Schumpeter, Commons, and Veblen on Institutions*

By Theofanis Papageorgiou,[a] Ioannis Katselidis,[b] and Panayotis G. Michaelides[c]

Abstract. This article compares Schumpeter, Veblen, and Commons with regard to institutions setting up the paradigm of institutional evolutionary economics. Their theories are of a complex nature, and as such, it is very difficult to situate them in a clear-cut tradition. The main similarity is their opposition to the thesis that market economy is an independent and self-regulating system, in an attempt to integrate economic, sociological, and political perspectives with regard to the functioning of the system. Also, change *per se* is in contrast to the notion of equilibrium. Of course, despite the parallels, the existence of differences is undeniable.

Introduction

There is no doubt that Joseph Alois Schumpeter, John Rogers Commons, and Thorstein Bunde Veblen are probably among the greatest economists of all time and are considered among the founders of institutional and evolutionary thinking in the discipline. Unfortunately, so far, some aspects of their works remain less widely discussed or even unexplored. For instance, according to Elliot (1993), Schumpeter's analysis of capitalist development provides a Continental quasi analogue to the writings of Veblen and Commons. In fact, the parallels that can be drawn in the works of Schumpeter, Veblen, and Commons have been inadequately acknowledged with the exception

*We would like to thank the Editor-in-Chief and the three anonymous referees for their helpful comments.

[a]National Technical University of Athens, Athens, Greece.

[b]Athens University of Economics and Business, Athens, Greece.

[c]Contact author: Laboratory of Theoretical and Applied Economics, School of Applied Mathematics and Physics, National Technical University of Athens, Athens, Greece; Heroon Polytechneiou 9, 157.80, Zografou Campus, Tel: 302107721624; fax: +302107721618, email: pmichael@central.ntua.gr.

American Journal of Economics and Sociology, Vol. 72, No. 5 (November, 2013).
DOI: 10.1111/ajes.12042
© 2013 American Journal of Economics and Sociology, Inc.

of a few important contributions such as O'Donnell (1973), Zingler (1974), Cramer and Leathers (1977), Broda (1998), Ferrarotti (1999), McFarling (2000), and Gurkan (2005).

In this context, a principal similarity that all three of them share in common is that their work does not focus on the market economy as an independent and self-correcting mechanism; their writings rather opted for the integration of economic, sociological, and political perspectives with regard to the functioning of the economic system. Given the presence of central elements of their views in institutional and evolutionary thinking, it is surprising that so little attention has been paid to their theoretical interaction.

This article aims at bridging this gap in the literature, comparing Schumpeter, Veblen, and Commons with regard to institutions. In this context, the connections between the three great theoreticians are sometimes primarily *substantive* and sometimes primarily *methodological* in nature. The theories of Veblen, Commons, and Schumpeter are of a rather complex nature, and as such, it is very difficult to situate them in a clear-cut intellectual tradition. For instance, the theoretical threads that tie evolutionary and institutional thinking with Marxism are also of great interest.[1]

Defining Institutions

Veblen and Commons

Commons defined an institution as "collective action in control, liberation and expansion of individual action. Collective action ranges all the way from unorganized custom to the many organized going concerns, such as the family, the corporation, the trade association, the trade union, the reserve system, the state" (Commons 1931: 649). Collective action functions through "working rules," which are in turn formed through statute law, decision of courts and administrative bodies, customs, and the less formal behavior of going concerns. Commons asserted that economic analysis has to do with the "activity"; thus he emphasized the role of the "transactions" in the economic interaction and the function of going concerns. The transaction "was defined as the rights of future ownership of things acquired and

alienated through collective social working rules" (Zingler 1974: 334). In the same context, "conflict, dependence and order become the field of institutional economics, built upon the principles of scarcity, efficiency and futurity . . . but correlated under the modern notions of working rules of collective action controlling, liberating and expanding individual action" (Commons 1931: 656).

Commons made the concept of transaction the central unit of economic analysis, since this concept includes all the three abovementioned challenges (Commons 1934a). The transaction is a relationship between economic actors and does not refer to "exchange," that is, a physical transfer, but to a legal transfer of ownership. The institutional framework within which transactions occur is characterized by the so-called working rules, including customary rules as well as the common and statute law (Commons 1924, 1934a). As Commons stated:

> The term "working rules" is appropriate to indicate the universal principle of cause, effect or purpose, common to all collective action. Working rules are continually changing in the history of an institution, and they differ for different institutions; but, whatever their differences, they have this similarity that they indicate what individuals can, must or may, do or not do, enforced by collective sanctions. (Commons 1931: 650)

Veblen identifies institutions in his *Theory of Leisure Class* as follows:

> Products of the past process, are adapted to the past circumstances, and therefore never in full accord with the requirements of the present . . . At the same time, men's present habits of thought tend to persist indefinitely, except as circumstances enforce a change. These institutions which so have been handed down, these habits of thought, points of view, mental attitudes and aptitudes, or what not, are therefore a conservative factor. (Veblen [1919] 1990: 239–240)[2]

Also, institutions are seen as: principles of action that underlie the current "business-like scheme of economic life," and as such, they are not to be called in question without questioning the existing order. Alternatively, they take the form of "settled habits of thought common to the generality of men" (Veblen [1919] 1990: 239).

In Veblen's approach several interesting characteristics of institutions may be traced: first, they are part of the social milieu and thus their underlying framework is much wider than mere economic and social. The capitalist civilization is a key notion to understanding the

way in which institutions work and evolution takes place. In fact, he argued that the material framework of modern civilization is the industrial system, and the directing force that animates this framework is business enterprise (Veblen 1904: 7).

Second, institutions have a causal role in the shaping of human behavior and in the evolution of capitalism given that they are part of the contradictory powers that shape instincts, behaviors, and habits of thought. This schema has a two-way causal power, meaning that it shapes and at the same time is being shaped by institutions (Veblen 1909: 629). Also, he argued that the response that goes to make up human conduct takes place under institutional norms and only under stimuli that have an institutional bearing (Veblen 1909: 629).[3]

Contracts and property are among the fundamental institutions for Commons; contracts are embedded in working rules. As far as property is concerned, Commons also treated it as a fundamental institution, "defining all the activities which individuals and the community are at liberty or required to do or not to do, with reference to the object claimed as property" (Commons 1934a: 74); "hence, ownership becomes the foundation of institutional economics" (Commons 1934a: 5).

Using a holistic methodological apparatus, Commons regarded social systems as closely connected and interrelated parts, where the meaning and significance of each part was shaped by the totality of its possible connections with other parts of the system and with the system as a whole (Biddle and Samuels 1998: 44). For instance, we may regard transactions as the parts and the going concern as the whole. Alternatively, a transaction may be "the whole (as an outcome) of which the parts (its 'causes') are the five principles of scarcity, efficiency, working rules and custom, sovereignty and futurity" (Ramstad 1986: 1084). Interaction and interrelations must be known in order to predict the effects of an institutional change (Ramstad 1987). Also, collective action involving conflict of interest and dependence on each other constitutes the second power that determines institutional change. The principles that are different for each institution and are changing in the history of every institution are the ones that shape institutional change.[4] "Collective human will" certainly determines institutional change but at the same time is influenced by the institutional context.

Commons contended that the evolution of the economic system and institutions is a process of purposeful, "artificial selection." Institutional change is the result of the interaction between individual actions and particular organizations. Individuals "meet each other, not as physiological bodies moved by glands, nor as 'globules of desire' moved by pain and pleasure similar to the forces of physical and animal nature, but as prepared more or less by habit, induced by the pressure of custom to engage in those highly artificial transactions created by the collective human will" (Commons 1934a: 74).[5] Commons, by rejecting the psychological background of neoclassicism, asserted that institutional change occurs as a result of individuals' decisions, actions, and attempts to overcome their problems, which are associated with the (institutional) situation of each individual in society (Rutherford 1983).

Collective human will and collective action have a logic that may be seen as the common well-being. Two critiques may be constructed on this issue: on the one hand, it infuses a teleological aspect when conceiving institutional change as a change towards a better end, with an inert logic that solves existing problems, based on a common welfare; thus institutional change in Commons has teleological aspects, constituting, in fact, a differential dimension compared to the work of Veblen. On the other hand, society is a homogeneous but unclear totality; collective action is a unity implying that social classes and the interaction between them simply do not exist. The well-being and welfare of the society is common to every one of the members, imposing a vague universality to these abstracted notions; in Commons's words "collective action is inclusive" (1950: 21) and "a universal principle" (1934a: 72).

In contrast to Commons, the role of institutions in social change is highlighted when turning to the concept of selection, where Veblen famously promoted the idea that in social evolution there was a "natural selection of institutions." In his own words: "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" (Veblen [1899] 1994: 188). In this context, he believed that the progress that has been in human institutions and in human character may be set down, broadly, to a natural selection of the fittest habits of thought and to a

process of enforced adaptation of individuals to an environment that has progressively changed with the growth of community and with the changing institutions (Veblen [1899] 1994).

On the other hand, technological change linked with institutional change in the Veblenian system imposes a process of habituation and thus adaptation. Habituation does not take place in an established norm; habituation is unique for every historical period and thus a major difference with Commons arises. Even though both were influenced by historicism they came to different conclusions. Rutherford (1998: 463) stated: "at base, his theory was one of new technology changing economic conditions, and new economic conditions leading to new ways of thinking and to new institutions through a (non-intentional) process of' habituation."

Veblen held that property has a special role as an institution; it is a prerequisite for economic change and institutional change being in itself an institution. In Veblen's work, property is a by-product of technological change. Albeit, adaptation is not a straightforward process; institutions have a unique method of adaptation to technical change. Veblen defines technology as "a joint stock of knowledge derived from past experience, and is held and passes on as an invisible possession of the community at large" (Veblen [1921] 2001: 28). Technological advance according to Veblen ([1914] 1990: 103) is an affair of the community, not a creative achievement of individuals and proceeds on past technical experiences, and any new technical possibility is the result of "a series of great inventions" (Basalla 1988: 26; Gurkan 2005: 8). As will be discussed below, there are factors that resist technical change. In that sense technical change does not act in a predetermined way upon institutions.[6]

It may be argued that Commons departed from the (neo)classical notions of efficiency and scarcity to arrive in a more "social" schema where collective action and struggle play a key role. Commons's intention was to widen the scope of economics by giving "to collective action its due place in economic theory" (Commons 1934a: 8). In that sense he moved to a conception closer to Veblen. In Veblen's system the evolutionary process escapes the individual ("elimination of personality").[7] In Veblen's opinion this elimination of personality "is incident to the growing resort to an apprehension of phenomena in

terms of process than in terms of outcome as was the habit in earlier schemes of knowledge" (Veblen 1900: 158).

Veblen argued that socioeconomic evolution must be regarded as an unfolding of life (Veblen 1897: 137). According to Liagouras (2009: 4) he "was the first thinker to introduce to social sciences the idea of human history as an evolving process of change with neither predetermined end, nor a specific pattern of development." Also, regarding the evolutionary nature of capitalism, he held that an evolutionary economics should be a theory of cumulative sequence of (economic) institutions stated in terms of the process itself (Veblen 1898a: 393).

There is a profound discrepancy in the work of Commons, mainly deriving from the eternal and self-correcting character of collective human will. Collective human will exists *per se* constituting a trend of humanity; thus it is infused to human beings from their very birth: "Collective action, as well as individual action, has always been there" (Commons 1934a: 5) and it is the "expansion of the will of the individual far beyond what he can do by his own puny acts" (Commons 1950: 35). It is the expanding nature that makes it independent of individual action; but individual action depends on the collective one. Collective action does not preexist in the time span but in the construction and sequence of notions; individual action is built upon collectiveness.

But how does collective action expand individual action? Is there any place for individual interests? Commons (1924: 6) argued that cooperation "does not arise from a presupposed harmony of interests . . . It arises from the necessity of creating a new harmony of interests . . . [H]armony is not presupposition of economics—it is a consequence of collective action designed to maintain rules that shall govern the conflicts." There is a clear-cut teleological aspect on human action. Also, there is a clear influence from neoclassical economics and individualism. The main difference is the reversion of causality. The opposite direction of causality implies individualism.

Schumpeter

For Schumpeter, things are less complex. Institutions as such are introduced in his mature *Socialism, Capitalism and Democracy* where they play a key role. Institutional and noninstitutional factors

enter into complex forms of interaction (Swedberg 2002: 247). In Schumpeter's work, the capitalist civilization consists of institutions as well as of items such as "motivation," "lifestyle," "atmosphere," "rationalism," art, science and so on that are prerequisites for capitalism to exist (Swedberg 2002: 249). Institutions are responsible for the emergence of certain behaviors, so that they can partly be seen as the crystallization of individuals' behaviors (Festre and Garrouste 2008: 379). Swedberg (2002: 250) argued that for Schumpeter institutions are a necessary but not sufficient condition for a vigorous capitalism. The key should be found at the capitalist civilization "mentality," "ethos," "lifestyle," "economic ethic," whereas institutions are ineffective in the absence of entrepreneurial motivation.

Schumpeter in his *Theory of Economic Development* stated that "economic sociology deals with institutions," which is contrasted to economic theory dealing with purely economic phenomena and mechanisms (Schumpeter [1934] 1983: 60–61). Institutional development is intended to achieve the synthesis of theory and history (Shionoya 2008: 7). The concept of institutions is a means of generalizing historical events, but is limited because of its historical relativity in the early works of Schumpeter (Shionoya 2008: 8). In a similar vein, Festre and Garrouste (2008: 374) argued that it is not possible to deal with economic change in Schumpeter's work without considering institutions. Although Schumpeter used to refer to himself as the "arch-enemy of Institutionalism," Festre and Garrouste (2008: 372) held that the connection between conflicting ends and Schumpeter's contribution to economic sociology favors an "institutionalist" interpretation of Schumpeter's theory of economic evolution, in which conflicts between self-interest and class-interest play an important role.

Schumpeter argued that the most fundamental institutions—which are property and contract—are now getting weaker in capitalist strata, along with the "recent" emergence of the third key institution "the big enterprise." Schumpeter asserted that property is hollowed out: shareholders and managers have substituted the traditional owner of the business and the latter has disappeared. "The big enterprise" is transformed to the engine of capitalist development and social transformation takes the entrepreneurs' place. In the meantime, the big enterprise "constitutes the avant-garde in ushering socialism"

(Swedberg 2002: 247). Economic change and institutional change take place through the "routinazation" of innovation, which imposes the institution of big enterprise; thus Schumpeter moves to a thesis closer to institutionalism. The argument implies a clear-cut adaptation towards innovation; however, the routinization of innovation brings in itself institutional change. This nondeterministic influence of innovation on institutions and its self-transformation is an interesting similarity between Schumpeter and Veblen.

Schumpeter attributes the internal dynamic of capitalism to "a vision of the economic evolution as a distinct process generated by the economic system itself" (Schumpeter 1911: 166).[8] For Schumpeter, the idea of evolution is not only linked to economic development in isolation but to political, social and institutional changes as well: "the term evolution . . . comprises all the phenomena that make an evolutionary process non-stationary" (Schumpeter 1954: 965).

The "ultimate causes" of the evolution of social functions are economic ones; this kind of evolution of social classes is not fast and rapid changes are mainly due to the failure of upper classes to keep their social functions. Technological change and innovation may be defused to the society and influence individual's behavior in the future. According to Festre and Garrouste (2008: 380): "Economic and social evolution is co-determined by individual and collective forces."

Property dominates institutional debates of the years pushed by a historicist methodological influence on the institutional thought. For Schumpeter institutional change takes place through innovation and, as will be discussed below, drives the collapse of capitalism. Innovation is a social function and as such it presupposes society. So, common in the works of all the authors under examination is that society becomes the cornerstone on which institutions are built; in this sense, Schumpeter rejects methodological individualism in the neoclassical sense of the term.

Institutions and the Future of Capitalism

Veblen and Commons

The role of institutions and the way institutional change takes place has implications for the conception of the future of capitalism. The

substance given to collective human action and the form of institutional change are the bases on which to build an analysis of the future of capitalism. Also, intellectuals of that time were influenced by the dominant pessimism regarding the future of capitalism but also by the socialist views dictating the decline and final collapse of the capitalist era.[9]

Commons's prediction and wish was not the overthrow of capitalism, since his main concern was to "save Capitalism by making it good" (Commons 1934b: 143). He did not regard capitalism as a natural but instead as an institutional-artificial creation; thus, by changing its basic institutions, we could move towards "reasonable capitalism" (Commons 1950: 25).

Also the notion of selection and adoption is of interest. Despite the fact that his work is not incompatible with the idea that technological change can play a crucial role, it does not conclude that technology is the only, or even the principal, source of change. On the contrary, he attached great significance to the influence of expanding markets:

> It is the historical extension of markets over this broad expanse, from colonial times to the present, that has changed the character of competition, intensified its pressure, separated manufactures from agriculture, introduced the middleman, produced new alignments of social classes, and obliterated the futile lines that distinguish the jurisdiction of States. (Commons et al. 1918: 6)

Veblen in his *The Theory of Business Enterprise* took an anti-capitalistic stance concerning the future of capitalism and later in his *Imperial Germany and the Industrial Revolution* he wrote that the effectual mutilation or inhibition of the machine system would gradually push business principles to the wall; whereas with a free growth of the machine system business principles would fall into abeyance (Veblen [1904] 1975: 177).

So, the revolutionizing nature of the machine process that is capable of liberating humanity from the "imbecile institutions of the past" is highlighted.[10] Veblen argued that technical change and its associated institutional structure revolutionizes capitalism in favor of engineers and industrial workers and against the pecuniary motives of the business class. He argued: "In the modern culture, industry, industrial processes, and industrial products have progressively gained

upon humanity, until these creations of man's ingenuity have latterly come to take the dominant place in the cultural scheme" (Veblen [1919] 1990: 17). And concluded that: "Economic change is always in the last resort a change in the habits of thought. This is true even of changes in the mechanical process of industry" (Veblen 1898b: 189).

The "probabilistic" conception of socialism that Veblen adopted is heavily dependent on the nonpredetermined character of adoption, which in fact may appear also as selection driven from its unique way of habituation. The difference springs from the absence of an inherent logic to collective will and action.

Schumpeter

Schumpeter famously asked himself: "Can capitalism survive? No, I do not think it can" ([1942] 1975: 61). He argued that there were three main reasons for this. First, the role of entrepreneurs was becoming obsolete. Trained specialists were increasingly responsible for technological innovation; the latter being rationalized into a routine procedure. As this occurred, entrepreneurs were reduced to wage earners and lost their incentive to innovate. Second, the core groups that defended capitalism were weakening. Small entrepreneurs were being swallowed by big business, thereby shifting ownership toward shareholders whose investment in the system was much less direct. Capitalism is "constitutionally" unable to produce "emotional attachment to the social order"; it produces "almost universal hostility" to itself (Schumpeter [1942] 1975: 143; 145). Third, Schumpeter held that the institutional framework of capitalism was crumbling. Schumpeter illustrated this by pointing to the post–World War II policies of European governments, highlighting the "adaptive" character of institutions. According to Schumpeter, this increasing dependence on government would lead to "guided capitalism" and finally to "state capitalism," which is closely related to socialism (Schumpeter [1946] 1951: 204).

The lost heroism and romance in the economic world would transform into talents and energies of the noneconomic world: "Other than economic pursuits would attract the brains and provide the adventure" (Schumpeter [1942] 1975: 131).[11] It may be argued that

both Veblen and Schumpeter sought for a "vehicle" for the decline of capitalism and found it in technology.

Institutions and Individuals

Veblen and Commons

The relation between institutions and individual action is rather complex both in Commons and Veblen. For Commons individual action is firmly constrained by working rules and collective action. For Veblen individual action is influenced by the collective technological and institutional context. There are two basic points relevant to individual action in these intellectuals. Firstly, the ways by which individuals are affected by the collective will and the technological context, respectively. And secondly, the weight of individual interests contrasted to collective interests and their role in shaping the social context.

Both Commons and Veblen attached significance to the habits and customs that influence human life. In particular, Commons talked about "habitual assumptions," which is quite similar to Veblen's "habits of thought." On the other hand, they seem to adopt a different point of view regarding the conception of human behavior. Namely, Commons emphasized the volitional aspect based on human action, while Veblen's analysis relied upon the instinct-habit psychology framework. Furthermore, Commons regarded the individual as an "institutionalized mind" (1934a: 73; 697). Individuals have the freedom of choice and action, but, at the same time, human wills and individuals as economically principal actors are formed by institutions and customs. Hence, individual action is constrained not only by general social and cultural rules of conduct, but also by the rules of those specific organizations of which the individuals are members.

Commons, in the early stages of his work, conceived of the entrepreneur as an important factor for economic evolution and growth. Therefore, he pointed out that entrepreneurs, besides the profit incentive, are also motivated by their strong wish for creation, disregarding the difficulties and dangers of a highly uncertain and unstable environment (Kaufman 2007). The entrepreneur, always being part of the

collective social will and action, has an internal drive similar to volition. The reference to the entrepreneur does not change substantially the apparatus of a firm collective will that affects individual action; however, the conception of roles in the schema is serving as a question to the unified collective character of action.

In Veblen's work, the evolutionary process takes place not through the individual, but through the habits of thought, conventions, and institutions. Habits both endure and adapt in line with "changes in material facts." The material means of life take the form of "prevalent habits of thought, and it is as such that they enter into the process of industrial development" (Veblen 1898a: 375).

Veblen identifies three basic drives or instincts that govern human behavior: the instinct of workmanship or the impulse to work in order to "turn things to human use" closely connected to the habits of thought (Veblen 1898b: 190), the instinct of idle curiosity, referring to the propensity to understand and explain the external world through the use of imagination; and the instinct of parental bent, stressing human interest in the welfare of others (Veblen 1898b, [1906] 1919, 1914). The instinct of workmanship is the "more generic, more abiding trait of human nature," guided by this "proclivity for turning the material means of life to account" (Veblen 1898b: 190).

This process of technological change lies behind institutional change and changes in the habits of thought streaming from these basic human propensities. It may be argued that Veblen elaborates a notion of an evolutionary capitalism "driving from within." Likewise, Commons's institutional economics has also an evolutionary perspective, since working rules, which organize the economy and form individual preferences and choices, are revised unceasingly.

Veblen's approach may be classified in what is often called "impersonal and non-animistic" evolution of capitalism. According to Veblen, human evolution is impersonal. In his system the evolutionary process escapes the individual, and takes place through the habits of thought, conventions, and institutions, and this is often called the "elimination of personality" that dominated the Veblenian thought going hand in hand with his anti-teleological spirit. Furthermore, for Veblen (1898a: 390) human activity is itself the substantial fact of the process, and the desires under whose guidance the action takes place are

circumstances of temperament that determine the specific direction in which the activity will unfold in any given case. In fact, "[i]t is on individuals that the system of institutions imposes those conventional standards, ideals and cannons of conduct that make up the community's scheme of life" (Veblen 1909: 627).

Schumpeter

Even though Schumpeter's *oeuvre* could be conceived as a unity,[12] it is also argued that his works reflect internal contradictions and theoretical inconsistencies; the major shift in emphasis in his work could probably be highlighted in *Capitalism, Socialism and Democracy* where a theoretical shift towards theses closer to economic history and economic sociology is evident. There he stresses the importance of the social milieu on individual action: "we know that every individual is fashioned by the social influences in which he grows up. In this sense he is the product of the social entity or class and therefore not a free agent" (Schumpeter 1931: 286). The above bears strong resemblance to the Veblenian notion of evolution. In Schumpeter's words: "Bureau and committee work tends to replace individual action." In that way, he moves to theses closer to Veblen and his conception of capitalist change, even though it could be argued that his theoretical schema misses partly the "evolutionary" spirit.

According to Schumpeter, there is a correspondence, sometimes weak, between the economic and social functions and individuals' conflicting ends. This correspondence is effective as soon as the individuals reveal some aptitudes to perform their economic and social functions.

Institutional change embodied in economic change takes place only when individuals overcome previously existing collective routines. In the same spirit with Commons and Veblen, Schumpeter attributed individual action, at least partly, to the social context. Being closer to Veblen, he escaped teleological theorizing of a unified society with a consensus over its welfare. Individual action is the premise for an overcoming of the existing collective routines. Individuals are not firmly restricted in the collective action and may alter collective routines. As Festre and Garrouste put it (2008: 374–375) "the fact that individual

behavior is determined by a bundle of individual as well as collective ends . . . may explain the heterogeneity of observed behaviors." As will be discussed below, innovation and thus entrepreneurial action driven from "irrational" motives alters collective routines. As a result a homogeneous society is absent from the Schumpeterian framework.

Of course, a question of great interest in the work of Schumpeter is the following: "Who is the bearer of change in the capitalist process?" On the one hand, Schumpeter's innovations are introduced by entrepreneurs, moved by the "dream and will to found a private kingdom," the "joy of creating," and the "will to conquer," giving to the argument an anthropomorphic character. Schumpeter focuses on the individual as "the bearer of innovation," reflecting his adherence to "the Schumpeterian version of" methodological individualism.[13] The essence of evolution and development lies not in technical changes *per se* but in energetic human activities carrying out innovation (Shionoya 2008: 3). The motives are both social and psychological, the "will to found a private kingdom," a "dynasty" inspired by the ideal of the medieval lordship, including "from spiritual ambition down to mere snobbery," the "will to conquer," the will to prove superior to others, to succeed for the sake of success itself, and finally the intrinsic motive of getting things done, "the joy of creativity." It is the "spiritual constitution" that differentiates entrepreneurs from common people (Schumpeter 1911: 142–143, 163).

In this context Schumpeter also considered it necessary to make a sharp distinction between political and methodological individualism:

> Both concepts have nothing in common. The first refers to general statements like the freedom of people to develop themselves and to take part in well-being and to follow practical rules. The second does not include any proposition and does not involve a specific starting point. It just means that one starts from the individual in order to describe certain economic relationships. (Schumpeter 1908: 90–91)

In this sense, it is impossible to conceive social classes in a solely holistic or individualistic context: "We cannot help those who are unable to see that the individual is a *social* fact, the psychological an *objective* fact, who cannot give up toying with the empty contrasts of the individual *vs.* the social, the subjective *vs.* the objective" (Schumpeter [1927] 1951: 211). The class interest ever-present in all

members of this class thus constitutes an autonomous social determinant "originally quite independent of [their] will" (Schumpeter [1927] 1951: 143).

Conclusions

This article compared Schumpeter, Veblen, and Commons with regard to institutions. Of course, their theories are of a rather complex nature, and as such, it is very difficult to situate them in a clear-cut intellectual tradition. The main similarity that Commons, Veblen, and Schumpeter share in common is the special attention they all attributed to institutions, setting up the *paradigm* of institutional evolutionary economics. In the meantime, all three of them were opposed to the thesis that market economy is an independent and self-regulating system, in an attempt to integrate economic, sociological, and political perspectives with regard to the functioning of the economic system. Thus, the economic system is not a self-correcting mechanism. Also, change *per se* is in direct contrast to the notion of (static) equilibrium.

Schumpeter, Austrian in origin and maybe more profoundly influenced by the Austrian School, rejected the basic notion of the marginalist revolution, the notion of the general static equilibrium elaborated by Leon Walras, in favor of "development," a more unstable and evolving notion of the economic process. According to Schumpeter:

> Development is the distinct phenomenon entirely foreign to what may be observed in the circular flow or in the tendency towards equilibrium . . . It is spontaneous and discontinuous change in the channels of the flow, disturbance of equilibrium which forever alters and displaces the equilibrium previously existing. (Schumpeter [1934] 1983: 64)

On the self-correcting nature of the economy Schumpeter seems to argue *ex post* that there is not a self-correcting mechanism and thus the economic system moves towards greater bureaucratization and to "guided" capitalism. However, fluctuations should, in some way, incorporate the notion of self-correction. Schumpeter believed that the break of equilibriums was succeeded by the crediting of the entrepreneurs. Thus he argued that without credit the cycle would be small and self-correcting.

Veblen, in a similar vein, regarded capitalist development as a "cumulative causation" having "no trend," "no final term," "no consummation." In his own words, "in the Darwinian scheme of thought, the continuity sought in and imputed to the facts is a continuity of cause and effect. It is a scheme of blindly cumulative causation, in which there is no trend, no final term, no consummation" (Veblen 1907: 304). In other words, Veblen conceived of evolutionary sciences as being concerned with nonteleological processes of cumulative change and causation. Thus, he succeeded to study the competition of the units as a dynamic process and not as a stationary process (Liagouras 2009: 2).

As was the case with Veblen and Schumpeter, Commons came to question the validity of the classical and neoclassical *paradigms*. Following the tradition of the (Wisconsin) institutional economists, he adopted an adductive/empiricist approach to theorizing, namely, he first collects the data and the observations, involving himself in the facts (that is, Ely's "look and see" method), and then adduces from the facts and other grounded empirical work the major premises for theorizing, so as to draw conclusions about reality. This approach was opposed to the deductive, *a priori* method of mainstream economics.

Just like Schumpeter, Commons rejected the natural general equilibrium thesis, proposing instead an "organized equilibrium of equality" that the economy and society could reach through collective bargaining (Commons 1934b). Thus, he turned against the mainstream view of an independent and self-regulating economic system not influenced by the legal, political, and other social subsystems. In contrast, he put "an emphasis on the economy as an ongoing socio-cultural process," contending that "economic order is a product of institutional adjustment" (Whalen 1989: 452).

Despite Commons's assertion that the economy was not an automatically self-directing mechanism but a social organization, he did not believe that institutional economics replaces neoclassical theory but rather that it serves as a supplement to it (Biddle and Samuels 1998). Indeed, instead of replacing traditional theory, Commons asserted that institutional economics should focus on those factors and variables left out or taken as given in conventional economics. According to Commons, institutional change is the result of the actions

of individuals and going concerns, but these actions in turn are constrained by social and ethical norms as well as by the political and judicial institutions that influence decisively the changing process of other rules or institutions.

For Schumpeter and Veblen, technology is probably the most crucial driving force of capitalist evolution favoring a concept of habituation of institutional change. They were probably both influenced by the intellectual environment of the period, namely, the excessive financialization of the economy that set forth a vast wave of innovations throughout the global economy. The unique process of technological change is closely related to their theses on the revolutionizing nature of capitalism.

On the other hand, Commons did not attach great significance to the role of technological change as the only—or even the major—source of economic and industrial change being consistent with the notion of artificial selection that rules institutional change. On the contrary, he emphasized the influence of expanding markets. Furthermore, Commons was rather more optimistic compared to Veblen and Schumpeter, since his prediction was not the overthrow of capitalism.

Of course, despite the parallels, the differences are undeniable. Commons made the concept of transaction the basic unit of his analysis, stating that the subject of economics is "the transactions of human beings in producing, acquiring and rationing wealth by cooperation, conflict and the rules of the game" (Commons 1934a: 121). The institutional context within which transactions occur is characterized by the so-called working rules, including customs as well as the common and statute law, but also from the collective will. For Commons, collective will and action is homogeneous; unified; excluding the possibility of any divergence.

Both Commons and Veblen stressed the fact that human life is highly influenced by habits and customs. More precisely, Commons developed the idea of "habitual assumptions," which has similarities to Veblen's "habits of thought." However, they seem to reach different conclusions as regards the conception of human behavior. Namely, Commons emphasized the volitional aspect based on human action, while Veblen's analysis was based upon the instinct-habit psychology framework. Veblen's social context was not homogeneous, it consisted

of different classes and class antagonism. Finally, Schumpeter separated individuals to entrepreneurs and nonentrepreneurs; to nonrational and rational; thus, social will is not comprehensive.

In this framework, better understanding the theories delivered by Schumpeter, Commons, and Veblen could be very useful for clarifying several issues in the evolutionary and institutional approaches and between different schools or even strands of economic thought and for understanding current issues. Clearly, further and more extended research on the subject would be of great interest.

Notes

1. On Veblen and Marx there has been a long-standing controversy on the relationship between their theories. For instance, Walling (1905) emphasized the Marxian character of Veblen's thought, even though the majority of writers may seem to conclude that "Veblen was not an American Marxist" (Corey 1937: 168). On the other hand, Schumpeter too was called a "bourgeois Marx" by his famous teacher Eugene von Boehm-Bawerk, while Commons was not Marxist since he was a proponent of "representative democracy" (Commons [1913] 1964).

2. Describing institutions he favored an acknowledgment commonly called the Veblenian Dichotomy, on the one hand "instrumental" technology and on the other "ceremonial" institutions.

3. Often, institutions are considered as habits probably because of the famous phrase: "Institutions are settled habits of thought common to the generality of men" (Veblen 1909: 626). Following Coats (1954: 533) "every institutional situation is a product of everything that has proceeded it."

4. As Biddle and Samuels (1998: 292) put it: "Commons was unequivocally historicist if by historicism is meant a focus on both the reality of change and the ongoing process of becoming."

5. It is collective action that forms the very basis of each institution and determines the future of its existence (or disappearance).

6. The pivotal role of the conflict of occupational habituation as factor of institutional change is highlighted "while the technological scheme creates the economic possibilities of ownership, the discipline which it exerts upon the industrial classes who are habitually employed in it conflicts with that exerted by the institution of private property" (Harris 1934: 49).

7. Habits of thought could easily be related to an evolutionary process passing through the human being. However, according to Liagouras (2009: 6), "in the continuous impersonal process of selection, human individuals were subject to natural selection as carriers of concrete habits of thought."

8. In fact, "[t]here must be a purely economic theory of economic change which does not merely rely on external factors propelling the economic system from one equilibrium to another. It is such theory that I have tried to build" (Schumpeter [1937] 1989). See also Michaelides and Milios (2009).

9. The views concerning the future of capitalism that dominated socialistic and Marxist circles of thought built on the gradual proletarian overthrow of capitalism closely related to the theories of imperialism (for example, Hilfreding, Bucharin, Lenin). Along with the strong influence that these circles had, a pessimistic approach towards the future of capitalism dominated the intellectual atmosphere of the period, commonly referred to as "capitalism on decline."

10. "The machine technology takes no cognizance of conventionally established rules of precedence . . . Its scheme of knowledge based on the laws of material causation, not on those of immemorial custom, authenticity, or authoritative enactment" (Veblen [1904] 1975: 148).

11. However, owing to his evolutionary and dialectical nature his prediction leaves space for the opposite outcome: "capitalism produces also psychological, moral and political changes which affect habits and attitudes and these have the effect of turning the situation in a socialist direction. Other ideas and programs could perhaps prevent socialism into being—the idea of cooperative regime is one example" (Schumpeter 1931b: 386–387).

12. Of course, Schumpeter's work is often portrayed as a coherent whole with no sharp breaks between its different phases (see, among others, Swedberg 2002). Langlois (1991) has challenged whatever tendency there is in the economics literature to distinguish between an "early Schumpeter" and a "later Schumpeter."

13. Schumpeter's methodological individualism is not *the* methodological individualism of the marginalists. By this term, Schumpeter considers methodological individualism to mean "just that one starts from the individual in order to describe certain economic relationships" (Schumpeter 1908).

References

Basalla, G. (1988). *The Evolution of Technology*. Cambridge: Cambridge University Press.

Biddle, J. E., and W. J. Samuels. (1998). "John R. Commons and the Compatibility of Neoclassical and Institutional Economics." In *Economics and its Discontents: Twentieth Century Dissenting Economists*. Eds. R. P. F. Holt and S. Pressman. Aldershot and Lyme, NH: Edward Elgar.

Broda, P. (1998). "Commons Versus Veblen on the Place of the Individual in the Social Process." In *The Economic Mind in America: Essays in the History of American Economics*. Ed. Malcolm H. Rutherford, pp. 210–230. London and New York: Routledge.

Coats, A. W. (1954). "The Influence of Veblen's Methodology." *Journal of Political Economy* 62: 529–537.

Commons, J. R. ([1913] 1964). *Labor and Administration*. New York: Augustus M. Kelley.
——. (1924). *The Legal Foundations of Capitalism*. New York: Macmillan.
——. (1931). "Institutional Economics." *American Economic Review* 21(4): 648–657.
——. (1934a). *Institutional Economics: Its Place in Political Economy*. New York: Macmillan.
——. (1934b). *Myself*. Madison: University of Wisconsin Press.
——. (1950). *The Economics of Collective Action*. Madison: University of Wisconsin Press.
Commons, J. R., D. J. Saposs, H. L. Sumner, E. B. Mittleman, H. E. Hoagland, J. B. Andrews, and S. Perlman. (1918). *History of Labor in the United States*. 2 Volumes. New York: Macmillan.
Corey, L. (1937). "Veblen and Marxism." *Marxist Quarterly* 1: 62–68.
Cramer, D. L., and C. G. Leathers. (1977). "Veblen and Schumpeter on Imperialism." *History of Political Economy* 9(2): 237–255.
Elliot, J. (1993). "Schumpeter's Theory of Economic Development and Social Change: Exposition and Assessment." *International Journal of Social Economics* 12(6/7): 6–33.
Ferrarotti, F. (1999). "The Businessman as Protagonist in Veblen and Schumpeter." *International Journal of Politics, Culture and Society* 13(2): 241–248.
Festre, A., and P. Garrouste. (2008). "Rationality, Behavior, Institutional, and Economic Change in Schumpeter." *Journal of Economic Methodology* 15(4): 365–390.
Gurkan, C. (2005). "A Comparison of Veblen and Schumpeter on Technology." STPS Working Papers no. 509 [http://www.stps.metu.edu.tr/stpswp/series05/0509.pdf].
Harris, A. (1934). "Economic Evolution: Dialectical and Darwinian." *Journal of Political Economy* 42(1): 34–79.
Kaufman, B. (2007). "The Institutional Economics of John R. Commons: Complement and Substitute for Neoclassical Economic Theory." *Socio-Economic Review* 5: 3–45.
Langlois, R. (1991). "Schumpeter and the Obsolescence of the Entrepreneur." Working Paper 91–1503, Department of Economics, University of Connecticut.
Liagouras, G. (2009). "Socio-Economic Evolution and Darwinism in Thorstein Veblen: A Critical Appraisal." *Cambridge Journal of Economics* 33(6): 1047–1064.
McFarling, B. (2000). "Schumpeter's Entrepreneurs and Commons's Sovereign Authority." *Journal of Economic Issues* 34(3): 707–723.
Michaelides, P. G., and J. G. Milios. (2009). "Joseph Schumpeter and the German Historical School." *Cambridge Journal of Economics* 33(3): 495–516.

O'Donnell, L. A. (1973). "Rationalism, Capitalism, and the Entrepreneur: The Views of Veblen and Schumpeter." *History of Political Economy* 5(1): 199–214.

Ramstad, Y. (1986). "A Pragmatist's Quest for Holistic Knowledge: The Scientific Methodology of John R. Commons." *Journal of Economic Issues* 20(4): 1067–1105.

——. (1987). "Institutional Existentialism: More on Why John R. Commons Has So Few Followers." *Journal of Economic Issues* 21(2): 661–671.

Rutherford, M. (1983). "J. R. Commons' Institutional Economics." *Journal of Economic Issues* 17(3): 721–744.

——. (1998). "Veblen's Evolutionary Programme: A Promise Unfulfilled." *Cambridge Journal of Economics* 22: 463–477.

Schumpeter, J. (1908). *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*. Berlin: Duncker and Humblot.

——. (1911). *Theorie der wirtschaftlichen Entwicklung*. Leipzig: Dunker & Humbolt.

——. ([1927] 1951). "Die sozialen Klassen im ethnisch homogen Milieu." *Archiv für Sozialwissenschaft und Sozialpolitik* 57: 1–67. Translated into English as "Social Classes in an Ethnically Homogenous Environment," in J. A. Schumpeter (1951).

——. (1931). "The Present State of Economics OR On Systems, Schools and Methods." *Kokumin Keizai Zasshi—Journal of Economics and Business Administration* 50(5): 679–705, cited in: http://www.schumpeter.info/text2~1.htm (accessed on 21 May 2013).

——. (1931b). "Les possibilites actuelles du socialisme." *L'Annee politique francaise et etrangere* XXIV: 385–418.

——. ([1934] 1983). *The Theory of Economic Development*. Cambridge, MA: Harvard University Press.

——. ([1937] 1989). "Preface to the Japanese Edition of *Theorie der wirtschaftlichen Entwicklung*." In *Essays*, pp. 165–168. New Brunswick, NJ: Transaction.

——. ([1942] 1975). *Capitalism, Socialism, and Democracy*. New York: Harper and Brothers.

——. (1946). "Capitalism." In R. V. Clemence.

——. ([1949] 1951). "Economic Theory and Entrepreneurial History." In *Essays: On Entrepreneurs, Innovations, Business Cycles and the Evolution of Capitalism*. Ed. R. V. Clemence, pp. 253–271. Cambridge, MA: Harvard University.

——. (1954). *History of Economic Analysis*. New York: Oxford University Press.

Shionoya, Y. (2008). "Schumpeter and Evolution: An Ontological Exploration." In *Marshall and Schumpeter on Evolution: Economic Sociology of*

Capitalist Development. Eds. Y. Shionoya and T. Nishizawa. Cheltenham: Edward Elgar.

Swedberg, R. (2002). "The Economic Sociology of Capitalism: Weber and Schumpeter." *Journal of Classical Sociology* 2(3): 227–255.

Veblen, T. (1897). "Review of Max Lorenz, Die Marxisasche Socialdemokraae." *Journal of Political Economy* 6(1): 136–137.

——. (1898a). "Why is Economics Not an Evolutionary Science?" *Quarterly Journal of Economics* 12(3): 373–397. Reprinted in Veblen (1919).

——. (1898b). "The Instinct of Workmanship and the Irksomeness of Labor." *American Journal of Sociology* 4: 187–201. Reprinted in Veblen (1934).

——. ([1899] 1994). *The Theory of the Leisure Class: An Economic Study in the Evolution of Institutions*. New York, Macmillan.

——. (1900). "The Preconceptions of Economic Science: HI." *Quarterly Journal of Economics* 14(1,2): 240–269. Reprinted in Veblen ([1919] 1994: 148–179).

——. (1904). *The Theory of Business Enterprise*. New York, Charles Scribners. Reprinted (1975), New York, Augustus Kelley.

——. (1906). "The Socialist Economics of Karl Marx and his Followers I: The Theories of Karl Marx." *Quarterly Journal of Economics* 20(3): 578–595. Reprinted in Veblen (1919).

——. (1907). "The Socialist Economics of Karl Marx and His Followers II: The Later Marxism." *Quarterly Journal of Economics* 21(1): 299–322. Reprinted in Veblen (1919).

——. (1909). "The Limitations of Marginal Utility." *Journal of Political Economy* 17(9): 620–636.

——. (1914). *The Instinct of Workmanship, and the State of the Industrial Arts*. New York: Augustus Kelley. Reprinted (1990) with a new introduction by M. G. Murphey and a 1964 introductory note by J. Dorfman. New Brunswick, NJ: Transaction Books.

——. ([1919] 1990). *The Place of Science in Modern Civilisation and Other Essays*. New York: Huebsch. Reprinted (1990) with a new introduction by Samuels, W. J., New Brunswick, NJ: Transaction Books.

——. ([1921] 2001). *The Engineers & the Price System*. Kitchener: Batoche Book.

Walling, W. (1905). "An American Socialism." *International Socialist Review* 5: 577–578.

Whalen, C. (1989). "John R. Commons's Institutional Economics: A Re-Examination." *Journal of Economic Issues* 23(2): 443–454.

Zingler, E. (1974). "Veblen vs Commons: A Comparative Evaluation." *Kyklos* 27(3): 322–344, reproduced with original page numbers in Samuels (ed.) (1988).