

The European contribution to institutional economics: The approach of G. M. Hodgson

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Abstract

Institutional economics is the leading heterodox school in economics. The other characteristic of the school is the 'Americanness' of its trajectory. But recent years have witnessed a transformation in the traditional boundaries of institutional economics. The school has opened its doors to European thoughts, and then the European wing of institutionalism has emerged. While European institutionalism suffered from heterogeneity of its theoretical content, it nonetheless has a potential to overcome the 'isolation' problem of the American version. G.M.Hodgson, who is the leading European institutionalist, is one of the best example for examining how European institutionalism can contribute to institutional economics. The aim of this paper is to identify the potentials of European institutionalism, with particular attention to Hodgson's works.

1. Introduction

Economics, as a social science, has suffered from isolation on two fronts. The first type of isolation has been caused by developments in the social sciences itself. Modern social science has divided the domain of social inquiry along the lines of market, as an object of economics, state, as an object of political science, and society as an object of sociology. This division has been increasingly set by institutional developments in university departments.

The second isolation comes from the developments which have occurred within the boundaries of economics itself. Dominated by

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neoclassical theory, economics has experienced a very different process from the other social sciences. From the beginning, it upheld the ideal to develop its scientific standards to the level of the 'hard sciences'. The effort was so strong that economics tried to distinguish itself from the other social sciences as a special category, which defines itself by the standards of physics and which is discontent to be known as a social science.¹ Neoclassical economics, on the one hand, transferred metaphors from physics, and on the other hand, it constructed an inherently coherent paradigm of an individual which was based on the nineteenth century liberal conception. This is a self-interested agent and it is assumed that this individual with his/her optimal behaviours and with his/her given preferences would lead collectively to locate equilibria (Argyrous and Sethi, 1996: 478).

This story leads to a purification of economics from the other social sciences because with its individualistic and formal approach, neoclassicism does not just become detached from, but is also hostile to, the other social sciences. Furthermore, the domination of neoclassical theory in the discipline is so pervasive that neoclassical economists have a tendency to define economics in neoclassical terms and to equate economics with neoclassicism and thus to define being an economist with being a neoclassicist (Samuels, 1992: 1).

However, there have always been divergent voices since the beginning of economics as a science. Setting aside the heterogeneous structure of neoclassical economics itself, outsiders have continued to reject such a narrow definition for economics and they started to build their own fields of inquiry. They formed various bodies of knowledge, such as institutional economics, orthodox and unorthodox Marxian economics, radical political economics, social economics, post-Keynesian economics, neo-Ricardian economics, and so on.

Although all these heterodox schools have become unified by a common denominator, that of being a dissension movement, and have also some common characteristics, such as being 'against mechanism' (Mirowski, 1988: 5), institutional economics differs from them by some other basic qualities.

It is true that institutional economics, like other heterodox schools, has been a protest movement (Samuels, 1988: 1). However, it is not a mere protest movement or not a "...mere dissent. It is much more than that..." (Klein, 1978: 251). Suggesting an alternative economic theory is one of the fundamental claims of institutional economics. The founding members and their successors were not just 'intellectual rebels' (Dorfman, 1963: 9); they have made a vigorous effort to reconceptualize the economy, offering

¹ Mirowski (1988; 1991) discusses the relationship between economics and physics, and shows how neoclassical economics was invaded by metaphors of physics and how the trajectory of economics moved away from the social sciences.

a new and comprehensive general theory of the economy. As Ayres stated (1963: 47): “What Veblen was trying to suggest, from his earliest writings to his latest, was not only a different economics, but a different conception of the economy itself”.²

Their object of dissent at the same time implies their alternative suggestion. They reject the “conception of the market as the guiding mechanism of the economy, or, more broadly, the conception of the economy as organised and guided by the market. It simply is not true that scarce resources are allocated among alternative uses by the market. The real determination of whatever allocation occurs in any society is the organisational structure of that society – in short, its institutions” (Ayres, 1957: 26).

Comparing institutional economics with the other heterodox schools, it should be noted that the former played its role as an alternative, while the latter were just dissenters, sometimes incorporated by orthodoxy. As Özveren noted (1998: 475), first of all, institutional economics, in relation with neoclassical orthodoxy, has a persistency of dissenting. The other heterodox schools, by contrast, have appeared and disappeared over time. Secondly, institutional economics is the only long-term rival theory of orthodoxy and has never been fully incorporated into neoclassical economics. It has been successful in protecting itself from the colonizing tendencies of neoclassicism. An inevitable corollary is that neoclassical orthodoxy has to take into consideration institutional economics more seriously than the other rival schools. Moreover, the establishment of ‘new’ institutional economics shows that institutional economics has played some role in the extension of a neoclassical focus to institutions because new institutional economics “is explicitly developed within a neoclassical context, and its goal is to explain all economic institutions of capitalism by means of neoclassical tools” (Palermo, 1999: 277). It seeks to extend the range of applicability of neoclassical theory to institutions. Thirdly, although the other heterodox schools could be subsumed under the orthodoxy by being interpreted as special cases, institutional economics, by successfully providing a comprehensive general theory of economy, has not fell into such a subdisciplinary position.

In this article it is argued that the fundamental character of institutionalism, both as a philosophical basis and as a sociological reality, had been very American³ which sometimes raises difficulties in theoretical

² While the founders of institutionalism were within the broad tradition of economics, they also rejected the fundamentals of neoclassicism. According to Mirowski, neoclassical economics appropriated its mechanistic structure from the physics of the nineteenth century as noted above, and Veblen, Commons and Mitchell’s aim was to confront and disarm this structure. “They were all united against mechanism” (Mirowski, 1988: 5).

³ Here, the term “Americannes” has a tentative meaning. It just means that the intellectual roots of institutional thought had been shaped in the exceptional character of

development and in building bridges to the developments achieved by other schools. The article will proceed as follows. In the next section, the Americanness of institutionalism will be discussed. After the description of the isolated position of institutionalism within the US, the opening of its doors to Europe will be discussed by referring to the works of Hodgson who is a leading European institutionalist. In the following sections, both his criticisms of American institutionalism and his suggested contributions will be explained. The objective of this article is to identify the potentials of European institutionalism, with particular attention to Hodgson's works.

2. Institutional economics as an American phenomenon

While modern institutional economics, as a school of thought, does not have any intention to cause it to be considered as an American school of thought, it tries to develop a comprehensive and generally accepted theory of economic activity. Nonetheless there are undeniable emphases on the 'Americanness' of institutionalism. Remembering that the full title of Gruchy's monumental work (1967), in which the major institutionalists and the trajectory of institutional theory was analyzed, is *Modern Economic Thought: The American Contribution*, and again remembering the definition of the school by Gruchy (1972: 462) as: "the concept of an 'institutional school' can be used only very loosely – in the sense that the members of this school have the same philosophical orientation, the same broad cultural approach to economic studies, and the same way of viewing the American economic system", diagnosing the Americanness is not difficult. The same attention can be found in Ayres' definition of institutionalism as "a manifestation of the American spirit of impatience with tradition and dissent from commonly accepted dogma" (Coats, 1992: 403). In fact, institutional economics is essentially an American phenomenon. Therefore, it is no coincidence that "institutionalism also gratified national pride as the only school of economic thought with an uncontested American birth certificate" (Mann, 1970: 165), and it has generally been regarded as the most distinct, influential and even unique American contribution to modern economic thought (Dorfman, 1963: 8).

Before proceeding, it is helpful to clarify in which sense the term 'the Americanness of institutionalism' is being used here. It can be said that there are mainly two different meanings of the term that are complementary to each other. The first one is described by Mayhew (1987: 985) as "a fairly common view that the conscious process through which the United States was created, the very low population/land ratio, and the social conditions associated with frontier life were what gave rise to the rather special intellectual tradition of which institutionalism is one

American historical experience.

part". As Mayhew declares, this approach is based on "Ayresian institutionalist thought about the relationship of frontiers to institutional change" and "well-established American historiographic tradition" (op.cit., p. 985). According to Ayres (1968: 137), "the actual experience of the European peoples was that of a frontier community endowed with a full complement of tools and materials derived from a parent culture and then almost completely severed from the institutional power system of its parent". The answer to why Europe is the parent of industrial revolution lies in this composite character. This approach was applied by Foster to the growth of institutionalism itself in America. The answer to why institutionalism appeared in the twentieth century America, while classical economics persisted in Europe for a while, lies in the peculiar American common sense which was different from the habits of mind that allowed the acceptance of classical economics in Europe. According to Foster, this common sense was created by the frontier character of America (Mayhew, 1987: 985-986).⁴

However, it is clear that this approach has the danger of implying a historical and geographical determinism, which might be an obstacle to developing a general theory of economic activity. It might have limited all theoretical attempts within the historical periods. As noted above, the aim of the founders of institutionalism was to rehabilitate the science of economics by reconceptualizing it as a whole, not to build a theory which would be applicable just for one period of history.

The second meaning of this "uniqueness" approach is "American exceptionalism". According to Ross (1992: xiv), American social science is related with the national ideology, which claims that "America occupies an exceptional place in history, based on her republican government and economic opportunity". Although this exceptionalism was revised in the period from the end of the eighteenth –and early nineteenth- century to the twentieth century, the basic character emphasizing the uniqueness of American historical experience has remained.

It should be noted that the term 'Americanness' of institutionalism in this article is neither used in the meaning of a 'frontier' version, nor as an 'exceptionalist' version. As the main concern here is the European contribution to institutional economics, the term 'Americanness' of institutionalism is just intended to describe some factual observations. Institutional economics was both philosophically and sociologically an American product, and its character still remains such. In other words, the concern here is not to find any deterministic relationship with

⁴ No reference is given to Foster because he influenced post war neoinstitutionalism largely through on his instructive abilities. "As is now well known, Foster's forte was not his published writing but his contributions to the oral tradition in institutional thought" (Tool 1989: 328). For the influences of Foster on institutionalism, see Tool (1989).

institutionalism and the historical condition of America, but to take into account descriptively that the school still keeps its American character.

So, now, some clarification is needed as to how the term is being used here. In philosophical terms, the story is well known. There is a common consensus that the philosophical basis of institutional economics has been pragmatism, which is an original American philosophical movement. The philosophical project of pragmatism was to present an alternate to Cartesian philosophy. Two giants of institutional thought, Veblen and Commons, were directly influenced by pragmatic philosophy. Both of them owed a great debt to pragmatic philosophy. Following Mirowski's classification (1987: 1019-1020), the influences of pragmatic philosophy on institutionalism can be put in this way: "The economy is primarily a process of learning, negotiation, and coordination, and not a ratification of some pre-existent goals or end-state. Economic rationality is socially and culturally determined,... economic actors are defined by their habits, customs, and 'instincts',... there is no unique logic of choice,... laws are made by people, not nature. The appropriate epistemological unit is the institution."⁵ Pragmatic philosophy has also provided evolutionary views to the founders of institutionalism. They were impressed by the view that economics must approach its problems from the evolutionary point, but from the Darwinian evolution not from the Spencerian one.⁶ As it is well known, the former is not teleological, while the latter is. The teleological character of Spencerian evolution leads to determinism and reductionism. Society evolves and develops in a predetermined direction. But in Darwinian evolution there is no deterministic direction or purposive end to arrive. So Darwinian evolution is more contingent and dynamic than the Spencerian one.

It has been acknowledged that among the trio of founders of pragmatism, Peirce, James, and Dewey, "it is John Dewey whose work

⁵ For the influences of pragmatic thinkers and pragmatism on institutionalists, see Dyer (1986), Liebhafsky (1993), Ramstad (1986), Edgell and Tilman (1989), Kilpinen (1998).

⁶ The founders of institutionalism were aware of the distinction between Darwinian evolution and Spencerian evolution. Hofstadter (1955; 124-125) points out that: "Although profoundly influenced by Darwinism, the pragmatists soon departed sharply from prevailing evolutionary thought. Hitherto evolutionism, because of its identification with Spencer, had been blown up into a cosmology. The pragmatists turned philosophy from the construction of finished metaphysical systems to an experimental study of the uses of knowledge. Pragmatism was an application of evolutionary biology to human ideas, in the sense that it emphasized the study of ideas as instruments of organism. . . . The development and spread of pragmatism broke Spencer's monopoly on evolution, and showed that the intellectual uses of Darwinism were more complex than Spencer's followers had thought." The distinction made by pragmatism on evolutionism was also diagnosed by founders like Veblen. As Hodgson (1998a: 426) points out: "Despite the pre-eminent influence of Spencer at the time, Veblen became increasingly disenchanted with Spencerian and other forms of biological determinism and reductionism. For Veblen, the Darwinian rejection of teleology became the basis of a scientific and 'post-Darwinian' approach to economics and social science."

most directly influences contemporary American institutionalist methodology” (Bush, 1993: 60). And this influence was bound to the contemporary American institutional theory by the key figure of post-war institutionalism, Ayres. In other words, although the first generation of institutionalists were just influenced by the pragmatists, Ayres was the first institutionalist who consciously combined the Veblenian dichotomy (industrial versus pecuniary activity) with John Dewey’s instrumental theory of valuation. “This led to his fusion of the technological process with Dewey’s means-ends continuum (technological theory of value) for economic analysis, and his clear focus on economics as a dynamic problem oriented discipline struggling always to define for contemporary society the meaning of economic progress” (Klein, 1993: 17).⁷

In more concrete terms, it can be said that there is a consensus which is based on the integration of Dewey’s theory of value and Veblen’s dichotomy, and this characterizes the philosophical basis of contemporary American institutionalism (Bush, 1991; 1993).⁸ Obviously, pragmatism as a philosophical tradition, both the original version based on the works of Peirce, James and Dewey, and the neopragmatist version based on largely the works of Rorty, is an American intellectual product.

The Americanness of institutionalism is also true for the radical wing. For example, radical institutionalists who form the left wing of the school might well be related to Marx and the other Continental traditions as both a philosophical and intellectual root. But the leading radical institutionalist, Dugger, found his theory’s roots in America as well. “Even though well-versed in developments in European Marxism, we trace our intellectual roots back to Thorstein Veblen and Edward Bellamy rather than to Karl Marx and Friedrich Engels. Ours is a leftwing economics firmly rooted in the American tradition of the early abolitionists and the suffragettes, and in the later feminists, civil rights advocates, and student rebels with a cause” (Dugger, 1989: viii).

As a consequence, it should be acknowledged that the Americanness of institutionalism is not just related to its theoretical content, or historical

⁷ Ayres even insists that the term institutionalism is singularly unfortunate, so instrumentalism is a more comprehensive term (Ayres, 1968: 155-156).

⁸ As the intention here is not to discuss the relationship between institutionalism and pragmatism in detail, and as the aim is not just to give some characteristics of this relationship to clarify the Americanness of institutionalism, some polemics about the character of this relationship are not taken into consideration, like in the case of Mirowski-Bush polemic. For details of this polemic, see Mirowski (1987), Bush (1989). However, it might be pointed out here that there is an interesting parallelism between the trajectories of institutionalism and pragmatism. Both of them have a revival at the end of the twentieth century. Both in Schiappa’s words, “American pragmatism has enjoyed a renaissance in the twentieth century, especially in the past few decades” (Schiappa, 1995: 33), and in Samuels’ words, “indeed, during the last twenty-five years there has been a considerable renaissance of institutionalism, as well as of other heterodox approaches to economics” (Samuels, 1995: 570), there is an emphasis on “renaissance” in both schools.

trajectory of the school, but also it is related with the Americanness of its philosophical base.

3. Opening the doors to Europe: The end of the isolation

Tracing the trajectory of institutionalism in sociological terms from its beginning to the present shows that the school has developed and remained within the American borders till the end of the 1980's. This trajectory led the school to be isolated from Europe. While talking about how and why he became an institutionalist, the exceptional European institutionalist Myrdal (1978: 773) stated that: "Returning to the institutional economics becoming prevalent in the United States in 1930, this was an almost isolated American development. Reference was regularly made to Thorstein Veblen, Commons, and Mitchell, of whom the latter two were still living and active. I remember that I said at the time that no country can be so provincial as a very big one". Therefore, using the term "the obscurity of the institutionalist label" (Hodgson, 1988: 24) is not a coincidence in Europe. "The relative obscurity of the 'institutionalist' label has advantages in this respect, particularly in the British context. One of the mildly amusing advantages of describing oneself as an institutionalist in Britain is that your colleagues are unlikely to have much of a preconceived idea of what the label means, and a more substantive discourse may ensue. However, as always, crossing the Atlantic will bring different problems" (Hodgson, 1988: 24).

While this "obscurity" and "provinciality" of institutionalism for Europeans have been true for a long period of time, recent years have witnessed a transformation in the traditional boundaries of institutional economics. By the end of the 1980s, the European wing of institutionalism had begun to emerge. In June 1988, the European Association for Evolutionary Economics was formed. Although a number of American institutionalists supported and participated in its formation (Bush, 1991: 325), European institutionalists were not trained in the doctrines of the original American institutionalist founding members. Their intellectual antecedents were mostly European economists and thinkers such as Marx, Schumpeter, Myrdal, Karl Polanyi and Keynes. Nevertheless, attempts to build bridges between these two traditions have a bright future. Furthermore, it might be suggested that the emergence of institutional and evolutionary economists in Europe was not important just for American institutionalism, but it is also important for the science of economics itself. In the view of Samuels (1995: 576), this is "one of the most remarkable developments in the history of contemporary economic thought."

It is clear that European institutionalism has some different characteristics from American institutionalism. It should not be suggested, however, that what is called "European institutionalism" here is a rejection

or limitation of American institutionalism, or invention of a radically different body of knowledge. Beside the existing differences, their common denominator is institutional analysis and their fundamental research subject is institutions. Furthermore, European institutionalism is more heterogeneous than American institutionalism. Hodgson (1991: 6) confesses that “although leading representatives of the Veblen-Commons tradition of American institutionalism could claim paternity, and were present at the birth of this association, the founders were aware of the lack of a corresponding tradition of ‘institutionalism’ in Europe. This deficiency is both an asset and a disadvantage. Whilst the consequent lack of tradition meant an absence of consensus and self-identification, the inherent fluidity and openness encouraged both the innovation and absorption of other ideas”.

While European institutionalism suffered from heterogeneity of its antecedents, it nonetheless has the potential for overcoming the ‘isolation’ problem of the American institutionalism. And it also has the potential to make a contribution to the theoretical development of institutional economics.

4. Fresh European contribution to American Institutionalism: G. M. Hodgson

The works of G.M.Hodgson, a leading and probably the most prolific European institutionalist, are an important and contemporary example of how European institutionalism can contribute to institutional economics. His studies exhibit both the advantages and disadvantages of the integration of American institutionalism with the European wing.

As a European, Hodgson uses a slightly different language in a theoretical sense than the American institutionalists. When reviewing his book *Economics and Institutions* (Hodgson, 1988), Mayhew points out that (1989: 252-253) “Hodgson covers a lot of well-known ground, but from a perspective different from that familiar to most readers of the *Journal of Economic Issues*.” His different perspective comes from his different and wide range of intellectual antecedents. His own list shows this clearly. “The first is the Post-Keynesian, including such figures as Joan Robinson and George Shackle, and particularly the works of John Maynard Keynes himself. The second is the institutionalist school, overshadowed by Thorstein Veblen but including other more neglected figures such as Karl Polanyi. The third is the work of Marx, who, despite the efforts of Joan Robinson and others, is still vastly underrated as an economist.

There are also additional important influences, such as the Behaviouralist school, led by Herbert Simon, and an assortment of maverick figures, such as Frank Knight and Joseph Schumpeter”.

(Hodgson, 1988: xvii). By looking of this wide range of influences, it might be suggested that he is an important mediator between American and European institutionalisms.

As a European institutionalist, Hodgson tries to provide an answer to various questions such as: why, despite some exceptional and seminal contributions like the works of Hobson, Karl Polanyi, Myrdal and Kapp, institutional economics could not spread from the New World to the Old, why these names could not have successors in Europe, why American institutionalism has never opened both its theoretical and institutional borders to European views, and why the trajectories of American and European institutionalisms were so different. It is clear that all these questions point to the same problem - to the lack of bridges between these two continents.

In Hodgson's view (1998b: 128-129), there are several reasons for this difference between the European and American institutionalisms. Firstly, in the formation years of the school from the 1890s to 1920s, the number of universities in America had increased rapidly in relation to the growth of the population. This development led to an excessive demand for academics. So expanding academic space provided a suitable place for heterodoxy in the economics departments of the universities. Ross' views support this development. In her view there was a decentralized university system and cultural life in America. Therefore, both German and American economics were in *Methodenstreit* character.⁹ "In the United States, as in Germany, disruptive historical change generated a disruptive intellectual response. The desire for a counter-weight to marginal theory that would realistically register the changed industrial world bred a continuing historicist controversy in American economics" (Ross, 1992: 217-218). However, intellectual classes and orthodoxies in the rest of Europe were in very stable and dominant positions.

Secondly, the influence of Marxian social science was not so strong as in Europe. As a consequence, institutionalism has not met a serious heterodox rival in America. On the contrary, the influence of Marxism at all levels of European thinking was very strong.

Thirdly, being a new and rapidly growing country, institutional and organisational construction in America had to be taken into consideration more seriously. In its continuity and stability, Europe did not have such a problem.

Fourthly, theoretical limitations to American institutionalism was a serious obstacle to its spreading in Europe. The lack of a coherent theoretical body led American institutionalism to spend its energy in

⁹ *Methodenstreit* was the battle of methods between Austrian and the German historical school. The former had a conception of economics as a theoretical, abstract, and deductive science. Whereas the latter had a conception of economics as ethical, realistic, and inductive science. For a detailed discussion see, Milford (1995).

internal controversies. “There are big differences between the ideas and approaches of its leading figures. The heterogeneity of the school provided a fruitful and productive pluralism within the United States, but it was not a well-defined and attractively packaged item for export” (Hodgson, 1998b: 129).

5. Hodgson’s criticisms of American institutionalism

It is well known that institutional economics lost its influence in America by the end of the 1920s.¹⁰ Although there are several external reasons that might be given as an explanation of this decline, one of the most important reasons was probably the internal one related to a lack of institutionalism in theory construction.¹¹ The neglect of theoretical development is the essential criticism by Hodgson of institutional economics. According to Hodgson (1988: 22), American institutionalists focused largely on descriptive works and they almost became data-gatherers.

The problem was both methodological and epistemological. Depending solely on descriptive ‘realism’ was a major mistake because economic reality can not be understood accurately just by observation and gathering of data.¹² Moreover, the progress of science depends on a theoretical framework, and observation is not free of theory. By leaving aside theoretical development, “in some quarters institutionalism became synonymous with a naive descriptive approach, by both practitioner and critic alike” (Hodgson, 1988: 22).

Hodgson does not agree with the American institutionalists in their persistent charge that neoclassicism is ‘unrealistic’, on the ground that fully realistic scientific theory is not possible. Every science needs some assumptions. Therefore, institutionalism should develop a different line of attack on neoclassicism, and should leave aside the emphasis on empiricism.

¹⁰ Ross (1992: 414) dated the year 1927 as a turning point of institutionalism. At this symbolic date, eight eminent economists and statisticians, including the leading institutionalist Mitchell, debated the role of statistics in economics at a AEA meeting and all the participants attacked Mitchell’s position. They argued that statistics is a useful empirical tool, however, constructing a theory by using mere statistics is not possible. Therefore, a priori theory is needed to have a mature science. Mitchell was also accused of trying to restart the old *Methodenstreit*. Mitchell’s reply to these accusations has been taken as a recantation. And this was the turning point of the decline of institutionalism in America.

¹¹ Rutherford (2000: 288-289) stated some of them. Sociology became differentiated and separated from economics, instinct/habit psychology left its place to behaviourism, Keynesian economics rose and took the potential place of institutionalism, mainstream economics incorporated some of the topics of institutionalism etc. Furthermore, Rutherford points out that “by the 1930s the movement began to show signs of splintering rather than cohering” (p.300).

¹² It should be reminded that although the intention is different, Hodgson’s critique is very similar to the accusations in Mitchell’s case noted above. See footnote 10.

The other criticism of Hodgson to American institutionalism is about the failure of the generations succeeding the founders. He argues that Veblen's studies and methodology were not further developed by his disciples. Although Veblen, as a great thinker, left a rich theoretical inheritance, his successors failed to make good use of it. He focuses particularly on the work of Ayres. The position and work of Ayres is crucial because modern neoinstitutionalism, which is the domain of American institutionalism, combines itself with Veblen largely through Ayres. It is known that what is called the Veblen-Ayres domain is the orthodoxy of institutionalism in America.

Although American institutionalism refers to Ayres as the second figure or at least perceives him in reconstructive position, as noted above, he is also celebrated as the synthesizer of Dewey's theory of valuation and Veblen's dichotomy in a coherent body of knowledge. But Hodgson rejects the assumed Veblenian dichotomies which are suggested by Ayres as the central concepts of American institutionalism. He claims that (1998d: 57), although Veblen had established some dichotomies, these are not the basis of Veblen's analysis and the so-called dichotomy between technology and institutions does not exist in his studies. However, this dichotomy is the central character of Ayresian institutionalism. While technology has all the positive references and dynamic elements in Ayres, institutions are seen as completely rigid, archaic, and ceremonial.¹³ According to Hodgson (1998d: 51-53), on the one hand, technology could not be so dynamic, because it has some institutional elements. On the other hand, as in the original Veblenian view, institutions can indeed be more dynamic.¹⁴

The other criticism of Hodgson (1998d: 66) is about the post-Ayresian generation of institutionalism. The post-Ayresian approach could not have left the empiricist epistemology which was adopted from Ayres. In addition, "despite the relative sophistication of the post-Ayresian approach, some unacceptable aspects of dichotomous thinking are retained" (p. 67).

6. European contributions in the works of Hodgson

Certainly, as an institutionalist, Hodgson strongly believes that "after decades of isolation the institutionalists may be moving once again into the limelight" (Hodgson, 1992a: 135). It can be admitted that Hodgson's criticisms of American institutionalism are usually done in a

¹³ Klein (1997: 1057) has witnessed that: "In the classroom, I can never remember his (Ayres') speaking of institutions except in pejorative terms".

¹⁴ Hodgson (1998d: 62-63) claims that because the dichotomy does not exist in Veblen, the origin of Ayresian dichotomy might be Deweyan or Marxian. In his interesting words, "we can read *The Theory of Economic Progress* as an Americanized version of Marx's theory of economic development" (p.63).

reconstructive form. While he is criticizing some of the deficiencies, he also offers a new line of agenda at the same time.

The concept of evolution is one of the crucial elements on which he insists. It is well known that the official history of institutionalism begins with the famous article of Veblen “Why is Economics Not an Evolutionary Science?” published in 1898. “This paper was both a scathing attack on the state of economics...., and a call for the reconstruction of economics along modern, evolutionary lines” (Rutherford, 1998: 463). Veblen claims (1990: 56) “that economics is helplessly behind the times, and unable to handle its subject-matter in a way to entitle it to standing as a modern science”, because it falls “...short of the evolutionist’s standard of adequacy” (p.59).¹⁵

According to Hodgson (1993b: xv; 1998g: 398), successors of the old institutionalism abandoned the possible theoretical development which would have been in line with Veblen’s insistence on “evolutionary economics”. Although Veblen followed the developments in theoretical biology in his time and tried to apply these to economics, the tradition has usually neglected this methodology after Veblen (Hodgson, 1992c: 297). But this is only one side of the coin. In fact, the relationship between biology and economics has changed in both directions over time. So, the other side is that while evolutionism and making biological metaphors were very popular in the late nineteenth century, it lost its ground within the social sciences in the first half of the twentieth century (Hodgson, 1999a: 88). Furthermore, reactions against biological metaphors arose.¹⁶

Being aware of the importance of interdisciplinary studies and the importance of biological metaphors for economics, Hodgson tries to put the concept of evolution on the top of the agenda of institutionalism again. He believes that (1995: 543) “recent developments in biology and the philosophy of biology are of great relevance for economics and indeed the other social sciences. In particular they may rescue economics from its implicit atomist ontology and reductionist obsessions”. Economics has to go beyond “mechanistic metaphor” (Hodgson, 1992b: 757).

As an institutional economist he tries, on the other hand, to clarify the origins of Veblen’s evolutionary economics (Hodgson, 1998a) and trace the trajectory of the relationship between biology and economics, in particular biology and institutional economics (Hodgson, 1999a: 87-126). On the other hand, he tries to incorporate re-invented “evolutionary

¹⁵ Veblen’s insistence on the inevitability of being an evolutionary science can be found in all of his works, but especially in his basically methodological writings which are mostly collected under the title of *The Place of Science in Modern Civilization and Other Essays*; see Veblen (1990).

¹⁶ In Hodgson’s view (1998e: 64), “by the time of Marshall’s death in 1924, the dialogue between economics and biology had virtually ceased. It lived on in the United States, but only with the periodic recitation of Thorstein Veblen’s contribution by a minority of economists. Interdisciplinary work became less fashionable.”

economics” in the 1980s with institutional economics. It can be suggested that this attempt of incorporation is one of the original European contributions to American institutionalism.

In this attempt, while trying to identify evolutionary economics and trace its evolution Hodgson concentrates on Nelson and Winter’s work entitled *An Evolutionary Theory of Economic Change*. Nelson and Winter based their work on biological metaphors, and they rejected “the assumption that economic actors are rational in the sense that they optimize” (Hodgson, 1999a: 162-163). Hodgson analyzes their work in detail and reaches the conclusion that although they had not mentioned Veblen as an intellectual antecedent, their work is “Veblenian”. For Veblen is clearly the first “evolutionary economist” and he “is a unique precedent for the application of the principles of evolutionary change which Nelson and Winter themselves explicate” (Hodgson, 1999a: 169-170).

Another synthesizing attempt of Hodgson is a more methodological one. While commenting on Bush’s article, “The Methodology of Institutional Economics: A Pragmatic Instrumentalist Perspective”, where Bush attempts to place the philosophical foundations of institutionalist methodology on the refined and extended version of pragmatism by Rorty (Bush, 1993), Hodgson suggests the view that American pragmatism and philosophical realism could be combined. Hodgson states that (1993c: 109) “one of the strong links between pragmatists such as Peirce and Dewey and modern realists such as Bhaskar is their attempt to formulate a sophisticated naturalism as an alternative to Cartesian dualism”. It is clear that Hodgson offers not just a combination, but a new and European philosophical language to the institutionalists. However, he is also aware that reconciliation of a hermeneutical strain which exists in pragmatism with realism is not an easy task (1993c: 111). In the problem of the fact-value distinction, Hodgson defends modern realism against Rorty’s pragmatism choosing for himself a European philosophical root in contrast to American institutionalists. By calling Myrdal as a witness, Hodgson finds Rorty’s statement unacceptable which claims that “there is no epistemological difference between truth about what ought to be and truth about what is” (p.111). He accepts that factual propositions are contaminated with values. However, it does not mean that positive and normative statements are epistemologically equivalent.

7. Relations with neighboring schools

Hodgson insists that American institutionalism should concentrate on its own theoretical development. In order to do that, some synthesizing attempts which American institutionalism has neglected since the Second

World War are needed. In other words, institutionalism has to open its doors to the developments achieved by some neighboring schools.

As it uses the same label and as it has had considerable growth since the mid-1970s, American institutionalists try to diagnose new institutionalism.¹⁷ Therefore, Hodgson also focuses on this school and criticizes it on the basis of methodology. Hodgson diagnoses the basic methodological character of new institutionalism as methodological individualism which “takes the individual, along with his or her assumed behavioural characteristics, as the elemental building block in the theory of the social or economic system” (Hodgson, 1993a: 6). In Hodgson’s view (2000: 325) the basic characteristics of institutionalism which distinguish it from both neoclassical economics and new institutional economics is that it does not assume a given individual. Methodological individualism is the basic demarcation criterion between the “new” and the “old”. Nevertheless, he is not hostile to the “new” institutionalism; on the contrary he is searching for dialogue possibilities.

Probably inspired by transaction cost economics, Hodgson focuses on the theory of the firm and tries to develop an evolutionary theory of the firm (Hodgson, 1998f).¹⁸ He is aware that there is not any adequate theory of the firm in the old institutionalist tradition, but he believes that “there are enough methodological and theoretical indications to suggest that further work may be productive using ‘old’ institutionalist tools” (Hodgson, 1999a: 219).

He thinks that new institutionalism makes contributions to the old, firstly by taking institutions into consideration and putting them at the top of the orthodox agenda (Hodgson, 1992a: 135), and secondly by playing a role in putting the old institutionalism itself on the agenda.

Probably because he is a European institutionalist the schools and topics like new institutional economics, Marxian and Post Keynesian economics and the developments in the theory of the firm which are not on the usual agenda of the American institutionalists have strong resonances in the works of Hodgson, and as noted above, he strongly believes in the requirement of synthesis. Furthermore, he thinks that “...what is required is less a development of institutionalist theory itself but a synthesis of some of the elements of institutionalist, Marxian and post Keynesian

¹⁷ While some are more hostile to this development, such as Dugger (1990; 1995), others are hopeful for bridges to be built, such as Groenewegen, Kerstholt and Nagelkerke (1995), Rutherford (1994; 1995).

¹⁸ As it is well-known, standard neoclassical theory treats the firm as a black box. But mostly inspired by Coase’s article dated 1937, (Coase, 1993) “The Nature of the Firm”, the literature of the theory of the firm had significantly progressed by the 1970’s. According to Hodgson (1999a: 249), “a primary distinction in theoretical analyses of the firm is thus between ‘contractual’ and ‘competence’ perspectives, with ‘transaction cost’ theories as a subset of the former and ‘evolutionary’ approaches as a subset of the latter.” For the discussions around the theory of the firm, see Hodgson (1999a: 247-275), and Pitelis and Pseiridis (1999).

analysis” (Hodgson, 1988: 23-24). Although the formative institutionalists do not have so much to offer, the other synthesis area might be concerned with the problems of knowledge/lack of knowledge. The works of Marx, Keynes and Hayek should not be ignored by institutionalists (Hodgson, 1994: 67). He particularly concentrates on the relationship between Keynes himself and institutionalism (Hodgson, 1998b).¹⁹

On the other hand, he rejects the separation of aspects as ‘economic’, ‘social’, or ‘political’. Defining disciplines in their narrow boundaries is now changing in both economics and sociology and even political science (Hodgson, 1998c: 190). So institutional economics should not be afraid of being considered as an outsider of economics, or for just being a ‘sociology’. It is clear that “the contemporary Grand Canyon in academic research and departmental organization between ‘economics’ and ‘sociology’ means that many of the most interesting questions in social science have become lost in the intervening abyss” (Hodgson, 1994: 69).

It should be added that although he tries to develop a broad synthesis, as an institutionalist he believes in the necessity of institutions as a core concept. In his words, “institutions fill the key conceptual gap that we have identified in neoclassical, Austrian and Marxian theories. Institutions simultaneously constitute and are constituted by human action. Institutions are sustained by ‘subjective’ ideas in the heads of agents and are also ‘objective’ structures faced by them. The concept of an institution connects the microeconomic world of individual action, of habit and choice, with the macroeconomic sphere of seemingly detached and impersonal structures. Actor and structure are thus connected in a spiral of mutual interaction and interdependence” (Hodgson, 1999c: 144).

8. Concluding remarks

It has been argued that institutional economics, as a sociological phenomenon, has been in isolation in America for a long period of time. However, in recent years, partly due to the appearance of a European wing of institutionalism, the possibility for overcoming this problem has come on the agenda.

The purpose here has been to consider the possible European contributions to institutional economics by reviewing the work of Hodgson. European institutionalism might provide broader philosophical, sociological, and theoretical opportunities for American institutionalism in developing a much more comprehensive economic theory. Hodgson, having a different intellectual heritage, suggests that on the one hand, institutionalism has to revise and revitalize some of the original concepts

¹⁹ It should be added that in recent years the importance of Keynes is being rediscovered by American institutionalist literature. Some of the works on this topic are Atkinson and Oleson (1998), Klein (1998), Crotty (1990), Foster (1991), Keller (1983).

of its own structure, such as institution and evolution, for a contemporary scene. On the other hand, it has to try to synthesize its content with some of the other heterodox movements in order to improve its theoretical structure. As a European institutionalist, Hodgson makes a vigorous effort for this combination.

However, European institutionalism has also some problems such as the heterogeneity of its structure. This leads to a lack of both theoretical and sociological coherence. This lack of coherence makes the amalgamation of different heterodox tendencies in a unique theoretical framework problematic. Therefore, while the degree of variety and diversity of European institutionalism seem to be one of the advantages of this movement, it nonetheless leads to one of its disadvantages, which is the eclecticism problem.

The work of Hodgson has also suffered from this eclecticism. It is true that his work does not claim to construct the complete map of a coherent theory. So when attempting to synthesize American institutionalism with post - Keynesians, Marxians, Schumpeterians, he is “unashamedly eclectic” (Groenewegen, 1989: 257). Some of his synthesis attempts are very problematic. Synthesizing pragmatism with critical realism is an example.²⁰ Furthermore, as it is understood in his words, “eclecticism, whilst initially necessary, is not a solution” (Hodgson, 1991: 6).

Finally, it can be suggested that despite having some problems, his efforts point out the great potential of the European wing in revitalizing the theoretical development of institutional economics.

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²⁰ See Bhaskar (1991) for exploring the diversity between him and the pragmatist philosopher Rorty.

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Özet

Kurumsal İktisada Avrupa’dan bir katkı: G. M. Hodgson’un yaklaşımı

Kurumsal İktisat önde gelen heterodoks okullardan birisidir. Okulun diğer bir özelliği de Amerika özelinde bir seyre sahip olmasıdır. Fakat son yıllarda kurumsal İktisadın geleneksel sınırlarında bir değişimin ortaya çıkışına tanıklık edilmektedir. Okul kapılarını Avrupalı düşüncelere açmaya başlamış, bu sayede de kurumsal İktisadın Avrupa kanadı ortaya çıkmıştır. Avrupa kurumsalcılığı teorik içerik açısından heterojen bir görünüm arzetsede de, Amerikan kurumsalcılığının önemli sorunlarından birisi olan izolasyon problemini ortadan kaldırma potansiyeline sahiptir. Önde gelen Avrupalı kurumsal İktisatçı G. M. Hodgson, Avrupa kurumsalcılığının Amerikan versiyonuna olası katkılarının en iyi örneklerinden birisidir. Bu çalışmanın amacı, Hodgson’un çalışmaları özelinde Avrupa kurumsalcılığının potansiyelini araştırmaktır.