

# 5

## Pragmatism and Institutionalism

Institutional political economy is about collective social ‘habits’ that crystallise into ‘institutions’ (not to be confused with organisations). Institutions in turn lend a unique quality to a given society. There is no way that the political economy of this society then would obey a single principle, as supposed, notably, by Rational Choice. This specificity of society is never fixed; habits change in the face of new challenges, and new institutions will arise in the further *evolution* of society. Institutionalism is actor-oriented, hence ‘subjectivist’; but since it also assumes that there is a specific dynamic (historically, some version of a ‘natural’ selection) at work, it also incorporates elements of a structural, or even a systems theory, although this never reaches the stage where a full-blown objective rationality is claimed to be at work.

In the case of the original institutionalism (Veblen’s evolutionary economics), the mechanism performing the natural selection it is the Social Darwinist principle of the survival of the fittest; in the case of the theory of the self-regulating market and the countervailing principle of social protection as argued by Karl Polanyi, it is the so-called ‘double movement’ in which these two forces combine. Yet in both cases, the objective principles at work retain a measure of obscurity. There is no claim made as to their exact operation, they are *assumed* to be at work and can manifest themselves in a variety of phenomena. Importantly, *institutions* take the place of *markets* in the evolutionary approach;

economics in other words always operates as a compound political economy (either by adding a particular view of society, or, notably, an anthropology, never as economics lifted out of its social context. Markets are one set of institutions among others—say, family networks, reliance on state intervention, religiosity, etc. etc.

Institutionalism presents an early version of a post-rationalist approach to the extent it subverts the notion of the rational subject isolated from historical influences and introduces concepts such as mental habits, adaptation, and evolution. But as we will see, the pragmatism on which institutionalism was grafted, has a marked anti-theoretical, ‘common sense’ approach to facts—‘an idea is true if it works’ (William James).

In this chapter we will look first at the source of institutionalism, *pragmatism*, the philosophy of practical experience. Then we turn to Thorstein Veblen and the evolutionary economists. In section 3 we discuss Karl Polanyi, who combines anthropology with economics and whose work prefigures the ‘varieties of capitalism’ approach in GPE.

## 1. ADAPTATION AND PRAGMATIC PHILOSOPHY

Institutionalism was an American invention, a product of the US experience. It builds on a particular philosophy, pragmatism, that became noted for its no-nonsense approach to the world. There is more to pragmatism than some of its all-too-mundane claims suggest—its key representatives were accomplished philosophers, psychologists, and linguists.

Pragmatism was originally formulated by [Charles Peirce](#) (1839-1914), but it only became a dominant intellectual force in the United States towards the end of the 19<sup>th</sup> century. Peirce rejected the Cartesian-Kantian notion of a subjective *rationality*. Thinking is subjective, but not based on anything like a universal ‘Reason’ (cf. [How to Make Our Ideas Clear](#), 1878). Kant argued that the mind has an inborn set of what he termed a priori categories, time, space, causation, etc., which allow us to order facts gained from empirical observation. Peirce on the other hand thought that what actually allowed people to order facts was something of a less

universal quality. 'That which determines us, from given premises, to draw one inference rather than another, is some habit of mind, whether it be constitutional [i.e., inborn] or acquired' (Peirce quoted in Ross, 1991: 207).

On the basis of this ontology, the particular epistemology of pragmatism may be summed up by William James' already quoted statement that *an idea is true if it works*—not because it conforms to any abstract principle of verification other than that. All theorising beyond the practical test is superfluous (cf. Durkheim's [critique of pragmatism](#) of 1914).

### **Social Darwinism and the Frontier Experience**

The United States emerged as a pioneer society dominated by English-speaking Puritan settlers, who gradually expanded westwards across the North American continent. Their society was a Lockean-liberal replica of England, but without the aristocratic-absolutist vestiges. The pioneers relied much more on their own wits, their guns, and their claim to sovereignty over the whole of the continent and in some extreme versions (such as the doctrine of *Manifest Destiny* coined in the mid-19<sup>th</sup>-century war against Mexico over Texas), over the entire world.

As Dorothy Ross argues, all American social science is ultimately rooted in the idea of *American exceptionalism*. This is the thesis that the United States, because it had a republican government and enjoyed unparalleled economic opportunity, could develop the English heritage of freedom and practical pursuits to its full potential. In contrast to the European states, America's progress was in principle unbounded. The US, 'unlike the nations of the past, would not grow old' (Ross, 1991: 23, cf. xiv).

The white, English-speaking settlers from the start encountered others who proved no match for them. First, the native Amerindians, who sometimes collaborated with the settlers, sometimes resisted them, and invariably were defeated and often exterminated. Secondly, there were the slaves imported from Africa who until the Civil War (1861-66) were forcibly employed in the plantation economy of the southern states and thereafter became a segregated underclass. In both cases, there were

ample grounds for the widespread belief, grafted on Puritan notions of being a chosen people, that the white settlers were a superior race bound by nature to rule over others.

The advent of mass industrial society in the closing decades of the 19<sup>th</sup> century complicated but ultimately confirmed this racialised social hierarchy. The rise of investment bankers such as J.P. Morgan and his fellow tycoons, who put together vast conglomerates in the railway, utility and heavy industry business, destroyed the agrarian idyll on which American exceptionalism had initially been based. Small businesses were absorbed into the trusts, whilst immigration and urbanisation, involving south and east Europeans by their hundreds of thousands, quickened the pace of social change and widened the extremes of rich and poor.

At this juncture, and partly to counter socialist ideas, the original hierarchical racism was recast as [Social Darwinism](#). The theory of Charles Darwin that species evolve by adaptation and natural selection, by then (and not only in the United States) was being rewritten as a theory about human society. It projected the theory of evolution on social development and added the claim that adaptation came about in a competitive struggle, in which *the fittest* survive (this was an idea of Spencer's, as we saw in Chapter 3; Darwin's *Origin of Species* does not make this claim, although in the later *Descent of Man* there are 'Social Darwinist' arguments). The mercilessly competitive environment the settlers found themselves submerged in, and the breakneck competition of a capitalism passing through the stage of monopolisation, with the big eating the small, made Social Darwinism a plausible popularisation.

In the development of the United States, 'natural selection' was seen to take place on the *Frontier*, the westward-moving zone in which the pioneers and settlers encountered the native Amerindians. After the West Coast had been reached by the end of the 19<sup>th</sup> century, the concept of the 'Frontier' was projected on the rest of the world—from the Spanish-American war over Cuba onwards, via J.F. Kennedy's 'New Frontier' in the 1960s, to one of the space war projects that gave rise to Reagan's 'Star Wars', 'High Frontier'. The idea was that new opportunities always arise;

if properly acted on, they will allow 'Americans' to come out as the fittest, occupying the commanding heights before anyone else.

It is from this (of course largely fictional and self-congratulatory) experience that the particular ontology and epistemology of the pragmatist-institutionalist tradition have arisen. In all varieties of subjectivist theory, the subject faces an objective world that is, in ontological and hence in epistemological terms, ultimately impenetrable. The individual entering the Frontier, actually experiences it as a danger zone, potentially a deadly one. To survive, one must *adapt* and meet any challenge that may arise. The only thing we can ultimately say after the event, is that those who come out alive or on top, were *apparently* best fitted for the challenge.

The survival of the fittest, the Spencerian/ Social Darwinist selection principle applied to human society, thus presumes a mechanism in the objective world which produces this result. However, it will not itself yield the entire secret why this works this way. Hence the subject remains the starting point of both the acquisition of knowledge, and of the practical endeavour of dealing with the world as it is.

### The Functional Psychology of James and Dewey



The major figures within the later development of pragmatism were the psychologist, [William James](#) (1842-1910, cf. his '[What pragmatism means](#)'), and the educationalist, [John DEWEY](#) (1859-1953, pictured). In the 1890s they developed a specific psychology, *functional psychology*, which other social scientists did not fail to pick up and apply to their respective fields.

Functional psychology argues that *the mind is an organ of adaptation*. On the one hand, the mind is an active agent in dealing with the

environment; on the other, it seeks to adjust to the changes in that environment. The first proposition produced the concept of the active subject, capable of changing the environment on the basis of rational preconceptions. The second proposition, that of adjustment, evokes the image of a socialised individual, who does not act as the independent, autonomous agent of Rational Choice at all, but who is a product of circumstance. Indeed the socialised individual is 'habituated to the social environment and drawn to the rational consensus adjustment enforced' (Ross, 1991: 155).

Rationality, in other words, is not located in the mind of the subject as Reason, but an outcome of the social process, a (set of) mental habit(s) developed over time ('the rational consensus'), which has become encrusted, institutionalised. Dewey took this to mean that the moral absolutes of the early settler society that had produced the exceptionalist tradition and Manifest Destiny, had to be abandoned. Change was historical, and continual *reform* was to deal with challenges of all sorts.

Coming from a Christian background, and then passing through Hegelianism, Dewey embraced pragmatism (which he himself termed 'instrumentalism') in the 1890s. Teaching at the University of Michigan, he endeavoured to transform philosophy into a social science, based, like the latter, on *experience*. Dewey takes Hegel's category of the totality, the 'whole', but claims that it is no longer necessary to posit this whole in terms of metaphysics, as something which hovers behind the appearance of things. According to Dewey, the new natural science of his day allowed a complete understanding of human action too. This is a typical materialist point of view: all that exists is an emanation from nature, even human thought (cf. chapter from *The Quest for Certainty*, 1933).

In human action, we observe the organism at work; thus we become aware of the truth about individuals. Collective, social action, on the same assumption, reveals how *political* society works. The two in combination (individual and social) tell us everything that can be known about social reality (Ross, 1991: 164). Note the emphasis on the subjective side: the action of the individual and the totalised actions of the society of which s/he is a member.

This sums up the practical mind-set of American settler society. There is no need to conceive of some abstract force, say, reason/rationality, or history in a transcendent sense (as in Hegel), which operates behind our backs, determining what happens in society.

We may think back of the earlier Peirce quote about the ‘habit of mind’ and see how Social Darwinism modulates the original pragmatist position as developed by Dewey.

The mind was an organ of adaptation, moved by interest and purpose, and aroused “only because of *practical friction or strain* somewhere.” Thinking was “the critical point of progress in action, arising *whenever old habits are in process of reconstruction, or of adaptation to new conditions*” (Ross, 1991: 165, quoting Dewey, emphasis added).

Truth, Dewey held, is ‘merely the solution that most fully resolved the friction or strain’ (Ibid.). This is broadly identical to James’ ‘an idea is true if it works’, with more emphasis on the aspect of adaptation and change. Dewey puts the same idea as follows: ‘We demand order in our experience. The only proof of its existence is in the results reached by making the demand.’ (quoted in Ross, 1991: 165).

There is in other words no transcendental criterion for truth; proof is experimental, it is reality which confirms, without much ado, what works and what doesn’t.

The terms of Dewey’s pragmatism that we have to retain are

- Human action as the attempt to resolve the friction with the environment; the subject is the starting point;
- The competitive/selective nature of such attempts in charting the course of society as a whole. But society does not give a clue without us trying, because there is no way we can know how the world out there may surprise us (as Dewey’s—and as noted, Dilthey’s—pupil, the social psychologist, [George Herbert Mead](#), put it, ‘It is always the unexpected that happens’—quoted in Ross, 1991: 170). So *if* there is a logic at work in the objective world



(natural selection for instance), it is not a compelling rationality in its own right that would allow us to make predictions.

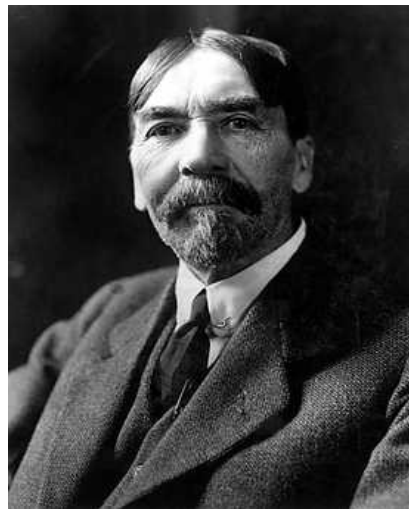
- While interest and purpose are the driving forces of action, it is *habits* in thought and practice which at least in part constitute them, and accordingly, there is no imaginary standpoint outside the acting individual, such as universal reason, or 'history', from which interest and purpose can be constructed.

We can now turn to institutionalism proper, and to Veblen, its founder.

## 2. VEBLLEN AND EVOLUTIONARY ECONOMICS

[Thorstein VEBLLEN](#) (1857-1927) applied the Pragmatist principles and the ontology of Social Darwinism to economics.

Veblen was a Norwegian immigrant. As a scholar, he always remained an outsider and a dissenter; his commitment to social progress and justice was far more radical than Dewey's. Brick calls Veblen's intellectual heritage 'a curious mix of conservative and boldly reformist affiliations' (Brick, 2006: 47).



In his first work, *The Theory of the Leisure Class* of 1899, Veblen wanted to show that the leisure class, the class that does not need to work, is a phenomenon of all but the most primitive societies. This class in Veblen's own lifetime had become much more prominent; this in his view had destroyed the idyllic version of American 'exceptionalism' (the idea that the United States was a society unlike any other and by implication, entitled to showing the way to the rest of the world). Blending agrarian radicalism and populism with occasional enthusiasms for revolution, Veblen also criticised socialism and Marxism (see his 1906 [critique of Marx](#)). After the war and the general



disenchantment with capitalist society that led to revolutionary upheaval in many places, Veblen typically joined Dewey in protesting the conditions imposed on Germany at Versailles and welcomed the Russian Revolution (Brick, 2006: 62).

### **Economic Evolution**

As the fear of radicalism grew and the academic mainstream in the United States went over to marginalism in the 1890s, only a handful of economists stuck to their original adherence to a socially concerned, historical economics. This was the institutionalist school developed.

The term institutionalism for the school of thought of which Veblen was the key representative, was coined only in 1918 at an AEA conference; it brought together those who wanted to counter the 'abstract theories of market exchange and price equilibration' by investigating the real variety of economic practices and their embeddedness in society (Brick, 2006: 65-7). All agreed that the abstractions of neoclassical economics were sterile, a quality they attributed to the fact, as one of them put it, that 'the classical schools were without the benefit of modern anthropology, which has revealed so many varieties of communal life and economic mores' (quoted in *Ibid.*: 69; cf. Hodgson, 1996).

The influence of anthropology's understanding of *culture* transpires in several strands of institutionalist political economic thought, such as Polanyi's and the strand currently known as 'Varieties of Capitalism'. It certainly was a major formative influence on Veblen. Anthropology gave insight into the peculiarity of human behaviour, undermining the idea of a single subjective rationality that underlay so much philosophy. Veblen actually studied with one of the American marginalists mentioned in Chapter 1, J.B. Clark (whose son J.M. Clark was an admirer of Veblen and an institutionalist himself). He also attended the lectures of the Yale sociologist, William Graham Sumner, the leading Spencerian and Social Darwinist, who famously claimed that becoming a millionaire was the result of natural selection (quoted in Löwy, 2004: 101). The idea of mental habits as the determining factor of human behaviour came to Veblen after he heard Charles Peirce speak (Ross, 1991: 207).

Veblen's evolutionary economics looks at society through the lens of Social Darwinism. As he put it himself,

The life of man in society, just like the life of other species, is a struggle for existence, and therefore it is a process of selective adaptation. The evolution of social structure has been a process of natural selection of institutions (Veblen, 1994: 117).

Initially Veblen's Social Darwinism was underpinned by a pure racial theory. He saw the 'dolichocephalic [long-skulled] blond' race as the creator of the famous English freedoms (Ross, 1991: 208). However, by 1914, Veblen had become aware that biology and Dewey's psychology had more subtle insights to offer and he abandoned his original view of race and instinct. He revised his theories accordingly, without abandoning the Social Darwinist framework.

The *institutions* that Veblen spoke about are, as noted, not organisations, but social (mental and practical) *habits* that have become encrusted into more enduring characteristics of a society. Their development is a matter of continual adaptation of the modes of thinking (Palloix, 2002: 75). Veblen shares the pragmatist view of Dewey that social action is composed of, on the one hand, the action of individuals (which can in principle be known through the study of the organism); and on the other, of the collective action of society as a whole. But since in practice it is not possible to investigate individual action from the natural interaction of 'living tissue and material environment', we have to be satisfied with seeing how people cope with an environment that is part-human, 'institutional', and part-non-human; rather than rely on physics and biology.

One major source of habits (and the institutions to which they give rise) is *emulation*, which Veblen sees as a natural trait of humans (Ross, 1991: 206). People emulate what they see others do, and in this way, patterned behaviour (rather than individual variety) comes about. The fact that the poor want to emulate the rich but cannot do so, creates *envy*, which is what in Veblen's view gives rise to socialism as a movement. Mass consumption, too, is based on the less well-off emulating the lifestyles of the rich (the greater part of the *Theory of the Leisure Class* is about the influence this class has on social patterns of life and consumption).

Inherited habits create an institutional landscape, a pattern of encrusted practices that is the result of emulation of what others do. Ultimately it centres on the successful adaptation to change by a particular class, which then percolates through society by emulation.

The situation of to-day shapes the institutions of to-morrow through a selective, coercive process, by acting upon man's habitual view of things, and so altering or fortifying a point of view or a mental attitude handed down from the past. The institutions—*that is to say, the habits of thought*—under the guidance of which men live, are in this way received from an earlier time (Veblen, 1994: 118, emphasis added).

The institutions (habits) themselves work as a mechanism of selection; they are not just an outcome of a hidden selection process. Certain institutions will favour those who have the most appropriate mental habits to fit into the transformed environment, and they will therefore create new institutions again (Palloix, 2002: 75). History, therefore, is a cultural process, and the economy too must be analysed through an *evolutionary* economics. Following anthropologists like L.H. Morgan, Veblen saw a growth of society from the savage condition to a 'predatory culture' in his own lifetime, which then gave way to a pecuniary culture as a higher stage (Brick, 2006: 48).

Veblen claims that the conservatism of the contemporary leisure class is not just the status-quo attitude that characterises every privileged stratum. Indeed, each leisure class is relatively sheltered from the pressures and frictions that force people to rethink and re-examine their habits, and therefore the privileged are slower in adapting to changing circumstances. Moreover, any change in habits is painful and irksome. This incidentally also holds for the lower classes. Veblen notes that when they become impoverished due to an unequal income distribution, their capacity to adapt will also be undermined. Paradoxically, their conservatism can therefore match that of the leisure class. The natural attitude of an oppressed class that 'what is, is wrong' will accordingly be undermined or rendered inoperative (Veblen, 1994: 126-8).

### Rentiers Preying on Industry

Marginalism, as noted, developed in the attempt to escape from the radical implications of classical political economy. In the process, it articulated the vantage point of the new class of rentiers. The rentier was simply the provider of capital just as the landowner had land on offer and the worker was the provider of labour. Veblen on the other hand saw in the new divide between rentiers and managers the characteristic feature of contemporary capitalism. Drawing on the historical analyses of German historical economists like Schmoller and Werner Sombart (cf. Chapter 7), Veblen singled out the rentiers for critical investigation—the term leisure class also figures in Bukharin's *Economic Theory of the Leisure Class*).

In the modern capitalist economy, Veblen sees two main habits, institutions: the institution of *acquisition*, and that of *production*. With the former, he associates a *pecuniary* interest, imbricated with a sentiment of rivalry; with the latter, an *industrial* one. Or, using different terms again, we have *industry* proper, understood in the literal, mechanical sense, and '*business*'.

The relation of the leisure (that is, propertied, non-industrial) class to the economic process is a pecuniary relation—a relation of acquisition, not of production; of exploitation, not of serviceability... Their office is of a *parasitic character* (Veblen, 1994: 129, emphasis added).

This perspective was shared by several contemporaries, who adopted what I have elsewhere called the 'productive capital' perspective against the money interests—Henry Ford in the US, Sombart in Germany, and J.A. Hobson in the UK (Keynes as we saw also would adopt an anti-rentier position). Each of them railed against the parasitic financiers, the rentiers, whom they saw as a dysfunctional hindrance to optimal production and as exacerbating class conflict between capital and labour, as well as fuelling imperialism. Keynes as we saw advocated the 'euthanasia of the rentier'; Ford sponsored anti-Semitic publications and fascism, claiming that the financial interest in society was made up entirely of Jews (see my 1984: chapter 1).

In Veblen's perspective, then, *exploitation* takes place between the predatory rentiers and all those actively contributing to the progress of actual industry – managers and workers. Through what he called *business sabotage*, a term developed earlier in a series of articles published in book form in 1921, the owners seriously constrain the potential of the real economy. Their 'sabotage' was not confined to the economy either. Veblen's pessimistic view that the forces of reaction, nationalism and militarism would serve to uphold the rights of the owners against the demands of society won him the praise of his critic, émigré philosopher Theodor Adorno (see our Chapter 10), for having recognised the dangers of totalitarianism early on (Brick, 2006: 64-5).

Whereas neoclassical economics treats price bargaining as an exception (monopoly, oligopoly), for institutional economists such as Veblen and Commons, this capture of the broader industrial network via controlled scarcity at any particular node is an everyday routine occurrence, and forms the basis of a successful, business strategy (Perry, 2009: 141).

As a result, the machinations of the most powerful sections of business elevate their profitability well above the average, what Nitzan and Bichler call, the *differential accumulation of capital* (Nitzan, 1998). The difference with Marxism is that for Veblen, exchange relations and private property ('business') and production ('industry') are *externally* related; hence the institutionalist terminology of 'embedding' and 'disembedding'. In Marx, exchange and production are mutually interpenetrating forces. Exploitation in institutionalist economics is an unequal power relation between business and production; in Marx, the worker is exploited in the labour process, although profit appears only in the ensuing exchange relations. With Veblen, on the other hand, industry is a quasi-organic process governed by a healthy 'instinct of workmanship' (the title of a book of 1914, Ross, 1991: 208); it is preyed upon by business, which in turn serves a parasitic, leisure class of stock-holders.

The pecuniary interest (that of the outside investors, or 'absentee owners' – the title of Veblen's last work, *Absentee Ownership* of 1923), is the decisive force in the development of capitalism. Thus, legal arrangements protecting property, regulating bankruptcy, and what we today would call 'corporate governance', all reflect the priority of the pecuniary,

'business' interest over industry proper. This is a *power relation* which gives the business interest, in Veblen's words, the 'means of engrossing the community's industrial efficiency' (quoted in Perry, 2009: 78; cf. [Bichler and Nitzan](#), 2004). Hence the rate of profit is not just a quantitative measure of costs and return on capital, but first of all measures 'the social power of capitalists' (Perry, 2009: 79).

Already in the *Leisure Class*, Veblen noted that the proliferation and growth of the pecuniary interest gradually turns it into a lifeless appendage of the real economy, and at some point, society will be able to discard with it (Veblen, 1994: 130; again compare Keynes' euthanasia, or Marx's argument about a transition to the 'associated' mode of production, *MEW*, 25: 485-7). But in *Absentee Ownership*, he was less optimistic. Corporate property, Veblen argued, was 'make-believe', a fictitious system of speculative money values placed on titles to income. But the owners nevertheless were able to lay a dense web of 'rights, powers, and immunities' over the economy and impose a levy on the collective output of society.

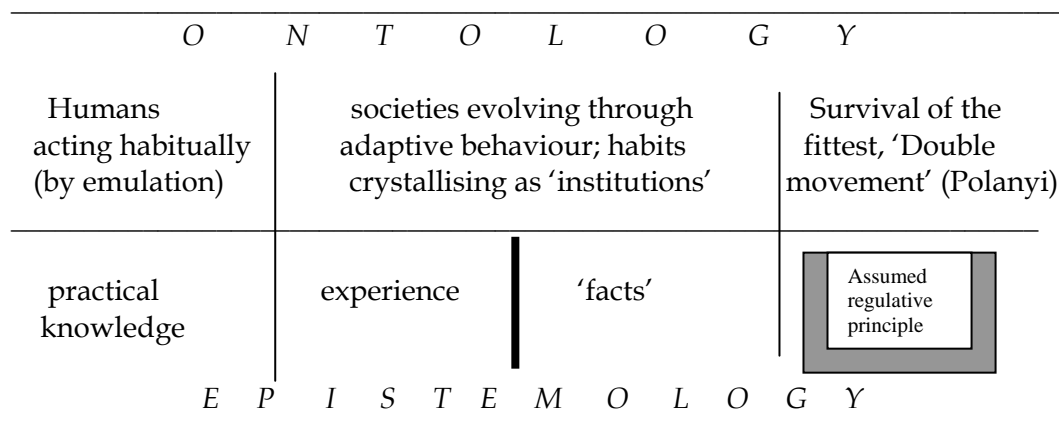
The aspect of socialisation of labour produced by large-scale production (and other changes in the structure of capital) was recognised by Veblen as a process of moving beyond the reliance on manual labour. Although he spoke vaguely about 'a new era' rather than socialism (he also avoids the term capitalism most of the time, speaking instead of 'the price system', or 'business'), Veblen saw the changes in this area as shifting the control panel in the economy from manual skills to 'general intelligence and ... familiarity with the commonplace technological knowledge of the time' (quoted in Brick, 2006: 49). Hence schooling rather than apprenticeship became the high road of education and socialisation of the young. All this was mortgaged however by 'business', by a sphere of 'banking, underwriting, insurance, and the phenomena of the money market at large', which prevented the optimal technological and social solutions from being applied (*Ibid.*).

Veblen's epistemology was originally not made explicit. In the pragmatic spirit he was concerned with practical habits, with collective social action as a truth in itself which needs not to be confirmed against

some abstract, metaphysical principle. On the other hand, in the debates he had to participate in (in part because critics tended to dismiss his 'Theory of the Leisure Class' as satire rather than scholarship), Veblen made a point of specifying his epistemology in detail. Thus he came to adopt a neo-Kantian idealism (he had written his PhD on Kant) and functional psychology. Even so, the emphasis on 'hard fact' and 'rigour', which remind us of the positivist emphasis on restricting one's hypotheses to those that allow empirical testing on strict criteria, in Veblen's case continued to be punctuated by humanistic idealism (Ross, 1991: 213). In addition, his functional psychology (the mind as an organ of adaptation) and racial anthropology added the distinctive aspects of his approach.

In Figure 5.1 below, the hybrid nature of institutionalism as a subjectivist approach which yet assumes the workings of an objectively rational social process too, are depicted.

**Figure 5.1. Institutionalism as a Hybrid Approach**



This is a hybrid approach, because although there is no doubt that whilst there is an objective rationality at work (selection of the fittest in the original evolutionary economics, 'double movement' in the case of Polanyi) the precise nature of this objective process remains shrouded in relative obscurity in terms of the theory of knowledge. The nature of adaptive subjective action and the emergence of institutions is unequivocal. In fact, institutionalists do not have a very explicit



methodology apart from pragmatism, which can be understood as a 'light' version of neo-positivism.

### **Commons and the Managerial Revolution**

Social Darwinism was a powerful force among the first generation of institutionalists. Thus E.R.A. Seligman (1861-1939) borrowed his economic determinism from the Italian vulgar Marxist, Achille Loria, but gave it a biological twist by arguing that social change was determined by 'the inexorable law of nature, which is the struggle for existence through natural selection' (quoted in Ross, 1991: 188).

As the changes wrought by the great tycoons such as J.P. Morgan and other investment bankers, settled into a stable pattern of rule by big business, *the study of the large corporation* moved into the foreground. [John R. Commons](#) (1862-1945), the most important institutionalist after Veblen, articulates the shift from the individualistic Frontier society to the urbanised economy dominated by the trusts Morgan had established and transformed into consolidated firms with the help of anti-trust legislation.

Commons shared many ideas with Veblen, also an initial radicalism (he was a member of the League for Industrial Democracy right after World War I). However, he emphasises the internal unity of an institution as a structure of collective action and the mutual coordination of their activities by different institutions. This creates the *organisation*, which 'lends to the institution its unity and command over society' (Commons quoted in Palloix, 2002: 77).

Commons around the turn of the century lost hope in an impending transformation. He claimed that surreptitiously but inexorably, 'private interests' had developed a solid grip of American life. Echoing Veblen, he distinguished between technical production and market manipulation. In Perry's rendition,

An industrial economy of production engineers concerned with the efficiency of quantities, and a business economy of sales engineers concerned with scarcity bargaining over prices (Perry, 2009: 141).

In the circumstances, the workers should be assisted in gaining a place in the constitutional order. In his historical study of the American working class (published between 1918 and '35), Commons rejected Marxist assumptions about the exploitation of labour on the grounds of the uniqueness of the US experience. Labour in the US, he argued, had been formed under the unique circumstances of competitive capitalism and individualism. These conditions were free from the legacy of the European past and its concepts of class struggle. 'It is this bald simplicity of American individualism, without much covering of races, armies, guilds and prelates, that permit us to trace out all of the economic structures in their evolution from infancy to manhood' (quoted in Ross, 1991: 203). Therefore Commons expected that the US labour movement would stick to liberal pluralism and not question the social order; although he was concerned that the influx of European migrants might undermine the commitment of the (white, skilled) American Federation of Labour to that order, and thus end American exceptionalism in this area (Ibid.: 204).

Commons' acceptance of the American exceptionalism thesis leads him to expect that the *institution of individualism* will hold its own in the context of large-scale organisation. Private property therefore is no longer the institution which introduces disruptive rivalry into the economy, but on the contrary, is the expression of the responsibility of the individual in society.

In the early 1930s, Commons argued that organisations do not restrict individual action but on the contrary, extend the reach of individual action by lending it the power of collective action. Thus he seeks to reconcile the principles of private property and individual rights with the interests of the large organisation structures which developed in that period and were taking up new roles in the society of the day – the state and the large enterprise, the cartel, the holding, the cooperative, and the trade union. These large organisations together were creating, according to Commons, a society governed by rules in which collective action predominates (Palloix, 2002: 84-5). This reads like a rationalisation of the New Deal and an acceptance that large-scale, rule-making organisations

are beginning to encroach on the individualistic market economy of the earlier phase of capitalist and especially American society.

From the notion that there are different societies, each with their own, culturally determined institutional landscape, also followed the insight that the market is not the only economic structure properly speaking. In the 1930s it became increasingly evident that even in an advanced capitalist society like the United States, economic activity moved through a wide range of institutional arrangements; the large corporation in fact was in the process of suspending market logic within and often between corporations, and so did increasingly prominent state intervention. As competition and the market were losing their primary roles as the mechanisms through which adaptation and selection take place, the concept of *transaction* served to capture market and non-market economic exchange alike.

Transactions include market transactions, transactions by managers (involving efficiency and organisation), and distributive transactions, all implying certain costs (Palloix, 2002: 77-8). Ronald Coase in 1960 applied the idea of *transaction costs* to demonstrate that market transactions compare favourably with state economic policy and taxation mechanisms; external costs to society such as noise, air pollution, would likewise be met more efficiently by market mechanisms than by state intervention. This brought one aspect of institutionalist theory back into a micro-economic interest calculation, applied to highlight the superior efficiency of the market.

The original (and enduring) institutionalist thesis however holds that there are *always a variety of institutional arrangements* at work, and hence different types of transactions (cf. Scully, 1988). The anthropological approach to different societies will confirm that variety – hence, as we will see later, ‘varieties of capitalism’.

The primacy of management in capitalism goes back to F.W. Taylor’s *Scientific Management* (1911). The notion of a managerial revolution gained currency by the eponymous book by the former Trotskyist turned cold warrior, James Burnham. Burnham in 1941 embraced the results of an

earlier study of 1932 by Adolf Berle, Jr. and Gardiner Means, *The Modern Corporation and Private Property*. In fact Berle and Means adopted a more modest approach in that they recorded, a) that the two hundred nonbanking corporations in the US held half of all corporate wealth, and that a trend of further concentration was under way; and b) that there was an opposite, centrifugal process of dispersion of stock ownership. This second aspect ruled out that the 'owners' to the extent they were stockholders, could actually control corporations. But they did *not* argue that the managers therefore had assumed that control.

Certainly Berle and Means noticed the disparity between 'passive' stock owners and the managerial, 'active' running of the enterprise. But the functions of the corporation are *threefold*:

- There were those had an interest in it, the shareholders;
- There were those who 'acted in respect to it' (the managers), and
- Those who 'had power over it'.

This latter group was not necessarily management. It could be the top management (the executives of the company); it could be those who appointed the managers (the board of directors), or any combination of the two. Economic power, Berle and Means claimed, had become vested in a 'corporate oligarchy' made up of an interpenetrating group of directors and top managers who numbered no more than 2,000 people running the top 200 corporations (Brick, 2006: 80). They saw this as effectively terminating the idea of 'private enterprise' and initiative, suggesting that instead, corporations should be seen as social institutions and be treated like that.

Burnham, who applauded their study, in his own book on the managerial revolution of 1941 drew a much darker picture. In his view the managers had established themselves as a new class, very directly so in the Soviet Union and Nazi Germany. The trade unions in most cases were accomplices of the managerial march to power; therefore opposition was to be expected only where ownership remained in the hands of financial

capitalists (Burnham, 1960: 91-2), or where, as in the US, the trade unions resisted being absorbed entirely within the managerial bloc (Ibid.: 170).

The 'managerial revolution' meanwhile did not fundamentally alter property relations. In fact, 'during the first half of the twentieth century, the self-serving antics of managers seemed relatively innocuous, consisting chiefly of compensating themselves at levels that exceeded the market value of their services', but without prejudicing returns for shareholders. It was only in the 1970s and 80s that managers, by resisting takeovers of their companies (and thus depriving their rentier shareholders of potential gains), became an obstacle to the neoliberal response to the crisis of Keynesianism (Conard, 1988: 123).

However, the era of the management-run large corporation (the 1930s to the 70s), combined with 'corporate liberal' state intervention begun in Roosevelt's New Deal, made the analyses of the institutionalists highly topical. They all sought to understand the political economy as a comprehensive social process, 'away from deductive theories of unregulated market processes towards descriptive studies that would have to include the social context, and social exigencies, of economic development' (Brick, 2006: 19). As planning spread, the idea that capitalist society was heading for a 'Great Transformation' steadily gained ground. This takes us to Karl Polanyi.

### 3. KARL POLANYI AND THE SOCIETY/MARKET DICHOTOMY



The concerns identified by Veblen and Commons came together again in the writing of [Karl POLANYI](#) (1886-1964), an economic anthropologist, and especially in his book *The Great Transformation* of 1944.

Polanyi was a refugee from Hungary who combined the notion of pragmatic, evolutionary change with the idea of liberalism as only one of many possible cultures. Like Commons, Polanyi seeks to

account for the rise of the large-scale organisation in society. Its 'rule-making collective action' in Polanyi becomes *planning*, and Commons' argument that the large organisation represents a beneficial force relative to the individual, in Polanyi becomes *social protection*.

With Veblen, on the other hand, Polanyi shares the criticism of the 'pecuniary interest' and its disruptive effect on 'industry'. Certainly his terms are different (reflecting his background in economic anthropology as well as his European experience): 'industry' becomes 'society' more broadly, and the pecuniary interest of business becomes 'the self-regulating market' of liberalism, which threatens society (and nature) with total ruin and therefore provokes its opposite, planning—the 'Great Transformation'.

Starting from his anthropological research, Polanyi begins by distinguishing between societies in which the economy is *embedded*, and liberal society in which it has been *disembedded*, that is, removed from its organic interconnections with other social practices in the sphere of prestige, mutual solidarity, and others (all understood as collective habits, 'institutions'). 'Man's economy, as a rule, is submerged in his social relationship' (Polanyi, 1957: 46)—until, in the English context first, the idea arose that society should be entirely organised around the *self-regulating market*.

### **The Double Movement**

The self-regulating market, the utopia of liberal thinking, in Polanyi's view is an institution like others, but one rooted in a socially destructive illusion. In practice, its development has all along been accompanied by instances of *social protection and planning* to mitigate the destructive effects of unfettered market economy. Society here appears as a constraint on the adaptive choices made by subjects (individuals/social classes). Polanyi sticks to many of the tenets of the institutionalist tradition, such as the rejection of grand schemes (in his case, liberalism and the self-regulating market) by pointing at the *actual practices of every-day life*, and the need to adapt to the limits imposing themselves on what people seek to achieve.

In *The Great Transformation* Polanyi argues that seeing the economy as a self-regulating system, ended up effectively destroying the non-market arrangements in which it had been hitherto embedded, as well as the natural environment on which it rests.

- The assumption that 'labour' is a commodity, i.e., that labourers are produced for the market and will therefore appear on the market in quantities required, vitiates the actual process of human reproduction. Labour, writes Polanyi, is a *fictitious* commodity and if we think otherwise, humanity as a species will be degraded and its life made hell (Polanyi, 1957: 73). Therefore, in practice, attempts to extend the self-regulating market to labour relations and supply, will always at some point be accompanied/compensated by *socially protective* measures (no child labour, maternity leave, paid holidays, working hours legislation, compulsive education etc.). Otherwise a society will destroy its human foundations.
- The same applies to *land*. If it is assumed that land can be produced at will, he writes, nature will be destroyed, rivers polluted, etc. Again, the fiction of the self-regulating market here meets its limitations. Again therefore, protective measures will be taken at some point to counter these destructive forces which liberalism unleashes.
- Finally, *money*, too, is a fictitious commodity. It is not something that can be produced at will without running the risk of undermining the entire payments system and with it, the economy as such. Therefore, states and comparable authorities have historically moved to create bank monitoring institutions that limit the ability of private operators to create money, by setting credit limits, the interest rate, and requiring banks to maintain sufficient reserves. Again measures to *protect* the economy from its own supposed workings.

Of course these fictitious commodities are not just a random selection; they are, one for one, the *factors of production* on which the entire marginalist argument revolves. This does not mean that Polanyi was a



radical anti-capitalist, or intent on abolishing the market as a social institution. His point is rather that throughout history, markets have existed (he himself did many detailed studies on the earliest forms of market economy) *but always embedded in society*.

The liberal illusion of the self-regulating market on the other hand rests on the assumption that the market can be *dis-embedded* from society. That this is an illusion, is not based on a prior insight into how society works, but on ideology, and that this is a self-defeating illusion is something which society *finds out* in practice. The degradation of human kind, the destruction of the biosphere, and monetary crises, remind us of the fact that we are trying to achieve the impossible here.

*Who* then asks for measures or imposes them, is secondary. We cannot have prior knowledge of why certain social forces will act, and when. The only thing we know is that sooner or later, somebody will find out that relying on the market in certain areas (labour, land, money) will lead to problems.

Polanyi therefore remains a pragmatist in many respects. *The Great Transformation* for him was the spread of planning (note the date of its original appearance, 1944, at the end of a war that followed on the Great Depression that destroyed the attempt at reviving 19<sup>th</sup>-century liberalism). But he does not advocate planning for inherent reasons, or out of any ideal. To him, planning is merely the *coming together of disparate practical measures of social protection provoked by the disruptive effects of forcibly introducing the market in every aspect of social life*. To quote his famous aphorism, '*laissez-faire* was planned, planning was not' (Polanyi, 1957: 141).

This results in what Polanyi calls the *double movement*: every step in the introduction of self-regulating market principles provokes, sooner or later, measures to protect the spheres of life epitomised by the three fictitious commodities. This can be immediate or even anticipatory; but it can also come about later, as a result of a crisis provoked by the disruptive effects of market mechanisms. Aspects of Polanyi's analysis of 19<sup>th</sup>-century capitalism, like his argument about the peacefulness of the 19<sup>th</sup> century

European world because of the 'peace interest' supposedly represented by international finance, have been found mistaken (Halperin, 2004).

Also his idea that there is something definitive about the accumulation of planned forms of organising the economy, has been contradicted in practice by the 1980s triumph of neoliberalism. But precisely that return-with-a-vengeance of self-regulating market economy has made his analysis of the double movement highly topical. What is important to note here is that with Polanyi we also begin to abandon the field of subjectivist theories and encounter what amounts to a theory of objective rationality, a 'system' with self-correcting properties—the double movement. So we might fill in, in Fig. 5.1, under (4) instead of the 'survival of the fittest', 'the double movement'; again there is an assumed objective rationality at work (albeit one still shrouded in relative obscurity).

The emphasis, then, is still on the subject, but we also *know* something about society: 'it will not allow' the dis-embedding of the economy from society and will therefore force *somebody* to act—only we do not know this *exactly*.

### Varieties of Capitalism

Another important aspect of the institutionalist argument developed by Polanyi is in raising our awareness that capitalism in the sense of a self-regulating market economy is something *imposed* on society. Since every society solves the problems resulting from market extension and attendant social protection into the three sensitive areas of land, labour and money in different ways, we are confronted not with one, but with *many capitalisms*. It is on the basis of the type of thinking represented by Polanyi, that contemporary theories about the existence of several rather than only one 'capitalism' have been developed by thinkers such as Michel Albert, a manager in the French insurance industry and organic intellectual of his country's (indicative) planning tradition.

In *Capitalism against Capitalism* (1991), Albert develops the argument that with the end of the cold war, the superficial idea of a unified capitalist West has dissipated too. He takes his own economic sector, insurance, as a

case in point to argue that in different social contexts, very different forms of dealing with risk and redistribution have developed over long periods.

Thus insurance in the Swiss Alps developed as a system of mutual assistance among cattle farmers who put money in a common fund to replace cows lost in a ravine or otherwise. This reinforced solidarity among them and created an effective system of social security. Around such notions, Albert claims, an entire world of norms of expectations developed which became the context in which capitalism developed. Hence, taking the river that begins in Switzerland as the label, a *Rhineland capitalism* has sprung up built around social security and solidarity and corresponding habits and expectations generated over time.

The occasion for writing his book was the advance of a different kind of capitalism that Albert labels *neo-American capitalism*. Unlike its Rhineland counterpart, this form of capitalism is based on seeing risk and reward as opportunities for making profit. Although the association with the Reagan administration and its free market policies which lend the neo-American variety its name, this approach also goes back to old practices: the shipping insurance business of Lloyds, originally a betting operation run from the premises of a London tavern. This is the specimen of a quite different approach from Rhineland capitalism, the (neo-) liberal one in which everything revolves around markets and entrepreneurship.

The institutionalist aspects of this approach are evident. There is no single capitalism which uniformly applies to different societies; social habits have developed separately and whilst in the Rhineland variety (which also applies to East Asian countries like Japan and South Korea), it is embedded in a structure of social security and solidarity, in the neo-American variety it has been dis-embedded from society. In Polanyian terms, social protection has a purchase in the Rhineland context whereas the idea of the self-regulating market thrives in the English-speaking world (cf. empirical analysis in [Hall and Gingerich, 2009](#)).

*Why* the socially secure Rhineland variety appears to be on the defensive, marginalised by the more dynamic neo-American variety, is difficult to answer, Albert argues, because how can we explain that people

would choose a rougher, potentially much more risky environment for the security and stability built into the Rhineland variety of capitalism? In the last pages of his book he is content to concede that he does not know the answer, which we may take as a reminder of the subjectivist angle from which institutionalism has been developed. The objective process of historical change remains dark and unexplained, to the point where even the actions and preferences of the subjects (the people living in the Rhineland variety and apparently failing to see what they are losing with the advance of neo-American practices) become inexplicable.

The idea that capitalism does not come in a single edition but is characterised by variety, and that these varieties result from the fact that society develops differentially and thus provides a different basis on which capitalism must be grafted, has also been developed by Esping-Andersen (1990). Esping-Andersen documents how in the United States, Sweden, and Germany, *three* different patterns of social security have evolved over time, with the role of the state very pronounced in Sweden, a corporatist pattern characterising Germany, and private insurance dominant in the US context.

Hampden-Turner and Trompenaars (1994), coming from a consultancy background, have taken Albert's analysis further (as was to be expected) and have come up with an investigation, based on insightful anecdote rather than theory, of *seven* cultures of capitalism. Apart from these seven varieties, they also discuss other countries' specifics in several overview chapters in their book.

### **Applying the Method**

The institutionalist contribution to international social theory resides in the re-discovery of anthropology, culture, variety, *everyday life*; and the need to reject the lapidary imposition of a preconceived categories (state, capital, or in Polanyi's example, the self-regulating market) both in theory and in practice. To look for the *actual practices* (habits, institutions) in a given (type of) society, is the beginning of all wisdom in this tradition. The institutionalist approach looks favourably on diversity and specificity,

'culture'; whereas neoclassical economics assumes universally validity for its assumptions (as does Marxism, according to [Hodgson, 1996](#)).

Veblen's original juxtaposition of 'industry' and 'business' can be a fruitful starting point for a research project. It would include, making a systematic analysis of the industrial habits of given working populations, engineering traditions, and mentalities in the (type of) society under review; and then taking a particular (set of) interventions by the 'business' interest, that is, action on the part of owners or managers acting for them, that result in what Veblen called 'sabotage' – the curtailing of possibilities of the industrial process to increase profits.

The Polanyi 'double movement' is equally well-suited for a research project. The introduction of some form of liberalisation (privatisation, opening of borders, or flexibilisation of labour) could be taken as the starting point; then the (potential) disruption as a result of imposing market principles on one or more of the three fictitious commodities identified and if possible, quantified; and third, the form of social protection, suggested by the workings of the double movement, identified and related to a particular social force or set of forces involved in its imposition.

The 'Varieties of Capitalism' approach in turn focuses on how the different forms of everyday life (the totality of habits and practices in a given type of society, including the industry/business relation, and the track record of the double movement) give rise to a distinct type of capitalism. Everyday life as a specific arena of enquiry was coined by the French Marxist, [Henri Lefebvre](#), in 1947. Lefebvre, an unorthodox Marxist originally, sees the everyday as (I quote from Davies and Niemann, 2002: 558),

A contested place characterised by mystifications and the struggle to overcome them. These mystifications derive from the experience of alienation in modern society and take many forms. Lefebvre, for instance, critiqued both the concepts and experiences of individuality, freedom, money, needs, work and leisure as part of his effort to unpack the link between the reality of everyday life and our ideas about it.

Lefebvre's concept of *space* as a category is specifically relevant to International Relations/GPE. This serves, as Davies and Niemann put it, 'to focus on actually lived experiences entailed attention to the spaces where these experiences take place' (2002: 559). Again we see the institutionalist emphasis on concreteness and specificity. If we say *where* something happened, we reduce the abstractness and generality of a statement by limiting its validity to that particular space.

Thus in the case of an analysis taking the Veblen distinction between industry and business as its starting point, the issue whether this is something that plays out in a social space where all those involved broadly share the same form of everyday life, are part of the same culture, or not, is an important aspect of the analysis. Those engaged in the industry aspect, may be spread over many different stages of intermediate production as part of a division of labour that extends across many different societies; whilst those manipulating, 'sabotaging' the industry process from a business point of view, may be concentrated in one society only. In many sectors today, parts and semi-finished products are manufactured transnationally, with assembly somewhere else again; or, the production of Nike, Reebok, or Adidas trainers in Asia, for companies headquartered in the West (cf. Merk, 2004).

How the shoes are designed and marketed, would reflect ideas emanating from post-industrial societies, highly sensitive to fashion items and logos; whereas their actual production takes place in societies where symbols of course also play a role, but a different one. Davies and Niemann make a typology of how labour gradually is distanced from its reproductive context. Initially, the role of the family is embedded in the peasant form of life, in which the workplace is all around the house, and not separated from other aspects of everyday life; and industrial life, in which this separation of productive and reproductive activities has been achieved, interacting with urbanisation. This would, in an international perspective, be important in an investigation of industrial migrant labour recruited from peasant societies, or on the gender effects of indebtedness, which tend to include the intensification of non-wage labour by women in the family (Davies and Niemann, 2002: 574-5). The starting point is always, the real life 'on the ground', specificity, and cultural context.