

Professor John Hall  
Department of Economics  
Portland State University  
Fall Term 2009

“Institutional Economics” EC446U  
Office Hours: Tue and Thursday  
12:00 – 12:30 p.m.; 6:30-7:15 p.m.

Known, but not so widely appreciated today, Institutional Economics possessed an influential following especially from the early 1900s through World War II. The tradition remains, but it is now categorized as “heterodox.” In Europe there is a full scale revival of the Institutionalist tradition. In recent years, EAEPE (European Association for Evolutionary Political Economy) has brought together some very fine and creative economists and other social scientists, who research in the heterodox tradition. In the United States, Association for Evolutionary Economics (AFEE) and Association for Institutional Thought (AFIT) continues with research in this tradition.

Thorstein Veblen (1857-1929) stands as the guru of the American Institutionalist Tradition, though he borrowed from the German Historical School, that is from Knies and Schmoller, also from Charles Darwin, as well as the Philosopher Charles Sanders Peirce, and some others. Veblen’s students, John R. Commons, Wesley Mitchell, and Clarence Ayers, stand as three of the most prominent exponents of mid 20<sup>th</sup> century Institutional thought. Respected institutional thinker, public economist, and long time Harvard Faculty member, the late John Kenneth Galbraith, did more to successfully manage the US economy (during World War II) than anyone in American history. Richard Ely and John R. Commons, two revered American economists are credited with founding the American Economic Association, by far the most prominent association representing the Economics profession in the world today.

After World War II those trained in physics along with mathematics started to dominate the economics profession (often because of poor job prospects in the two mentioned disciplines). Mathematical prowess came to be seen as the foundation of a “rigorous” economic science. In recent decades the tendency is for Economic Science to lose its roots in Social Science and to altogether assume a minor role as a sub field of mathematics and statistics (Econometrics). Those students going on to Ph.D. programs in economics often find themselves spending one or two years studying differential and integral calculus as preparation. Their curriculums devote considerable time to learning to build and run econometric models. Their job descriptions are often limited to managing data banks, and running regressions on command, but mostly they stare at spread sheets. Opportunities for students and even for professional economists to consider larger social science questions seem to have diminished in recent years. Our goal in this course is to swim against this stream, and thus to improve our knowledge of Institutional Economics, and to prepare ourselves to make contributions to public discourse in Economics, namely addressing important social and economic questions of our time.

In this course we shall explore Institutional Economics. We shall take an historical approach, that considers contributions to ideas from influential thinkers, what builds and leads toward the creation of this a rich tradition in social thought.

We shall also consider divergent tendencies in Institutional economics, namely those contributions that seek to introduce neoclassical theory to organizational science and thereby create a new hybrid appreciated as neo-institutional economics and New Institutional Economics.

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For this course you, as the participating student, will be required to attend all lectures. Your final grade will be lowered one half letter grade for each lecture missed. There will be a mid-term, essay exam for you to write as a take home that needs to be delivered to me by 17:00 on Monday, 2 November 2009. Then you will be required to narrow down to a research topic that will be developed as an outline, written as a first draft, presented during class lecture, then revised and handed in at the time of your final exam. There may be some other assignments for you to consider and to undertake.

My advice is that you take this opportunity to make some progress with your education by embracing this highly developed tradition in social thought, and rely upon the OIE (Original Institutional Economics) tradition to improve your own skills at developing ideas and presenting them verbally as class lectures and as a research papers.

**Your final grade** for this course is derived, based upon my evaluation of your book review (10 pages), and a research paper written and handed in as first and second drafts (10 pages each draft). Attendance, quality of classroom participation, as well as your ability to work within time requirements are likewise taken into consideration.

### **Lecture Topics and Readings:**

During the first five weeks of this course, you need to read *Veblen in Plain English*, by Ken McCormick, Youngtown, N.Y.: Cambria Press, 2006; as well as *The Theory of Business Enterprise*, by Thorstein Veblen (1904). These two books shall serve as the core of this course in Institutional Economics, and their subject matter shall be introduced in the lectures, along with other topics. I would like to ask students to prepare presentations on selected chapter from these two books.

Week 1

Lecture 1 Topic: Orthodox Economics and Heterodox Economics:

Philosophical Foundations of OIE (Original Institutional Economics)

**Read article: Hall, J. and Whybrow, O. "Continuity and Continuous: The Chain of Ideas Linking Peirce's Synechism to Veblen's Cumulative Causation," *Journal of Economic Issues*, Vol. XLII, no. 2 (June) 2008: pp. 349-355. (link at Hall's PSU Homepage).**

Lecture 2, Who was Thorstein Veblen? A Biography. Consider his major contributions to economic thought.

Also, consider

(pdf) Hayden, Greg. 2003. Endangered Democratic Institutions and Instrumental Inquiry. *Journal of Economic Issues*. Vol. XXXVII, Issue 2 (June)

(pdf) Miller, Edith 2002. Economics in a Public Interest, *Journal of Economic Issues* Vo. 36. Issue 2.

(pdf) Neale, W.C. Institutions, *Journal of Economic Issues*

### Biographical Background about Veblen

Heilbroner, Robert “The Savage Society of Thorstein Veblen” *The Worldly Philosophers* Chapter VIII (any edition).

Blaug, Mark. (any edition) *Great Economists Before Keynes*  
see “Thorstein Bunde Veblen (1857-1929)”

### **Week Two, Lectures 1 and 2 Thoughts and Thinkers Behind Veblen:**

#### **Origins of Institutional Economics**

Early thinkers German Historical School of Wilhelm Georg Friedrich Roscher (1815-1894) and Gustav von Schmoller (1838-1917) see See Mark Blaug. 1986. *Great Economists Before Keynes*, Cambridge University Press. ( on reserve)

See Blaug on Veblen. See Robert Heilbroner’s *The Worldly Philosophers. Die Methoden Streit (The Fight over Method) )*

Carl Menger. *Investigations into the Method of the Social Sciences*

Menand, Louis. 2001. *The Metaphysical Club: A Story of Ideas in America*. New York: Farrar, Straus and Giroux. See Chapter 13, “Pragmatism”, pp. 337-375.

#### **American Pragmatism**

Charles Sanders Peirce. *The Essential Peirce*. B945 P4125 1992, Vol. I, Vol. II, also look up Peirce on the Internet, consider Peirce’s contributions “Synechism,” as well as “Abduction”

**Read: Dyer, Alan W. “Veblen on Scientific Creativity: The Influence of Charles S. Pierce,” *Journal of Economic Issues*, Vol. XX, No. 1, March 1986. (PSU Library, Electronic Reserve)**

Henry David Thoreau. *Walden*. “ see chapter On Economy” and Two “Where I Lived and What I lived For.”

John Dewey, *On Experience, Nature, and Freedom* B945 D41 B4

Darwin, Charles *The Origin of the Species*

Darwin, Charles *Autobiography*. QH31 D2 A16, 1960

Charles Darwin’s notebooks, 1836-1844.

## Week Three

### Applications of OIE

#### Myrdal on Regional Theory:

**Read article:** Hall, John and Udo Ludwig, "Gunnar Myrdal and Germany's Regional Inequality," *Journal of Economic Issues*, (June) 2009, Hall's PSU Homepage,

**Read: (pdf)** Groenewegen, John. 1997. *Institutions of Capitalism*, *Journal of Economic Issues*, Vol. 31, Issue 2 (Electronic Reserve)

## Weeks Four and Five

**Review Due 5:00 p.m. 30 October 2009, slide under my office door.**

### Thinkers Influenced by Veblen

Veblen's influence on Institutional Thought

John Roger Common (1862-1945) see Blaug for Biography  
critique of mainstream theory see:

*Institutional Economics Vol. I, Vol. II* Madison: Univer. Of Wisconsin Press, 1959. (on reserve) HB75 C7 1959, Vol. 1, Vol. 2

Wesley Clair Mitchell (1874-1948) see Blaug for Biography

*A History of Greenbacks, with Special Reference to the Economic Consequences of Their Issue, 1862-65.* (1903, 1960).

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*Business Cycles and their Causes.* Berkeley, University of California Press, 1941  
HB3711 M53 1960

Clarence Ayres. *The Theory of Economic Progress.*

Application of Institution Theory to the American Experience:

John Kenneth Galbraith. *The Affluent Society, The New Industrial State*

John Munkirs. 1985. *The Transformation of American Capitalism: From Competitive Market Structures to Centralized Private Sector Planning.*

Armonk, New York, M.E. Sharpe.

Robert William Fogel *Without Consent or Contract, the Rise and Fall of American Slavery in the United States.* Chapter 1 "Slavery in the New World" pp. 17-40.

Vatter, Harold. *The U.S. Economy in the 1950s.* HC106.5 V33

Vatter, Harold and John Walker. 1997. *The Rise of Big Government in the United States.* Armonk, New York: M.E. Sharpe

Vatter, Harold. 1990. *The Inevitability of Government Growth*

**Weeks Six, Seven, Eight:  
New Institutional Economics and Neo Institutional Economics**

Ronald Harry Coase (1910- ) see Blaug for biography

The Importance of Transactions' Costs

See pdf files from articles in *Economica* 1937, and *AER* 1992.

North, Douglas C. (1920- ) see Blaug for biography

Douglas C. North, "Institutions" *Journal of Economic Perspectives*, Vol. 5, No. 1, Winter 1991, pp. 97-112.

North, Douglas. 1990. *Institutions, Institutional Change, and Economic Performance*: Cambridge University Press.

See Chapter 12, "Institutions, Economic Theory, and Economic Performance" pp. 107-117.

**First draft of research paper due 5:00 p.m., 23 November 2009, slide under my office door.**

**Weeks Nine and Ten:**  
Students' Presentations

**Final Draft Due 5:00 p.m. Monday 07 December 2009. Slide under my office door.**

**Please note the House Rules:**

PSU forbids consuming of food in classrooms, please respect this rule.

As I understand PSU codes: If you disturb my class, which I interpret as my concentration during lectures, I can ask you to leave the classroom for the remainder of that class period. The use of satellite internet does not disturb me. However, the presence of cell phones, their ringing, and/or your sending or receiving SMS messages breaks my concentration and therefore disturbs the class. Please keep these points in mind.

Instead of e-mailing me or telephoning me, I would greatly prefer to meet you -- as my student -- in person and during my scheduled office hours, or by appointment. Please keep this request in mind.

Our community at PSU is faced with a pandemic of an influenza known as H1N1. We are all obliged to consider and follow the suggestions promulgated by the administration of PSU.