

**THE ORIGINAL  
INSTITUTIONALISM AS A SCHOOL  
OF POLITICAL ECONOMICS**

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**A**bstract: With the Great Recession of 2008-09, a regulation-theoretic agenda, albeit ambiguous, has come to the fore. In the field of political economy, it is principally the original institutionalism that bases its premises upon a constraint-theoretic regulation of economic institutions. This paper, in this context, aims first to examine the methodological and theoretical space of original institutionalism in the wider discipline of political economy with particular reference to its points of divergence from the new and rational choice institutionalism, and then to investigate its rudiments in terms of the systemic interactions between the building blocks of a politico-economic regime ranging from norm-contingent economic development to business cycles and innovation.

**Keywords:** *Original/old/historical institutionalism, political economy, new institutionalism, rational choice institutionalism.*

# BİR POLİTİK İKTİSAT OKULU OLARAK ORJİNAL KURUMSALCILIK

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**Ö**z: “2008-09 Büyük Resesyonu” ile birlikte devlet-piyasa ilişkilerinin kamu kesimi tarafından uygulanacak kısıtlarla düzenlenmesinin gerekliliğini vurgulayan teorik ve pratik bir gündem önplana çıkmıştır. Politik iktisat yazınında iktisadi kurumların kısıt (*constraint*) merkezli kamusal regülasyonunu formüle eden ana akım orjinal tarihselci okuldur. Bu çalışma, bu anlamda, iki temel amacı gerçekleştirmeyi hedeflemektedir. Birincisi orijinal tarihsel kurumsalcı okulun politik iktisat okulları içerisindeki metodolojik ve teorik önemini yeni ve rasyonel tercih kurumsalcılıklarından farklılaşan yönlerini önplana çıkaran bir yaklaşımla incelemektir. İkincisi ise orijinal kurumsalcı okulun temel politika önermelerini norm-koşullu iktisadi kalkınmadan iş çevrimleri ve inovasyona kadar uzanan bir kapsamda ve bir ekonomi politik yapının temel bileşenleri arasındaki sistemik etkileşimler temelinde analiz etmektir.

**Anahtar Sözcükler:** Orijinal/eski/tarihsel kurumsalcılık, politik iktisat, yeni kurumsalcılık, rasyonel tercih kurumsalcılığı.

## INTRODUCTION

The enduring debate on institutional underpinnings of contemporary political economies has gathered a noticeable momentum particularly since the onset of the ascending descent or rising fall of neoliberal establishment with the ongoing structural crisis of political economy. Prior to the outburst of the Housing Bubble, there was already a trend of reembodyment for institutional theory, especially for its rational choice, the new and the varieties of capitalism (VoC) versions. This is because the rational choice or the new institutionalism develops a ‘procyclical methodology’ that aims, despite some unsystemic methodological objections to *laissez-faire* capitalism, to vindicate the destructured structure of neoliberal status quo with a central emphasis on how to cut down the costs of transactions. In the course of these theoretico-practical developments, the original institutionalism was a background motive as a countercyclical theory that raises reformative investigations into the pivotal constituencies of neoliberal establishment.

The recent resurrection of original institutional theory has unfolded particularly with the leverage of the return of Keynesian recipes. As observed during and after the Housing Bubble, in response to the resurgence of depression economics particularly in the developed world, the political authorities have, in most cases, earmarked Keynesian countercyclical policy strategies orderly for the first time since the early 1970s, albeit not in a coordinated manner. Underlying the rising ambit of institutional theory during this cycle is the dawning prospect of re-regulating or re-forming national and transnational politico-economic settlement upon structurally binding institutional axes to cope with the economic and political business cycles (Stiglitz, 2010; Williams, 2010; Buiter, 2009).

At this period of the rising tide of original institutional theory, this paper aims first to provide a disciplinary insight into what distinguish it from the rational and new institutionalism and then into its rudiments from a political economy perspective. To this end, in the first part of the paper, the divergent and convergent meanings of political economy are examined in the extent of the pioneering figures’ conceptualisations. The second part concentrates on the main areas of divergence between the rational, new, and original institutionalisms in a political economy perspective. And the final section proceeds to examine the rudiments of original institutionalism with reference to basic institutions of political economy ranging from economic norms and regulation to development and innovation from a holistic perspective.

## 1. THE DIVERGENT AND CONVERGENT MEANINGS OF POLITICAL ECONOMY AMONG THE PIONEERS

As a branch of social theory, the discipline of political economy offers an integrative analytic perspective to map out the major institutional axes of social systems. The political economy, as Mill pointed out (2004[1848]:3), is inseparably intertwined with the other strands of social philosophy, since it structurally embraces politics, economics, sociology, social policy, *etc.* Designating the political economy approach as the core analytic frame, one predicates that politics and economics are mutually-constraining areas of research under socially embedded institutional structures.

Over its long lifetime, due to its this connective value, the phrase ‘political economy’ has had many different meanings. For Smith (1976 [1776]: 138) ‘the system of political economy’ was to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves, and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. For Ricardo (2001[1817]: Chapter 1), it was to determine the laws which regulate the distribution of wealth under the principle that ‘there can be no rise in the value of labour without a fall of profits’. For neoclassical school, there is no discipline of ‘political’ economy but ‘economics’, the mechanics of utility and self-interest, as a deductive science that must be verified and rendered useful by the purely empirical science of statistics (Jevons, 2005 [1988]: 33). In view of the fact that, as Lucas (1990: 667) put it, it is always the ‘state intervention’ that sets the stage for basic debates on political economy, it can well be argued that Jevons’ perspective is in systemic terms followed by the outgrowths of the neoclassical school, namely the monetarists, rational expectationists, new classicals *etc.*

Political economy was, for Marx (2018 [1867]), how the ownership of the means of production dialectically shapes the distribution of economic surplus and political power among their holders, mainly labour and capital. As a middle ground theoretician, for Keynes (1964 [1936]), political economy was the art of setting a delicate trade-off between economic efficiency, social equity, and individual liberty. Such a trade-off is to be entrenched through the interventionist discretion of state to clear market imperfections (underemployment), to supply public goods, to sustain productive organization of market system, to hedge against boom-bust cycles, and to ensure an equal distribution of income. This intervention is in effect aimed at harnessing capitalism to render it a socially-sustainable regime through steering macro intersections between employment, interest, and money, but without thwarting its progressive individualism. In Keynes’ words (1964 [1936]: 249, 378) “the state will have to

exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways”.

A sharp classification of these major schools does not necessarily mean that there are structural variations between them in not pure technical economics but in political economy terms. Keynes, for example, used only ‘classical economics’ for both classical and neoclassical school of economics, since he probably thought that there was no *bona fide* difference between them in terms of the building blocks of politico-economic analysis such as unconditional acceptance of the natural organization of market order, minimization of state intervention, prioritization of individual rather than social welfare and utility, *etc.* It is within this context that Jevons’ (2005 [1888]: 32-33) sharp disavowal of evolutionary methodology into economics profession — an attempt, to him, to marginalise and unnecessarily confound it as an adjunct discipline of political economy — is not structurally opposed by classical liberals, even though they widely used the term ‘political economy’ in the title of their works.

The relative convergence between various schools of political economy, in another respect, originates in the fact that they examine the same whole of social system in terms of the complex intercourses between its micro or macro institutions. The linkage between Keynesian and original institutional school is a key matter of such a convergence. Main points of convergence of these schools are, inter alia, the repudiation of the myth of spontaneous market-clearing; explication and structuration of politico-economic circulation from an (aggregate) demand-constraint perspective; assuming a regulatory discretion at national and international levels for forestalling business cycles; eliminating or socialising unproductive (leisure) capital; providing full employment, and functionalizing an equilibrating incomes policy. Despite this convergence, among the mainstream schools of political economy including Keynesian or post-Keynesian school, the distinguishing feature of original institutional theory is that it brings in a holistically-organized perspective to macro-micro institutional framework in respect to the intersectional bridges among political, economic, and cultural constituencies. In this regard, demarcating the original institutionalists from Keynesians is in substance that the former outfits the state with the task of ‘systemically-binding’ regulation of socio-economic and socio-political relations on permanent basis, whereas the latter presumes state intervention as a corrective measure to modulate the socio-economic relations especially during underemployment conditions (Socio-economic, and socio-political welfare refer to the distribution of the GDP among the factors of production - capital, labour, land, and entrepreneur, and the division of political power and prestige among the individuals, groups or organizations in a society, respectively). In addition, compared to the relatively more technical scope of Keynesian economics, the institutional theory, with a more sociologically-inclusive perspective, brings the

informal norm and values into analysis as the main catalyst of politico-economic circulation.

## 2. RATIONAL, NEW, AND OLD INSTITUTIONALISMS BETWEEN REGULATIVE CONSTRAINTS AND TRANSACTION COSTS

The classificatory debate among the various strands of institutional theory revolves, inter alia, between rational, new, and original institutionalisms. Prima facie, the distinction between the new and the rational choice institutionalism would appear unpretentious due to the fact that, like the latter, the former, which does not have a coherent whole in itself, too, internalizes some underpinnings of neoclassical economics and neoliberal politics, especially of Austrian tradition: methodological individualism, spontaneous birth of institutions, private property as the main reference of exchange-theoretic institutional interaction, the emergence and establishment of institutions as a result of interindividual interplay, very phenomenon of superveniency, and non-interventionism as the prime precondition of micro or macro-institutional development (Hodgson, 2004: 449-50; Lowndes, 1996; Fiorina, 1995). Some noteworthy, if not systemic, modifications are, nonetheless, predated to the latter by the former. North (1990: 14-15), for example, is analytically critical of the purposive-rational action, methodological determinism or concretism *etc.* He puts forward that human and organizational behaviour is too complex to be defined by an unsophisticated assumption that bypasses non-wealth-maximising values, and that the hallmark of community is shared common beliefs or norms, and direct and complex liaisons between its members. Notwithstanding, even these major methodological distinctions of the new institutionalism are relatively marginal when it comes to political conditioning of economic institutions. Because they do not run counter, in systemic terms, to the postulate confirmed by the new institutionalists as well that the politically-imposed 'collective' constraints on the private property should be exterminated, which are surreptitiously alleged to hinder institutional change in progressive terms (see North, 1990). The succession of choice with contract, on this ground, is not a *coup de main* for the distribution of economic welfare if political authority is not authorized to steer rules of the game by making binding regulations over individuals or firms. Alston and Mueller (2008: 587), in the Handbook of New Institutional Economics, declares that;

The comparative advantage of the state in protecting property rights begs the question: if the state can protect citizens from one another, what protects the state from stealing from its citizens? A short answer is very little; over time and across space many states have plundered their constituents to satisfy their self-interest...In the essay we suggest that the answer ultimately vests in the development of a set of beliefs by the citizens and political elites that they all will be better off in the long-run by abiding by the rule of law.

(Let me raise two self-responsive questions; HOW can this compliance be secured if inter-individual or inter-organizational trust is not at its place? What, if any, would be the potential response to this question in light of the ongoing crisis of capitalism?)

According to North (1990: 5-6), the impact of institutions and their regulatory processes on the performance of the economy goes through their leverage on the 'costs of exchange and production'. Along with the technology employed, they determine the transaction and transformation 'costs'. Principally, to improve economic performance consists solely in lowering production and transaction costs (North, 2005: 159). Contracting parties can maximize their utilities through minimizing their costs, although their exchange is contingent on the preaccepted rules. These rules are agents for instrumentalizing contractarian exchange of private property between individuals and firms. They are hence vulnerable to a flexible and expedient change in conjunction with the imminent opportunities of diminishing cost alternatives or selecting more profitable factor proportions, but not for harnessing socially-destructive consequences of contract-mediated institutional structures (Knight, 2001: 35-37; Kasper, Streit, 1998: 127-8). Williamson's perspective of transaction costs economics (1979) is in this sense in open conflict with Commons', since the latter does postulate public ordering of private contracts but not ordering of public 'contracts' for minimising the transactional costs of private contracts.

Commons' transaction-theoretic perspective (1970 [1950]; 1959) originates in creating a trade-off between institutional axes to be erected upon the mediation of conflict, dependency, and order. Unlike 'exchange' of commodities, to him, the transactions are acquisition or alienation of the rights of pecuniary or non-pecuniary ownership in the way that is determined by collective working rules of society (Commons, 1959: 58). The underlying reason is that there should be a binding institutional structure like economic and social councils, where civic organizations including trade or civil servant unions, NGOs, and environmental organizations can become genuine actors in the determination of major decisions concerning political rules, institutional reorganizations, distribution of politico-economic welfare *etc.* New political institutionalists argue that institutional factors can exert leverage on both the objectives and the distribution of power among political actors. This is a descriptive statement. Analytically significant is what their strategy is in structuring public institutions between these two options: to feed back into the smooth flow of voluntary transactions or to strike a trade-off between contending or countercyclical interest groups in the long-run upon, as Streeck and Thelen (2005:11), noted the principles of authority, obligation and enforcement rather than voluntarism. It is, in systemic terms, non-interventionism, namely the former, as propounded by rational choice theoreticians. Williamson (1979: 258) argues that "the object of governance is to protect the interests

of the respective parties”, but how could the labor side safeguard its interest at firm-level governance if shut out from the necessary power channels, for example by the enactment of ‘opt-out’ opportunities? Be silent. The unresponsiveness of the new institutionalists to this question is rooted in their methodologic double-shuffle to surreptitiously strike a balance between criticizing and engaging with neo-classical theory.

### **3. THE ORIGINAL INSTITUTIONALISM BETWEEN CONSTRAINTS, EFFICIENCY, AND BUSINESS CYCLES**

After examining the foremost distinguishing quality of the original institutionalism in the discipline of political economy, this sub-section proceeds to elaborate on its building blocks. This perspective requires us to commence with the definition of ‘institutional political economy’, an occasionally used term that I think is more appropriate for defining the analytic core of original institutionalism compared to the institutional economics or the institutional politics. In the tradition of original institutionalism, ‘institutional political economy’ can be defined as the theoretical study of intertemporal structuration of the available qualitative and quantitative resources to establish and sustain the balance of social, economic, and political effectiveness, equity, and voice. Contemporaneously, a paragon of such an analysis has been made by Streeck (2009) in his study of ‘Re-forming Capitalism’. Three insights in the form of question as provided by Streeck authoritatively demonstrate the distinctive quality of original institutionalism: (i) Can a state strategy of political economy that has been locked in strict fiscal austerity lay the basis for the public infrastructure necessary for an efficient private economy? (ii) Is there any catalyst for the businessmen to take care of macro efficiency apart from its own profitability and survival, the elimination of monopolistic or oligopolistic structuralization, and therefore the overall competitiveness of national economic structures? (iii) Is it conceivable to sustain economic efficiency and individual liberty regardless of social equity and private trust or, in other words, is there any institution of capitalism that would eradicate the pitfalls of (shareholder) capitalism at the level of private firms and macro political economy?

These questions are rooted in the systemic and unbiased examination of formal and informal institutions in terms of the intersectional dimensions of politics, economics, and culture, thereby enabling the analyst, Streeck (2009), to work out a theoretically-investigatory perspective across the overall set of institutions rather than a practically-manipulative perspective geared towards the substantiation of the dominating or procyclical institutions. It is, for instance, unquestionably taken for granted that the unique reason for the rising unemployment and inflation is the institutional rigidity that originates in political intervention in market structure, circumventing the flexibilization of the labor market and the truncation of social expenditures. As Vogel (2005: 150) proposed with respect to the Japan, turning the



analysis upside down would provide a fully different insight; the recent financial chaos of 2008-2009, as the negative feedback of the speculative economic cycle, has considerably scaled back real industrial investment and escalated unemployment, but neither did organized labor relations nor rising social expenditures systemically precipitate the destruction of financial system. Streeck's (2009) questions are, by the same token, of critical significance in displaying the long-term unsustainability of disorganized or flexible institutional structures, even according to the competitive measures, that would expectedly cascade into the 'nonremediable path-dependencies' in Pierson's (2004: 207) words. The changing practice and subsequent reformation of legal bases of corporate governance in German model, for example, chipped away the organising impact of collective bargaining, and the intermediary role of the state in sustaining the corporatist order of postwar period. The institutionalized structure of German model as company networks at private market in various ways shielded its members from destructive competition and hostile takeovers, from ruinous periodic losses especially arising out of the excessive financial risks of stock-marketization through the provision of low-interest and long-term credit channels, from low-level productivity and uncompetitive technologies through urging firms to invest in the long-term projects of workforce training and stable research activity, *etc.*

What makes original institutionalists original is their contextualization of political economy at the co-effectiveness of political, economic, and societal institutions and processes rather than at a pure emphasis on the diachronic evolution of institutional structure or a mere promotion of the 'institutions matter' approach. While sorting a scholar out as an original institutionalist, in this respect, the criterion is to find out if he/she makes his/her analysis by adapting its methodological and structural postulates rather than by engaging with or instrumentalizing some analytic apparatuses of this tradition. Sanders (2006), for example, aligns Pierson with original institutionalism. Such a classification is in systemic terms not tenable, as neither does Pierson (2004) contextualise politics into a constraint-theoretic argumentation nor into an evolutionary perspective, but on the persistence of structural idiosyncracies in time. Arthur's (1994) conceptualization of path-dependently structured evolution of economic transactions does not make him an original institutionalist, because his primary focus is not to make an analysis on the abovenoted basis but to deal with the economic circulation in time. Does VoC thesis (Soskice, Hall, 2001) raise any argument for structuralizing politico-economic processes between the abovenoted trilogy of efficiency, equity, and voice? No. Because their ultimate aim is to lay out the static alignment of disparate national contexts around the liberal or the coordinated market economies, even without incorporating public sector into analysis in systemic terms. However, an original institutionalist focuses on substantive questions of macro political economy in time, and hypothesizes on the conjoint impacts of institutions and processes (Pierson, Skocpol, 2002).

Such an institution-theoretic conceptualization of political economy was initially made by, in turn, Veblen, Mitchell, Commons and Ayres. In terms of institutional interactions, their analyses comprise some minor and major varieties. Veblen adapts, for example, a sternly critical perspective, albeit analytically unsystemic (Hodgson, 2004: 176-194), towards capitalist organization of market societies with a special emphasis on the unproductive capital, the leisure class, those who get something for nothing, whereas Commons (1970 [1950]) predicates his analysis on the workable mutualities between the organizational transactions of state, labour, and capital based on the idea that capitalism is a sustainable order if harnessed especially by establishing working rules. Political economy, according to Commons (1970 [1950]: 261-65), is intrinsically ‘capital-labor administration’ under mediating power of ‘collective democracy’ at industrial and macro economic levels. Ayres (1962) focuses on the technological development, inter alia, as the driving force of institutional development in intrinsic reference to its social conditions. Yet despite their shifting emphasis on institutional confluences of political economy, evolutionary and historical approach is by and large the common methodology for all prominent figures. And it is the multidisciplinary intertemporality located at the intersections of politics, economics, sociology, industrial relations, law, and social policy that renders this convergence point a distinguishing feature of the original institutionalism. In political economy terms, it is not tenable, for this reason, to identify the major figures of original institutionalism, Veblen, Commons, Ayres, and recently Streeck, Hodgson, Steinmo or Thelen only with one of the political, economic, or sociological institutionalism (for such a classification, see Hall and Taylor, 1996). Instead, I will opt for integrating their analysis into the encompassing shelter of institutional political economy.

**Table 1. Major Constituencies of Original Institutionalism**

<ul style="list-style-type: none"> <li>▪ <b>Methodology</b></li> <li>▪ Normative-Heuristic</li> <li>▪ Theory-praxis correlation</li> <li>▪ Evolutionary dynamics in time and space</li> <li>▪ Methodological holism</li> <li>▪ Multidisciplinary</li> <li>▪ Unpredictability under asymmetric information</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Political economy</b></li> <li>Explication of political economy in terms of the long-term trade-off and co-efficiency, equity, and voice of political, economic, and societal components</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Analytic levels</b></li> <li>▪ Encultured and rationally-bounded individuals (Homo sociologicus)</li> <li>▪ Society as a complex evolving whole with its formal and informal institutions</li> <li>▪ Capitalism as an instituted order</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>State’s role</b></li> <li>Intervention by imposing constraints on individual and organizational action in erasing monopoly, imperfect competition, company failure, mediating conflicts, and hence structuring politico-economic components in a mutually-enhancing manner</li> </ul>

The fact that original institutionalists examine political economy from a sociologically-integrative perspective, in essence, calls for a compound rather than a divided classification, if necessary. Economic sociology, for example, should be conceived of not a mere study of sociological implications of economics, but of the study of economics from a sociologically-integrative perspective. Neoclassicals intend to confine economic sociology into the former, as they accept methodological functionalism, a theoretical preacceptance that the growing complexity of science-making, inevitably, ends up with specialization in positive, social and also intra-social sciences with the mentality that ‘equip yourself to fulfill usefully a specific function’ (Durkheim, 1994 [1893]: 2). How can we confine Veblen into a sheer economic institutionalism irrespective of his comprehensive investigation of sociologic and political implications of leisure class or conspicuous consumption?

The heuristic or inductive methodology of original institutionalism does not require that it not be accepted as an authoritative exegesis of political economics. Because it is not game-theoretic or econometric delineation of politics or economics that yields the necessary value-added for a well-functioning social system, but the structuration of interconsistent and intercomplementary institutions that organize politico-economic institutions at social optimum. The unchanging path-dependency of liberal theory in reducing political economy into a mere study of technical economics is in this regard not the rule but the systemic manipulation of knowledge to gloss over the praxis of capitalism. Wallerstein (2004), in this respect, draws attention to the fact that liberalism is the science of segregating social sciences into distinct areas of research with the aim of disabling researchers to carve out the intersectional implications of macro politico-economic institutions and to pinpoint their systemic evolution. The roots of this obstruction inhere in the fact that modern university gained its institutional form as a consequence of the dissociation between physical and meta-physical one, a process that took the philosophy out of the ground. Wallerstein (2004: 2) proposes to ‘unthink’ much of what we have learned from social science disciplines. The meaning of this proposition is not that each of these sciences should not have their idiosyncratic domains of research, but that political economy should be accepted as the study of institutional structures from a political, economic or sociologic perspective without losing sight of the intersectional implications of these disciplines.

For the institutional tradition sprouting from the theoretical conceptualizations of Veblen, Mitchell, Ayres, and Commons, various titles such as old, original, evolutionary and historical, sociological, normative *etc.* have been used in changing sequences (Thelen, 1999; Peters, 1999; Knight, 2001). The reason why I prefer ‘original’ rather than ‘historical’, ‘evolutionary’ or old institutionalism is that (i) the term ‘original’ is the most optimal way of distinguishing this tradition from the other institutional fronts with a special emphasis on the fact that the origins of institutional

political economy were laid down by the pioneers of this tradition, and (ii) historical or evolutionary aspect of old institutional theory is, as abovementioned, a key methodological tool of original institutionalism, but not its analytic nucleus in political economy terms. In other respect, the ‘old’ of the ‘old institutionalism’ brings in a tricky confusion with the ‘new’ institutionalism as if the new institutionalism is a contemporary version of old institutionalism. This ambivalence drives analysis into a misperception that the theoretical pillars of original institutionalism have become obsolete. What makes the new institutionalism new? Is it its modernity? The ‘modern’ and the ‘traditional’ are relative terms in historical terms (Wallerstein, 2004: xviii). The latter stands for the path-dependency of the former’s change. In other words, the modern is the immediate preexisting (tradition). In a politico-economic analysis, at issue is the structural combinations or intersections of institutions rather than their newness or oldness, as it is the former rather than the latter that determines the orientation of social conduct in time and space. In the following, in this context, the building blocks of original institutionalism is discussed with respect to the structural intersections of major politico-economic institutions.

In its methodologic perspective drawn upon the complex, dynamic, diachronic, and holistic correlations of formal and informal institutions, original institutionalism disclaims the forging of ‘social physics’, ‘social biology’, or ‘social mechanics’ through direct transposition of the methodologies of the mechanic or organic sciences into social theory. Veblen (1909: 300) puts forward that the embodiment of social institutions are based upon the conventional grounds and values of human-beings, but not solely on the unconventionalized propensities of hereditary human nature. Complementing this approach is that a pure theory of institutions is contingent upon the purposes, wills, rights, or interest of human-beings, hence it could not be conceptualized like mechanic sciences (Commons, 1959: 103). This humanly constrained methodology of original institutionalism lays the basis of a normatively-contingent systemic approach to the institutional interactions.

As adapted by original institutionalists, ‘methodological holism’, a prerequisite for a combined exegesis of micro and macro institutional interactions, originates in the fact that social whole significantly conditions the behaviour of its parts, namely individuals, groups, or organizations (Rutherford, 1994: 28). For Commons (1970 [1950]: 32) society is not the mere totality of separate individuals, but a constellation of cooperating individuals who are the members of organizations, citizens of the state, and participants in a society. According to him, the state is the means of collective action of politicians, and three actors of collective economic action are there; corporations, labor unions, and political parties (p. 23). In the context of the interaction between these actors, the analytic core of the original institutionalism is how institutional setting mediates politico-economic struggles considering that capitalism is “an instituted order,

that is, as a system of action within and in relation to social rules” (Steinmo and Thelen, 1992: 6; Streeck, 2009: 104). And the subjective predilection of original institutionalism for the objective orientation of this interaction is the establishment of social optimum: social equity, economic efficiency, and individual liberty. Put it differently, the co-provision of social and individual welfare altogether constitutes, for original institutionalists, the backbone of political economy. Such an equiprimordiality entails government regulation with the aim of laying down the rules, enforcing institutional trade-offs, and monitoring and sanctioning institutional imperfections for inculcating patterned behaviours. The essential targets of institutional regulation by political steering can be pointed out as to (i) establish social optimum (ii) head off the ever-rising risk of uncertainty and speculative attempts, thereby stabilize long-term expectations (iii) forestall the socially-destructive consequences of efficiency failures of markets and political institutions (iv) construct institutional legitimacy and commitment on the part of encultured individuals and (v) establish entrepreneurial stimuli and investment coordination by means of steering and negotiating complementary investment strategies, and thereby matching production factors in quantitative and qualitative terms.

This regulatory initiative entails a strong but not necessarily a voluminous government in terms of its enforceive power. Another prerequisite is the embedded autonomy for a highly selective and meritocratically-recruited bureaucracy for steering development power beyond unconstrained market rationality (Burlamaqui, 2000). Principal-agent dichotomy or submission to rent-seeking demands of business groups would fundamentally demolish the intercoherent structure of institutional development as a result of unremitting free-riding attempts. Proactively foreclosing these attempts requires an unremitting social surveillance through organizationally-mediated democratic participation to politico-economic processes. In this context, the original institutionalism can be defined in political terms as “an attempt to illuminate how political struggles are mediated by the institutional setting—such as the rules of political regime and electoral system, political culture, party systems—in which they take place” (Steinmo and Thelen, 1992: 2). With regard to state intervention, various insights have been developed by original institutionalists. From a critical perspective, to Veblen (1912 [1899]), government’s role is to feed back into the capitalist organization of market societies. For Mitchell, as automatic correction of market capitalism is a chimera, a national planning system should be established for preventing its periodic fluctuations, business cycles, whereas Commons puts emphasis on the exigency of legal control by political authority for the maintenance of production and consumption functions. Legal control is in this sense for forging a workable mutuality or beneficial complementarity by conflict resolution (Commons, 1970 [1950]: 7-9). This is not something like prisoners’ dilemma in game-theoretic terms, but a constraint-theoretic conciliation. The primary target of public discretion is in this sense to fine-tune political, economic, and social development on a mutually-enhancing basis in the face of free-riding initiatives

of market forces. Put differently, state intervention is for improving overall efficiency of social system and instituting the infrastructure for ‘evolutionary creativity’.

Evolutionary creativity requires mutually-enhancing alignment of available resources. In the parlance of original institutionalism, market societies are denounced for their failure in establishing and sustaining this alignment. Featuring this perspective is Veblen’s (1912 [1899]) conceptualization of the leisure class. The society, according to him, can be broken down into the industrial and the non-industrial classes that gain their social roles through evolutionary habituation. While the latter, such as bankers and business people, get something for nothing, the former, such as farmers and factory workers, carry out productive activities. The concept of leisure class inheres in the dysfunctionality of non-industrial, aristocratic, or ceremonial occupations under government, warfare, religious observances, and sports. At issue is that, exempted or dissociated from productive works, these occupations do not contribute to the overall effectiveness or advancement of an industrial society. In Veblenian terms, industry is to create a new thing or a value-added, whereas exploitation is the conversion of the existing normative values or material resources to the ends of leisure class. The ‘leisure’ is in this sense not the indolence or idleness but non-productive depletion or consumption of social time. Unique aim of the economic, political, or cultural leisure class is to convert pecuniary or non-pecuniary resources cultivated by productive forces, the working-class, of the society into its subjective source of power for forging nominal or ceremonial values of prestige, honour, and dignity. And it is the formal institutionalization of industrial societies that begets the potential necessary for predatory (barbarian) agents to develop this opportunity of leisure. What makes leisure class barbarian is, in capitalistically-ordered societies, unduly appreciation of productive employment over unproductive one in the way of master-slave division and cumulative inculcation or habituation of this pecuniary culture over time.

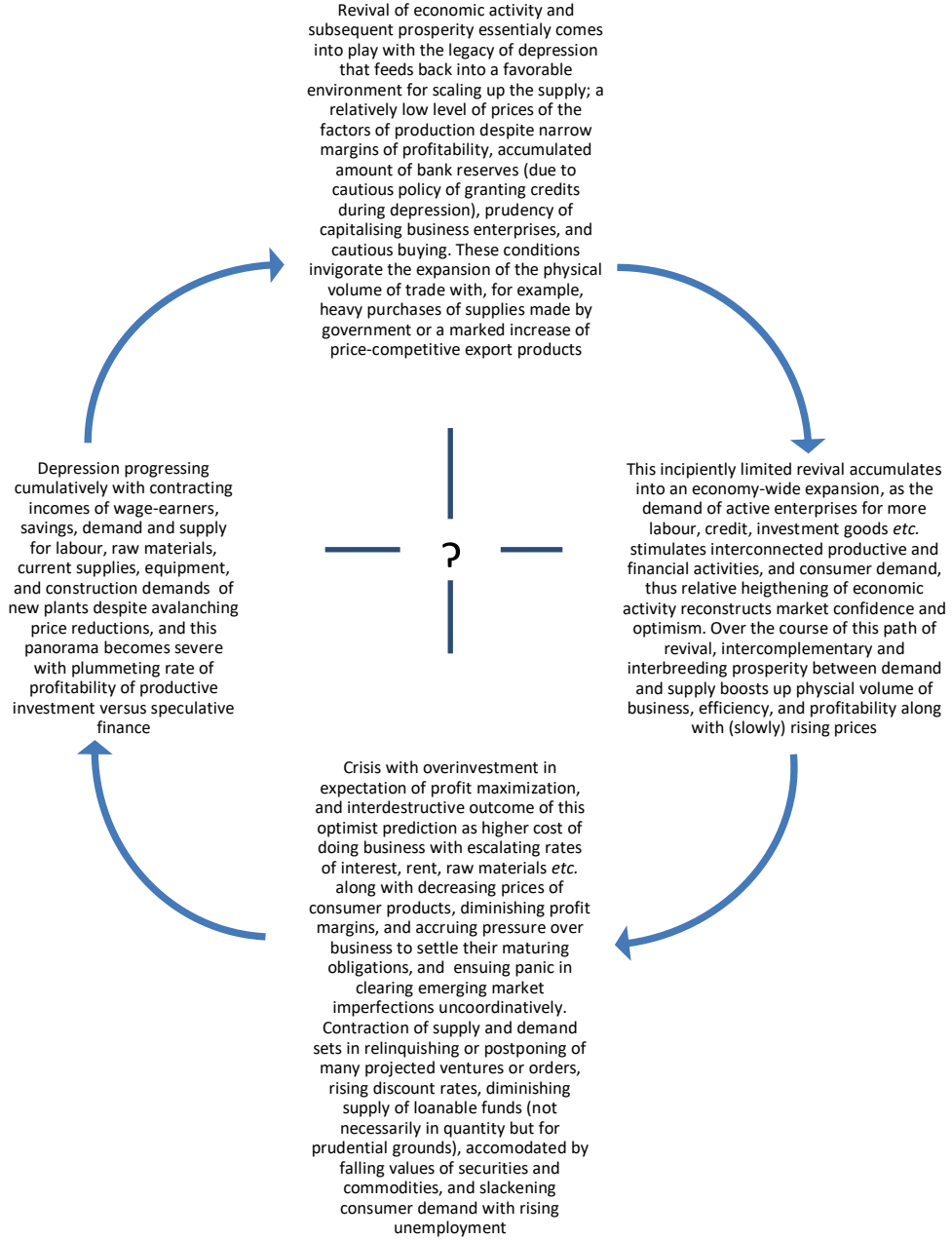
It is in parallel with their theoretical reprisal to this unduly appreciation that, for original institutionalists, the ‘efficiency’ is conceived of as the mutual dependency and common or collective interest of the production factors, the universal principle to overcome scarcity by cooperation, rather than as the cost-minimizing or profit-maximising endowment of production factors (Commons, 1970 [1950]: 6; Veblen, 1912 [1899]: 227-28). A mutually-enhancing virtuous cycle of this kind requires the adaptability, accountability, and distributional fairness of the firms that are regarded as going concerns capable of fostering instrumental technologies (Stevenson, 1988: 65). This virtuous cycle also calls for the establishment of necessary human values for a sustainable progress; the opportunity for a decent employment, social security, and health care; an equal opportunity of education, *etc.* An essential part of intercomplementary efficiency in original institutionalism is Ayres’s attribution of economic volatility to unequal distribution of income. He argues that the putative

verdict of saving-investment equation would end up with excessive savings, more inequality, and ensuing economic instability since excessive savings reduce down consumption expenditures (aggregate market demand) and the propensity to invest, resulting in the rise of speculative initiatives at the end of the cycle. Underlying is that neither is each saving for investment purposes, nor is there a smooth transmission from savings to investments. Thus, income inequality is the accumulated growth of non-optimal allocation of savings, production, and welfare in time, but not an inevitable consequence of the (real) productive capacity of the economy (Peach, 1988: 86-7).

Steady economic growth, in Ayres' (1962) view, is the outcome of the dynamic accumulation of technologic knowledge of society, a process which sprouts out of the human skill and its products in the way of inventions and discoveries. In cognizance of the fact that it is the firm-level innovation that leads up to the technological and economic change, original institutionalist concentrates on the societal and political sources of this innovative discretion in terms of the encompassing institutional and normative environment out of which the innovative spirit sprouts. In other words, the economic growth is dealt with by the original institutionalists on the basis of the aggregation of its micro sources into macro institutional bridges that make it a sustainable process in the long-run (Metcalf, 2007).

The driving force of politico-economic development, in original institutionalism, is the idiosyncratic deployment of institutional structure, the context-specificity, but not institutional determinism and isomorphism. Steinmo's (2010) analysis of the evolution of state structures in Sweden, Japan, and the USA well instantiates this phenomenon. He argues that divergences of these three political economies persist structurally to a remarkable extent despite facing the same predicaments ranging from austerity to deregulation, from flexible employment to financialization. This originates in the fact that the various combinations of geo-political, geo-cultural, demographic, ethnic, and historical challenges and opportunities give rise to the embodiment of various responses. Of these countries, for example, Sweden has been able to manage the interrepulsions between high levels of income equality and social expenditures, high and broad-based taxes, a universalist social welfare regime, labor/capital peace and cooperation in dissolution, and a high-value added and technologically-advanced productive capacity. This 'high-road' strategy<sup>1</sup>, albeit in crisis, has become possible by maintaining co-effectiveness of overall institutional structure in a flexibly adaptive manner to the world economy (In global competitiveness index, Sweden is, respectively the second and third for 2010-11 and 2011-12 ahead of the USA).

**Figure 1. The Evolution of Business Cycle**



*Source:* Adapted from Mitchell [(1971 [1941])].



As a corollary of context relational explanation of politico-economic circulation, the institutional development is suggested to unfold between design and spontaneity in terms of the intersectional dynamics of formal and informal institutions. While the evolution of norms or customs is fundamentally spontaneous, the formal rules arise out of institutional design (Rutherford, 1994: 105-106; Banathy, 1996: 71-77). Fine-tuning this delicate intercourse is steering orientation of a legitimately-instituted political apparatus. Institutional legitimacy is not a pecuniary object to be possessed or exchanged, but a status of cultural alignment, normative support, or consonance with relevant rules or laws. The legitimation, in this sense, justifies the institutional order by ascribing cognitive validity to its objectivated meanings in view of the fact that institutions are patterned behaviours of shared meanings among the participants (Scott, Meyer, 1994: 59).

### CONCLUSION

As emphasised in the abstract, institutional regulation is suggested by original institutionalists to forestall uncertainty and restrict its risk-creating impact. In the parlance of original institutionalism, in this regard, 'proactive regulation' is the safest way of handling with business cycles. Because, as seen in the 2008-2009 crisis, it is in far possibility to predict the exact time of bursting, the sequence and the modus vivendi of interminglement of the causes and effects of a business cycle. The countercyclical policy measures are conjuncturely palliative rather than structurally reformative units of crisis management. And reactively recasting instead of proactively restructuring the existing stock of institutions is a much more costly in that it would be implausible in both corporeal and incorporeal terms to restructure non-remediable path-dependencies such as the destruction of existing stock of human resources during and after the cycle. If so, what is the response of the question in the Figure 1? It is the abovenoted macro insights of original institutionalism under a constraining regulatory initiative encompassing the basic institutional axes of a politico-economic system.

### NOTLAR

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<sup>1</sup>'High road' here refers to a production regime where the firm employs high-skilled workers with well-paying jobs, compete primarily over efficient production of value by utilizing all factors (labor, physical capital, natural capital) in the most optimal way; productive linkage in and between sectors concentrate on generating positive externalities; the manual or intellectual workers are enhanced by positive trust-based incentives of sharing productivity gains like prospects for promotions, expectations for future raises, bonuses etc, and they incline to take responsibility of contributing to both material and organizational advancement of the enterprise by continuous learning concentrated on innovative improvement of production performance; and the interplay between managerial and non-managerial employees is organized around collective

deliberations and problem-solving, responsibility-sharing and bottom-up participation (Wright, Rogers, 2011: Chapter 9).

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