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Evolutionary Economics from a Radical Perspective

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EVOLUTIONARY ECONOMICS FROM A RADICAL PERSPECTIVE

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Most of the book clarifies the main differences between institutionalism and classicism (Hamilton's term for both classical and neoclassical economics). In the first place, classicism is reductionist, concentrating on only one aspect of society, namely the psychology of consumerism -- and even that psychology is so abstract in its assumptions that it cannot be empirically tested. Institutionalism sees the whole society as a unified set of relationships and processes, so it is called holistic rather than reductionist. Secondly, classicism focuses on equilibrium with and the adjustment to equilibrium, as if there were eternal laws of equilibrium. Institutionalism focuses on the process of change of history in an evolutionary approach in the tradition of Darwin. Third, classicism explains everything based on the psychology of
individuals, as if they could be seen in isolation from society, while social laws derive from individuals. Institutionalism argues that individuals are always part of society, so one must begin with the actual institutions, which embody relationships between groups.

Hamilton’s theme is that both classicists and institutionalists do look at change, but they examine it quite differently. Classicism is Newtonian, so it examines the laws of change after an outside disturbance toward a situation of equilibrium. Institutionalists are Darwinian, so they examine the process of evolution. The process of evolution is explained by internal dynamics, as is biological evolution. That is very different from change solely due to external shocks, such as the physics of one billiard ball hitting another. Newton’s was a machine universe run by natural law. Classical and neoclassical price theory is Newtonian. The switch from the labor theory to the utility theory attempts to get away from Marx’s conclusions. The utility theory -- even in its most refined form today -- is still a mechanical calculus of pleasure and pain following the Newtonian tradition.

Hamilton clarifies the role of instincts and human nature. There were many instinct theorists in Veblen’s day who spoke of human nature
as determined by eternal instincts; and institutions are determined by human nature. According to Hamilton (p. 48) Veblen uses the word instinct in a different way. An instinct is a habit, which may be a very powerful determinant. For Veblen, however, habits change when institutions change. So human nature and instincts change and develop in an evolutionary process. Veblen makes clear that the human brain has not changed since the Neolithic period, but there have been vast changes in human thinking and behavior. Ayres emphasizes that human thought is not that of an isolated individual, but of an integral part of society, so it evolves as society evolves. When neoclassical economists assume a fixed psychology, and assume that psychology determines society, this rules out evolutionary change.

Hamilton finds that, for the classicists, social organization is fixed forever by a fixed human nature; whereas institutionalists see social organization changing amid human nature changing. These propositions in the first three quarters of the book are stated clearly and eloquently and face no controversy within institutionalism,
In the last quarter of the book, Hamilton gives a view of the inner dynamics of social evolution according to the dominant view of the institutionalism of the 1950s. This dominant view was based on the liberal paradigm of Clarence Ayres and ignored the radical heart and soul of Veblen. In what follows I contrast the liberal institutionalist view, based on the very clear and eloquent exposition of the liberal view by Hamilton, versus the radical institutionalist view of Veblen, as interpreted by many contemporary institutionalists, such as William Dugger (see Dugger and Sherman, 2000). It should be emphasized that this is not a criticism of Hamilton because his task was to explain the liberal institutionalism of the 1950s and he did a remarkable job of it (in addition to the common ground that he covered so well in the first three quarters of the book).

Hamilton shows how magic, myth, and ceremony may pose obstacles to the development of matter-of-fact technological thought. The obstacle is due to bias (with no empirical foundation) and ignorance; but there is no conflict between different group interests and no conflict between groups based on different interests. Thus, there is no resistance to new technology by the ruling vested interests.
no conflict between the vested interests and those groups fighting to bring in the new technology. Business sometimes resists new technology according to Hamilton, but it is always due to ignorance and myth, not to vested interests.

Yet Veblen has whole books devoted to the clash of vested interests of the economic institutions of the business system versus the technological needs of industry. We shall see that liberal institutionalism found ways to get around the message of these books.

Hamilton says: "In all societies there is found both magic and myth and matter-of-fact..." (p. 81). Why is this phenomenon found in ALL societies? Is it due to the eternal human nature which Hamilton has denied? Or is it found only in some societies where it is of great importance to the dominant vested interests?

Hamilton (p. 83) claims that the Theory of the Leisure Class points to ceremony as affecting the habits of eating, dressing, and so forth. This seems to say that Veblen in the analysis of the leisure class is only painting a liberal satire of manners, not a radical critique of institutions. But that interpretation is even harder to make with some of Veblen's later books, where the radical critique is more explicit. Yet Hamilton --
like all of the liberal institutionalism he so well reflects -- manages to
disparage the radical message of those books as well. He writes: "Nor
was the Theory of Business Enterprise conceived solely as a polemic
against the business man; nor was The Engineers and the Price System
written solely to eulogize the engineers... [On the contrary} surely it is
clear that Veblen is pointing out those aspects of contemporary culture
that are ceremonial in nature and those that are instrumental or
technological" (pp. 83-74) We are given only two choices: either silly
polemics and eulogies or the profound problem of ceremonial versus
instrumental thought. Thus two of Veblen's most radical attacks on the
capitalist system are seen as mere polemic and eulogy, where the more
profound message is ceremonial thinking versus matter-of-fact thinking.
No one denies that Veblen showed ceremonial thinking versus matter-
of-fact thinking. But Veblen also stressed the clashes of vested interests
against the common man and woman. These clashes are eliminated by
Hamilton and liberal institutionalism derived from the Cold War era.
The liberal institutionalist view -- that the only problem is myth and
ignorance -- leads to the policy conclusion that the obstacles to progress
can be swept away by reason and education. As an example, two
giants of institutionalism, Gunnar Myrdal and John Kenneth Galbraith, subscribed to the liberal view. Myrdal's great work on racial discrimination found a dilemma in white minds between the American dream and prejudice based on myth. He proposed education to change the psychology of white Americans.

Similarly, Galbraith complained that voters did not always vote for the public purpose and that Congress people did not always act for the public purpose. He found the reasons to lie in ignorance and myth and an inefficient budget process. So what was needed was education and an efficient budget process. The budget process has now been improved, but who would argue that Congress now acts in the public purpose?

Hamilton says that progress may be held back by custom or "idiot institutions." But he does not discuss the vested interests, who are embodied in the institutions and defend the idiot institutions. What about the conflict between the vested interests and the common people? Veblen sees idiot institutions as including business enterprise, the price system, and absentee ownership -- the obstacles are not just custom, myth and ignorance, but also vested interest.
Hamilton does say that in addition to myths and ignorance as obstacles, the "idiot institutions" are also obstacles. The point is that liberal institutionalism defines institutions as habits of thought and behavior -- which can be changed by education. Veblen's institutions are made of sterner stuff. Veblen discusses in detail the institution of absentee ownership, the institution of business enterprise, and the market and the price system. Such institutions are more than habits. Such institutions embody relationships between vested interests and other groups, enshrined in law and protected by the force of police and armies. The wealth and power of the vested interests is based on these institutions, so no amount of sweet reason and education is going to change these institutions.

Rather than analyzing the contemporary controversial business system in these terms, a much simpler example will suffice. The South before the Civil War was based on the "peculiar" institution of slavery. This "peculiar" institution gave wealth and power to the slave owners, so abolitionist educational propaganda did not move most of them. This "peculiar" institution held back industrialization in the South and
contested with Northern industry for control of the West. It required a bloody Civil War between the competing groups to end slavery.

Hamilton says that ceremony is the static element of culture while technology is the dynamic element of culture. "Both are patterns of behavior." (p. 84). Why are there static ceremonies? Where do they come from? Is a pattern of behavior just a habit? What is the role of vested interests in technological development?

The argument continues: "What makes institutions static is the fact that the ultimate test of authenticity rests on authority -- the authority of magic, religion and custom." (p. 84) But where is Veblen's insistence on the resistance of the vested interests? It is not merely custom or magic that makes institutions (such as slavery) static, but a concrete interest in wealth and power that attempts to preserve the status quo.

In reality, old customs die quickly when they are counter to the interests of the powerful, such as profit-making. For example, before the Second World War women were excluded from many jobs. But when men went away to fight, employers suddenly discovered that women could do any job and they made propaganda of Rosie the
Riviter. So it is not myth, but vested interest that is the stronger obstacle to change in Veblenian institutionalism and in reality.

Not only does custom and myth hold back industrial progress, myths and mores also determine institutions of inequality and stratification. According to Hamilton, "status positions are determined by mores... it is not subject to empirical verification.... Hence it is the rigid aspect of culture." (p. 85). It appears that mores based on mere unverified myth determine the institutionalized group relationships, such as slavery, embodied in institutions and legally enforced by armed force. But Veblen's institutionalism described how mores are formed on the basis of institutions -- mores and folkways influence institutions of inequality, but they do not solely determine them (as Hamilton himself notes earlier in the book).

Hamilton finds that ceremonial thinking, such as myth, "influences and puts a break on technological development..." (p85). But -- unlike vested interests -- these obstacles can be changed by education.

TECHNOLOGY AND PROGRESS

Although ignorance and ceremony pose some obstacles, in the long run technology has a mysterious independent growth: "It is the
nature of technology to grow and expand." (p.85) There is no mention here that technology is itself socially determined, which is a major theme of Veblen. For Veblen, social institutions may stall or reverse institutional change. Ultimately, however, in Hamilton’s view, there appears to be one-way causation from technology to economic, cultural, and institutional progress.

According to Hamilton, "Technology is the aspect of culture that the institutionalist has in mind when speaking of evolutionary economics." (p. 85). This seems to focus on technology rather than institutions, making technology a prime mover, a technological determinist interpretation that is far from Veblen. Furthermore, "Technology erodes the institutional aspect of culture." (p.87) This is certainly true as one of factors to be considered, but it sounds as if technology comes out of nowhere and is not influenced by institutions.

Hamilton makes technological change so important that it can smoothly, automatically, and quietly, erode even the basic institution of capitalist ownership to an enormous degree without noticeable resistance! Thus, Hamilton writes: "The importance of Berle and Means' study is that they demonstrate the extent to which the institution of
ownership has already been eroded." (p. 88). The study by Berle and Means was enormously important, but this is not what it showed. It showed the change in the form of ownership and the change in the role of the manager. Remember, however, that most managers are also major stockholders and have many of the same interests in the institution of private ownership as other owners of capital. The study does not show any basic change in the institution of private ownership of the economy. Technology cannot change the most basic institution quietly in its basic essentials; these essentials are protected by the vested interests and cannot be easily changed without immense resistance.

Next Hamilton discusses the concept of progress. The classicists saw progress as starting with improved means of production. They saw technology as separate from culture and technology being improved by capital formation. Capital formation comes from savings and savings come from the basic institutions of capitalism. They assumed Say's law, so all saving was automatically invested. Hamilton mentions the attack on Say's Law by Keynes, but not the attack by Marx.
According to Hamilton, institutionalists see no inevitable progress; all institutionalists agree on this point, but Hamilton narrows and qualifies his declaration in a major way. He does say that change may be stopped by institutions, but apparently not for long, just long enough for ceremonial knowledge of myths and superstitions to change due to advancing education.

Hamilton says no progress is measurable in non-technological areas, such as art or ethics. But, he says, progress can be measured in technology. Obviously, there can be some objective measures of some aspects of technological change, but if by "progress" we mean improvement of some sort, then measuring progress (rather than just change) is not so easy. No one would deny that technology has brought many good things from automobiles to freeways. But automobiles cause pollution -- so how do we measure the good and the evil. Television could widen our horizons immensely, but the actual culture on it is often degrading and often prevents children from reading. So how do we measure the good and the evil. More broadly, technological innovation helped to end primitive communities and create the first civilizations. But these civilizations were all built on slavery and serfdom.
-- how to separate the good results of technology from the evil ones?

Measurement of technological "progress" is not simple, but is a function of our ethical evaluations of its results, so the concept of progress is probably better avoided even in this respect. There is cumulative change in a given direction in any evaluation of past evolution, but to call this "progress" adds a metaphysical criterion.

Moreover, Hamilton stresses only small changes and marginal reforms. Veblen sees the result of change as not just reform, but far deeper changes. In The Theory of Business enterprise, he posed in its conclusion the possibility of a return to barbarism or advance to a better society -- either is possible and progress is not inevitable.

Hamilton (p. 113) says "Progress is found by Veblen in what Professor Ayres calls the technological continuum....Technology is continuous and subject to development." !!! He is again arguing that technology grows automatically and determines social progress -- since it erodes institutions. This appears to be a form of technological determinism. Contrary to Ayres, Veblen saw technology as socially determined, but autonomously given. Veblen's notion of elite resistance
because of its vested interests is not mentioned by Hamilton, there is only myth and custom as temporary obstacles to "progress."

CONCLUSIONS

There are three different views of change to be recognized. The classical/neoclassical view says that change is only adjustment after an outside shock toward a new equilibrium. There is no room for cumulative change or evolutionary development -- except on the narrowest micro level of adjustments. The laws of equilibrium adjustment in the price system are unchanging and eternal. There is mechanical, Newtonian change within a system (similar to the movement of the planets), but the system does not change,

The liberal institutionalists -- such as Hamilton -- are quite different. At the core are two concepts acceptable to all institutionalists. First, instead of explaining everything in terms of individuals and their individual psychology taken in isolation, must start from the system of social, group relations and the institutions embedded in those relations. Second, instead of assuming equilibrium or adjustment to equilibrium, the actual cumulative change embodied in evolutionary development must be studied.
Hamilton then goes on to characterize evolution in terms of incremental, marginal changes flowing from the inevitable advance of technological progress, regardless of temporary obstacles from myth and ignorance. Profess is technologically determined and involves only minor social conflict (based on myth and ignorance). Thus, in his conclusion Hamilton reiterates that institutional behavior is behavior that "is shaped by custom and habit and enforced by the authority of myth and legend." (p. 121) Institutional behavior changes very slowly. Technology is subject to more rapid "cumulative development" (p. 121). Furthermore, "The development of technology is synonymous with progress. Progress is the continuity of technological development." (p. 121)

Again, the results of technological change include the good and the bad, e.g., pollution, or the advance to slavery? The big question: is there progress in institutions? Depends on your ethical standard -- there is no absolute standard of progress, so the concept should be dropped.

The third view of change is the radical institutionalist. Even basic institutions have changed in the past, so evolution includes both
incremental change and drastic institutional change. Secondly, the key dichotomy is between business and industry or, more broadly, between institutions and technology. The institutions include the vested interests of the elite, which engender resistance to anything that threatens their wealth and power. Thus the Great Depression resulted from business institutions sabotaging the economic system and causing industrial contraction. The Civil War resulted when the institutions of slavery were holding back industrial progress. Third, the vested interests clash with those who want change, as in the Civil War.

SIMILAR MARXIST DEBATES

There is a huge Marxist literature on the points raised by Hamilton, filled with much heat and fire and personal invective. The parallels with institutionalist debates are instructive.

For most of the twentieth century the dominant Marxist view was the Soviet Marxist version of Marx, which distorted Marx according to the purposes of the Soviet state. By the 1950s Soviet Marxism had nothing whatever in common with Hamilton – and very little with Marx, except for ritual phrases.
Superficially the Soviets agreed with Hamilton on the two basic points that all social science should be holistic and evolutionary. But their conception of social relationships and social change was neither Newtonian nor Darwinian – it was an inverted form of Hegelianism. Hegel emphasized evolution, but it is the evolution of abstract ideas in a teleological progression from the categories of Being and Nothing to the Absolute, which is God. The Soviets applied Hegel to the material and social world. Thus their holistic and evolutionary views of society were based on a mystical set of universal laws and were both teleological and predetermined in an inevitable progression. The Soviets also sounded superficially like Veblen in their emphasis on the dichotomy between class relations of production (similar to “business”) and the forces of production (similar to “industry” or technology plus land, labor and capital). But they had a one-way causation in which the forces of production (with technology being the most dynamic part) determined everything else. Thus they concluded that technological progress meant social progress and there was an inevitable progression from primitive communal societies to slavery to feudalism to capitalism to the Soviet form of socialism to communism.
Most contemporary Marxists reject all of this paradigm as incorrect and a distortion of Marx, while stating an alternative view that sounds very much like radical institutionalism with a different vocabulary. Thus they agree completely with Hamilton on a holistic and evolutionary view within the context of a Darwinian approach, that is, an approach relying on social selection, rather than a mystic teleology of progress. They consider that class relations are embodied in institutions, while all basic social institutions are embodiments of class relations (such as the institutions and relations of slavery). So class and institutions are not two separate concepts, but two aspects of the same approach. Thus the basic tension in society is class relations (or institutions) versus productive forces (or technology, plus land, labor and capital). This social tension produces social conflict. Where Veblen sees a conflict between the vested interests and the common people, they would use the terminology of a conflict between the ruling classes and the exploited classes. This conflict results in evolutionary change, which may be reform or revolution. The changes are the result of human decisions and behavior under given circumstances, and are not inevitable or caused by some outside force.
These assertions about contemporary Marxism cannot be proven without a very, very long survey. The references are easily available, however, within the Marxist literature detailed in Sherman (1995); the comparison of Marxist and institutionalist views on evolution in Dugger and Sherman (2000); and the synthesis of Marxism and radical institutionalism in O’Hara (2000).

CONCLUSION

Hamilton does a magnificent job of stating the basics of an evolutionary view and all radical institutionalists (and most contemporary Marxists) agree with him. Radical institutionalists do have a somewhat different view of the specifics of the evolutionary process – and most contemporary Marxists agree with the racial institutionalist view.

SOOTNOTE TO PAGE 1

I AM GRAEFUL TO bill Dugger for his extremely useful criticism of an earlier draft of this article.

REFERENCES

The books mentioned by Ayres and Veblen are all cited in Hamilton, which is cited at the beginning of this article.


