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HISTORICAL DEVELOPMENT, ORIGINS AND FEATURES OF INSTITUTIONALISM

This paper deals with the concept of institutionalism – as School of Economics, which emphasizes the importance of non-market factors (such as social institutions), their effect on the economic behavior of market relations where economic analysis is part of institutional development. (institutional economics). The historical development, origins and features of institutionalism are considered in the current article. The essence of this economic approach, its methodology, as well as its stages of development are researched in the article. The authors concluded that the Institutionalism arose on the basis of neoclassical criticism in the United States, but its roots go back to German historical and social school of the last century.

Key words: economic analysis, institutionalism, economic behavior, institutional economics, nano-economy, classical economic theory, market economy, market and non-market forces, economic growth, postindustrial society.

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ІСТОРИЧНИЙ РОЗВИТОК ОСНОВИ ТА ОСОБЛИВОСТІ ІНСТИТУЦІОНАЛІЗМУ

У статті розглядається поняття інституціоналізму – як школи економіки, що підкреслює важливість неринкових факторів (як соціальних інститутів), їх вплив на економічну поведінку суб'єктів ринкових відносин, де економічний аналіз є складовою інституційного розвитку. (інституційна економіка).

Історичний розвиток, походження й особливості інституціоналізму розглядаються в даній статті. Суть цього економічного підходу, його методологія, а також етапи розвитку досліджуються в статті. Автори дійшли висновку, що інституціоналізм виник на основі неокласичної критики в Сполучених Штатах, але його коріння сягають німецької історичної і соціальної школи минулого століття.

Ключові слова: економічна поведінка, інституційна економіка, інституціоналізм, економічний аналіз, нано-економіка, класична економічна теорія, ринкова економіка, ринкові і неринкові сили, постіндустріальне суспільство.

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ИСТОРИЧЕСКОЕ РАЗВИТИЕ ОСНОВЫ И ОСОБИНОСТИ ИНСТИТУЦИОНАЛИЗМА

В статье рассматривается понятие институционализма – как школы экономики которая подчеркивает важность нерыночных факторов (как социальных институтов), их влияние на экономическое поведение субъектов рыночных отношений, где экономический анализ является составной институционального развития. (институциональная экономика).

Историческое развитие, происхождение и особенности институционализма рассматриваются в данной статье. Суть этого экономического подхода, его методология, а также этапы развития исследуются в статье. Авторы пришли к выводу, что институционализм возник на основе неоклассической критики в Соединенных Штатах, но его корни восходят к немецкой исторической и социальной школы прошлого века.

Ключевые слова: *экономическое поведение, институциональная экономика, институционализм, экономический анализ, нано-экономика, классическая экономическая теория, рыночная экономика, рыночные и нерыночные силы, постиндустриальное общество.*

Introduction. Institutionalism in political economy emerged in the late XIX century. This ideological foundation was laid by Veblen, American economist and sociologist. The name derives from the Latin word “institution” that is very close to such word as “institutions”. These terms are often interchangeable. Their interpretation is very broad and not very clear. William Hamilton, the author of the term “institutionalism” wrote that the term “institutions” is a verbal symbol for a better description of a number of social mores. They represent the predominant and persistent way of thinking that has become a habit for groups or custom for people. The world of customs and habits that we adapt to our lives is the basis of continuous plexus and institutions. Typically, the term “institution” is defined as the manifestation of “institutions”. Thus, the “economic institutions” such as private property, money, competition, trade, and income are just a form of expression or embodiment of “institutions”, i.e. habits and customs. That is why they organize and regulate humans’ behavior. Thus economic processes in institutionalism have a psychological coloration. All institutions have the features of collective psychology. Therefore, in order to understand the nature of institutions, their evolution, it is necessary to examine the driving forces and motives that guide individuals, professional and social groups in their actions. Supporters of institutionalism not only reinforced the psychological interpretation of the economic process, but also began to construct a psychological theory of economic development.

Material and methods. Institutionalism was researched by a lot of economists, including T. Veblen, G. Commons, U Mitchell, J. Engel, D. Gyumay. M. Tuhan-Baranovsky, E. Slytsky, V. Gzeleznov.

Results and discussion. Institutionalism is “a school of economics that emphasizes the importance of nonmarket factors (as social institutions) in influencing economic behavior, economic analysis being subordinated to consideration of sociological factors, history, and institutional development” (Institutional economics).

In the formation of the philosophical foundations of institutionalism a very big role was played by American philosophers Charles Peirce, John Dewey, and Louise Loeb, founders of pragmatism. Some influence on the formation and development of institutionalism had German historical school, with its historical method, focusing on the legal rules and policies of the state. In American economic literature it is even claimed that institutionalism is purely American kind of historical school [2].

Institutionalism was called American direction of historical school by a world-recognized author in the field of history of economic thought, Japanese economist Takashi Negishi. However, they cannot be identified. They were formed under different historical conditions and reflect different historical realities.

Institutionalism emerged and became popular in the U.S. in terms of the early period of imperialism. It was a kind of opposition of small and middle bourgeois classes and their ideologists to monopoly capitalism, which is manifested in a critical approach to the realities of capitalism and in attempts to its reformation. Therefore, it can be argued that the greatest ideological affinity the supporters of institutionalisms have with British sociologists and economists. The latter support bourgeois reformism, including John Hobson, who, in the opinion of most American supporters of institutionalism, attempted to theoretically justify a reformist program.

Institutionalism in its development passed several stages.

The first stage is the emergence and spread of institutionalism (first quarter of the twentieth century). It is an early period of so-called critical institutionalism, represented by the works of American researchers T. Veblen, J. Commons, V. Mitchell and British economist J. Hobson [4].

The second stage is the 30-50 -ies of the XX century. It is the period of late institutionalism, which proposed reforms of the market economy to overcome the crisis of the 30-ies, investigated the role of imperfect competition and market power of monopolies. The most prominent institutional theorists of this period were Americans A. Berli, H. Minz, J. Clark, S. Cheyz, Austrian J. Schumpeter, French F. Perru.

The third stage is the socio-institutional direction of the 60-80-ies of the twentieth century or neoinstitutionalism, best known representatives of which were American theorists John Kenneth Galbraith, Walt Rostow, Ronald Coase, Swedish researcher Gunnar Myrdal and some other modern economists.

Early institutionalism has three areas of American institutionalism:

- Social and psychological direction of T. Veblen;
- Socio-legal direction of J. Commons;
- Empirical or statistical and environmental direction of V. Mitchell.

Institutionalism has no general theoretical framework. Economists, who belong to this trend, significantly differ in terms of theoretical principles and researched problems. Some economists try to find connection of economic processes with psychology, biology, anthropology, while others – with law, conditions, or mathematical calculations. Supporters of institutionalism are combined by methodology and critical attitude towards the orthodox classical and neoclassical theory. This criticism was directed primarily against social philosophical and methodological foundations of neoclassical economics.

Contrary to historical, abstract theoretical concepts of neoclassical economics, supporters of institutionalisms resort to historical and descriptive statistical methods. The historical method made it possible to investigate economic phenomena in their historical development, dynamics, thus proclaiming the idea of the evolution of the capitalist economy. Descriptive statistical methods identified practical and pragmatic orientation of institutionalism [1,8].

In contrast to the psychological school of marginal utility, supporters of institutionalism recognize that the driver of economic development is collective psychology, society, and not individual entities – “Robinson Crusoe”. Supporters of institutionalism criticized the neoclassical concept of a competitive economy with its basic idea of market equilibrium, as well as they rejected the postulate of the “harmony of interests”.

According to neoclassicism market is a universal, highly effective mechanism for the distribution of economic resources and, therefore, an important factor for the efficient functioning of the economy in general. Supporters of institutionalism opposed the statement; they consider market as a social institution that is undergoing profound changes with the development of society [5]. Supporters of institutionalism recognized the limitations of the market mechanism and regulation of the economy and favored the implementation of public control over it.

The term “institutionalism” is one of the meanings of the term “institution”. Institution is considered as a part of the primary driving force in the economy and society. Institutions include various categories and phenomena (such as state, family, business, monopolies, private property, trade unions, religion, etc.) that reflect customs, habits, ethics, legal decisions, social psychology, and most importantly evolution of the economy.

Institutionalism in a sense is an alternative to neoclassical direction of economic theory. Neoclassicists take into account Smith’s idea about perfection of the economic mechanism of market economy. Supporters of institutionalism believe that driving forces of the economy, along with material factors include the spiritual, moral, legal, and other factors that are considered in a historical context. That is why the subject of their analysis is both the economic and non-economic aspects. Additionally, the objects of research, i.e. institutions, are not divided by them into primary or secondary, and do not contradict each other [3].

They, as compared to orthodox Marxists, do not recognize the crucial role of property relations as the means of production caused by their class structure of the society. Not supporting the idea of the relations of production as the basis of the socio-economic structure, supporters of institutionalism formulated a specific approach to the study of social phenomena, the economic process.

Methodology of institutionalism included:

- 1) The widespread use of descriptive and statistical methods;
- 2) Historical-genetic method;
- 3) Category of institute as the original and fundamental (a set of formal and informal rules, legal norms, customs, traditions).

In the 1980’s and the early 1990 the crisis of institutionalism occurred, especially due to the failed conclusions of institutionalism made in the 1960-s about the inevitability of convergence of capitalism and socialism as two “equal” systems. A new generation of traditional supporters of institutionalism appeared in the 1980s, calling for a new approach to criticism of opposing theories (neoclassical and Marxist), and the estimation of institutionalism and the economic realities.

Old institutionalism accused other theories in ignoring real socio-economic structure and problems of social development. Modern traditional institutionalism is based on “self-criticism”, which is subjected to its own theory, indicating the internal crisis of the orthodox approach. Several neoclassic models appeared from usage of full rationality principle in the 80s, from the ability to predict based on theoretical models, the possibility to reach a formula of a stable and unified general equilibrium, if differences in individual preferences and in individual and group behavior are considered [6].

Supporters of institutionalism agree with Marxists that authority is important and changes of systems should be considered in economic theory; methodological collectivism should complement methodological individualism. Economics (and politics) are products of human activity and amenable to reform and, among other things, the interests of the masses, for example, the working class, must be considered in economic theory, otherwise they will be excluded or undervalued, because of the tacit or explicit support of the interests of the ruling upper class. But institutionalism is generally critical to Marxism regarding its concept of economic classes, the concept of economic transformation (in contrast to institutionalism concept open to different possibilities of Darwinian evolution), its emphasis on a revolution as opposed to reforms and a narrow interpretation of the values and the economic role of government.

Unlike their predecessors, modern supporters of institutionalism recognize the contradictions inside the institutionalism, since some of them regard their work as an adjunct to neo-classical theory; others believe that these two areas are conflicting; some supporters of institutionalism emphasize criticism, while others a positive development of the theory. Most supporters of institutionalism are developing their theory in different ways. However, similar to the traditional institutionalism economists believe that a realistic economic theory should include social change, social control, collective action, technology, the process of industrialization and the market as an institutional complex, and not as an abstract mechanism [7].

If the disadvantage of neoclassical theory is inability to take into account and explain the institutional structure of the economy, the main disadvantage of the old institutionalism is theoretical “dissolution” of individuals in institutions named “domestication” by George Hodgson. “Old” institutional theory involves processes of “cultivation”, using which formal and informal institutions and cultural environments form individual goals, objectives, values, roles or functions benefits. The position of the modern institutionalism on the matter is described by J. Hodgson and E. Skrepanti. They believe that it is inappropriate to single out subjectivity and individuality, as this would underestimate the cultural and institutional context or interpretation of the latter as the unintended consequences of individual actions. However, the other extreme does not provide a decision. If we assume that personality is determined by the social environment, then one type of reductionism is replaced by another, methodological individualism by methodological holism. Both approaches are not satisfied. The challenge is thus necessary to formulate the relationship between action and structure to maintain the structural nature of the action and the reality of choices and actions. The challenge is still not resolved.

Under the old institutionalism the subject of economic theory is the distribution of economic power. However, there is a new approach. The subject of institutional economic theory is the evolution of organization and control of the economy as a whole, not just accumulation of resources, distribution of income and the definition of

terms of aggregate growth, output, employment and prices within a given system. In regard to these problems, supporters of institutionalism tend to use a greater number of variables than the neo-classical economists. J. Hodgson and E. Skrepanti offer a preliminary determination of economic theory as science of processes and social relations, production managers, distribution, sharing of wealth and income.

If neoclassical economists not only reduce the overall economy to a market economy, but also consider all social relations as market relations, supporters of institutionalism divide the economy into the market and not market, considering both as area of institutions, exploring the interaction of markets and institutions, market and non-market forces. According to William Samuelson, supporters of institutionalism consider that the economy involves more than market and operating mechanism of distribution of factors of production; it is not a conceptual market, but the institutions and power structures that form the real market and operate in.

In general, traditional institutionalism is not yet able to offer an independent research program, although the activity of traditional supporters of institutionalism indicates an intensive search for the program in a positive manner.

Neoclassical theory analyzes the market of perfect competition. This market has never really existed. It studies the equilibrium economy, whereas in fact the equilibrium (static) is just a moment of economic dynamics, economic development. Economic dynamics involves no equilibrium economy. Without equilibrium there is not efficiency, without imbalance there is no economic growth [4,6].

Institutionalism arose on the basis of neoclassical criticism. Institutionalism originated in the United States, but its roots go back to German historical and social school of the last century. The research objects of institutionalism are: law, morality, government, customs, manners, etc. T. Veblen, founder of institutionalism criticized the negative aspects of capitalism (parasitism and waste from consumption, desire for monopoly), predicted the managerial revolution (elevation of the role of managers), increasing the role of science in the development of society. J. Commons assigned a crucial role to the legal regulation of economic relations, and W. Mitchell was behind the U.S. social security system. Mitchell contributed greatly to the connection of economic theory with statistics and mathematics; he was the first engaged in empirical economic analysis and forecasting cycles. Supporters of institutionalism have made a great contribution to the study of the market structure, its models. Moreover, they analyzed social processes in support of the policy of social partnership. This analysis has allowed developing a theory of stages of economic growth [3]. According to this theory the basis for social progress is the development of productive forces but not change in property relations, as in the doctrine of socioeconomic formations. Ultimately, three major stages in the development of human society were identified: preindustrial (agrarian), industrial and post-industrial society, in which the production is transformed into technological application of science. Postindustrial society is not formed due to a social revolution, but on the basis of self-development and transformation of capitalism. An institutional approach made possible the formulation and analysis of the global problems of humanity: raw materials, energy, poverty, the growth rate, etc. This is owing to the Club of Rome, created in 1968 by A. Peccei, and authors of the Club's reports.

Institutionalism expands the economic analysis, involving into it factors that are not taken into account by the classical economic theory. These factors include: incomplete information, uncertainty of property rights, uncertainty (expectations) and, finally, collective action in situations of collective choices that are different from

actions of individual choice. Institutional economy is sometimes called nano-economy, because it is able to notice the phenomena, which were not noticed by the earlier economic theory.

“Neoclassical economics basically assumes that the units of economic decision-making are a given, and focuses on how they interact in markets. It’s not much good at explaining the creation of these units — at explaining, in particular, why some activities are carried out by large corporations, while others aren’t” [4].

Early supporters of institutionalism reject the original principles of neoclassical economics: the existence of an independent and rational man, who is guided by the interests of maximization of usefulness, balance as the main characteristic of the economic system, free access to information in order to make rational decisions.

In the 30-40-ies of the XX century Commons and Coase criticized neoclassical theory; according to them the theory substantially complemented institutionalism and could be already perceived by the economic community. John Commons and Ronald Coase recorded some incompleteness of the prerequisites of neoclassical economic theory. In order to compensate this incompleteness they offered to consider expectations and the impact of collective action and institutions in the process of analyzing the factors of incomplete information [7].

Conclusions. “The neoclassical idea of the rational utility maximizing agent is considered inadequate and erroneous. Institutional economics doesn’t take the individual as given. Instead, individuals are shaped by institutional and cultural arrangements. The “downward causation” of institutions can influence behavior in important ways” [9].

Factor of incomplete information. As it is known, the perfect market hypothesis is that everyone has full information about all players, operating in the market. But in the real market, this hypothesis does not work. It should be replaced by the hypothesis (imperfections) of incomplete information. Some people know more than others, and they will win, while others know less, and they lose. The model of economic equilibrium based on the hypothesis of completeness does not work too. It is necessary to have the dynamic economic equilibrium for the prediction, not the static one. Moreover, this kind of balance is clearly stipulates that people begin to assess not present, but expected state of affairs.

Factor of expectation. Obviously, people make economically feasible actions based on incomplete information. Therefore, the mechanism of expectation is based on such facts that people do not have at their disposal, which can lead to panic. The economy is based primarily on expectations, rather than fixing the current state of affairs.

Factor of influencing collective actions and institutions. Under the terms of institutionalism, when considering the real economy, the principle of individual actions should be replaced by that one of collective actions, since collective actions is just a frame for individual actions. The institutional structure of a society is the framework, within which we are allowed or not allowed to do something. It can be a framework set by laws and our expectations. Finally, it may be a framework that is set by technologies.

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