

The Concept of Equilibrium in Old Institutional Economics:

J. M.Clark, T.B.Veblen and J.R.Commons.

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Abstract

The term “institutionalism” was first introduced by Hamilton in a 1918 Conference paper (Rutherford, 2002). Among the founders of this new “approach to economic theory”, as Hamilton explained it, (1919, p. 309) we find: Thorstein B. Veblen, Wesley C. Mitchell, John R. Commons, J. Maurice Clark and Walton Hamilton himself (Phillips R.J and Kinnear D., 2004). Even though it was acknowledged that “an appeal for institutional economics implies no attack upon the truth or value of other bodies of economic thought” (Hamilton, 1919, p. 309), certainly institutionalism was proposed mainly as the approach that could be able to overcome “the preconceptions of economic science” (Veblen, 1899a, 1899b, 1900). Institutionalism could be defined “in terms of certain characteristic conceptions of the nature of institutions and certain attitudes toward them” (Clark and others, 1932, p. 105). Its main characteristic aspects was not to take institutions “for granted” (Clark and others, 1932, p. 105) and its clear divergence with neoclassical school. Old Institutionalists did not want to give rise to a controversy on method. Nonetheless, one of the more debated aspects by old institutionalists was just the (proper) methodological approach in economics and their point of view was remarkably in contrast with that of neoclassical school. Institutionalists criticized traditional neoclassical economics mainly since it was static, teleological, and based on an equilibrium framework. They concentrate upon continuous change, upon evolution rather than equilibrium”. This is certainly true. The essence of institutionalism is the consideration of the economic system from an evolutionary point of view (Hodgson, 1998). Institutionalists were interested in explaining the evolution of institutions, they carried out inductive research and based their conclusions on the found data.

We have here chosen the concept of equilibrium as “litmus paper” in order to inquire if and how there is a theoretical ground in the writings of old institutionalists. In the paper, the main exponents of old institutionalism are considered with the aim of underlining if, how and where they use the concept of equilibrium, counted as a “proof” of the presence of a theoretical structure in their writings. Such a theoretical structure allows (or would allow) them to deal with the topics of their reasoning in analytic way, albeit without the use of mathematics.

Keywords : Institutionalism, Neoclassical School, equilibrium, evolution, methodology.

JEL classification: A11; A12; B13; B15; B41

The relationship between equilibrium and evolution is complex. In many circumstances and in many ways equilibrium is an impediment to change; but in other circumstances and in other ways it is an enabling condition
(Loasby, 1991, p. 18)

1. Introduction

1.1. Institutionalism and Orthodox Economics

The term “institutionalism” was first introduced by Hamilton in a 1918 Conference paper (Rutherford, 2002). Among the founders of this new “approach to economic theory”, as Hamilton explained it, (1919, p. 309) we find: Thorstein B. Veblen, Wesley C. Mitchell, John R. Commons, J. Maurice Clark and Walton Hamilton himself (Phillips R.J and Kinnear D., 2004). Even though it was acknowledged that “an appeal for institutional economics implies no attack upon the truth or value of other bodies of economic thought” (Hamilton, 1919, p. 309), certainly institutionalism was proposed mainly as the approach that could overcome “the preconceptions of economic science” (Veblen, 1899a, 1899b, 1900). Institutionalism could be defined “in terms of certain characteristic conceptions of the nature of institutions and certain attitudes toward them” (Clark and others, 1932, p. 105). Its main characteristic aspects was not to take institutions “for granted” (Clark and others, 1932, p. 105) and its clear divergence with neoclassical school. Old Institutionalists did not want to give rise to a controversy on method. Wesley Mitchell, for instance, in a round table on quantitative economics, once said: “I see no need for controversy on the problem of how to work, and no useful result likely to come of discussions of method conducted in a controversial spirit. In economics we have tasks of many sorts to perform, and we have workers of many aptitudes. (...) But that we shall let our different predilections and opinions involve us in a controversy upon methods at large seems to me almost as improbable as it would be deplorable” (Mitchell and others, 1928, p. 39).

Nonetheless, one of the more debated aspects by old institutionalists was just the (proper) methodological approach in economics and their point of view was remarkably in contrast with that of neoclassical school¹. Institutionalists criticized traditional neoclassical economics mainly since it was static, teleological, and based on an equilibrium framework². The traditional approach focused “on

¹ As pointed out by Machlup: “Attacks on the assumption of maximizing behavior and on the lack of realism in price theory have occurred with great regularity ever since ‘economic man’ and similar postulates were introduced. The running battles between the classical and the historical schools were largely on these points. The *Methodenstreit* of 1883-84 dealt essentially with the same issues. And in the United States, institutionalism may be seen as a movement animated by the same spirit of protest against abstract theory” (1967, p. 3).

² Institutionalists criticized many aspects of neoclassical school. Among them we find: hedonism, teleological order, statical character (Veblen); the role of money (Mitchell); Say’s law, the scarce attention given to production side

equilibrium at the normal, that is, on consummation, and thus on what is, rather than on how and why it came to be” (Miller, 1978, p. 20) while “institutionalists (...) think in terms of cause and effect rather than disturbance and balance. They concentrate upon continuous change, upon evolution rather than equilibrium” (Miller, 1978, p. 20). This is certainly true. The essence of institutionalism is the consideration of the economic system from an evolutionary point of view (Hodgson, 1998). Institutionalists were interested in explaining the evolution of institutions, they carried out inductive research and based their conclusions on the found data.

This approach to economics caused them some criticism. For instance, Coase writes “the American institutionalists were not theoretical but anti-theoretical (...). Without a theory they had nothing to pass on except a mass of descriptive material waiting for a theory or fire” (1984, p. 230). And Wolfe: “His [Veblen’s] insistent emphasis on evolutionary and dynamic economics – an economics of constantly changing institutional processes and controls – gave tremendous impetus to the genetic³ method of economic research. Unfortunately it led the more enthusiastic of his followers to the false conclusion that rigid deductive analysis – mathematical logic and *als ob* theory has no place whatsoever in economics” (1936, p.193). This criticism seems to be too radical and we more agree with Rutherford when writes that “the impression of the OIE as anti-theoretical or purely descriptive is quite misleading. Even the work of Mitchell and of Commons contains theoretical underpinnings and theoretical purposes” (1994, p. 9).

1.2. The Concept of Equilibrium

We have here chosen the concept of equilibrium as “litmus paper” in order to inquire if and how there is a theoretical ground in the writings of old institutionalists⁴.

The concept of equilibrium is a very recurring⁵ and controversial⁶ notion in economics. Even though it has been given many different definitions and interpretations⁷, the concept of equilibrium does unquestionably belong to the field of economic theory⁸, as underlined by Robbins:

(Clark); assumption of full employment, the passive role of credit (Commons); the reliance on *laissez faire* (Hamilton).

³ The meaning of the “genetic” method is well explained in Hamilton as an account of what is becoming (1919, p. 315).

⁴ We agree with the idea expressed by Ingraio and Israel (1987) according to which “La storia della teoria dell’equilibrio economico generale è intimamente legata ad un capitolo vasto e complesso della storia della scienza: e cioè ai tentativi difficili e controversi di matematizzare quelle scienze non fisiche – come la biologia e l’economia – in cui [vi sono molti] elementi (...) [che] costituiscono una differenza fondamentale (...) [rispetto alle] scienze fisiche” (p. 2).

⁵ “Practically all economists recognize a study of the conditions of equilibrium as essential to economic analysis” (Bratt, 1936, p. 164)

⁶ Compare, for instance, the works of Hahn, Samuelson, Gram, Walsh, Donzelli.

⁷ See Kaldor, 1972; Machlup, 1958; Finger, 1971.

⁸ See Robinson, 1960.

the idea of an equilibrium of forces is one which is common to many sciences, but there are few in which it plays a more important part than in theoretical economics” (Robbins, 1930, p. 194)

As Robbins rightly recognizes, in economics “(...) many conceptions of equilibrium are possible, from the simple notion of a balance between the supply of and demand for one commodity to the sublime conceptions of the mathematical economists, in which all the quantities contemplated move together in orderly change” (Robbins, 1930, p. 194). We do not want to enter the *mare magnum* of the possible meanings and interpretations of equilibrium. What seems worth to underline here is that the concept of equilibrium came to more and more characterize neoclassical reasoning, especially along the walrasian tradition and became the “token” of pure theory⁹ and the usual subject in mathematical models¹⁰ The theory of equilibrium was actually fostered by the development of mathematical method: during the interwar period both came to distinguish the “central core of modern economics” (Roll, 1992, pp. 425).

At the same time, in America, institutionalists started to criticize pure theory and tried to find the way to draw the theory up to the reality, moreover after the war when it came evident that the pure theory was not able to grapple with the new problems that arose with the conflict.

In the following pages, some of the main exponents of old institutionalism are considered (J.M.Clark, T.B.Veblen, J.R. Commons) with the aim of underlining if, how and where they use the concept of equilibrium¹¹, counted as a “proof” of the presence of a theoretical structure in their writings¹². Such a theoretical structure allows them to deal with the topics of their reasoning in analytic way, albeit without the use of mathematics.

2. J.M Clark

2.1. The midway between old and new

John Maurice Clark (1884-1963), son of the neoclassical economist J.B.Clark, was a leading American economist: he was professor of Economics at Columbia University for over 30 years, President of the American Economics Association, Councilor of the National Resources Planning Board and of the Office of Price Administration, member of the Twentieth Century Fund Committee on Economic Stabilization, Honorary member of the International Economic Association. He is renowned for his contribution to the “Theory of Accelerator” (Haberler, 1963) but he also worked on other subjects, in all of which he distinguished himself by originality and sharpness (see Schumpeter, 1997, Fiorito, 2001).

⁹ See Schumpeter, 1997, pp. 951-1073.

¹⁰ See Walsh and Gram, 1980.

¹¹ Even though we are told that “The only visible tie between institutionalism of the Veblen variety and quantitative analysis is their common departure from the concept of equilibrium” (Harris, 1932, p. 749).

¹² See Section 5.

As well recognized, “for the historian of economic thought John Maurice Clark stands as an intriguing intellectual puzzle. On the one hand he was among the most active promoters of American Institutionalism (...); on the other hand (...) [he] never fully rejected John Bates Clark’s theoretical contribution” (Fiorito, 2001, p.1). For this reason, it is a quite common tendency to acknowledge a “double nature” in Clark’s writings that is often cause of some criticism¹³. But we here refuse the idea of the existence of “two Clarks”, the marginalist and the institutionalist, since from our point of view this “double nature” is connected and explicable with his opinion on economics and methodology, as will be more evident later on. Indeed, Clark is particularly interesting for our research just because he does not refuse the analytical abstract structure of economic reasoning¹⁴, takes sides in the mathematics-economics debate¹⁵ and moreover uses the concept of equilibrium.

2.2. A “marginal” starting point

In many writings, Clark develops his reasoning according to marginal rules. For instance, in illustrating different methods of “price quoting” he writes: “If, when he [the producer] reduced his price, he did not expect the reduction to be met, and if surroundings producers responded in the same way, prices would reach equilibrium at a determine point above marginal cost but far below average cost” (1938, p. 485); again, when he is discussing the problem of valuation connected with railroad, he argues in terms of marginal road (1920); when he is giving a contribution to the Theory of Competitive Price, Clark deals with marginal expenses of production and marginal producers (1914b). Perhaps, his more explicit opinion on marginal approach is to be found in the words he pronounced at the Forty-Eight Annual Meeting of the American Economic Association, that is:

the marginal or differential method is and remains perhaps the greatest single tool of economic analysis; and its usefulness is by no means confined to the study of the simple conditions of perfect and stable equilibrium (1936, p. 3)

But, at the same time, Clark must be considered an authentic institutionalist. He reflects on the role of government (1916, 1944), on the limits of *laissez faire*¹⁶ (1914a), on the role and function of law (1925a, 1925b), on the importance and variety of institutions. Moreover, his idea of economics can be well summarized by his own words:

¹³ See for instance Ramson, 1977; Watkins, 1962.

¹⁴ We are told that “Despite his thorough acquaintance with the techniques of abstract analysis, he chose to express his arguments in purely verbal terms” (Blaug, 1999, p. 229). Indeed in many articles it is possible to see how Clark uses abstract analysis. See for example, the famous article of 1917 where he first suggested the mechanism of acceleration, Clark uses very clearly his “acquaintance” and gives the reasoning an evident analytical structure. The same can be said for many other articles (1925c, 1928, 1946

¹⁵ In a brief article, Clark recognizes that mathematics has an important and fundamental role but that tends to depart from the other filed... “Mathematical economists remain a growing and able sect, using an esoteric method and a special language, which make their result increasingly inaccessible to the rest of us. So a plea for communicability seems in order” (1947b, p. 75).

¹⁶ According to Clark, *laissez faire* economics can be considered as “the economics of irresponsibility” (1916, p. 218).

we need an economics of responsibility, developed and embodied in our working business ethics (1916, p. 210)

Clearly, Clark's "economics" is by no means corresponding to the "pure" economics of neoclassical school. According to Clark, it is a stumbling block for the progress of economic science "the attempt to keep economics pure by avoiding the subjects of sociology, jurisprudence, ethics, psychology and what not." (1919, p. 290).

Are these proofs of what we have been told above, namely of the existence of a twofold nature in Clark's writings? We do not think so. As just suggested, Clark uses marginal tools in accordance with his opinion on economics and his methodological approach.

Science, as knowledge and other analogous institutions, grows cumulatively. Clark gives an "environmental interpretation" of economic thought, that is an interpretation that "deals with the relation of that thought to the larger conditions of its time rather than with the more intimately personal factors and those of particular intellectual contacts which accounts for so many details in doctrine" (1926, p. 349). This means that in each period of time, economic theory conforms to its "environment", namely to political, cultural, social, economic, and legal institutions¹⁷. Institutions do not persist unchanged; rather, they must be considered as "steps in the process of cumulative change or evolution" (Clark and others, 1932, p. 105). But since "Science must not merely describe; [but also] (...) understand and explain" (1914a, p.317), it must also "proceed" together with the subject of its study.

The attention towards institutions emphasizes the opposition between statics and dynamics: while static theory ignores institutional changes (1915, p. 715), dynamics does not. Clark was very sensitive to the problem of giving a dynamic dimension to economic theory. In fact, his main aim was "to reduce or bridge the gap between theory and reality; and in particular the gap between theories of cost price equilibrium and theories of production, growth and development" (1955, p. 450). As he himself admitted "the writer began some years ago a study of the extent to which economic theory was limited by its premises, and of the character and extent of readjustment necessary to carry on the work done by his father in formulating a theory free of static limitations" (1918a, p. 3).

Like his father, Maurice wished to develop dynamic economics (Clark and others, 1919, p. 323) but using a different method: "instead of starting with statics doctrines and modifying them to allow for dynamic elements, it seems to me necessary to start with the static premises and revise them" (Clark and others, 1919, p. 323).

¹⁷ According to Clark, "economic theory consists largely in organizing and interpreting known facts rather than in the independent discovery of raw facts hitherto unknown" (1921, p. 133). Comparing orthodox economics with the new way of considering economics as suggested by Veblen, Clark characterizes the former, called also Euclidean economics, with six axioms. Clark recognizes that Euclidean economics "somehow fails to interpret" a number of facts of human existence. But still he does not fully discharge orthodox economics.

Indeed, this attitude characterizes not only his dealing with the statics-dynamics relationship but also many other “analytical tools”, often considered by Clark as the necessary starting point for any further consideration and scientific improvement¹⁸. Clark does not reject the marginal method but considers it as only one phase of economic study, a phase that becomes a way station as economic problems become more complex.

Accordingly, the concept of equilibrium is often used as the outset from which he develops his reasoning on crisis, cycles, markets, and prices and is remarkably widespread in his writings.

2.3. Equilibrium as a tool

In the well-known paper of 1917, Clark maintains that he mainly intends to find out “why business adjustments do not stop at a point of equilibrium¹⁹ but go on to a point from which a more or less violent reaction is inevitable and so on without apparent end” (1917, p. 217). Clark is here referring to economic fluctuations²⁰; in dealing again with business cycles and the forces that are the cause of cycles he writes: “such conditions may produce periodic disturbances of an apparent equilibrium which was only apparent, and under the surface of which tension had been accumulating” (1932, p. 212); in tracing the development of American economics he writes, “as we enter the realm of dynamic and quantitative problems, we face more and more exacting demands. The certainties of equilibrium theory, hypothetical though they were, are replaced by stubborn uncertainties” (1936, p. 8); or again: “Equilibrium theory assumed that what is saved is spent. (...) Now we ask if this is true, and find evidence of discrepancies” (1936, p. 8).

According to him,

studies of equilibrium are not end-products, and not to be construed as finished pictures of the actual world. (...) They are themselves tools of analysis and methods of approach to a picture too complicated ever to be finished (1936, pp. 3-4).

But moreover he maintains that “while a picture of perfect equilibrium deals in its way with forces which are at work in the actual work, the form in which it presents these forces will almost inevitable need to be modified when we move on to the task of studying them as they actually operate” (1936, p. 4).

In fact, he is perfectly aware that there are some troubles connected with the use of the idea of equilibrium. In a short speech made for the American Statistical Society, Clark clarifies his opinion on

¹⁸ So, for instance, when Clark uses the concept of perfect competition, “as a starting point of analysis and a norm with which to compare actual competitive conditions” (1940, p. 241). It is a fact that perfect competition does not exist and cannot exist; or again, “they [indifference curve, utility curve and demand schedule] assume a static equilibrium within human nature which is obviously nonexistent” (1946, p. 349); or again, “the old-fashioned economic man is one of the abstractions which express (...) [a] particular side of the truth, though with an absoluteness not found in real life” (1919, p. 285).

¹⁹ In point of fact, he does not want here to discharge the idea of equilibrium, since according to him forces of equilibrium “are acting at all stages of the process” (1917, p. 218).

²⁰ As it is well known, the “culprit” is found in the mechanism of acceleration in the relationship between demand for products and demand for the means of production

equilibrium: “The concept of economic balance²¹ is an elusive and difficult one. The more one looks at it, the more difficult does it appear to achieve an economic system, responding to all the forces of change in the modern world and still moving smoothly without revulsions, waste of productive powers or compulsory idleness.” (1934, p. 72). But, the concept of equilibrium still remains a good departure point for the economist:

“Modern inductive and quantitative studies are already making use of bits of the equilibrium theory as hypotheses, although they have usually had to be reformulated to adapt them to the requirements of verification. Even in the study of disturbances themselves, pictures of the conditions necessary to equilibrium often furnish a starting-point in the analysis of why equilibrium is not reached” (1936, p. 5)

Rather, it is an essential tool. In fact, “when equilibrium theories are used as devices to analyze actual conditions which do not follow the equilibrium model, one curious and interesting result sometimes follows – namely, a fuller development of the equilibrium theory itself. The conditions *necessary* to equilibrium often have to be more carefully and rigorously, stated than ever before, in order to show how actual conditions differ and why they lead to a different result.” (1936, p. 5). Clark makes the example of the theory of imperfect competition that has obliged economists to carefully define the conditions necessary for perfect competition²².

So, the concept of equilibrium is a necessary element and tool for the economist who wants to understand the real world and such as it must not to be dropped but it must be supplemented with something else. This seems to be clearly stated when Clark contrasts orthodox economics with institutionalism:

Orthodox economics undertakes to interpret equilibrium: Veblen undertakes to interpret progressive change. And in the social world this is much the same as saying that orthodox economics studies the assumptions of contentment and Veblen the assumptions of discontent, both of which are undeniable facts. Since undeniable facts are difficult to ignore, the net result is very largely to call them by different names” (1921, p. 132)

Equilibrium and progressive change are “undeniable facts”, both are necessary to approximate the understanding of the social world.

²¹ “Balance” is usually considered as a synonym with equilibrium (see Machlup, 1958, p. 9).

²² “Theories of imperfect and monopolistic competition have for some time been current (...) in the field of economic policy; and important beginnings have been made at formulation by economic theorists. As a necessary step in this last development, the conception of perfect competition has itself for the first time received really specific definition and elaboration. With this has come the realization that perfect competition does not and cannot exist and has presumable never existed” (1940, p. 241)

3. Thorstein B. Veblen

3.1. An unconventional presence

Veblen (1857-1929), is recognized as the founder of American Institutionalism even though “he had neither high academic position²³ nor popular journalistic appeal” (Dorfman, 1969, p. 434). His main work is considered *The Theory of Leisure Class* (1899). He is particularly renowned for his strong personality and character, his “unconventional” opinions, and his life-story²⁴.

He wrote nine books - all of which are still in print - in addition to a massive outpouring of essays, book reviews, and magazine articles while teaching at The University of Chicago, Stanford University, The University of Missouri, and the New School for Social Research in New York.

Contrary to Clark, he carried out a severe and broad criticism of what he considered the “preconceptions” of “traditional” economics (Classical, Neoclassical, Austrian and Historical schools).

3.2. Veblen’s “je accuse”

His direct and severe attitude lead him to write a number of critical articles on “classical economics”. Among the more criticized economists of the past we find the Physiocrats, Adam Smith, Cairnes, J.B. Clark, whose writings, according to Veblen, were imbedded in dangerous preconceptions.

The Physiocrats had the preconception of the productiveness of nature, while Smith had the preconception of labour and considered “the obtrusive economic feature of the immediate past (...) handicraft and agriculture, with commerce as a scarcely secondary phenomenon” (1899b, p. 407). Through these preconceptions they developed teleological deductive theories²⁵. Veblen does not criticize the teleological nature of theory in itself, since each “economic action is teleological, in the sense that men always and everywhere seek to do something” and “there remains the generic fact that their life is an unfolding activity of a teleological kind” (1898a, p. 391). What he blamed was the “imposition” of an end and the fact that the theories were built on and according to that predetermined and wanted end.

²³ Indeed, his academic career was particularly *sui generis* (see Ruffolo, 1999).

²⁴ “He walked through life as if he had descended from another world, and the goings on which ... appeared to him as piquant, exotic, and curious as the rituals of a savage community ... [he was] a mass of eccentricities” (Heilbroner, 1953, p. 205).

²⁵ “The effective working of the teleological bias is best seen in Smith’s more detailed handling of economic phenomena --in his discussion of what may loosely be called economic institutions -and in the criteria and principles of procedure by which he is guided in incorporating these features of economic life into the general structure of his theory” (1899b, p. 400). The settled course of material facts tending beneficently to the highest welfare of the human race, -- this is the final term in the Physiocratic speculations. This is the touchstone of substantiality. Conformity to these ‘immutable and unerring’ laws of nature is the test of economic truth. The laws are immutable and unerring, but that does not mean that they rule the course of events with a blind fatality that admits of no exception and no divergence from the direct line”.(1899a, pp. 126-7).

But there were many other reasons of criticism. Classical and Neoclassical schools shared analogous shortcomings: the static character²⁶, the hedonistic nature²⁷, the reasoning in terms of normality²⁸, the neglect of institutions²⁹; the “faulty conception of human nature”³⁰.

By stating the “archaic state” of contemporary economics, Veblen pointed out that while “modern sciences are evolutionary sciences (...), economics is not evolutionary” (1898a, p. 374). Even though economics can be considered realistic³¹, this does not automatically mean that it is also evolutionary. For instance “the insistence on data could scarcely be carried to a higher pitch that it was carried by the first generation of the Historical School; and yet no economics is farther from being an evolutionary science than the received economics of the Historical School” (1898a, p. 375). It is not enough to have “data”, what it is really necessary is a “close-knit body of theory”.

Veblen was mainly interested in the effort of explaining the “movement”, the sequence of phenomena since “to the modern scientist the phenomena of growth and change are the most obtrusive and most consequential facts observable in economic life” (1909, p. 621). Veblen distinguished very clearly between modern and traditional sciences (1909), and modern science, which has to do with human conduct “becomes a genetic inquiry into the human scheme of life” (1909, p. 627). In Veblen, the term “genetic” means “causal”, that is, based on cause–effect relation. The subject of inquiry for economics is “the conduct of man in his dealings with the material means of life” (1909, p. 628) and economics as science in the modern meaning becomes an “inquiry into the life-history of material civilization” (1909, p. 628) where “the economic life history of the individual is a cumulative process of adaptation

²⁶ So for instance with regard to marginal school he writes: “the limitations of the marginal-utility economics are sharp and characteristic. (...) Marginal-utility theory is of a wholly static character. It offers no theory of a movement of any kind, being occupied with the adjustment of values to a given situation” (1909, p. 620)

²⁷ In *The Limitations of Marginal Utility* Veblen criticizes the hedonistic point of view of traditional economics according to which “money and the habitual resort to its use are conceived to be simply the ways and means by which consumable goods are required” (1909, p. 633) while individual is “presumed invariably to balance pleasure and pain” (1909, p. 627). But this not the real working in modern economic situation where “economic activity of all kinds is commonly controlled by business considerations” (1909, p. 631) and “business men habitually aspire to accumulate wealth in excess of the limits of practicable consumption, and the wealth so accumulated is not intended to be converted by a final transaction of purchase into consumable goods or sensations of consumption” (1909, p. 634). Hedonistic economics does not deal with cumulative change.

²⁸ Talking about Cairnes, Veblen maintains “the laws of the science, that which makes up the economist’s theoretical knowledge, are laws of the normal case. [But] the normal case does not occur in concrete fact. These laws are, therefore, in Cairnes’ terminology, “Hypothetical” truths; and the science is an ‘hypothetical’ science. They apply to concrete facts only as the facts are interpreted and abstracted from, in the light of the underlying postulates. The science is, therefore, a theory of the normal case, a discussion of the concrete facts of life respect of their degree of approximation to the normal case. That is to say, it is a taxonomic science” (1900, pp.254-55).

²⁹ As for Neoclassical school, Veblen writes “It is characteristic of the school that wherever an element of the cultural fabric, an institution or any institutional phenomenon, is involved in the facts with which the theory is occupied, such institutional facts are taken for granted, denied, or explained away” (1909, pp. 621-22)

³⁰ Human nature is conceived in edonistic terms “that is to say in terms of a passive and substantially inert and immutably given human nature” (1898a, p. 389). According to this interpretation man becomes “a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. (...) He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or in another” (1898a, p. 389)

³¹ A realistic science is that that deals with facts.

of means to ends that cumulatively change as the process goes on, both the agent and his environment being at any point the outcome of the past process” (1898a, p. 391). In order to take account of the economic life history in a genetic way it is necessary to inquire the cause-effect relationship³².

Economics is still an archaic science since “the theory is confined to the ground of sufficient reason instead of proceeding on the ground of efficient cause. The contrary is true of modern science, generally (except mathematics) particularly of such sciences as have to do with the phenomena of life and growth” (1909, p. 624). But, according to Veblen, this is a reason of “infirmity” (1909, p. 622) for economics.

3.3. Equilibrium and evolution

According to Veblen, economics should become an evolutionary science: “an evolutionary economics must be the theory of a process of cultural growth as determined by the economic interest, a theory of a cumulative sequence of economic institutions stated in terms of the process itself” (1898a, p. 393). As it is quite broadly recognized, “the model Veblen took for his economics was post-Darwinian biology. Genuine Darwinian science, he held, sees no normal equilibrium but only ceaseless non-teleological evolutionary process.” (Davis, 1945, p. 137)³³. It was along this idea that Veblen developed his criticism of “traditional” economics and its main foundations. Among these we find the concept of equilibrium.

So, for instance, when Veblen praised Marshall’s efforts in considering the evolutionary nature of economic science³⁴, he noted, however, that his analysis “still remains an inquiry directed to the determination of the conditions of an equilibrium of activities and a quiescent normal situation”³⁵ (1900, p. 263). As such, Marshall’s economics has and can have only “an air of evolutionism” (1900, p. 265). According to traditional economics, “when the course of things runs off naturally or normally, in accord with the exigencies of human welfare and the constraining laws of nature, economic income and outgo balance one another” (1901, p. 192). Equilibrium is seen as the “normal” situation. It is also hold that “within the economic organism, as within the larger organism of the universe, there prevails an equivalence of expenditure and returns, an equilibrium of flux and reflux, which is not broken over

³² “In so far as modern science inquires into the phenomena of life, whether inanimate, brute or human, it is occupied about questions of genesis and cumulative change, it is occupied about questions of genesis and cumulative change, and it converges upon a theoretical formulation in the shape of a life-history drawn in casual terms. In so far as it is a science in the current sense of the term, any science, such as economics, which has to do with human conduct, becomes a genetic inquiry into the human scheme of life” (1909, p. 627)

³³ But see also, Sowell, 1967; Hogson, 1993 and 1996; Coats, 1954.

³⁴ “Professor Marshall shows an inspiration to treat economic life as a development; and, at least superficially, much of his work bears the appearance of being a discussion of this kind. (...) His chosen maxim is ‘*natura non facit saltum*’ (...). His insistence on the continuity of development and of the economic structure of communities (...) [:] all this gives an air of evolutionism to his work” (1900, p. 265).

³⁵ He goes on: “Any sympathetic reader of Professor Marshall’s great work (...) comes away with a sense of swift and smooth movement and interconnection of parts; but it is the movement of a consummately conceived and self-balanced mechanism, not that of a cumulatively unfolding process or an institutional adaptation to cumulatively unfolding exigencies” (1900, pp. 363-4)

in the normal course of things” (1901, p. 192). It is the belief on a “Providential Order” or an “Order of Nature” that allows this attitude. But according to Veblen, this is only one of the wrong preconceptions of traditional economics.

The preconceptions of economic science make it “a metaphysics of normality which asserts no extra-casual constraint over events, but contents itself with establishing correlations, equivalencies, homologies, and theories concerning the conditions of an economic equilibrium” (1900, p. 255). But, as we have seen, according to Veblen, the “concrete subject-matter of the science” is and should be only the “process of economic life”. Veblen admits that in orthodox economics, the “process of economic life” may not be neglected but it still remains true that “the pure theory (...) deals not with the dynamics, but with the statics of the case” (1900, p. 255). In this way, science “treats of a balanced system rather than of a proliferation” (1900, p. 256). This is the main difference respect to the later evolutionary science. Veblen is here using the term equilibrium (or balance) as opposed to movement or evolution, considered as a cumulatively unfolding process.

In “classical” writings even when dynamics is considered (in J.B.Clark, for instance), the aim remains the “determination of the outcome of the process under discussion rather than a theory of the process as such. The process is rated in terms of equilibrium to which it tends or should tend, not conversely.” (1900, p. 256). Therefore, equilibrium is the final outcome of the process and it is not instead the point of departure “for an inquiry into what may follow” (1900, p. 256). Here, Veblen is critical of the way in which the concept of equilibrium has been used and is used rather than of the concept in itself. So far, he is close to Maurice Clark by accepting it as a “tool”, as an ideal structure from which economists have to start their reflections and inquiries as to the differences with the real world. Market is characterized by the typical phenomena of business, that is, according to Veblen, “crises, depressions, hard times, dull times, brisk times, periods of speculative advance, eras of prosperity”. Business transactions do not work well, perfectly and automatically, as supposed by the invisible hand theory or the full working of perfect competitiveness. Thus, in the real world equilibrium cannot exist. Nonetheless, Veblen does use the concept of equilibrium³⁶, albeit of moving equilibrium, and it is not clear if it is used always as a tool.

In his *Theory of Business Enterprise*, for instance, the industrial system is described as “concatenation of processes which has much of the character of a single, comprehensive, balanced mechanical process”; and “a disturbance of the balance at any point means a differential advantage (or disadvantage) to one or more of the owners of the sub-processes between which the disturbance falls”.

³⁶ Contrary to what it has been written by Harris: “Economic phenomena are described in terms of a trend toward equilibrium under conditions which are constantly changing so that equilibrium is never reached, while human nature is assumed to function according to the maxims of hedonistic psychology. All of this is alien to the spirit in which Veblen viewed the economic process” (1932, p. 726).

Again, sabotage³⁷ is described as a “comprehensive moving equilibrium” “that is required to preserve the business community from recurrent collapse or stagnation, or to bring the nation’s traffic into line with the general needs of the vested interests.” (1921, p. 14). The idea of an existing “moving equilibrium” is also present in *The Vested Interests and the Common Man* (1919)

The industrial system is now a wide-reaching organisation of mechanical processes which work together on a comprehensive interlocking plan of give and take, in which no one section, group, or individual unit is free to work out its own industrial salvation except in active copartnership with the rest; and the whole of which runs on as a *moving equilibrium of forces in action*. This system of interlocking processes and mutually dependent working units is a more or less delicately balanced affair. Evidently the system has to be taken as a whole, and evidently it will work at its full productive capacity only on condition that the coordination of its interlocking processes be maintained at a faultless equilibrium, and only when its constituent working units are allowed to run full and smooth. But a moderate derangement will not put it out of commission. It will work at a lower efficiency, and continue running, in spite of a very considerable amount of dislocation; as is habitually the case today. (1919, p. ?)

There is one point in which perhaps Veblen goes further in the use of the concept of equilibrium:

“It is, perhaps, necessary to add that the industrial system has not yet reached anything like the last degree of development along this line³⁸; it is at least not yet a perfected automatic mechanism. But it should also be added that with each successive advance into the new order of industry created by the machine technology, and at a continually accelerated rate of advance, the processes of industry are being more thoroughly standardised, the working units of the system as a whole demand a more undeviating maintenance of its moving equilibrium, a more exacting mechanical correlation of industrial operations and equipment. And it seems reasonable to expect that things are due to move forward along this line still farther in the calculable future, rather than the reverse.” (1919, p.?)

According to what Veblen writes here, an equilibrium, a moving equilibrium, is what would have reached the industrial system in the “calculable future”. The concept of equilibrium ceases of being just a tool, a departure point; it becomes an achievement in the development of industrial system. Of course, it has nothing to do with the “traditional” normal equilibrium. This idea of equilibrium seems

³⁷ “Sabotage is a derivative of sabot, which is French for a wooden shoe. It means going slow, with a dragging, clumsy movement, such as that manner of footgear may be expected to bring on. So it has come to describe any manoeuvre of slowing-down, inefficiency, bungling, obstruction” (Veblen, 1921, p. 4).

³⁸ The line of the development towards a good working efficiency of industrial system that Veblen suggests in the book, ch. 5.

to us very close to Herbert Spencer's³⁹. In fact, according to Spencer evolution is a progressive movement towards an equilibrium where individuals change their characteristics and habits until they are perfectly adapted to circumstances and no more change is called for. Moreover, Spencer used the concept of moving equilibrium⁴⁰. A further evidence of the similarity between Spencer and Veblen, in spite of the various existing differences (see Hodgson, 1993, pp. 127-9), can be found in the following statement:

There is no reasonable exception to be taken to the statement that the country's industrial system is forever *growing more extensive and more complex*; that it is continually taking on more of the character of a *close-knit, interwoven, systematic whole; a delicately balanced moving equilibrium of working parts*, no one of which can do its work by itself at all, and none of which can do its share of the work well except in close correlation with all the rest. At the same time it is also true that, in the commercialized nature of things, the businesslike management of industry is forever playing fast and loose with this delicately balanced moving equilibrium of forces, on which the livelihood of the underlying population depends from day to day; more particularly is this true for that large-scale business enterprise that rests on absentee ownership and makes up the country's greater Vested Interests." (1921, p. 74)

The idea of a system considered as a systematic whole, made of several parts inclined to reach a moving equilibrium certainly comes from Spencer^{41,42} and characterizes modern social and natural sciences⁴³.

³⁹ Hodgson in his turn notes how the "Veblenian conception of socioeconomic evolution is more like the idea of "punctuated equilibria" advanced by biologists such as Stephen Jay Gould than it is of orthodox Darwinian gradualism" (1996, p. 398). Punctuated equilibrium, a term coined in biology by Eldredge and Gould (1972), is well explained in Gersick (1991) and can be synthesized in the following quotation: "The punctuated equilibrium paradigm offers a new lens through which theorists can make fresh discoveries about how managers, work groups, organizations, and industries both develop over time and react to changes in their environment. The construct of a deep structure that keeps systems basically stable during equilibrium periods offers a new way to understand systems' resistance to change" (p. 32). We will return on this point later on, in the section 5.

⁴⁰ See Spencer, 6th edition, part II, Ch.XXII.

⁴¹ In his *First Principles* Spencer writes: "Evolution, then, is a change from a less coherent to a more coherent form, consequent on the dissipation of motion and integration of matter. But, simultaneously with integration of the whole, there is differentiation and integration of parts in the whole. This is the second aspect of evolution. We have here to regard existences of all orders as showing progressive differentiation.

The evolution of every aggregate must go on until a moving equilibrium, or equilibrium mobile, is established, since an excess of force which the aggregate possesses in any direction must eventually be expended in overcoming resistances to change in that direction, leaving behind only those movements which compensate each other, and so forming a moving equilibrium." (1937, pp. 291-2).

⁴² The possible, and relatively little explored connection Veblen-Spencer seems to be worthy of further inquiries.

⁴³ See for instance L. Bertalanffy.

4. John R. Commons

4.1. A pragmatic Institutional

John R. Commons (1862-1945) was “both a major figure in American institutionalism and a successful maker of economic policy” (Blaug, 1999, p. 244). He was connected with the Industrial Commission and the National Civic Federation, Professor of Political Economy and Sociology, and President of the American Economic Association.

His interests were mainly in: monetary questions, legislation, labour economics and labour unions. His “basic economic interest” laid “in the implications which the science had for the social and spiritual life of the people” (Dorfman, 1969, pp. 277-78). The most fruitful (practical) work of his life is associated with the University of Wisconsin when he was appointed to give advice and recommendation for policy and legislation by the progressive party administration⁴⁴ (Robert LaFollette).

The fundamental unit of economics is considered the “transaction”⁴⁵. Each transaction “was interpreted as taking place within the domain of a ‘going concern’ whether it be the family, the enterprise, or the nation” (Ramstad, 1986, p. 1075). Transactions are divided in three types (bargaining transactions, managerial transactions, rationing transactions) and are governed by “working rules”. The subject of institutional economics is “collective action in control of individual action according to the evolving working rules of the various customs and concerns” (1934, p. 655). Those rules, Commons goes on, can be investigated by the pragmatic method of science”. (1934, p. 655). It was Pragmatism Commons considered as “the *method* of scientific investigations” (1934, p. 150): according to him, “we endeavour to (...) accept the term Pragmatism as the name of the method of investigation which we apply to economics” (1934, p. 150). This explains why

Theory and policy are inseparable. A national economic policy is a policy of proportioning inducements to individuals and classes in order to promote national prosperity. An economic theory is an explanation of all the forces at work and of the probabilities that may be expected in working out a policy. A policy looks to the future – a theory criticises, modifies, or justifies the policy (1923, p. 112)

4.2. A “reasonable” economic theory

According to Commons, economic theory, “an explanation of all the forces at work and of the probabilities that may be expected in working out a policy” (1923, p. 112), should be a theory of “reasonable value”⁴⁶. This is the characteristic aspect on which he lays the main difference between

⁴⁴ Three were the areas of his responsibility: the regulation of safety in the workplace; the public regulation of utilities and public payments to the unemployed.

⁴⁵ “The smallest unit of the institutional economists is a *unit of activity* – a transaction, with its participants” (1931, p. 652).

⁴⁶ Reasonable value is welfare economics as conceived by the Supreme Court (1936, p. 248)

traditional and institutional⁴⁷ economics: while [traditional] “economic science has not (...) incorporated within itself a theory of reasonable value. [But] it separates ethics, public welfare, or national public interest as a postscript, different from economic theory”, “a theory of reasonable value, which shall include these postscripts, has become obligatory (...)” (1936, p. 237). These postscripts mark the shift from the traditional economics to institutionalism, together with the passage from an “individual” to a “collective” point of view. Traditional economics or net-income economics, as Commons calls it (1936), did not consider institutional factors or did not consider them properly. He notes that “the only net-income economist, as far as I know, who took the trouble to examine these institutional factors and then consciously to exclude them from his pure economics of man’s relation to physical nature, was Böhm Bawerk in 1883. Others excluded them by taking them for granted without investigation. He excluded them explicitly under the names of “rights” and “relations” (1936, p. 242). Traditional economics, especially pure economics, “has been based on man’s relation to nature instead of man’s relation to man.” (1936, p. 242). But accordingly

if (...) pure economic man should go along the street picking up groceries, clothing and shoes according to their marginal utility to him, he would go to jail (1936, p. 242)

Reality is made of people, relations, contracts, law, rules and so on: pure economics is unable to grasp the reality and consequently cannot be usable for any policy. Moreover, it does not properly consider individuals:

Merely as an individual of classical and hedonistic theory he is a factor of production and consumption like a cow or slave. Economic theory should make him a citizen, or member of the institution under whose rules he acts (1936, p. 248)

Modern economics has to consider the “collective action”, what Commons understands for institutions (1936, p. 246). Commons recognizes that “the theory has incorporated certain institutional factors, like [for instance] patents, trade names, trade marks, goodwill, under such names as “imperfect competition” “monopolistic competition”, “competitive monopoly”. Yet “the theory continues to be a maximum net-income economics, regardless of others” (1936, pp. 238-9). The new institutional factors considered “bring to the front two additional points of view; namely, the effect on other persons and the public purpose involved. These two aspects are combined (...) in the meaning of reasonable value” (1936, p. 239).

Nonetheless, Commons “did not want to abandon entirely the insights of orthodox theory” (Rutherford, 1994, p. 13), even though he perfectly knew its main faults and weak points. Moreover, he recognizes its incapability of understanding the real, complex world. He notes that with the modern (and necessary) collective controls,

⁴⁷ “The field of the public interest in private ownership, which shows itself behavioristically in buying and selling, borrowing and lending, hiring and firing, leasing and renting” (1936, p. 242).

the older individualistic economics becomes obsolete or, rather, subordinated to institutional economics (1936, p. 247)

For instance, comparing Moulton, Keynes and Fisher and underlining the characteristics of post-war economics, Commons notes that it was the classical assumption of full employment that allows of talking of “equilibrium of all the factors among themselves” (1937, p. 681). According to this assumption, “the only activity that would need to be considered in human transactions would be that of substitution-substituting factors whose prices were falling for those whose prices were relatively rising, thus restoring equilibrium without leaving any of them unemployed” (1937, p. 681).

Commons’ attitude towards traditional economics is quite different than Veblen’s. As Rutherford notes, Commons did not remove completely all the suggestions of traditional school, on the contrary he wrote: “Institutional economics (...) cannot separate itself from the marvelous discoveries of the classical and psychological economists” (Commons, 1931, p. 648). According to Commons, “institutional economics is not divorced from the classical and psychological schools of economics” (1931, p. 657).

4.3. A “managed” equilibrium

As we have seen, the main difference between institutionalism and the classic and the hedonistic schools lies on the chosen unit of economic investigation:

It is the shift from commodities and individuals to transactions and working rules of collective action that marks the transition from the classical and hedonic schools to the institutional schools of economic thinking (1931, p. 652).

Both the schools centered their theories on the relation of man to nature and the result was, according to Commons, “the materialistic metaphor of an automatic equilibrium, analogous to the waves of the ocean, but personified as ‘seeking their level’” (1931, p. 652).

Commons is deeply critical of the idea of mechanical or materialistic equilibrium (1931, pp. 656, 657). Once he wrote:

There is no invisible hand about it, no natural equilibrium of forces of nature that augments the national wealth by mere unguided self-interest (1923, pp. 116-7)

It is not an invisible hand that can harmonize different self-interests of people, but a “national economic policy”, the presence of the state, rules and laws. Commons contrasts institutional economics with the idea of equilibrium:

Sometimes anything that is “dynamic” instead of “static”, or a “process” instead of commodities, or activity instead of feelings, or mass action instead of individual action, or management instead of equilibrium, or control instead of laissez faire, seems to be institutional economics. (1931, p. 648)

The concept of equilibrium is, here, opposed to the idea of a managed order: equilibrium seems to signify to Commons what can take place if a system is left to move freely, as the outcome of the working of invisible hand.

According to Commons, economics should be an evolutionary science. His evolutionism is very close to Spencer's. Commons thinks that the evolution of an institution implicates the passage from homogeneity to heterogeneity. And like Spencer, Commons has an idea of equilibrium, of a necessary balancing between opposed forces.

a mob may have common desires. But, as long as its individuals are acting each for himself at cross purposes, their individual forces, no matter how powerful, will end only in equilibrium.

To accomplish results they must be organized, that is, guided by one man (1899, p. 165)

In a democratic country, the guide cannot be only one man but is the state⁴⁸

the great constitutional safeguards which we have asserted since the time of Magna Charta have been adopted in order to place a subordinate class on an equilibrium with a dominant class. It is in this way that trial by jury has had to be reasserted whenever a new social class has emerged. And it is partly by restoring trial by jury that the great third class, the public, is now beginning to assert its right to hold the balance between two struggling classes (1908, p. 764)

But there is an important difference between Commons' idea of equilibrium and Spencer's. Even though Spencer thought of a necessary stable equilibrium between destructive and preservative forces, the implication of his theory "was that evolution, and human progress, would at some stage come to a halt in a perfectly equilibrated world" (Kingsland, 1988, p. 177). This could not be Commons' opinion, if we rightly understand his critical attitude towards Marxian historical materialism:

"A recent writer (O.Lange, in *The Review of Economic Studies*, June, 1935) holds that economic theory does not have within itself as principle of evolution, and must follow Karl Marx in a theory of historical materialism in order to derive a theory of economic evolution. But I reduce Marx to a theory of efficiency measured by man hours as an essential part of economic theory, although usually measured by dollars. And I find economic evolution in the changes of custom, the changes in citizenship, the changes in sovereignty, as well as in technological changes" (1936, p. 245). Following Darwin, Commons did not see any teleological process in which the fittest institutions survive through natural selection.

⁴⁸ "The State is (...) the partnership of different classes in government" (1899c, p. 363); it is "the supreme institution" (1991, p. 525).

5. Concluding Remarks

The concept of equilibrium is not completely absent in the writings of old institutionalists. Even though they focus on evolution, change and practical issues, they do refer to “equilibrium” in their writings, as we have seen in the case of the economists considered above.

Clark lingers on his father’s teaching and has an idea of equilibrium analogous to the mainstream economics. Indeed, equilibrium is traditionally considered as an analytical tool. We are told by Machlup, “the most prevalent use of the equilibrium concept in economics is probably as a methodological device in abstract theory” (1958, p. 1). Here, it is “employed in connection with ‘models’ containing several interrelated variables; as a useful fiction, it serves as a part of a mental experiment designed to analyse causal connections between events or changes of variables. It is a different use of the equilibrium idea when it is employed to refer to concrete economic situations: here it is supposed to characterise a historical situation as one that has lasted or will last for a relatively long time without significant change” (1958, p. 2). Machlup also maintains that

Equilibrium as a tool for theoretical analysis is not an operational concept⁴⁹; and attempts to develop operational counterparts to the construct have not been successful (1958, p. 11)

The problem is that the real world “has infinitely more variables than any abstract economic model, and their actual interrelations are neither known nor (...) knowable. (...)” (1958, p. 11). This was well known by Clark himself so far as he considers equilibrium just as a tool. He, for instance, notes that “when theory has studied the meaning of value in terms of utility its very attitude and inquiry have presupposed an equilibrium between utilities and thus have been oriented by a static point of view and static assumptions. The emancipated counterpart of this equilibrium inquiry is a study of the entire process of economic guidance, in which the utility theory appears as an interpretation of one phase only of guidance by one agency, viz, the static or the hedonistic phase of guidance by individual initiative. *For this is the only phase of guidance which falls within the requirements of a theory of equilibrium.* To the economic problems of a century ago this phase of guidance was supremely relevant, but for the problems of today it is the other phases of guidance that claim attention (...)” (1918, pp. 3-4).

Also Veblen deals with the concept of equilibrium. Hodgson envisages an analogy between the Veblenian handling of equilibrium and the modern concept of “punctuated equilibrium”. Following Gersick (1991) we can distinguish three different components of punctuated equilibrium: deep structure, equilibrium periods and revolutionary periods. Deep structure is what is “highly stable” in a system: during the equilibrium periods systems can make adjustments to compensate for internal or external perturbations without changing their deep structures while in “revolutionary changes” there

⁴⁹ Answering to Machlup more than ten years later, Finger maintains the opposite: equilibrium is an operational concept.

are not incremental changes that leave deep structure intact but changes that dismantle it. If we well understand Hodgson, all these aspects should be present in Veblen's thought. In Veblen, each institution, as a long-lasting system⁵⁰, can be considered a "deep structure", characterized by a certain equilibrium, a moving equilibrium, with adaptation in response of external or internal stimuli. An institution ceases of existing when a new one comes out: so, for instance, the modern captain of industry, "typified by the corporation financier, is one of the institutions that go to make up the new order of things" (1921, p. 21). But the new order of things has developed "progressively" (p. 23), as the outcome of a gradual, progressive process (p. 36). This does not seem, therefore, in accordance with the idea that "the deep structure must first be dismantled, leaving the system temporarily disorganized, in order for any fundamental changes to be accomplished" (Gersick, 1991, p. 19).

According to Veblen, "the situation of today shapes the institutions of tomorrow through a selective, coercive process, by acting upon men's habitual view of things, and so altering or fortifying a point of view or a mental attitude handed down from the past" (Veblen, 1899c, pp. 190-1). Hodgson notes that "as Veblen recognized, the selective, coercive process" of institutional replication is not always confined to a fixed groove. Institutions change, and even gradual change can eventually put such a strain on a system that there can be *sudden* outbreaks of conflicts and crisis, leading to a significant change in attitudes, conventions, and social practices" (1996, p. 393). Actually, the word "sudden" is very rare in Veblen's writings and he does not seem to take it in particular account:

It is for this class [the wealthy leisure class] to determine, in general outline, what scheme of Life the community shall accept as decent or honorific; and it is their office by precept and example to set forth this scheme of social salvation in its highest, ideal form. But the higher leisure class can exercise this quasi-sacerdotal office only under certain material limitations. *The class cannot at discretion effect a sudden revolution or reversal of the popular habits of thought* with respect to any of these ceremonial requirements. *It takes time for any change to permeate the mass and change the habitual attitude of the people; and especially it takes time to change the habits of those classes that are socially more remote from the radiant body.* The process is slower where the mobility of the population is less or where the intervals between the several classes are wider and more abrupt. (1899, cap. 5)

Or again:

What underlies and has brought on this bent in the temper of the civilized peoples is a somewhat intricate question of *institutional growth*, and can not be gone into here; but the gradual shifting of this matter-of-fact outlook into the primacy among the ideals of modern Christendom is sufficiently evident in point of fact, to any attentive student of modern times.

⁵⁰ "Veblen observed that routines and institutions have a stable and inert quality, and tend to sustain and thus to pass on their important characteristics through time" (Hodgson, 1996, p. 395).

Conceivably, there may come an abrupt term to its paramount vogue, through some precipitate sweep of circumstances; *but it did not come in by anything like the sudden intrusion of a new invention in ideals -- after the fashion of a religious conversion nor by the incursion of a hitherto alien element into the current scheme of life, but rather by force of a gradual and unintended, scarcely perceptible, shifting of emphasis between the several cultural factors that conjointly go to make up the working scheme of things* (1918)

According to these statements, change, growth are slow and gradual processes and consequently, an important characterization of punctuated equilibrium seems to be missing⁵¹.

Finally, coming to Commons, we have seen that he conceives the State as the most important institution so far as it could guarantee order. Commons is one of the major figure of institutionalism, but he does not discharge traditional or pure economics⁵². As he himself admitted:

I do not overlook the important contributions to economic theory in the past, whether orthodox or heterodox. I correlate them with institutional economics (1936, p. 242)

Or again

I do not think that institutional economics, defined as collective action in control of individual action, is contrary to the so-called pure economics of the past, which is individual action without collective control. It is a continuation of pure economics into a higher degree of complexity. (1936, p. 241n)

Commons follows Spencerian teaching, especially with regard to the implications of evolution. Talking about co-operation, Commons notes that it

does not arise from a presupposed harmony of interest (...) It arises from the necessity of creating a new harmony of interests – or at least order, if harmony is impossible – out of the conflict of interests among the hoped-for co-operators (...) harmony is not a presupposition

⁵¹ Eventually, certain points of his reasoning strengthen his spencian tendency. For instance, Spencer had written: “Social disorder, however caused, entails a decrease of integrated movements and an increase of disintegrated movements. As the disorder progresses the political actions previously combined become uncombined: there arise the antagonistic actions of riot or revolt. Simultaneously, the industrial and commercial processes that were coordinated throughout the body politic, are broken up; and only the local, or small, trading transactions continue. And each further disorganizing change diminishes the joint operations by which men satisfy their wants, and leaves them to satisfy their wants, as best they can, by separate operations. Of the way in which such disintegrations are set up in a society that has evolved to the limit of its type, and reached a state of *moving equilibrium*, a good illustration is furnished by Japan. The finished fabric into which its people have organized themselves, maintained an almost constant state so long as it was preserved from fresh external forces. But as soon as it received an impact from European civilization, partly by armed aggression, partly by commercial impulse, partly by the influence of ideas, this fabric began to fall to pieces. Probably a political reorganization will follow; but, be this as it may, the change thus far produced by an outer action is a change towards dissolution -- a change from integrated motions to disintegrated motions. (1937, p. 466)

⁵² He is not against pure theory and this maybe explains why as underlined by Hodgson, Commons, even though clearly perceived institutional evolution in Veblenian terms, “his prime metaphor for his own core idea of a ‘transaction’ as a fundamental union of activity (...) was found not in biology but in quantum physics.” (1993, p. 137).

of economics – it is a consequence of collective action designed to maintain rules that shall govern the conflicts (Commons, 1934).

It is the idea of a order, as outcome of cooperation, necessary for the survival and maintenance of social systems and means nothing but equilibrium⁵³, as well clarified by Parsons and Shils:

The order must have a tendency to self-maintenance, which is very generally expressed in the concept of equilibrium. It need not, however, be a static self-maintenance or a stable equilibrium. It may be an ordered process of change – a process following a determinate pattern rather than random variability and is well exemplified by growth (1951, p. 107)

In the paper, we have seen how Clark, Veblen and Commons deal with the concept of equilibrium. There are important differences: Clark takes the concept of equilibrium as a tool, an analytical device that could be useful in the analysis; Veblen uses a biological-natural concept of equilibrium coming close to very modern concepts; Commons embeds the idea of equilibrium in his pragmatic handling of economic reasoning.

But, going back to Coase's criticism we could wonder if references to the existence of a tool called "equilibrium", to a "biological moving equilibrium", to an "order" are sufficient for talking of a theoretical structure in their writings. It may be useful to recall a significant sentence written by Shackle in conclusion of his book on the years of "high theory":

All we can seek is consistency, coherence, order. The question for the scientist is what thought-scheme will best provide him with a sense of that order and coherence, a sense of some permanence, repetitiveness and universality in the structure or texture of the scheme of things, a sense even of that one-ness and simplicity which, if he can assure himself of its presence, will carry consistence and order to their highest expression" (1967, p. 286).

Order, coherence and consistency are the essence of a theoretical structure. These aspects are also present in the economists just considered. Clark considers analytical tools - such as equilibrium - as necessary in trying to approach real world; Veblen think in terms of a system – an evolving systems – in which each part cooperates with the others, must be consistent with the others in order to give rise to a moving equilibrium; Commons reasons in terms of an order that is essential for social, economic, political systems.

Although in a different measure, all of them give consistency, coherence and order an important role and can therefore be considered theoretical, or at least not anti-theoretical, economists.

⁵³ The idea of "order" is strictly connected with the concept of equilibrium, as well explained in Fararo, 1993.

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