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Institutional Economics As An Alternative Thought System

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Abstract

This study has attempted to create a framework based on the studies of the prominent representatives of institutional economics on issues such as the intellectual foundations of institutional economics as an alternative way of thinking, its contributions to economic thought, its advantages and disadvantages. In this way, it is aimed to provide a guide for researchers who will work in the field of institutional economics. Today, studies on institutional economics are continuing in two different paths that attempt to return to the intellectual foundations of the old institutional economics or continue in line with the new institutional economy. The statement that there is no one way to the truth, and that there may even be more than one truth regarding economic issues, is particularly important in understanding the way institutional economics looks at events.

Keywords: Economics, Philosophical tradition, Neo-classical economics, Institutional Economics

1. Introduction

When the historical adventure of economics is taken into consideration, it is seen that it has taken positive sciences and especially classical physics as a guide. In addition, classical and neo-classical presuppositions dominated by the belief that being a science requires the existence of generally accepted definite laws valid under all conditions and in all periods have been inclusive for almost all periods. However, the effort of economics, whose main material is human behaviors that have been in constant transformation throughout history, to determine a legal framework that will encompass all times and societies, perhaps appears as an obstacle that limits the researcher's horizon in reaching the truth. For economics in the category of social science, it should not be overlooked that the truth cannot be the only one and there will even be many paths leading to this many lines.

Santos argues that the experience of societies around the world is much broader and more diverse than what Western science and philosophical tradition know and attach importance to, and that social wealth was wasted. According to Santos, it does not seem possible to prevent this waste and make the alternatives visible within the framework of the current scientific point of view, under the existence of theses that are loudly voiced that there is no other alternative and that history is over (Fukuyama, 1992). In this framework, it is of great importance to present an alternative rationalism model to the western rationality and way of thinking that left its mark on the last two centuries (Santos, 2005, p. 231). This economic way of thinking, which tries to explain and make sense of everything from a single point of view, is nourished by classical physics. In addition, with a point of view that ignores the feasibility of different alternatives, it has presented the theories and assumptions that can explain only a part in a multi-part structure, claiming to explain the whole. It is possible to see the manifestation of the same mentality in Keynes's (2010) study on money, interest and employment. Institutional economics, which appears as an alternative to classical and neo-classical economics, has undertaken an important task in this context, although it cannot completely break with western rationalism. This alternative way of thinking, which started with

Veblen, was interrupted from time to time and continued its continuity by transforming from time to time with the dynamic that exists on its basis.

The anthropological and evolutionary-based way of thinking that started with Veblen emerges as a radical break from classical and neo-classical economics based on formalist thought that feeds on classical physics. Greenfield clarified this difference based on anthropology based on the distinction of "emic" and "ethical" approach that became popular with the studies of Marvin Harris. According to Greenfield, formalists explicitly imply that they are the masters of the concepts and categories to be applied in economic analysis and the development of economic theory. They apply the preferred model in the allocation of presumed scarce assets derived from Adam Smith and his followers to the behavior of society in all socio-cultural settings (Greenfield, 1982, pp. 485-486).

Myrdal stated that social scientists are not different from other people. In this context, he stated that while searching for the truth, the direction of the research according to the field of interest, the models and theories created, the concepts used and consequently the observations and inferences are influenced by the personality traits, the environment and the society, the traditions and even prejudices from the discipline to which they belong. However, Myrdal stated that this area remains mysterious and that almost no research has been done, and that ignoring the existence of my assumptions, which have become taboo and questioned their validity in the real world, proves this fact and that progress can only be achieved by eliminating these prejudices (Myrdal, 1973b, pp.41-42). .

In this study, it has been attempted to create a framework based on the studies of the prominent representatives of institutional economics on issues such as the intellectual foundations of institutional economics as an alternative way of thinking, its contributions to economic thought, its advantages and disadvantages. In this way, it is aimed to provide a guide for researchers who will work in the field of institutional economics.

2. Studies on Institutional Economics

Today, studies on institutional economics are continuing in two different paths that attempt to return to the intellectual foundations of the old institutional economics or continue in line with the new institutional economy. Focusing on the institutional foundations of economic development, growth and stability as well as modern production, this period's work was able to incorporate more complex economic issues into models with the effect of the developments in data collection and analysis methods.

Hodgson stated that Veblen uses his principles that the Darwinian evolution process will be advantageous in terms of continuity of species that adapt better to a continuous diversity, inheritance and changing conditions, in an economic perspective to explain the origin, growth, permanence and diversity of institutions. However, Hodgson stated that Veblen did not do this with a systematic theoretical approach and stated that after Veblen this line was completely abandoned. He stated that in recent years, with the developments in the world of science, the emergence of a Darwinian trend in sociology and economics has been witnessed again (Hodgson, 2003, p. 88-95).

Hodgson, in his assessment of productivity in industrial production based on institutional rigidity, stated that productivity is not only mechanically dependent on working hours agreed between employer and employee, but also on the motivation of the workforce, skills, organization of management and supervision. These are in a linear relationship with complex institutional structures, routines and cultural norms inherited from the past. The productivity of the economy is significantly correlated with the transfer and interpretation of information and the growth of different types of knowledge. However, uncoded information such as the routines of the firms and the habitual skills of the workforce are also effective in economic performance, but continue to exist as out-of-control factors (Hodgson, 1989, p. 83-85).

Hodgson, like many other economists, drew attention to the importance of property rights for economic development and defined the concept of property as an institution. However, he

stated that at the point of "rights", it would be insufficient to accept the control of only one source as a right. Not all economic interests are limited to the right to property, and legitimate legal rights other than property should also be respected. The negligence of the legal infrastructure that supports the property can lead to many problems in supporting property-based loans, which are important for economic development, including an understanding of the role of property. Owning something and having it legally will differ in terms of legal security, economic stability and development (Hodgson, 2015b, p. 683-684).

Regarding modern economic studies, Hodgson stated that the extraordinary intellectual discoveries of the past were ignored by the researchers, and stated that the researchers carried out their studies based on the recent literature (Hodgson, 2009, p.1209). This situation not only deprives the researcher of this enormous accumulation but also causes him to rediscover some things. Acemoğlu stated that economic growth will only occur in societies where institutions and policies that encourage innovation, reallocation, investment and education are built (Acemoğlu, 2009, p.192). This means voluntary transformation is possible.

Acemoğlu, Robinson and Verdier stated that the Anglo-Saxon economic system and institutions, which are at the forefront in the relationship between technological innovation, institutions and economic growth, tolerate and even encourage more economic inequality than its European counterpart. The main factor effective here are the innovations made by the most technologically advanced countries, contributing to the world technology frontier, while the said innovations require incentives for employees and especially entrepreneurs. This means that a society that strongly encourages innovation will have greater inequality. In a world with technological interdependencies, other countries may build their economies on this boundary, while their motivation for innovation, which creates a huge cost, will be weaker. As a result, some countries are able to build more equitable institutional structures thanks to the transfer of new technologies developed by leading countries. What determines the difference between liberal market economies and regulated market economies is the differences in being a leader or a follower (Acemoğlu, Robinson, & Verdier, 2017, pp. 1246-1248).

Acemoğlu et al., Contrary to some studies, argued that democracy increases GDP in the long run by encouraging investment, increasing education, encouraging economic reforms, improving public interest and reducing social unrest. However, the educational status and the level of development in the past and the transition period appear to be an important factor (Acemoğlu, Naidu, Restrepo, & Robinson, 2014, p.1).

Acemoğlu et al. in their analysis of the results of incentive and reallocation policies in terms of innovation and economic efficiency, stated that incumbent firms receive a large proportion of subsidies, either through their position and influence, or to encourage governments to make larger investments, increase productivity and protect employment. However, they argued that this situation would slow reallocation and even reduce economic growth by discouraging the innovation of both ongoing firms and new entrepreneurs (Acemoğlu, Akçiğit, Alp, Bloom, & Kerr, 2018, pp. 3450-3451).

Acemoğlu and Restrepo's analysis about the competition and exchange relationship between automation processes and workforce reveal the effect of technical and technological innovations on employment. Looking at the historical process, there is always the concern that machines will replace the labor force and create employment problems, but the ever-expanding new fields of work have partially invalidated this concern. However, the rapid progress in automation, robotic and artificial intelligence technologies has brought concerns that new technologies will make the workforce unnecessary. In their study, the adaptation process of automation systems, the position of qualified and unqualified workforce in this process, the technological barriers to the emergence or emergence of new business areas, the ability of the education system to respond to new requirements, and the conditions of a sustainable and stable growth were analyzed (Acemoğlu & Restrepo, 2018, p. 1525-1527).

3. Institutions and Institutional Economics

3.1. About Institutional Economics

Clark stated that institutions are considered by institutional economists as changing patterns of human behavior and are not very different from the human nature that operates in them. Therefore, a modern institutionalist will not rely on formulas that state that institutions are perfect and the problem lies in human nature. Institutions are also likely to have continuity and life processes within themselves, but differ from individual action as a set of common behaviors (Kiekhofer, et al., 1932, p. 105).

Veblen, considered the founder of institutional economic thought, stated that what is meant as an institution is the habits of thought common to the general public. However, according to Veblen, accepting institutional elements as data and unchangeable will restrict scientific inquiries in a specific and determined manner. (Veblen, 1932, p. 239-240).

While defining institutional economics, Commons mentions the ambiguity of the meaning of what is meant by the concept of institution. What is meant by the institution; sometimes it refers to the framework of laws or natural rights that individuals are obliged, sometimes it means directly the individual's own actions. In this context, Commons stated that if a common universal situation is tried to be found in all behaviors known as institutional, the institution can be defined as a joint action for the control, liberation and expansion of individual action. (Commons, 1931, pp 648-649). North defined institutions as the rules of the game in a society. Institutions are formal or informal constraints that people put on their actions, which shape the interaction between people. In this context, North has argued that institutional change is the key to understanding how societies evolved and therefore historical change (North, 2010, p. 9). According to North, institutions have been designed to create order by people throughout history and to reduce the uncertainty in the exchange process, in a continuous transformation by connecting the past to the present and the future. Along with the standard constraints of the economy, by defining the set of preferences, it constitutes the processing and production costs and the limits of the profitability and applicability of economic activity accordingly. (North, 1991, p.91).

Emphasizing the increasing role of institutions in social life and the need to accept that most of human interactions and actions are structured as open or closed rules, Hodgson stated that institutions can be defined as a system of common social rules that structure social interactions. In this context, common social interaction elements such as language, money, law, weight and measurement systems, table rules and the like can be shown as examples for institutions (Hodgson, 2006, p. 2).

Considering the definitions made regarding the concept of institution, it is seen that whether it is accepted as a common thought habit, behavior patterns or set of rules, it is the elements that are binding for the general public and determine the set of preferences of individual action. In the definitions made, it is seen that institutions, whether written or not, have an invisible power of sanction on individual action, whose roots are rooted in the past and appear as a dynamic factor in a continuous but slow transformation.

3.2. Scope of the Institutional Economics

Institutional Economics has undergone a great transformation since its inception, with many researchers of different thinking and understanding, interdisciplinary perspectives from a broad perspective. In this transformation process, while there is an effort to create an alternative to mainstream economics on the one hand, a holistic understanding that also includes it stands out. The uncertainty of the definition and scope of institutional economics clearly shows itself in this relationship.

Accompanied by these descriptions, the transformation process of institutional economic thought, taking into account the previous texts, has been evaluated in three parts as the related predictions. Starting with Veblen and II. World War, in which institutional economics had an important place in the academic and political environment, the period of stagnation after the Great

Depression, the axis shift in institutional economics and the emergence of new institutional economics, and lastly, the developments experienced today are the point and future of institutional economics.

Just like institutions, the economics of institutions is an interdisciplinary point of view, which covers a wide range in terms of scope. While the environment, climate and geography appear as important factors in the emergence of institutions, outputs such as philosophy, history, law, and sociology are the catalysts of institutional economic analysis directly or indirectly.

Institutional economics defines the economy as an institutionalized process based on the fact that the processes in the traditional field of the economy are institutional, and elements such as firms and markets are institutions, although they are ignored by the established economic theories. In this context, institutional economics will expand and change the definition and scope of economics, as the market is accepted as an institution and the economy covers a wider area than the market (Özveren, 2007, p. 17-18).

Institutional economics first appears as a concept in Walton Hamilton's presentation at the 1918 American Economic Association meeting (Hodgson, 2000, p. 317). Hamilton defines institutional economics as an approach that allows more than one route to different directions, beyond being able to look at the same object from different angles. Institutional economics; It does not mean an attack on the reality or value of other schools of economic thought, but a rejection of the claim that other systems of economic thought are economic theory alone. The real question is "what is the economic theory about" (Hamilton, 1919, p. 309). According to Hamilton, institutional economists have accepted the approach that the correct subject of economic theory is institutions, that the theory is about the process, and that it must be based on a reasonable theory of human behavior. Neo-classical economics ignored the institutional influence. In this context, awareness of the institutional situations that constitute the main source of the differences underlying the behaviors of individuals is required (Hodgson, 2000, p. 317).

Similar to Hamilton's explanations of institutional economics and his definition of scope, Atkins stated that institutional economics need not be a uniform thing, but that systems of theory should be as diverse as philosophies of life, and drew the framework that institutional economists should base their work on (Kiekhofer, et al., 1932, p.111). Group behavior, not price, should be the center of economic thought. More emphasis should be placed on the uniformity of tradition, habit and law as the way of organizing economic life. It should not be overlooked that individuals may be affected by motifs that cannot be measured quantitatively. Economic behavior is constantly changing, so the culture and time limits on which economic generalizations are to be applied must be specified. It is the task of the economist to examine the sources of conflict of interest in the current social structure as an integral factor rather than something separated from a hypothetical norm.

As in the definition of institution, Commons emphasized the uncertainty in definitions and the breadth of scope in his explanation of what institutional economics is. Sometimes "dynamic" instead of "static", "process" instead of "commodity", "activity" instead of "feeling" or "collective action" instead of "individual action", "management" instead of "balance", "control" instead of "laissez faire". Stating that institutional economics undoubtedly covers all of these concepts, but it can be said that they are metaphors or definitions, Commons stated that a science of economic behavior requires a synthesis of a system of principles integrated with analysis of cause, effect or goal similarities. (Commons, 1931, p.648). Commons has argued that the analysis of institutional sanctions on the basis of collective action aims at revealing the relationship between economics, law and ethics as a prerequisite for an economic theory. In this context, unlike Adam Smith, who isolates economics from others on the assumptions about worldly abundance and the harmony of interests, he states that institutional economics returns to David Hume, who finds the unity of these three social sciences in a conflict of interests and the principle of scarcity. (Commons, 1931, p.650).

Commons has stated that pure theory cannot be established in economics and cannot be identified with physical sciences. Because physical materials have no purpose, will, rights or interests. However, even the economist himself is a part of the purposeful scientific activity he puts forth. This is an indication that a new view cannot emerge unless forced by a crisis to choose

between conflicting interests. The pure theory of the researcher will perhaps contain the assumptions that guide his choice (Commons, 1934, p. 103). Commons stated that institutional theories are built on both equilibrium and process theories, but the view of institutional economists is directed towards managed equilibrium rather than desired or deliberate changes and automatic equilibrium. Control for this purpose is called artificial selection. This means that people's minds, through individual or collective action, control evolution according to their own ideas of conformity (Commons, 1934, p.120).

Wasserman stated that understanding the human element constructed by the institutional school can be called personality rather than human because it emphasizes the power, action power, conditions and characteristics that people and groups have for themselves in an organized society. In this context, personality is human with its institutional aspects perceived as a bundle of rights and powers. Personality designed in this way emerges as an element of varying importance, size and density. It is clear that man can use many institutions to act of his own will, and his personality will increase in the same proportion as the number of institutions he interacts with. Some institutions are more efficient than others, and over time, some will grow stronger and some will weaken. Thus, the size of the personality will improve or deteriorate depending on the institutions when different types of institutions are used (Kiekhofer, et al., 1932, p. 109).

Stating that the most distinctive sign of the institutionalist way of thinking is the emphasis on the dynamism of technology, Ayres is based on Frank Knight's claim that Veblen and his followers consider technology as a "mysterious" force that moves the economy forward. Ayres suggests that this idea came to Veblen from anthropology in its infancy (Ayres, 1960, p. 45). According to Ayres, the main lines of institutional theory are exactly "Why are some of us better than average and some of us below average?" (Ayres, 1960, p.52).

Myrdal defines institutional economists as representatives of the political economy tradition and economics as a science of ethics. In this direction, institutional economics emphasizes the necessity of gaining a perspective in economic studies on the basis of human values, despite the representatives of the orthodox economic tradition, now known as "pure experimenters" in the history of philosophy and claiming that they deal only with observable facts, similar to the situation many other social scientists have fallen into. (Myrdal, 1978, p. 778-779).

Myrdal stated that the most basic idea that holds institutional economists together is the awareness of the need to consider everything that may be important and to take into account the whole social system, depending on the economic problem underlying their work, despite the analysis carried out on the basis of a specific problem. In this context, the most important thing is the distribution of power in society, more generally, economic, social and political stratification, that is, all institutions and behaviors (Myrdal, 1978, p. 773-774).

Hodgson stated that institutional economics was built on institutions, habits, rules and their evolution, but institutional economists did not attempt to build a single general model on these fundamental arguments. At this point, he states that it is close to evolutionary biology, unlike neo-classical economics, which feeds on classical physics and tries to create a general model. In this context, he argued that the institutional approach moves from general ideas about the evolution of people, institutions and economic processes to certain ideas and theories about certain economic institutions or types of economics, that there are multiple levels and types of analysis, and that they need to be linked. According to Hodgson, habits and institutions will help establish the link between private and general (Hodgson, 1998, p. 168).

Hodgson lists the features of institutional analysis as follows (Hodgson, 1998, pp. 173-174): There is an emphasis on institutional and cultural factors not found in mainstream economic theory. It is clearly interdisciplinary in recognizing insights from politics, sociology, psychology and many other disciplines in analysis. Replacing the rational, utility-maximizing agent, individuality emphasizes both the prevalence of habit and variability. Mathematical and statistical techniques are regarded as tools rather than the essence of economic theory. Analysis begins with stylized facts and theoretical assumptions about causal mechanisms, not by constructing mathematical models. Extensive use is made of historical and comparative empirical materials on socio-economic institutions.

4. Conclusion

Considering the definitions made for drawing the framework of institutional economics, although the emphasis on different aspects draw attention, there is agreement on some points. The most prominent of these common points is undoubtedly the evolutionary-based uncertainty. Although it is emphasized that institutions reduce the uncertainties regarding the exchange between individuals or groups by determining the preference set, as seen in North's definition of the institution in the first place, almost all definitions emphasize the uncertain world of the future under a dynamic life cycle.

Another common aspect of the definitions is the lack of approaching economic issues from a narrow perspective, with the aim of creating an all-encompassing general theoretical framework. It is especially emphasized that virtual reality, which is created by isolating economics from other fields and based on static assumptions, will be insufficient to reveal the truth. It was pointed out that in order to reach the truth, it is necessary to look from a wider perspective, and at this point to establish links with other social sciences and even positive sciences. The statement that there is no one way to the truth, and that there may even be more than one truth regarding economic issues, is particularly important in understanding the way institutional economics looks at events.

Finally, another point that draws attention in the definitions is the philosophical skepticism that underlies institutional economic thought and originates from the understanding of possible evolutionary uncertainty. In this context, it is constantly emphasized that the findings to be obtained in studies on economic and social issues should be approached with caution and should not be accepted as absolute reality, and the need to be aware of the fact that in a world that is constantly changing and transforming, reality can change relatively.

These three basic features that constitute the framework of institutional economic thought, caused the extension of the researcher's boundaries of the field of study due to an interdisciplinary or multidisciplinary perspective. The blurring caused by evolutionary-based uncertainty made it difficult to draw a theoretical framework in this area. This situation is clearly seen when considering the transformation of institutional economics in the historical process.

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