

# Warren Samuels on Economic Analysis, Institutional Theory and Ideology

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## Summary:

The article considers the views of the world famous American economist and historian of economic thought Warren Samuels on three key issues – economic analysis, institutional theory, and ideology. According to him, realistic economic theory must include social changes, social control, collective actions, technology, process of industrialization, and market as institutional complex - not as abstract mechanism. Samuels generalizes basic methodological principles, most important theses, and approach in studying History of Economic Thought by institutionalists. Thereby a set of important relationships between economic analysis and ideology is derived.

**Key words:** economic analysis, theory of institutionalism, ideology, methodological principles of institutionalism.

**JEL Classification:** B31, B52

**W**arren J. Samuels /1933-2011/ is a world-famous American economist and historian of economic thought. He was born on the 14<sup>th</sup> of September 1933, in Gainesville, Florida. He received his BBA degree from The University of Miami in 1954 and defended Major degree (1955) and PhD in economics (1957) at The University of Wisconsin - Madison. At first he was teaching at The University of Missouri

(1957-1958) and at The College of Georgia as an assistant, and from 1959 through 1962 at The University of Miami, initially as an assistant and from 1962 through 1968 as an Associate Professor. From 1968 until his death he was a Professor at The University of Michigan, where in 1998 he was elected as Honorary Professor.

Samuels was an editor-in-chief and a member of the editorial boards of a series of scientific journals: **Journal of Economic Issues** (1971-1981), **History of Political Economy** (1969-1987), **International Social Science Review** (1977-2011), **Journal of Post Keynesian Economics** (1977-2011), **Journal of Interdisciplinary Economics** (1986-2011), **Review of Political Economy** (1987-2011), **Review of Social Economy** (1988-2011), **Advances in Austrian Economics** (1991-2011), **Policy Evaluation** (1992-2011), **History of Economic Ideas** (1992-2011), **Methodus/Journal of Economic Methodology** (1992-2011), **Economie et Institutions** (2001-2011), **Journal of Institutional Economics** (2003-2011), and others. He is known as an editor of many scientific series. Under his scientific editorship are published **Works of Nikolai Kondratieff** in 4 volumes.

Samuels was a member of a number of professional organizations, having very often place at their managing committees

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– The American Economic Association, The Association for Social Economics, The Association for Evolutionary Economics, The Economic History Association, The Law and Society Association, The International Society for Economic Methodology, The History of Science Society, The Society for the History of Economic Thought, The Japanese Society for the History of American Economic Thought. He was awarded Veblen-Commons Prize for 1995.

As author of many articles published in different magazines where he was in the editorial boards, Samuels selected, according to a chosen principle, a great part to have them published in three different collections, with the following titles: **Essays in the History of Mainstream Political Economy** (L.: Macmillan: New York; New York University Press, 1992), **Essays in the History of Heterodox Political Economy** (L.: Macmillan: New York; New York University Press, 1992), **Essays on the Economic Role of Government** (L.: Macmillan: New York; New York University Press, 1992).

He studied the development of the institutional theory in 1980s and 1990s and arrived at the conclusion that an **important distinguishing feature of the contemporary institutionalists, compared to their predecessors, is the attention they pay to contradictions in institutionalism itself**. According to him, the institutionalists develop in the following way. Some of them see their work as a supplement to Neoclassicism, while others are of the opinion that these two trends of economic thought contradict one another. The one group of institutionalists turns its attention to the critique against Mainstream, while the other pays attention to this theory's positive

development. Furthermore, institutionalists themselves develop their theory in different ways.

Samuels is of the opinion that the differences in institutionalism are primarily related to the understanding of values. The **followers of Torstein Veblen** discuss the technology and the industrialization as imperatives, as driving forces, and at the same time as a source of value. These sources enable mankind to produce more and to develop production, while hierarchical institutions generate a conservative power which hinders the introduction of new technologies and a new organization of production.

The **followers of John Commons**, on the contrary, view institutions as a matter of choice among various technological alternatives. They assume that an important function of value consists in defining the rules of the enforcement of laws and of the norms of morality, which assist the structure, govern the access to power and its execution, i.e., they specify whose interests should be considered and when.

**Both groups of institutionalists, however, accept** that realistic economic theory must include the study of social changes, social control, collective actions, technology, the process of industrialization, and the market, as an institutional complex - not as an abstract mechanism. Many scientists of this school raise the thesis of not going from the one extreme to the other – from neoclassicists' methodological individualism to institutionalists' methodological holism. However, there is a huge distance between the setting of this task and its fulfillment. Institutionalism has already gone a long way towards studying social structures and their influence on the individual. However, it has

so far done very little to study the person as an individual who opposes the structures and impacts them. Instead, Institutionalism has done much to prove that *the* sovereign individual does not exist at all and that this is a fabrication of neoclassicists.

The contemporary institutionalists - expressing their understanding of the economy and of economic theory, address a merited criticism of neoclassicists. They find the definition of the subject of economic theory, followed by neoclassicists, of an obviously discriminating character. Confining the subject of economic theory to the ways of using the scarce resources in order to satisfy the individuals' objective needs, neoclassicists a priori displace from this framework everyone who understands the subject differently. Unfortunately, the "Old" Institutionalism is also not distinguished by any easier criterion - according to its thesis, the subject of economic theory is the allocation of economic power.

The compromise approach, proposed by Samuels, is the following: **the central issue of economic science must be the evolution of the organization and the control of the economy as a whole**, not just the allocation of resources, the distribution of income, the determining of the aggregate conditions of income, production, employment, and prices in the economic system. In studying this issue institutionalists usually use more variables or a longer chain of arguments than neoclassical economists (see Samuels's 1995 critical survey "The present State of Institutional Economics", pp. 571-573, with respect to the institutional design). **At the core institutionalists put the interaction between markets and institutions,**

**between market and nonmarket forces.** Formally acknowledging the reality of the market as a particular mechanism, the aforementioned interaction can offer no other definition of the market, but the one by means of all these institutions. Contrary to confining the economy to the market and furthermore to defining all social relations as market ones, **institutionalists divide the economy into two parts - market and nonmarket, and discuss both spheres as the institutions' field of action.** It seems that there is no clarity with respect to what the market exactly is. They assert, **first**, that the economy involves something more than the market; **second**, that the functioning mechanism of the allocation is not a purely conceptualized market by itself. It is the institutions and power structures that form the real market and in effect act through it to a degree to which the market exists.<sup>1</sup>

**Among the institutions, forming the market, of major importance is the corporation, which must be viewed as a structural phenomenon.** Institutionalists are far from being enamored of the simplified neoclassical hypothesis of profit maximization. They prefer to include, in addition, consumer satisfaction, the market share in satisfying needs, managers' income over a given period of time, and others. At the same time they emphasize that more important than the formal profit maximization is the actual definition of profit maximization in terms of its content for corporate managers.

**Of unambiguous theoretical interest are the attempts of institutionalists to create a generalized theory of social value, unifying the market price system**

<sup>1</sup> See Samuels, Warren J., "Institutional Economics", in *Companion to Contemporary Economic Thought*, edited by Greenway, D., Bleaney, M., and Stewart, I. L., 1991, pp. 110-111; Samuels, Warren J., "The present state of institutional economics", *Cambridge Journal of Economics*, 1995, 19: 4, pp. 569-590.

with the institutional valuation which directly exposes the power relations in economy. Institutionalists believe that the **economy as a whole, not only the market, must be understood as an evaluating process.** They defend the view that a supplement to the values, formed through the existing set of possibilities which the neoclassical market theory offer are the values, formed through the dynamics of the power structure and power interactions. Thus, the allocation is a function not only of the market in the narrow sense, but an outcome of the whole system of organization and control of the economy. Besides, the concept of value is expressed not only in the terms of commodities and factor prices, but also in the terms of the value and functioning of the rules of law and norms of morality which govern the participation and settle the differences in the economy. **The institutional understanding of value, thus, goes beyond the framework of the prices to social value,** which in the opinion of the institutionalists is invariably present and influences the actions in the economy, also partly determining the formation of market prices.

No doubt, one of the greatest authorities in 20<sup>th</sup> century institutional theory is Warren J. Samuels.

In Samuels (1995), the scholar considers "eight principal facets of institutional economics understood as a body of knowledge – and thereby as an approach to problem solving" (see, *ibid.*, pp. 573-575). In brief, these include the following assumptions:

1) "institutionalists emphasize social and economic evolution thus taking an explicit activist orientation toward social institutions"; they do not deny that

"adjustment mechanisms exist and that statements of tendency can be made, but [emphasize] the reality of individual and collective choice..." (*ibid.*, p. 573);

2) "institutionalists affirm the importance of social control and the exercise of collective action therein"; they emphasize that "the market economy *per se* is itself a system of social control, and that specific markets are what they are and perform as they do because of the institutions operating as social control which form and operate through them. The economy is what it is because of the existing correlative system of social control; business would not be business without the requisite legal and non-legal social controls."; etc.; the institutionalists oppose "absolute self-subsistent individualism and non-interventionism abetted by the mechanical mode of neoclassical theorizing" (p. 573);

3) "institutionalists emphasize technology as a major force in the transformation of economic system." In their opinion "It is human activity mediated through technology that determines what is a resource, its relative scarcity and its efficiency." (p. 573);

4) institutionalists "insist that the ultimate determinant of the allocation of resources is not some abstract market mechanism but the institutions, especially the power structures, which structure markets and to which markets give effect." (p. 573);

5) "the institutionalists' theory of value does not concern the relative prices of commodities but the process through which the values ensconced in institutions, social structures and behaviour are worked out." (*ibid.*, p. 574);

6) "institutionalists emphasize the dual role of culture in a process of cumulative causation or coevolution" (p. 574);

7) institutionalists are pluralistic in

their orientation. They call attention to the neoclassicists' obfuscation and reinforcement of "the existing structure of power and social relations" and "the implications for the conduct of economic theory" (see Samuels, 1995, p. 574). Yet, Samuels recognizes, to a certain degree, the possibility of doing neoclassical economics, "the way they [neoclassicists] do", objecting actually to "their lack of a sense of limitation and to their combination of exclusivism and exclusionism" (see for this, Samuels's 2000 "Institutional Economics after One Century", p. 307<sup>2</sup>);

8) "institutionalists have been holistic. On the one hand, they have defined the economy broadly to include much more than the pure market mechanism. On the other hand, they have emphasized that meaningful and non-question-begging explanation and description of economic phenomena requires resource to other disciplines, in a multi-disciplinary venture as required by the object of study." (see Samuels, 1995, p. 575).

Samuels's contributions have been assessed in three directions: economic methodology, history of economic thought, and the legal-economic nexus – the latter referring to "the idea that the economy is a function of government and government a function of the economy, and that the two are simultaneously and interdependently determined, rather than being in any way independent or self-determining spheres"

(see Biddle, Davis, and Medema, 2001)<sup>3</sup>. Having in mind these and other assessments and the statements in Samuels's writings, I envisage here, in particular, Samuels (1991)<sup>4</sup>, the following **methodological principles**, - underlying the institutional view, - and **aspects of studying history of economic thought** can be emphasized. The set of main institutionalist methodological principles includes:

- the placing greater importance on the understanding than on the prediction;
- the importance of the boundaries within which the actual future prediction is possible, compared to the prediction in the context of the models, because of the uncertainty;
- the rejection of a priori and formal deductivism; the perception of economic theory as an inevitable mix of induction and deduction;
- the approach to the economy as an organic, systemic and evolving whole, and not as a static mechanism;
- the importance of instrumentalism and pragmatism as a basis for problem solving, in contrast to science fiction;
- the emphasis on the inevitability of the normative elements in economic theory, especially in applying the theory to policy problems, in the interpretation of the state's economic role, and what concerns the status-quo (priority is attached to

<sup>2</sup> See Samuels, Warren J., "Institutional Economics after One Century", *Journal of Economic Issues*, 2000, Vol. 34, No. 2. pp. 305-315.

<sup>3</sup> Biddle, Jeff E., John Davis, and Steven Medema (2001) "Introduction: Warren Samuels, Contributions to the History of Economic Thought, Methodology, and Institutionalism", Marquette University, e-Publications@marquette. Published version: "Introduction: Warren Samuels, Contributions to the History of Economic Thought, Methodology, and Institutionalism," in *Economics Broadly Considered: Essays in Honor of Warren J. Samuels*. London: Taylor & Francis (Routledge), 2001: 1-29. For the concept of the "legal-economic nexus", see p. 8 in the e-publication.

<sup>4</sup> See the second paragraph of: Samuels, Warren J., "Institutional Economics", in *Companion to Contemporary Economic Thought*, edited by Greenway, D., Bleaney, M., and Stewart, I. L., 1991.

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the selective, often implicit, normative prerequisites in the determination of whose interests should be taken into consideration);

- openly expressing value judgments, discussing and criticizing them freely, and not using values implicitly;
- the maintaining of the methodological collectivism either pure, or combined with augmented and ideologically unaffected methodological individualism, but not the latter itself.

With respect to the **practice of economic science**, institutionalists, together with other economists:

- insist on the cumulative and open causality rather than on the closed and linear one;
- accentuate bounded rationality as a fact, or bounding prerequisites and (or) ideologies;
- insist on the studying the the processes of adaptation, especially those in reality, including real factors and forces, and also the processes of the institutional adaptation, in contrast to the studying of formal technical conditions of equilibrium stability in the context of some a priori coordinated or predetermined order; etc.

As far as **studying history of economic thought** is concerned, the institutionalists stress:

- the economic ideas not so much as true or false, but as beliefs or style of judgment, and as a system of thought;
- the functioning of power and ideological structures as filter mechanisms in the development of ideas within the boundaries of a given discipline;

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- the fundamental tautologies and logical circles, underlying economic theory and policy;
- the research in the field of history and methodology of economic science, shedding light not only on existing structures and currently dominating school of economic thought;
- the evolution of economic science as a system of knowledge, social control and generating psychological comfort (as far as status-quo is being interpreted as non-contradictory, ordered and harmonious state);
- the sociological explanations of the development of economic science in 20th century;
- the relation of language to meaning;
- what common concepts demand, and (or) the possible further selective specification of economic theory in the course of its application.

As said, the economy is more than the market. **It encompasses the institutions that form the market, through the institutions the market functions; they generate the market results.** Therefore the market depends on forces which govern the organization and control in economy, mostly through creating and reorganizing institutions where of main significance are **power and struggle. Power is inevitable, and moreover, essential for the economic system.** In the opinion of the institutionalists, the research of imaginary pure markets should be separated from the research of how existing markets "permeated" by institutions function. **Institutions matter**, concludes Samuels, confirming the important inference, *inter alia*, of Douglas North.



Samuels works actively and in-depth in the research field of the relation between **economic analysis** and **ideology**. Undoubtedly, other scientists have studied this delicate problem from different points of view. **Samuels does this through the prism of the institutional ideas**. In the aforementioned "Institutional Economics" (1991), **Samuels gives a detailed description of the attitude of the then contemporary institutionalists to Marxism**. Already by 1970s, according to him, Marxism had come to a deadlock with its defense of the theory of the diminishing profit rate and the impoverishment of the proletariat. This crisis of Marxism became particularly salient, when part of the Marxists dropped the labor theory of value. The Institutionalists agree with the Marxists in several directions: **first**, that power matters; **second**, that system changes must be taken into consideration by economic science; **third**, that methodological collectivism must be supplemented by methodological individualism; **fourth**, that economy and politics are products of human activity and, hence, are amenable to reforming; **fifth**, that the interests of the masses of the people, including the working class, should take their due place in economic theory, because, otherwise, they would be excluded or undervalued, as a result of silently or explicitly imposing the interests of the ruling upper classes. It is not difficult to notice that here Samuels has in mind the so called **"soft" modification**

### **of Marxism.**

The Institutionalists often criticize Marxism, e.g. for its conception of the economic transformation (in contrast to the institutionalist conception, which is open for the different possibilities of the Darwinian revolution), for its insistence on the revolution as the exact opposite of the reforms, for its narrow interpretation of the government's values and economic role. It should be noted that **Samuels contrasts the concepts of "transformation" and "evolution"**, albeit, strictly scientifically speaking, transformation may carry an evolutionary character, and evolution, in the Darwinian understanding, does not exclude the qualitative "jumps" at all.

In an article headlined **"Ideology in Economics"**, in *Modern Economic Thought*, edited by Sidney Weintraub (1977)<sup>5</sup>, Samuels makes an interpretation and an evaluation of the discussions during the last – by that time - three decades on the **issue to what a degree the economic analysis is permeated by ideology**. In his view, the dispute over the ideological roots and economic content of economic analysis has been held for a long time and concerns all social sciences, history and law. What is more, this is one of the central issues of the philosophy of science and of the sociology of knowledge. This discussion reaches **the problem of the distinction between economic science and economic ideology**.

Samuels reveals an exceptionally **rich range of questions**, discussed in this respect.<sup>6</sup> This palette includes:

<sup>5</sup> Samuels, Warren J., "Ideology in Economics", in *Modern Economic Thought*, edited by Sidney Weintraub, The University of Pennsylvania Press, Inc., 1977, pp. 467-484.

<sup>6</sup> See *ibid.*

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- the problem of values in economic theory;
- the dichotomy of positive and normative economic theory;
- the discrepancy between fact and its evaluation;
- the relation between the real and the ideal;
- the problem of covariance between economic analysis and economic argumentation;
- the relations between individualism and collectivism in methodology, and their relations with normative individualism and normative collectivism;
- the problem of distinguishing the sphere of true economic analysis from the political economy;
- defining economy and economic analysis as such;
- the conception for the epistemological character of the economic analysis as an intellectual discipline;
- the possibilities of the objective (in contrast to the subjective) knowledge of man and the meaning of the corresponding explanatory concepts;
- the theory of pure science, in contrast to the real activity of scientists (i.e., the ideology, in contrast to the realities of science itself);
- the character and the process of change in science and in scientific disciplines, including the question of the character and the driving forces of progress and revolution in theory;
- the conflict between the absolutist and the relativist interpretations of the development of the economic thought,

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and particularly of the economic theory, and the different conceptions of truth.

Arguing in this direction, Samuels suggests that, in principle, economic analysis may be looked upon as **potentially ideology-free**, but whether it appears to be such or becomes such in reality, is quite another matter.

In his view economists feel usually uncomfortable when ideology is introduced, because it challenges their professional independence and encroaches on their beliefs in the specific tools, concepts, research methods and analytical approaches employed by a given scientific discipline. **Economists aspire to reach the status of "scientists", and hence the mere existence ideology as a concept creates a threat for them.** This is in itself evidence to the ideological character of science itself.

When commenting on the relation between economic analysis and ideology, of no less significance is the question of what we mean under the term ideology. On the basis of a critical analysis of the different views on this question from Carl Marx to Robert Heilbroner, Samuels dwells upon the notion of ideology as a generalized, internally bounded and complete totality of ideas, beliefs, and conceptions, which more or less consistently express the character and the structure of the socio-economic system. **In a broader aspect, ideology comprises our principal ideas about the essence of economic order and economic processes.** There is no doubt, Samuels stresses, that ideology governs and forms human thought, as well as scientific analysis.

Economists however have not formed a common notion with respect to the degree



that economic theory is ideology-free and what conditions would facilitate such freedom. Today it is widely acknowledged **that the main way ideology permeates economic theory is through the underlying paradigm or the cognitive system**, which provides for the general framework of thinking and reaching the meaning of phenomena. The accepted paradigm predetermines the character of selected research problems, type of questions, and conditions of their professional treatment.

However, the in-depth research shows that there also are **other channels for the permeation of the ideology in the economic analysis**, not isolated from the aforementioned "paradigmatic" way. To this type Samuels relates<sup>7</sup>:

- the selection of the objects of analysis;
- the character of the formulation of one or another problem;
- the definition of concepts;
- the implication of a given meaning of the phenomenon, the actual data, and the quantitative aspects;
- the differentiation of means and aims;
- the defining of used resources and received results;
- the establishing of the scale of variables and constants;
- the process of abstracting, requiring envisioning reality in a specific perspective;
- the choice of the logical sequence of the arguments;
- the traditional interpersonal comparisons of utilities, and the social welfare function;

- the evaluation of the different theories;
- the assumptions about the essence of human nature;
- the way and the degree of reliability of the empirical test;
- the changing definitions of science;
- the process of transforming the tautological assertions in theory.

**It should be noted that ideology permeates economic analysis to varying degrees and in varying forms** and that one and the same theory may be expressed in utopian as well as in vulgar-primitive form. Therefore Samuels deems it necessary to learn to live in the conditions of diverse ideological influences, fencing off any temptations by the status of the pretended freedom from ideology, and not having a claim on such a status. Holding another position would actually contribute to the reasonable disguise of the presence of ideology in economic analysis.

An important conclusion, drawn by the outstanding American economist, is that more and more recognition, amongst the college, receives **the three-fold approach to economic theory** – as means of cognition, as social control, and as intellectual and spiritual comfort. Still kept is the conviction that economists are able, one way or another, to control, using different approaches, the influence of the ideology, and to rise above the ideological commitments. Nevertheless, widely spread is the opinion that it is not possible to entirely exclude ideology from economic analysis.

<sup>7</sup> See for more detail, Samuels, Warren J., "Ideology in Economics"...

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Warren Samuels' other books, which he has published, are: **The Classical Theory of Economic Policy** (Cleveland: Word, 1966), **Pareto on Policy** (New York: Elsevier, 1974), **Economic Thought and Discourse in the Twentieth Century** (with Jeff Biddle and Thomas Patchak-Schuster, 1993), **The Economy as a Process of Valuation** (Lyme, NH: Edward Elgar, 1997 - with Steven G. Medema and A. Allan Schmid), **Economic, Governance and Law: Essays on Theory and Policy** (Cheltenham: Edward Elgar, 2002), **Essays on the History of Economics** (L.: Routledge, 2004), **Erasing the Invisible Hand: Essays on an Elusive and Misused Concept in Economics**

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(Cambridge; New York: Cambridge University Press, 2011).

Samuels has enjoyed, and still enjoys truly international and national recognition. He was a President of The History of Economic Thought Society (1981-1982), of The Association for Social Economy (1988), of the Michigan State Economic Theory Society (1971-1973); he was a Veblen-Commons Prize Laureate and a Kondratieff Bronze Medal winner.

Warren dies on the 11<sup>th</sup> of September 2011 at 77 years of age.

In his honor, in 2012, The Association for Social Economy established the prestigious Warren Samuels Prize.