in the social attitude which necessarily man assumes toward himself, and the mechanism of thought, insofar as thought uses symbols which are used in social intercourse, is but an inner conversation", ["The Social Self" (1913), in Andrew J.Reck (ed.), quoted: 146].

The interest of this analysis lies in the circumstance that it wonderfully blends the individual and social aspects of human psychology. For instance, the capacity of the person to respond to his/her own inner talk implies the capacity of the self to take the role of others (or of a "generalized other") in case of widely shared opinions.

This capacity also constitutes an essential ingredient of the child development. In this regard, notes Mead, the capacity of the child of acquiring the role of parents cannot be reduced to mere imitation as it represents for the child a way for getting acquainted with its social world. In this respect,

"Not that we assume the role of others toward ourselves because we are subject to a mere imitative instinct, but because of in responding to ourselves we are in the nature of the case taking an attitude of another than the self that is directly acting, and into this reaction there naturally flows the memory images of the responses of those about us....thus the child can think about his conduct as good or bad in the remembered words of his parents.", (ibidem: 146).

As one can easily note, this process carries a striking resemblance with the psychoanalytic *superego* and, more in general, with the processes of internalization of norms and the formation of individual and social identity. We will address these aspects later on. Now we will consider the implications of this reasoning for the psychology of ethics and social change.

He starts with the interesting remark that persons, when they have to confront themselves with new values, first direct attention to the external objects embodying such values and only afterwards they become aware of the inner change require to embrace the new values. Hence, only when the self becomes an object to itself, we can observe and assess our behaviour.

At this stage, changes in the external objects and in the self are co-extensive. Such process implies a conflict between different systems of values often ending up in a transformation of personality. More precisely, "certain values find a spokesman in the old self or in the dominant part of the old self, while other values answering to other tendencies and impulses arise in opposition and find other spokesmen to present their cases....[then, he makes the interesting observation that]....To leave the field to the values represented by the old self is exactly what we term selfishness.", (ibidem: 148).

What will be the result of this struggle between conflicting tendencies? One outcome is the prevalence of the subjective aspects of the question; in this case the prevalence of one tendency (e.g., the old or the new) is seen as a corresponding sacrifice of the other. Conversely, when the issue is addressed in objective terms, the conflict between old and new self ends up into a reconstruction of the situation and the parallel formation of a new personality.

This process, notes Mead, is similar to abandonment of old theories brought about by scientific discoveries. The main difference between scientific and social realms is that in the latter — as being intrinsically tied to ethics and morality — a more complete involvement of self is likely to arise.

In this respect, “the growth of self arises out of a partial disintegration,—the appearance of different interests in the forum of reflection, the reconstruction of the social world, and the consequent appearance of the new self that answers to the new object.”, (ibidem: 149).

But how scientific hypotheses should be validated? Here Mead follows — along with William James and the majority of scholars of that period — a positivistic attitude according to which only quantifiable phenomena can be scientifically tested. This appears clearly in the following passage, “There is certainly not fundamental distinction between the researches of the historian, the philologist, the social statistician and those of biologist, the geologist and even the physicist or chemist, in point of method. Each is approaching problems that must be solved, and to be solved must be presented in the form of carefully gathered data.”, (“The Teaching of Science in College”, in Andrew J.Reck (ed.), quoted: 61.

As also noted before, quantitative data are important and should be obtained wherever possible. However, quantitative data constitute only an aspect of, in general, much more complex phenomena where the qualitative (and most often unmeasurable) aspects of phenomena are as much relevant.

Hence, relying only on measurable phenomena is particularly inadequate for social sciences, and stridently conflates with the richness of Mead’s humanistic approach.

For instance, just a few pages after the above remarks, he laments in university courses the excessive specialization and the loss of a holistic perspective. In this regard he notes, “That unity of social sciences which is given in subject-matter and in human nature itself....is absent from modern sciences....the interconnections are not apparent in the students that are in special groups....through the history of science, especially of the other sciences they [the students] do not specialize in, through lecture courses which give them the results of these other sciences they should get be able to get the unity of Weltanschauung, which is requisite for any college course.” (ibidem: 72).

However, in order to realise all this, not a positivistic, but a true humanistic approach, giving due weight also to the qualitative aspects of phenomena, is required. Since the qualitative sphere is tied to the issue of social valuing (see also later), this broader approach would demand more scientific pluralism.

Implications for Social Reform

The foregoing general concepts were applied by Mead to a number of social issues with the objective of reforming the most problematic aspects. We will provide some significant examples.

In “The Philosophical Basis of Ethics” he notes that it is useless to apply in individual and social objectives an abstract canon of morality. This comes about because the person and the environment are not independent of each other, but co-evolve in a reciprocal influence.

Hence, moral action is effective when it succeeds in embodying and mediating different values and interests. This implies not an uncritical adherence to moral rules, but a creative process of reconstruction of the persons and their environment.

When there is a severance in social relations, social conflicts and alienation will follow. These problems become particularly acute in industrial and commercial relations. Especially in these realms “The individual is treated as if he were quite separable from his environment; and still the environment is conceived as if it were quite independent of the individual. Both labourer and the society which employs him are exhorted to recognize their obligations to each other, while each continues to operate within his narrow radius....[for this reason]....it is the incompleteness with which social interests are present that is responsible for the inadequacy of social judgement. If the community educated and housed its members properly....the problems at present vexing the industrial world would largely disappear....[hence]....if the social activities involved in the conception of the standard of life were given full expression, the wage question would be nearly answered.”, [“The Philosophical Basis of Ethics” (1908), in Andrew J.Reck (ed.), quoted: 89].

The relevance of this perspective lies in the circumstance that appraises social and psychological analysis as two prongs of the process of social valuation. When such valuation is effective, this means that the person is able to acquire the role of others. And this implies not only a better social valuation but a sounder psychological condition coming from an improved capacity to be in an empathic relations with others. If instead social valuation is defective, this indicates not only the inability of person to get into the role of others but a more alienated psychological condition resulting from the lack of empathy.

By employing this framework, many social and political issues can be addressed. For instance, in property rights, one can be tempted to say, in an individualistic way, “this car is mine and I do not care about the world”. However, this statement would betray at the same time: **(i)** an incapacity to assess the effects of such property rights in the social sphere (for instance in the form of pollution and/or traffic congestion); **(ii)** a parallel incapacity to realise the social foundation of property, in the sense that it has been created and maintained by a well defined legal and institutional framework; and **(iii)** a mental condition of alienation (or neurosis in psychoanalytic terms) stemming from lack of social empathy.

This incapacity of social empathy is at root of many social evils. For instance, Mead notes, there can be persons who would risk their lives to save other persons in danger but that nonetheless would consider it “normal or inevitable” the casualties linked to bad roads conditions.

These aspects are addressed from a different angle in the article “Natural Rights and the Theory of Political Institution”. Here he underscores the necessity for the system of natural rights — as set forth in the seventeenth and eighteenth centuries in Europe — to go beyond an abstract formulation in order to reach out to the living society.

By anticipating several insights of the theories of complexity and open society, he notes that the legal and institutional framework alone is not sufficient to really guarantee its ideal of social justice. In this sense, “Human rights are never in such danger as when their only defenders are political institutions and their officers....[in fact]....every right that comes up for protection by our courts or other constitutional institution is confessedly in a form which is incomplete and inadequate, because it represents a social situation which is incomplete and inadequate.”, [“Natural Rights and the Theory of Political Institution” (1914), in Andrew J.Reck (ed.), quoted: 169].

Of course, this is not to overlook the role of institutions in fostering social progress, but to remember that in the end “the ultimate guarantee must be found in the reaction of men and women to a human situation so fully presented that their whole natures respond.”, (ibidem: 170). In order to promote among persons a better awareness of social problems, measures oriented to improve empathy and participation are paramount.

This perspective finds an interesting application in the article “The Psychology of Punitive Justice”. In this instance, notes Mead, the tendency of law and society is to adopt a criterion of retributive justice and of permanent stigma on the criminal. This attitude, however, not only does not help to solve problems but contribute to create a criminal class as a structural counterpart — a kind of social *alter ego* — of the legal foundations of society. The reason of the inadequacy of a concept of retributive justice rests on a negative definition of rights. In this respect,

“Abstract individualism and a negative conception of liberty in terms of freedom from restraints become the working ideas in the community....Thus we see society almost helpless in the grip of hostile attitude it has taken toward those who break its laws and contravene its institutions. Hostility toward the lawbreaker inevitably brings with it the attitudes of retribution, repression, and exclusion. These provide no principle for the eradication of crime, for returning the delinquent to normal social relations, nor for stating the transgressed rights and institutions in terms of their positive social functions.”, [“The Psychology of Punitive Justice” (1917-1918), in Andrew J.Reck (ed.), quoted: 226-227].

In particular, what happens in these instances is that — in a typical psychological mechanism of group members to project their aggressiveness into a common enemy — all the problems and contradictions of our society are negated and projected on the criminals. Conversely a better awareness of these problems would constitute a first step for their solution. In his words, “The discovery that tuberculosis, alcoholism, unemployment, school retardation, adolescent delinquency, among other social evils, reach their higher percentages in the same areas not only awakens the interest we have in combating each of these evils, but creates a definite object, that of human misery, which focuses endeavour and builds up a concrete object of human welfare which is a complex of values.” (ibidem: 234).

The issue of transforming the hostility of the offenders and of society towards them in more constructive behaviour becomes a general objective reaching out to many domains of societal functioning. The problem lies in transforming a primitive and destructive aggressiveness aimed at annihilating “the enemy” into a constructive one directed to problem-solving. For instance, “The energy that expressed itself in burning witches as the causes of plagues extends itself at present in medical research and sanitary regulations and may still be called a fight with disease. In all these changes the interest shifts from enemy to the reconstruction of social conditions.”, (ibidem: 239).

This perspective is complemented in the article “Philanthropy from the Point of View of Ethics”. Here the author notes that philanthropic actions tend to fill a gap from reality and an ideal world—or between “what is and what ought to be” in the terminology of social value theory (see also later). Philanthropic action, then, always implies a process of social valuation which, however, can be more or less explicit. Then, the task for social reformers is to render explicit these valuations, in order to transform them in precise objectives of policy action. These would centre, in Mead’s perspective, around the true realisation of the democratic ideal. This means the removal of class and group restrictions on the social and cultural values so that everybody can have the possibility to really enjoy them.

2. The Psychological Contributions of Original Institutional Economics

As noted by numerous authors², neoclassical economics, by treating preferences as “exogenously determined”, precludes any analysis of how these preferences are “endogenously determined” by the evolving interrelations between economic, social and psychological factors. In order to react to these unrealistic aspects of neoclassicism, new and more heterodox streams of economics emerged, which were significantly related to cognate development in the sphere of the philosophy and psychology of Pragmatism.

We will consider the perspective of original institutional economics, with particular attention to some relevant psychological contributions and their implications for the notion of democratic planning. We also briefly consider the psychological contributions of John Maynard Keynes.

2.1 The Institutional Economics' Perspective

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 principal founders of institutional economics are Thorstein Veblen, John Rogers Commons, Walton Hale Hamilton, Wesley 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 fields can be identified: **(i)** the *old (or original) institutional economics*, constituted by the first institutionalists and by subsequent scholars who shared their main concepts; and **(ii)** the *new institutional economics* (NIE), composed of later scholars adopting principles having important references in the Neoclassical and Austrian schools.

We will focus chiefly on the *old institutional economics* (from now we will indicate it as OIE or institutionalism). As noted by numerous authors, the OIE does not present a completely unitary framework. Within this ambit, three main strands can be identified:

(I) An approach first expounded by Thorstein Veblen, 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 propensities; the role of the business enterprise in modern economy and their effects on the business cycles.

(II) An approach initiated by John Rogers Commons, which focuses attention on the evolutionary relations between economy, law and institutions; the nature of transactions, institutions and collective action, also in their relations to business cycles; the role of conflicts of interest and the social valuing associated with them; the nature and evolution

² Refer, for instance, to Veblen (1919), Galbraith (1958), Tool (1986).

of ownership, from a material notion of possess to one of relations, duties and opportunities; the role of negotiational psychology for understanding economic and social phenomena.

(III) An approach developed Walton Hale Hamilton, Wesley Clair Mitchell and other scholars, dealing with “market imperfections” at micro and macro level and their effects on economic systems. The aspects more widely investigated are market power, the duplication of firma and the inefficiency of many industrial sectors, the insufficient capacity to consume of middle-low income classes, the dynamics of business cycles.

Notwithstanding a number of differences between these approaches, the elements of convergence are remarkable. For instance, between the concepts of ceremonial and instrumental institution, on the one side, and the process of social valuing, on the other. In this sense, the observed differences tend to concern more the issues addressed than the basic aspects of the OIE. The leading ideas of the institutional economists appear to be 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.

This new wave had its seats in a number of important universities — in particular, Amherst, Chicago, Columbia, Wisconsin — which became the springboard, through their institutional economists, of important collaborations with numerous research institutions and governmental bodies.

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

There were in the OIE’s heyday³ several contributions that employed (and even created) psychological concept for explaining economic behaviour. 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. In the next paragraphs we will address some of these contributions.

Now we address in more detail two significant contributions for our theme, Veblen’s Theory of Instincts and Commons’s Negotiational Psychology.

³ Institutionalism, despite its affirmation in the first decades of the XX century (until the time of the “New Deal”), underwent afterwards a marked decline that lasted until the late 1980s. We have addressed this issue in Hermann (2018).

2.2 Veblen's Theory of Instincts

Veblen, in his book, *The Instinct of Workmanship and the State of the Industrial Arts* (1914), examines the role of two fundamental instincts (or propensities), "workmanship" and "parental bent", in economic and social development. Both propensities are intended in a broad sense, "workmanship" meaning not only technical abilities but the whole of manual and intellectual activities, and "parental bent" meaning an inclination to look after the common good that extends beyond the sphere of the family alone.

In Veblen's analysis, these propensities tend, under ideal circumstances, to strengthen one another; this constitutes an important insight confirmed by studies in psychology and psychoanalysis, which stress the need for the person to enhance his or her intellectual, social, and emotional potential through the construction of adequate interpersonal relations.

They are likely to prevail in a situation where other instincts that can act at cross-purposes with them — for instance, predatory instincts which may find expression through a framework of ceremonial and "acquisitive" institutions based on invidious distinctions — have little social grounds to assert themselves.

Veblen seems to suppose that the first stage of human life was of this kind but, since then, a number of disturbing factors — mainly related to the affirmation of "pecuniary way of life" — have caused a progressive deviation, which was reinforced by a process of cumulative habituation. This idea is conveyed in the following passage,

"The selective control exercised over custom and usage by these instincts of serviceability is neither too close nor too insistent....It appears, then, that so long as the parental solicitude and the sense of workmanship do not lead men to take thought and correct the otherwise unguarded drift of things, the growth of institutions — usage, customs, canons of conduct, principles of right and propriety, the course of cumulative habituation as it goes forward under the driving force of the several instincts native to man,— will commonly run at cross purposes with serviceability and the sense of workmanship.", (Veblen, 1914: 49, 49-50).

This dichotomy lies at the basis of the famous Veblen's distinction between the role of the engineers, acting under the workmanship instinct and therefore directing their action toward the objective of serviceability, as contrasted with the role of capitalists, acting under the influx of propensities at cross-purposes with workmanship, based on acquisitive and aggressive traits, and finalised, through the applications of various restrictions on production, to increase their pecuniary gains.

A central element that can strengthen workmanship and parental bent propensities against acquisitive and predatory attitudes rests on the characteristics and intensity of technological progress. In fact, by inducing individuals to adapt themselves to new methods of production, technological progress brings out, through a process of habituation to new habits of thought and life, the workmanship instinct.

As also noted in another work (Hermann, 2015) this view, if not properly qualified, can give rise to a kind of deterministic attitude. In this regard, technological progress is far from being "neutral" as regards the attainment of social objectives. Therefore, it does not follow a deterministic pattern out of its "immanent rationality", but is partly moulded by the characteristics of any given context. In this regard, an increased capacity for analysing social problems — a capacity which can also benefit from progress in psychological and social sciences — could well be regarded as a genuine expression of the instinct of workmanship which can play a relevant role in social evolution.

2.3 Commons's Theory of Negotiational Psychology

One of Commons's most important insights is that collective action constitutes a necessary element for an adequate performance of individual action. The dialectic and dynamic relations intervening between individual and collective action are effectively expressed in this passage,

"Thus, the ultimate unit of activity, which correlates law, economics and ethics, must contain in itself the three principles of *conflict*, *dependence*, and *order*. This unit is a Transaction. A transaction, with its participants, is the smallest unit of institutional economics.", (Commons, 1990: 58, 69; original edition 1934).

Transactions are classified into three categories — Bargaining, Managerial and Rationing — according to the relationship intervening between the parties involved.

The first concerns the relation between individuals with equal rights — which does not necessarily correspond to equal economic power — for instance, between buyer and seller. The second regards the relations between people organized within an institution, for instance between a manager and his or her collaborators. And the third refers to the relations between the person and a kind of collective action where there is less direct involvement. This happens, in particular, with the policy action of Government and Parliament, but also with the collective action of the most important economic and social associations of society (for instance, political parties, unions, consumers associations).

In order to cast a better light on these manifold phenomena, he has elaborated the concept of *negotiational psychology*, aimed at interpreting the conflicts of collective action as expressed through the complex web of transactions and institutions. In his words,

"If it be considered that, after all, it is the individual who is important, then the individual with whom we are dealing is the Institutionalized Mind. Individuals begin as babies....They meet each other, not as physiological bodies moved by glands, nor as "globules of desire" moved by pain and pleasure, similar to the forces of biological and animal nature, but as prepared more or less by habit, induced by the pressure of custom, to engage in those highly artificial transactions created by the collective human will....Every choice, on analysis, turns out to be a three-dimensional act, which — as may be observed in the issues brought out in disputes — is at one and the same time, a performance, an avoidance, and a forbearance....The psychology of transactions is the social psychology of negotiations and the transfers of ownership....Thus each endeavors to change the dimensions of the economic values to be transferred....This negotiational psychology takes three forms according to the three kinds of transactions: the psychology of persuasion, coercion, or duress in bargaining transactions; the psychology of command and obedience in managerial transactions; and the psychology of pleading and argument in rationing transactions....Negotiational psychology is strictly a psychology of ideas, meanings, and customary units of measurement.", (Commons, 1990, quoted: 73-74, 88, 91, 106).

This interdisciplinary approach can help better understand the relevance of the process of social valuing in the dynamics of collective action. Within this context, the concept of reasonable value is employed by Commons in order to draw attention to the conflicting, imperfect and evolutionary nature of the process of social value (see also later).

In concluding this section it seems interesting to note that, notwithstanding their differences, Commons's and Veblen's psychological theories present notable

complementarities: for instance, it seems true that (i) as underscored by Veblen, persons are driven in their action by their instincts (or propensities), which interact in a complex way with the characteristics of the institutional context; and that (ii), at the same time, as highlighted by Commons, persons acquire in their reciprocal interaction an “institutionalized mind” that orients the expression of their propensities according to their role in economy and society.

Other Contributions of Heterodox Economics

The previous theories do not exhaust the spectrum of psychological contributions provided by heterodox fields of economics.

Another interesting employ of a psychological perspective can be found in John Maynard Keynes. He was well acquainted with psychoanalysis, and introduced in the *General Theory* (1936) the central notion of “animal spirits”, whereby people engage in economic and social activities not only out of strictly economic calculation but also out of a propensity to do something, to keep themselves engaged in social life.

This notion goes in tandem with his analysis — set forth in the *Essays in Persuasion* (1931) — of the long-term transformations of the system. These changes, by increasing the productivity of labour, will open the way for a society of “free time”. In this regard, Keynes notes, with a notable psychoanalytic insight, that the main obstacle to this transformation is not technical but psychological. In his words,

“We are being afflicted with a new disease of which some readers may not yet have heard the name, but of which they will hear a great deal in the years to come—namely, *technological unemployment*. This means unemployment due to our discovery of means of economising the use of labour outrunning the pace at which we can find new uses for labour....But this is only a temporary stage of maladjustment. All this means in the long run *that mankind is solving its economic problem*....[but, despite this opportunity]....Yet there is no country and no people, I think, who can look forward to the age of leisure and of abundance without a dread. For we have been trained too long to strive and not to enjoy....[hence, in this perspective, economics]....should be a matter for specialists—like dentistry. If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!” [Keynes 1963 (1931), 364, 368, 373].

3. The Interdisciplinary Potential of Pragmatist and Institutionalist Psychology

Introduction

As emerges from the previous account (limited to some of the most important authors/concepts), the psychological perspectives of pragmatism and institutionalism are very rich and articulate. Such contributions undoubtedly constitute the most complete body of social psychology of the time, which has exerted a far reaching influence up to our time. Starting with pragmatist psychology, we can recall its attempt to provide a well grounded ontological perspective to the study of persons in their individual and collective unfolding.

Along with these outstanding elements, there are in these theories some intrinsic limitations. These refer to the circumstance that the pragmatist approach to the psychology, although often articulated in many respect, is unmistakable flavoured by pragmatist philosophy. In a sense, pragmatist psychology is chiefly an extension of the main principles of pragmatist philosophy to sphere of psychological life.

We have already underlined these aspects in discussion William James's *Psychology*. Some of these remarks can be applied also to George Herbert Mead's social psychology.

However, there are also notable differences between the two authors. In fact, James's approach is definitely more individualistic than Mead's. The latter perspective is explicitly set to the analysis of social self and the role of social reform in its improvement.

Despite their differences, James's and Mead's theories are complementary in many respects. For instance, there can be a useful synergy between James's notions of habits, instincts and will, and Mead's theory of social self as the integration of various social roles.

In the same spirit, an interdisciplinary perspective seems particularly welcomed for providing more precise contents to these concepts. This analysis would imply two related prongs: (i) the evolutionary analysis of economic action within their legal and institutional framework; (ii) the role of psychology and psychoanalysis in explaining the formation of individual and social self.

3.1 How To Promote the Interdisciplinary Potential of Pragmatist and Institutionalist Psychology

After this *excursus* into some relevant psychological contributions of pragmatism and institutionalism, the issue poses itself as how to promote their relevant interdisciplinary potential. As a matter of fact, for a number of reasons such potential has remained largely unexplored. We have already noted this aspect for pragmatist psychology. However, also for institutionalism was arduous to unfold its interdisciplinary potential.

In fact, the psychological contributions of Veblen and Commons — and even more so for other OIE's less articulated psychological contributions — remained 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 early 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. One consequence of this situation was that the boundaries⁴ between neoclassic and institutional economics were more blurred than today. These aspects

⁴ Refer for more detail to the interesting reconstruction of Yonay (1998).

brought about a partial lack of awareness that, in order to go beyond the simplistic hypotheses of neoclassical economics — in particular, rational economic behaviour and perfect markets⁵, with the consequent optimising equilibrium — a brand new theory of human mind was highly needed.

A complementary aspect that reinforced this weakness was that early institutionalists⁶ were, at times and in various degrees, influenced by a positivistic orientation, according to which only “measurable phenomena” can be amenable to scientific verification. This influence co-existed with a more humanistic approach, but the issue of “scientific verification” in psychology (and in social sciences) remained (and partly remains) largely unsettled. These aspects can also be related to the following “exogenous factors”, which will apply also to pragmatist contributions and virtually to the whole field of social sciences:

(II) Psychology was characterized, in the early decades of XX century, by the 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 arduous 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 — for studying of economic and social phenomena. 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 measurable proxies.

The Relevance of Qualitative Analysis

The foregoing aspects made it difficult for institutionalists, pragmatist thinkers (and other social scientists as well) to fully depart from positivism towards a holistic and, hence “qualitative”, conception of science.

However, clarifying such issue is paramount because one distinctive trait of institutionalism and other humanistic-based perspectives is that of being based on the “qualitative” analysis of human action.

In this regard, what seems pertinent to remark is that the aspects amenable to a quantitative measure, however important, cannot become a substitute for the study of each person (and situation) considered. For this reason, a plurality of methodologies is needed in order to carry out a comprehensive empirical analysis.

This issue brings to the fore the problem of how qualitative aspects, which most often have the character of “tacit knowledge”, can be scientifically assessed. For instance, how can

⁵ 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 neoclassical 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. In our view, despite this “conventional wisdom”, 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.

⁶ As we have seen, the same remarks apply to pragmatist thinkers and the vast majority of social scientists of the time (and, in a degree, also of our time).

we demonstrate that: Monet's paintings are better than ours, we love our friends, Andrew is more easy-going than Peter, Lisa plays the piano better than Jennifer? 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 examining 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, the speed of 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 measurable aspects. However, this does not imply that these aspects are "less scientific", but only that the issues addressed are more complex.

3.2 How To Foster the Interdisciplinary Potential of Pragmatist and Institutional Psychology

There are of course many ways and disciplines through which the interdisciplinary potential of pragmatist and institutional psychology can be realised.

Here we consider, also on account of our long standing interest for the issue, how such potential can be realised with a number of psychoanalytic contributions.

The Psychoanalytic Perspective

The vast majority of these works⁷ highlight — within partly different approaches on the role of the various "instincts or propensities" in human development — that persons have an emotional need of establishing sound interpersonal relations in order to express the various aspects of their personality. In this sense, group life acquires significance for persons in that it allows, in a dynamic interaction, **(i)** to give and receive affection, **(ii)** to shape individual and social identity and **(iii)** to unfold intellectual faculties.

But, very importantly for social analysis, a group can also become a way for expressing predatory instances largely resting on neurotic conflicts. This happens not only in overtly aggressive and intolerant groups but also in more "ordinary" groups. In the latter instances, it is likely that positive and negative aspects are merged in a very tangled way.

All these contributions stress the role of groups and organizations for expressing the needs and conflicts of the person. For instance, to the person, the group may represent an idealized *ego*; and, in this connection, its "morals" and "code of conduct" symbolize parental figures that, through a process of "internalization", play the role of *superego*.

In this regard, it is important to note that the instance of *superego* certainly stems also from a normal human tendency to establish sound interpersonal relations, and, accordingly, to behave with kindness and solicitude towards each other.

However, whereas in non-neurotic situations the "code of conduct" emerging from such tendencies asserts itself as a genuine behaviour, in neurotic situations leading to the formation of *superego* things run in a completely different way. Here, the tendency of improving personality tends to be, under an appearance of goodness and morality, subordinated to the expression of neurotic contents at cross-purposes with such tendency.

⁷ For space reasons, we mention a few quotations of the main psychoanalytic strands, with particular attention on those more focused on social issues: S.Freud (1912-1913, 1921, 1926, 1930, 1933, 1937); Ammon (1971); Bion (1970); De Board (1990); Desjarlais and al. (1995); Erikson (1968); Fenichel (1945); Fine (1979); Gabriel (1999); Horney (1939); Ketz de Vries and Miller (1984); M.Klein (1964, 1975); Klein, Heimann and Money-Kyrle (1955); May (1972); Rayner (1991); Sandler and Dreher (1996); Sullivan (1953); P.Tyson and R.L.Tyson (1990); Winnicott (1974).

These tendencies take most often the form — especially when the paranoid aspects of personality are overwhelming — of marginalization and persecution of persons and groups where the aggressiveness (and more in general, the bad aspects of personality) has been projected (and history is full of such tendencies).

An analysis of this kind is interesting not only *per se*, but also because such understanding can open the way for social change. In fact, one central contribution of psychoanalysis is the discovery of a new method for the analysis of psychological disturbances, through which the person can reach a better self-understanding of his/her neurotic conflicts.

This means that the abatement of neurotic conflicts is associated with a decrease in the neurotic aggressiveness related to them. These aspects can be found also in Freud's perspective which, owing to his later (and unconvincing) view of a dichotomy between life and death instincts, is often appraised as pessimistic about the possibilities of social change.

In this regard we can note that, even when he endorses the view that life has the character of an irreducible struggle between life and death instincts, he does assume neither that these instincts are given in any "fixed and immutable proportions", nor that there is any systematic tendency across individuals for the prevalence of one or the other of these instincts. Consequently, little determinism is allowed in his theory, which, on the contrary, throws light on the complexity of the factors at play in determining human behaviour.

On that account, Freud thinks that psychoanalysis, in collaboration with other social sciences, can find interesting applications in a host of social issues. As he points out, in a sparkly discussion with an imaginary interlocutor,

"[Psychoanalysis]...as a 'depth-psychology', a theory of the mental unconscious, it can become indispensable to all the sciences which are concerned with the evolution of human civilization and its major institutions such as art, religion and the social order. It has already, in my opinion, afforded these sciences considerable help in solving their problems. But these are only small contributions compared with what might be achieved if historians of civilization, psychologists of religion, philologists, and so on would agree themselves to handle the new instrument of research which is at their service. The use of analysis for the treatment of neuroses is only one of its applications; the future will perhaps show that it is not the most important one.....Then let me advise you that psycho-analysis has yet another sphere of application....Its application, I mean, to the bringing-up of children. If a child begins to show signs of an undesirable development, if it grows moody, refractory, and inattentive, the paediatrician and even the school doctor can do nothing for it, even if the child produces clear neurotic symptoms, such as nervousness, loss of appetite, vomiting, or insomnia....Our recognition of the importance of these inconspicuous neuroses of children as laying down the disposition for serious illnesses in later life points to these child analyses as an excellent method of prophylaxis....Moreover, to return to our question of the analytic treatment of adult neurotics, even there we have not yet exhausted every line of approach. Our civilization imposes an almost intolerable pressure on us and it calls for a corrective. Is it too fantastic to expect that psycho-analysis in spite of its difficulties may be destined to the task of preparing mankind for such a corrective?", (S.Freud, *The Question of Lay Analysis*, 1990: 83, 84, 85; original edition, 1926).

How Can Pragmatist and Institutional Psychology Interact with Psychoanalysis?

This kind of analysis can help locate the aspects of individual and collective conflicts elaborated by pragmatist and institutional psychology.

In order to illustrate how such collaboration can work, we can make an intellectual journey through the concepts addressed before. Let us then look at a person engaged in one or more of three transactions (bargaining, managerial, rationing) identified by Commons: for instance, dealing in a market, working in an organization, promoting a social cause in political sphere.

In order to analyse the manifold aspects of these relations, we can start from Mead's notion of interiorizing the attitude of others for the formation of social self, and how James's notion of habits can explain their "sticky" and enduring nature.

At this stage, Veblen's theories of instincts can come to our aid by illuminating significant aspects of these relations. For instance, do persons and institutions, in their mutual relations, express workmanship and parental bent propensities? And in what degree is the expression of these propensities hampered by acquisitive and predatory propensities? Relatedly, how much ceremonial or instrumental are in their actions persons and institutions?

These aspects, in turn, can be better clarified by considering Commons's negotiational psychology. As a matter of fact, this notion can help locate the Veblenian dichotomy between instrumental and acquisitive propensities in the various transactions (and their interrelations) wherein persons and institutions are engaged. For instance, it is likely that these propensities would find a different expression according to the role of persons and institutions in society. In this sense, along with common aspects, there are distinct "psychologies" for "white" and "blue" collars, freelancers, well established professionals, entrepreneurs, capitalists, public officials and politicians.

These "psychologies", in turn, are co-extensive with the nature and evolutions of economic systems (and in particular, with the complexity of the "mixed economies" of our time).

At this stage, we have fairly progressed towards a more complete understanding of the complexity of collective action. This picture, however, puts somewhat in the background the role of feelings, emotions and conflicts in individual-society dynamics.

For instance, gross economic inequalities are a typical feature of capitalism and have enormously increased over the latest decades. One group of explanation refers to the characteristics of these systems; for instance, the role of various types of scale economies in increasing market power of big corporations. However, these processes must also be accepted by the involved people. Hence, considering that there are no deterministic evolutionary patterns, a central question comes to the fore: along with economic reasons, is there also a psychological tendency leading to economic and social inequalities?

Indeed, this seems to be the case, if we consider that not only today but also in the past virtually all societies have been heavily based on invidious and ceremonial distinctions of wealth and status. Of course, these aspects are reinforced by social mechanisms, but it is difficult to escape the conclusion that these inequalities are also pushed by psychological factors.

This being the case, a related question arises: **(i)** is such "snobbish" tendency something innate (and hence unavoidable) in human nature? Or else, **(ii)** is such tendency an expression of acquisitive tendencies at cross-purpose with the expression of the propensities of workmanship and solicitude?

If the second hypothesis applies, psychoanalysis can, by casting light on the (mostly unconscious) psychological conflicts leading to acquisitive and predatory behaviour, help attain a more complete picture of the most problematic aspects of socio-economic

relations. In such enquiry, psychoanalytic concepts can usefully interact with the concepts of pragmatist's and OIE's psychology. For instance, in the analysis of the effects of psychological conflicts on, (i) the formation of the "social self" and the related process of internalising the attitude of others (and hence in the formation of individual and social identity); (ii) the formation of habits and the expression of the various propensities identified of the persons; (iii) the unfolding of the various transactions in economic and social life.

The most important implication of this analysis pertains to the necessity of overcoming the fragmentation (or limited collaboration), so often present in social and psychological sciences.

As observed by the famous sociologist Karl Mannheim, a landscape can be seen only from a determined perspective, and without perspective there is no landscape. In this sense, observing a landscape (or phenomenon) from different angles (or disciplines) can help to acquire a much clearer insight into the features of the various perspectives.

Such interdisciplinary approach, by rendering "endogenous" many aspects usually treated as "exogenous variables" in orthodox domain, can help cast light on the following key issue: what are the real motivations of persons and how can be promoted, distorted or frustrated in economic and social life?

A promising research field that can be so addressed pertains to the motivations and conflicts underlying the various spheres of economic action — work, consumption, investment, saving — related to persons, groups, classes, public and private institutions, and how they impinge on the evolution of the system.

For instance, does the *homo oeconomicus* maximise money only for "material reasons"? Or does the quest for money also cover the (partly unconscious) need of being accepted by following a socially approved behaviour?

The study of these aspects will invite a closer analysis of the role of *superego* (and of the conflicts associated with it) in this process, and how these psychological aspects co-evolve with economic, social and cultures structures of any given context.

4. Concluding Chapter: Implications for Policy Action

4.1 The Importance of Social Valuing

A joint application of the psychological concepts elaborated by institutionalist and pragmatist authors can make headway towards a systematic collaboration of these theories with psychology and psychoanalysis, especially in light of the increasing areas of convergence between psychological and social sciences⁸.

Such collaboration can lead to a better understanding of the features and evolution of social valuing⁹ in any given context, which finds expression in the complex tangle of motivations, conflicts, and expectations, both at individual and collective level. The nub of that process is effectively set forth in the following passage,

“To conceive of a problem requires the perception of a difference between ‘what is going on’ and ‘what ought to go on’. Social value theory is logically and inescapably required to distinguish what ought to be from what is....The role of social value theory is to provide analyses of criteria in terms of which such choices are made.”, (M.Tool, in Hodgson, Samuels e Tool, 1994: 406, 407).

A significant development has been made by Commons through the introduction of the concept of reasonable value, which pinpoints the conflicting and context-specific nature of the process of social valuing. These concepts are set forth in the following passages,

“The preceding sections of this book brought us to the problems of Public Policy and Social Utility. These are the same as the problems of Reasonable Value and Due Process of Law. The problem arises out of the three principles underlying all transactions: conflict, dependence and order. Each economic transaction is a process of joint valuation by participants, wherein each is moved by diversity of interests, by dependence upon the others, and by the working rules which, for the time being, require conformity of transactions to collective action. Hence, reasonable values are reasonable transactions, reasonable practices, and social utility, equivalent to public purpose....Reasonable Value is the evolutionary collective determination of what is reasonable in view of all changing political, moral, and economic circumstances and the personalities that arise therefrom to the Suprem bench.”, Commons (1934: 681, 683-684).

Reasonable value is by definition an imperfect process whose characteristics can be interpreted as the synthesis of the conflicting and evolutionary components of collective action. The imperfection of social valuing is also caused by its partly unconscious and

8 For an analysis of some important psychological contributions to the study of social sciences refer to Bastide (1950); Desjarlais and others (1995); Kahneman and Tversky (2000); Nisbett e Ross (1980); Ross and Nisbett (1991).

9 As is known, the theory of social value has a long tradition in social sciences. Also John Dewey, in particular in his *Theory of Valuation* (1939), which is closely related to the issue of institutional economics, addressed this issue from an interdisciplinary perspective. The following passages from Marc R.Tool effectively express the meaning of the concept of social value for institutional economics, “To conceive of a problem requires the perception of a difference between ‘what is going on’ and ‘what ought to go on’. Social value theory is logically and inescapably required to distinguish what ought to be from what is....In the real world, the provisioning process in all societies is organized through prescriptive and proscriptive institutional arrangements that correlate behaviour in the many facets and dimensions of the economic process. Fashioning, choosing among and assessing such institutional structure is the 'stuff and substance' of continuing discussions in deliberative bodies and in the community generally. The role of social value theory is to provide analyses of criteria in terms of which such choices are made.”, (M.R.Tool, in Hodgson, Samuels e Tool, 1994: 406-407).

conflicting character, often embodied in habits of thought and life. In this sense, social value process goes at the heart of the nature of political economy, which is considered not an activity stemming from the application of abstract laws but as a collective and evolutionary decision-making process involving many institutions. In this sense, political economy has a close relation with law and ethics,

"If the subject-matter of political economy is not individuals and nature's forces, but is human beings getting their living out of each other by mutual transfers of property rights, then it is to law and ethics that we look for the critical turning points of this human activity.", (Commons, 1934: 57).

4.2 The Role of Democratic Planning

The stress put by many institutional economists on policy action brings to the fore the issue of economic planning. Should it exist at all, and, in the affirmative case, what kind of economic planning is preferable?

As we have tried to show, the idea of a perfect and optimising market, conceived of as an exogenous and self-equilibrating mechanism, is a kind wishful thinking. What comes about in real economies is that markets are created and maintained by an evolving set of laws, institutions and policies most often oriented by the stronger groups. Furthermore, various kinds of public goods cannot be delivered by the market and then require a direct public action.

For these reasons, a kind of economic planning is always necessary for attaining the objectives of policy action. We shift then to the second question, namely, as to what kind of economic planning is preferable.

On that account, OIE provides interesting contributions (see, in particular, John M. Clark, 1939, Dugger, 1988, Trebing, 1988). It identifies three kinds of economic planning: corporate, totalitarian, and democratic.

Corporate planning is the reality of modern capitalism. In this system, the operation of "free market forces" is heavily conditioned by the interests of big corporations. They possess a wide array of instruments to influence the structure of all the relevant markets in which are engaged. In Dugger's words, "The corporation is privately efficient [in the pursuit of its goals], but it is not socially efficient because its low-cost, high-productivity performance benefit those who control it, generally at the expense of those who depend upon it but frequently also at the expense of the society at large.", (Dugger, 1988: 239).

Corporate planning is highly hierarchical, since the key decisions are taken by the top managers with little involvement of workers and citizens at large.

Totalitarian planning is a system characterised by a public purpose which is pursued through a highly hierarchical structure. As already noted, such organizations — although have sometimes achieved important results in building infrastructures and poverty alleviation — are flawed by a fundamental lack of accountability and democratic representation.

Government members are appointed by the ruling (and single) political party. In such instances, there is no guarantee that (i) the party is organized democratically and expresses the needs and experiences of all the groups and classes of society; and (ii) that government members and public officials are really accountable for their behaviour.

This system, then, by acquiring a marked self-referential character, makes it impossible any objective and pluralistic assessment of the policies adopted and the results achieved.

We switch then to the third alternative, democratic planning. This system, although it does not always work miracles, is definitely more promising. We need not spend many words on

the beneficial aspects of this planning. As a matter of fact, by allowing a more complete process of participation, it renders possible a corresponding improvement of the process of social valuation. As noted before, such process, by promoting a comparison between different policy options — and the related set of interests, opinions and values related to them — constitutes a fundamental way for improving the capacity of policy action to respond to the profound needs of economy and society.

In this respect, one central difference of democratic planning in respect to corporate and totalitarian systems resides in a better capacity to self-correct — by a process of trial and error — its own shortcomings.

Conclusions: Democratic Planning as a way To Build a Fair and Sustainable Economy

In concluding this work, it can be interesting to enquire on how democratic planning can be employed for building an equitable and sustainable economy.

In this regard, institutionalism envisions the following macro-objectives (see, in particular, Dugger, 1988, Tool, 1986) of democratic planning:

(1) Overcoming the dichotomy, identified by Veblen, between the objectives of profit and serviceability related to the production of goods; this can be attained by reducing the artificial scarcity and the “invidious distinctions” stemming from market power and ceremonial status, and by making a better and participatory use of the community’s knowledge.

(2) Overcoming the dichotomy, elaborated in particular by John Fagg Foster, between structures and functions. Such dichotomy can occur because structures, even if, at least in theory, should be instruments for delivering some functions, can easily outlive their utility. This can happen in various degrees — as when, for instance, an organisation becomes a kind of a white elephant — and is directly related to the “ceremonial” aspects and power relations residing in the institutions. Also in this case, a broader participatory process, by improving the process of social valuation, can help abate such dichotomy.

(3) Implementing the “instrumental value criterion”, analysed in particular by Marc Tool, which pertains to the goal of “the continuity of human life and the non-invidious re-creation of community through the instrumental use of knowledge”.

Needless to say, these objectives will be interpreted differently according to the features of every considered context. This comes about because the relevance of democratic planning lies in the process it engenders for improving participation in decision-making.

A better participation, besides its intrinsic worthiness, would foster a virtuous circle. As a matter of fact, such participation, by improving the process of social valuing — which can be likened to a better self-understanding of the values, interests and conflicts of collective action — would also help overcome its most “disturbed” and conflicting aspects. An improved process of social valuation, in turn, will improve the capacity of policy action to understand and respond to the profound needs of society.

In this respect, a joint application of the psychological concepts elaborated by institutionalism and pragmatism, also in collaboration with psychology and psychoanalysis, can greatly help to steer a sustainable and equitable course of economic action.

In this light, a wide array of contemporary issues, most often involving a supranational dimension, can be addressed. These include the building of peaceful relations, the

reduction of gross inequalities between persons and economic areas, and, as a pivotal theme traversing the previous issues, the solution of the environmental problems.

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