Institutional Economics Revisited: Discussion

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In preparation for this session I anointed myself by reading Ayres, Allport, Gruchy, Warren Samuels, a bit of Boulding and Galbraith, John R. Commons, and even the patron saint, Thorstein Veblen.

When I finished I ended at the spot I always end. It is to regret once again that economics as a field of study ever became detached from political economy. No credit is due Jevons and others who declared the economy to be reducible to a set of mathematical equations. Jevons, it may be remembered, explained that “economy, if it be a science at all, must be a mathematical science” (quoted by Gray, p. 341).

So it is that many mainstream economists, who have not advanced an inch or a centimeter in 115 years, continue to suppose either that (1) economic forces express themselves deterministically irrespective of the underlying institutional structure or, in any event, (2) the discipline of economics has nothing to contribute to institutional design.

Agricultural economists are of that genre. Apparently, a majority of them believe, with a faith that passeth all understanding, that institutions can be trusted to self-generate and to meet normative criteria in doing so, whereupon any societal concern or action constitutes useless meddling. Two years ago, in a one-page editorial in CHOICES, I pleaded with my agricultural economic counterparts to discontinue the practice of labeling a government role in the farm and food economy as “intervention.” I called the label deceptive and pointed out that “in all modern nations government is part of the social fabric.” Government even enforces contracts, I added (p. 3).

Several letters to the editor boil with indignation. T. A. Hieronymus becomes livid whenever “government goes past the protection of life, liberty, and property and intervenes in economic activity” (italics added). (See also Carol Goodloe, David S. Bullock, Ben R. Blankenship, Jr., CHOICES, Third Quarter 1991, pp. 39-40).

Why do economists avoid institutional inquiry? I claim no originality for my answer. It’s that they are scaredcats. They prefer to stay in safe territory. Before I elaborate, let me explain that as discussant I choose to say only a little about the two papers, preferring to offer a few observations of my own. I criss-cross both Paarlberg’s and Johnson’s at a couple of places.

As Paarlberg implies, all modern science, physical and social, is in the legacy of the stormy emergence of the Age of Reason as replacement for the Age of Faith. Physical scientists were the principal heroes. They fought and won the first battles. Ever since, the more timid social scientists have ridden piggyback on the more solidly accepted physical sciences. Most physical “laws” are subject to mensuration. Accordingly, social scientists feel most secure as they pretend to a matching determinism in their mathematical models, which for them are the equivalent of Linus’s blanket. Paarlberg is on solid ground when he accuses critics of institutional economics with rejecting it because it is not deterministic.

Let’s be honest. Institutional inquiry is something of a throwback to the Age of Faith, in that it incorporates immaterial considerations such as values and social goals. I will not use my scarce allotted time to remind that various articles of faith are essential to civil society, including faith in the merits of education—even of professional symposia such as this one. All this is dogma to the few of us in the institutional school; I merely put it on record.

The other side of the issue is that institutional design within the political economy is indeed a formidable undertaking. If I have any qualification for addressing the topic, it arises in the demographic datum that I attended college in the mid-years of the depression. At the Ohio State University we studied comparative economic systems more thoroughly than we did Alfred Marshall. I am the only person on this panel who had that experience. We learned about Saint-Si-
mon, Fourier, Louis Blanc, and Robert Owen. We read just enough Marx to avoid being branded either unscholarly or politically deviate. We had, too, our contingent of the English Fabians. We did not regard a nation's institutional structure as predetermined. Not in those dangerous years! Ours was in jeopardy. Some among us even wondered if Mussolini's Italy might prove to be a model for our future.

Did scholars of the time anticipate the New Deal resolution of our dilemma? Not with high accuracy.

I could quip that only economists of my vintage should be trusted to offer any counsel to institutional restructuring today, either here at home or in Eastern Europe and Asia. Only we have had the depression-era tutelage.

I offer one remark about institutional patterns of thought as they may bear on countries of the former Communist bloc. A couple of years ago I had a one-time-only conversation with the distinguished Hungarian economist Csaba Csaki, who is president of the International Association of Agricultural Economists. "I have just one message for you," I told him. "You in Eastern Europe will be showered with advice from well-meaning Western economists as to how you should redesign your economies. Disregard all of it. We don't know. You will have to resolve your dilemma yourselves."

Almost all the conventional wisdom we hear in the United States about what those troubled nations should do turns on the magic word, "market." We seem to believe that if, somehow, those benighted unfortunates would only establish markets, all would soon be secure. I am reminded of my standard instruction to my students. I outline three categories of markets, those for consumer goods and services, those for factors of production, and, thirdly, those for financial instruments. Most of our professed wisdom applies to the first. Ever since the English established rules against regrating, forestalling, and ingressing, we have known the institutional guidelines for open spot markets. Eastern Europe will find those markets the easiest to stabilize.

Factor markets give us more trouble. Our land market is plagued with speculative cyclicality. It's easy to tell Eastern Europe to privatize landholding while avoiding any lapse in productivity. Doing that is obviously another matter.

But the real puzzler, for us and for them, is markets in financial instruments. John R. Commons liked to point out that making it possible to buy and sell a promise to pay, making such an instrument marketable, was the most dramatic event in the evolution of our economy. Not until the Securities Exchange Commission came into being during the 1930s did we even try to establish rules for securities trading. Anyone who thinks we have solved that problem even today should read Michael Lewis's Liar's Poker or any of several similar gory disclosures.

We are struggling to modify or redesign our markets for financial instruments. We surely cannot offer advice to peoples situated east of the Elbe. Of course the topic is institutional, full-blooded, 24-carat.

For my part, I believe a major institutional restructuring to be in the future for the United States, perhaps beginning soon. We could, for example, find ourselves redesignating our money for what it really is, namely, scrip. We thereby will avoid a further build-up of monstrous bondholder claims on the Treasury.

In Eastern lands, institutional innovation obviously is inevitable. The questions are how many lives will be lost and what the outcome will be. I doubt that the West will have a role to play other than proffering food and other material goods to ease the human cost. How can our economists have much to say, when nine out of 10 of our clan eschew interest or expertise in the institutional portion of the political economy?

References