

INTERVIEW / SÖYLEŞİ: THE EVOLUTION OF INSTITUTIONAL ECONOMICS

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Feridun YILMAZ: Could you describe the place of institutionalism in the history of economics? Was it a part of the mainstream economics or was it a dissenting school from the beginning?

Malcolm RUTHERFORD: In the interwar period in the US, institutionalism was fully a part of the mainstream of economics. This is indicated by the facts that institutionalists dominated the faculty at two of the top four graduate schools in economics, dominated at the two leading independent research institutes (the NBER and Brookings), published in the leading journals in economics, became presidents of the AEA and ASA, and had excellent connections with funding agencies. After World War II the place of institutionalism changed dramatically. The leading schools no longer hired institutionalists, the mainstream of the profession adopted a Keynesian/neoclassical synthesis, and institutionalism became marginalized.

Feridun YILMAZ: In your recent book, you focus on the interwar period institutionalism. What is the importance of this period for the mainstream in general and for institutionalism in particular?

Malcolm RUTHERFORD: In terms of institutionalism, the interwar period was the period of its greatest success and visibility. Significant contributions were made over this time by Wesley Mitchell on

business cycles, J. M. Clark on overhead costs, business cycles, public works, psychology and economics, and social control, by Walton Hamilton on the coal industry, wages, price policies, and medical care, John R. Commons on labour problems and law and economics, Hazel Kyrk on household economics, and so on. Institutionalists were also involved in the creation and running of research organizations, innovative graduate programs, and in policy such as the Wisconsin Experiment and the New Deal. Institutionalism was an extremely active area in American economics at that time.

More orthodox theory developed relatively little between the 1890s and the mid 1920s, and compared to institutionalism was relatively stagnant. In terms of neoclassical theory, this only began to change with the work of Jacob Viner and Frank Knight at Chicago. Of course, in the 1930s and early 40s all sorts of developments occurred more orthodox theory (especially demand theory and imperfect competition), and with Keynesian economics, and with econometrics and the Cowles Commission.

Feridun YILMAZ: You argue that “understanding institutionalism requires understanding the character of American economics in the period from about 1890 through to the end of the 1940s”. Does it imply the concept of ‘American exceptionalism’ used by Dorothy Ross?

Malcolm RUTHERFORD: I think Dorothy Ross much overstates the point concerning American exceptionalism. This is not to say that circumstances in America were not different in a number of important respects from those in the UK or Europe. The intellectual context in the US was not identical with that in The UK for example, but then neither was the intellectual context in France or in Germany. Economics in each of these countries developed in slightly different ways over the period. Context is always important, but American economics was certainly connected to European traditions.

There are differences: in the period from 1880 up to the turn of the Century, American universities developed massively and in a way quite unmatched in Europe, Veblen had a particular influence in the US, and pragmatic and instrumental philosophy was also very much a US phenomenon. The First World War too affected the US in ways very different from European countries.

Nevertheless, the connections between American progressive era economics and German historical economics are very clear, and one can find developments in the UK in particular that have parallels with institutionalism in the US. The Fabian group in the UK, the early LSE economists, and reform liberals such as Beveridge and Henry Clay all had close links with the institutionalist movement in the US and to a degree, represent a similar

movement in economics in the UK to the institutionalist movement in America.

Feridun YILMAZ: What are the reasons behind the relative decline of institutionalism in the postwar period?

Malcolm RUTHERFORD: My book outlines some the many factors that came together to diminish the appeal of institutional economics in the post World War II period. It would be a mistake to think of this development as due to a single element. The various factors involved include: the failure of institutionalism to develop a well defined theory of behavior based on “modern psychology;” the development of new theoretical tools within neoclassical economics; the development of Keynesian economics; the development of econometrics; the rise of the Chicago school and its pro-market position; the cold war; the decline of the importance of pragmatic philosophy in the US; and the widespread acceptance of new methodological ideas consistent with a “model building” approach, one that was quite alien to interwar ideals of empirical science.

Feridun YILMAZ: What are the main characteristics of institutionalism in the interwar period and why do you label institutionalism as a ‘movement’ but not a ‘school’?

Malcolm RUTHERFORD: The main characteristics of interwar institutionalism were an emphasis on the importance of institutions in determining economic behavior and outcomes, an emphasis on the need for a new psychological underpinning for economics, an emphasis on the critical analysis of the institutional system and the economic behavior it generated, an emphasis on the need for improved methods of inquiry, ones that were more empirical and “investigative” in character, an emphasis on the need for new methods of “social control” to bring economic behavior into line with socially desirable behavior and outcomes. These positions are a set of general ontological, methodological, and ideological commitments. They held the institutionalist movement together but they do not in themselves define specific research programs. Thus, institutionalism could contain a variety of approaches and specific programs while still being distinguishable from more “orthodox” economics.

Feridun YILMAZ: You argue that Veblen was not the central figure for the interwar period institutionalism, could you explain the reasons of this interesting argument?

Malcolm RUTHERFORD: Now I have to be careful here! It would be impossible to think about institutionalism without thinking about Veblen. Veblen was the most important single intellectual influence on institutionalism, but institutionalism was not just Veblenism. Institutionalists took a great deal of Veblen’s critique on neoclassical

economics and business institutions on board, but they did not generally adopt Veblen's methods (preferring more empirical approaches), nor did they adopt his theory of institutional change arising out of habituation to new technological conditions, and nor did they adopt his radical solutions to the problems of capitalism. Institutionalism was a blend on Veblenian ideas with a pragmatic and instrumental view of science and social reform.

So Veblen was a crucially important influence on institutionalist thinking, but institutionalism was the product of the work of Hamilton, Hoxie, Mitchell, Moulton, Clark, and later Commons, and not just of Veblen.

Feridun YILMAZ: The standard histories of institutionalism have tended to focus on Veblen, Commons and Mitchell, and have largely ignored the many others in institutionalist movement. In your recent book you focus on Hamilton and Copeland. Do you consider them as founding figures like Veblen and Commons? What is the importance of Hamilton and Copeland for interwar period institutionalism?

Malcolm RUTHERFORD: I do consider Hamilton a founding figure, in fact I consider him to be perhaps the most important figure in terms of the actual definition and promotion of the institutionalist concept. This involves Hamilton's own work and published writings—and it is worth noting that Hamilton and May's book on Wages, and Hamilton and Wright's first book on the coal industry were often seen as paradigms of intuitionist work—but also the educational programs he led at Amherst and Brookings that trained a very large number of the next generation of institutionalists. These programs at Amherst and Brookings were particularly inspirational for many of those who were there.

I do not consider Copeland to be a founding figure. The reason Copeland is featured so much in the book is that he is an excellent example of the students who were taught or inspired by Hamilton, Clark and Mitchell. Copeland also illustrates the work that institutionalists did in improving the informational foundations of economics, and their involvement in government as well as the academic world. I considered his career to be extremely revealing of interwar institutionalism.

Feridun YILMAZ: Could you explain the relationship between interwar period institutionalism and Keynesian economics? Why couldn't they become complementary instead of rivals? What is the difference between 'social control' of institutionalism and Keynesian 'interventionism'?

Malcolm RUTHERFORD: This is an interesting question. There were many commonalities between the underconsumptionist views of institutionalists such as Tugwell and Ezekiel and Keynesian economics.

Quite a number of institutionalists did move toward Keynesian ideas and in the post WWII period. Institutionalists such as Ayres and Galbraith espoused versions of Keynesianism. On the other hand many institutionalists were suspicious of Keynesian generalizations and of the policy ideas of his most ardent followers (particularly Alvin Hansen). Keynesian ideas in some form could have been grafted onto an institutional economics, and this combination can indeed be seen in some of the Post-Keynesian literature and in the work of modern institutionalists such as Randall Wray and James Galbraith. Mainstream Keynesian economics, however, went the way of model building and econometrics (especially at the hands of the Cowles Commission) and institutionalist were generally critical of the kind of approaches being used at Cowles or in the big econometric models pioneered by Lawrence Klein at Brookings.

I think it is true that a great deal of the institutionalist idea of social control was taken over into the idea of Keynesian interventionism, at least if combined with the welfare state. Hansen in the US and Beveridge in the UK are nice examples of how a broad social reform agenda became part of what was associated with a Keynesian full employment program.

Keynesian economics in the 1940s represented much the same kind of appeal to science and social control that was at the basis of institutionalism's appeal in the 1920s.

Feridun YILMAZ: Clarence E. Ayres was a central figure in the postwar period of institutionalism. Is there any continuity between Ayresian approach and the interwar period of institutionalism?

Malcolm RUTHERFORD: Ayres was certainly a part of the institutionalist group from his days at Amherst and he always had very close connections with Hamilton, Copeland and many others in the institutionalist movement. Ayres was, however, a philosopher, and did not shift into economics until after he arrived at the University of Texas in 1930. Ayres was very much influenced by Veblen and by Dewey and that gives him clear links to interwar institutionalism, but he constructed a very particular version of Veblen's and Dewey's ideas that took him to a highly technological version of instrumentalism and a particular view of technology as instrumental and institutions as ceremonial. He did not undertake empirical investigations himself, was little involved with policy-making, and his work tended to remain at a high level of philosophical abstraction. The closest to Ayres' work among earlier members of the institutionalist group is that of Lawrence Frank, a Mitchell student who later moved out of economics.

Ayres's 1944 book *The Theory of Economic Progress*, was an attempt to reply to the charge that institutionalism lacked theory, but Ayres's

ideas did not find widespread approval, and even other institutionalists such as Clark and Copland were critical.

Feridun YILMAZ: Could you explain the relationship between institutionalism and pragmatism? Is interwar period institutionalism pragmatist or positivist?

Malcolm RUTHERFORD: Interwar institutionalism was heavily influenced by pragmatic ideas, especially those of John Dewey. Mitchell was taught by Dewey at Chicago, Hamilton absorbed Dewey through his teacher Charles Cooley at Michigan, Walter Stewart spent a term at Columbia to take Dewey's courses, F. C. Mills, Tugwell, and many others at Columbia took Dewey's courses, and Max Otto at Wisconsin was also heavily Deweyian in his approach.

Dewey's pragmatism and instrumentalism does share some elements with positivism as it does stress the importance of empirical investigation and empirical testing of some type. But Dewey is much less prescriptive when it comes to specific methods and has a very broad view of science. Dewey was of the view that in social science experimentalism could include policy experiments and experiments did not have to wait upon having a well-specified theory to test. For Dewey science was a process of trial and error and appraisal of consequences in a broad sense. Dewey's instrumentalism is also applied to the formation and revision of values, so that in instrumentalism the same consequentialist approach is applied to both scientific theories and values—value discussion is not hived off into some non-scientific metaphysical realm. This aspect can be seen clearly in the institutionalist literature.

Mitchell's desire to separate scientific investigation from policy discussion have given rise to some seeing Mitchell as having a positivist separation between science and values, but this is not the case. Mitchell was concerned to protect his scientific enterprise by separating it from policy advocacy, but he was in no doubt that scientific investigation could (and should) affect value judgments. The ultimate objective of Mitchell's "basic" research was improved social control and a "more rational" scale of values.

Positivism really came into American economics with the arrival in the US of European social scientists and philosophers during and after World War II. Logical positivism had a clear impact on Samuelson's earlier ideas (revealed preference and etc) but more important were logical empiricism and slightly later Friedman's version of "positive economics." Both of these approaches provided an emphasis on theory building with testing confined to the testing of specific implications or predictions of the models.

Feridun YILMAZ: What do you think about the reasons of the revival of institutionalism in late 1980s, do you think that the revival is still going or is there a relative decline again?

Malcolm RUTHERFORD: I think the reasons for the revival of interest in institutional economics in the 1980s were very much the same reason for the rise of the original institutional economics: a dissatisfaction with the state of orthodox economics, an awareness of the importance of institutions, a concern with developing richer accounts of decision making (moving away from rational maximization), a concern with pressing economic problems and the need for institutional changes. I think these concerns are still there and have undoubtedly increased as a result of the financial crisis and its international aftermath. It remains to be seen whether this new burst of interest can sustain itself, and much will depend on how well this newer institutionalism develops. I do not mean by that how well it can develop a tight theoretical system like neoclassical economics—the demands of taking account of historical specificity may make that impossible, but whether it can develop a well defined way of approaching problems: an institutional approach.

Feridun YILMAZ: There is a growing interest to Darwinian concepts in contemporary institutionalism? What do you think about the reliance on biological metaphors in institutional movement?

Malcolm RUTHERFORD: Geoff Hodgson would continue with what I have said above by arguing that his Generalized Darwinism represents just such an institutional approach. I must say that I am not convinced. Institutional evolution seems quite difficult to me to fit within the bounds of a variation and selection model. Variation in social institutions is often deliberative and based on some notion of appraisal of consequences, and it is often far from clear what the analogs to selection and reproduction might be. I think it is important to think about the varieties of processes involved in the generation of and subsequent persistence or otherwise of institutions. Possibly something more along the lines laid out by Elinor Ostrom in her recent book.

Feridun YILMAZ: What do you think about the relationship between original institutional economics and new institutional economics? Is there a potential for building a bridge? Or does each school need a bridge for their theoretical development?

Malcolm RUTHERFORD: I have certainly argued for such a possibility. The Journal of Institutional Economics also seems to be predicated on the idea that contribution from different perspectives can be usefully brought into the same forum. I also know that Richard Nelson is working on attempts to foster more discussion. Both the new institutional

economics and the more heterodox European institutional economics represented in EAEPE and the like have become very broad and diverse literatures. When I go to ASSA meetings I am struck but the number of papers I am interested in offered by numerous different societies and groups, both more or less “orthodox” in orientation. I am interested in all sorts of stuff on institutions—Sam Bowles, Avner Grief, Oliver Williamson, Doug North, Geoff Hodgson, Elinor Ostrom, Jack Knight, Viktor Vanberg, Dan Bromley, Allan Schmid, Jack Vromen and many many more. What disturbs me most are those people who profess to be interested in institutions but who are, in fact, only interested in one little slice of the literature and who never read outside of it. Insight into institutions and institutional processes is not the monopoly of any single person or group. Building bridges depends on many of those involved having a genuinely broad interest.

Feridun YILMAZ: What do you think about the possible futures of institutionalism? Should its role be a complementary to the mainstream or should it keep its heterodox position and keep trying to transform the discipline? Or both?

Malcolm RUTHERFORD: I assume this question is directed to “old” or “original” institutionalists, and perhaps even within this to the American group of old institutionalists as represented by AFEE. The membership in AFEE is declining and has been for some time. There are now many societies that represent “heterodox” economics in many of its forms. From an institutional point of view and given the increasing tendency to judge individuals and institutions by publications in leading journals I think it is important for heterodox groups to cooperate with each other to try to maintain and improve their position with in the profession. There have been some efforts in this respect.

There are also opportunities, particularly now, to try to work to broaden the mainstream. There are many people concerned about the narrowness of economics and economics education and institutionalists could take advantage of some of these developments.

At the same time I do think it is important for heterodox groups to do more than just talk to themselves. Small heterodox associations always run the danger of becoming too inward looking and resistant to new developments from outside.