

# The Psychological Contributions of Pragmatism and of Original Institutional Economics and their Implications for Policy Action

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## Abstract

The aim of this work is to illustrate the psychological contributions of Pragmatism and of the Original Institutional Economics (also referred to as OIE or institutionalism), and their relevance for improving the process of social valuing and, as a consequence, the effectiveness of policy action. As a matter of fact, both institutionalist and pragmatist theories were well acquainted with various strands of psychology, and some of them also provided relevant contributions in this respect. Moreover, these theories reveal, along with various differences, significant complementarities, both between themselves and with important concepts of social psychology and psychoanalysis. The work will address the following aspects:

- (I) The main characteristics of pragmatist psychology with particular attention to their social implications. For space reasons, we will focus attention on the contributions of authors – John Dewey, William James and George Herbert Mead – more oriented to social sciences.
- (II) The psychological contributions of institutionalism. We will pay particular attention to Thorstein Veblen's theory of instincts and John Rogers Commons' theory of negotiational psychology. We highlight that these theories present, despite a number of differences, relevant complementarities.
- (III) The implications of the previous analysis for improving the process of policy formulation. We will address some aspects of the intertwined issues of social valuing and democratic planning. For instance, in devising policies for promoting workers' motivations, the focus will be not only on the monetary side but also on the adoption of measures aimed at promoting participation in the management of their institutions.

**Keywords:** institutionalism, pragmatism, social valuing, interdisciplinarity, policy action

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## 1. The Main Characteristics of Pragmatist Psychology

### 1.1 Introduction

In this paragraph we will focus on some relevant contributions of the psychology of pragmatism<sup>1</sup>, also in relation to their links with OIE's psychological perspective.

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<sup>1</sup> In pragmatism – a philosophical movement which considers thought and action as two related aspects of human life – two main strands can be identified. The first, elaborated by Charles Sanders Peirce, conceives of pragmatism as an analysis of reality that should be based on the objective validation method of the physical sciences. The second, expounded in particular by John Dewey, William James and George Herbert Mead, who – while sharing in various ways Peirce's notion of scientific enquiry – also elaborated a more far-reaching perspective embracing ethics and other more qualitative aspects of society. Needless to say, Peirce too, despite his focus on the method of the physical sciences, made relevant contributions to the social strands of pragmatism. For instance, we can mention the central link he identified between thoughts, perceptions, habits and actions, which exerted a great influence on the

We will chiefly consider some aspects of the contributions of William James and George Herbert Mead. Now we briefly consider Dewey's seminal article (1896), 'The Reflex Arc Concept in Psychology', which has exerted a far-reaching influence, not only in the pragmatist field, but also in the larger domain of the psychological sciences. The main objective of the article is to explain the mechanism of body reactions to external events. A typical example is that of a child and a candle: the child is at first attracted by visual stimulus to touch the candle, but when he got burnt he suddenly withdraws the hand. In this instance, the most obvious explanation, which was elaborated in the notion of reflex arc, assumes a dichotomy stimulus-response, according to which an 'exogenous' factor would trigger a kind of automatic response in the body. In his article, Dewey strongly underscores that such apparently obvious dichotomy is totally fallacious. Moreover, such dualism opens the way to a parallel dichotomy between mind and body which, in turn, lies at the basis of behaviouristic (and positivistic and reductionist) psychology, according to which only external and measurable phenomena are truly 'scientific'.

The reason for the fallacy of the dichotomy stimulus-response rests in the circumstance that, in Dewey's words, 'the so-called response is not merely *to* the stimulus; it is *into* it' (Dewey, 1896, p. 359). In fact, while the stimulus most often originates from external factors, it is also true that such stimulus must be interpreted and mediated by the person according to previous experiences. For instance, in the case of the candle, only the burning experience will teach the boy to withdraw the hand. In this sense, the response is a part of a more ample coordination process, similar not to an arc but to a circuit. In his words,

'It is the coordination which unifies that which the reflex arc concept gives us only in disjointed fragments. It is the circuit within which fall distinctions of stimulus and response as functional phases of its mediation and completion. The point of his story is in its application; but the application of it to the question of the nature of psychic evolution, the distinction between sensational and rational consciousness, and the nature of judgement must be deferred to a more favourable opportunity' (Dewey, 1896, Vol. I, p. 370).

From this passage it emerges clearly that Dewey was well aware of the implications of a more encompassing conception of human action.

## **1.2 The Principles of Psychology of William James**

We will analyse some relevant and intertwined concepts of his psychology.

### **Habits**

The concept of habit has played a key role within the Pragmatist approach and has also significantly influenced institutional economics. In this regard, important contributions were

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theories of Veblen and Commons. In Peirce's words, 'The whole function of thought is to produce habits of action... What the habit depends on *when* and *how* it causes us to act. As for the *when*, every stimulus to action is derived by perception; as for the *how*, every purpose of action is to produce some sensible result. Thus, we come down to what is tangible and practical, as the root of every real distinction of thought, no matter how subtle it may be; and there is no distinction of meaning so fine as to consist in anything but a possible difference of practice' C.S. Peirce, 'How To make Our Ideas Clear', originally published in *Popular Science Monthly* 12 (January, 1878), pp. 286-302. Quotations taken from J. Buchler (ed.) (1955, p. 30), *Philosophical Writings of Peirce*, which contains an ample selection of Peirce's most significant contributions. Interesting remarks on these aspects were provided by Commons (1934, pp. 150-157) in the section on Pragmatism, some of them reported in footnote 12. For more details about the pragmatist perspective refer to Menand (1997).

provided by William James, who, in his *Principles of Psychology*, investigated the role of habits in both the individual and collective dimension. In the individual dimension, the disposition of the person to form habits can be traced to the circumstance that,

'Man is born with a tendency to do more things than he has ready-made arrangements for in his nerve-centres....If practice did not make perfect, nor habit economise the expense of nervous and muscular energy, he would therefore be in a sorry plight' (James, 1950[1890], Vol. I, p. 113).

In this sense, the set of personal habits performs the important function of reducing the conscious attention upon them. This entails the apparent paradoxical result that the person, although routinely performing several actions, is largely unable to know *how* he or she has performed them. This concept is expressed in the following passage,

'We all of us have a definite routine manner of performing certain daily offices connected with the toilet, with the opening and shutting of familiar cupboards, and the like. Our lower centres know the order of these movements, and show their knowledge by their "surprise" if the objects are altered so as to oblige the movement to be made in a different way. But our higher thought-centres know hardly anything about the matter. Few men can tell off-hand which sock, shoe, or trousers-leg they put on first. They must first mentally rehearse the act; and even that is often insufficient—the act must be *performed*' (James, 1950[1890], Vol. I, p. 115).

The interesting aspect of this analysis is that, in describing some important features of personal habits, it also casts light on the role of collective habits in social dynamics. As a matter of fact, habits constitute the normal way of working not only of personal life but also, in a complex interplay of reciprocal influences, of collective life. The following passages convey these concepts vividly,

'Habit is thus the enormous fly-wheel of society, its most precious conservative agent. It alone is what keeps us all within the bounds of ordinance, and saves the children of fortune from the envious uprising of the poor. It alone prevents the hardest and most repulsive walks of life from being deserted by those brought up to tread therein. It keeps the fisherman and the deck-hand at sea through the winter; it holds the miner in his darkness, and nails the countryman to his log-cabin and his lonely farm through all the months of snow; it protects us from invasion by the natives of the desert and frozen zones....It keeps different social strata from mixing' (James, 1950[1890], Vol. I, p. 121).

This analysis of habits is significantly linked to the role that the continual flux of actions plays on their formation. In fact, habits are acquired or eliminated cumulatively and are intimately connected with the system of values of the person. This is related to an important concept of Pragmatism, namely, that individuals do not unfold their personalities in abstract terms but out of their actions in both the individual and collective spheres. In this light, the person is considered as an active agent seeking to attain his or her goals which, however, cannot be reduced to a simple hedonistic principle. These goals, in fact, embrace all the complex set of values and motivations of persons in their interaction with the social structure and, for this reason, should be studied in their evolutionary patterns.

Consequently, habits are not ‘neutral and automatic behavioural blueprints’ as they carry with them, partly at an unconscious level, all the complex, often conflicting, aspects making up the individual personality. In this sense, habits constitute the ‘psychological procedures’ through which the emotions, motivations and values of the person find their concrete expression. Thus, it is necessary to continually improve personal behaviour through the acquisition of ‘sound habits’ and the elimination of bad ones:

‘No matter how full a reservoir of *maxims* one may possess, and no matter how good one’s *sentiments* may be, if one have not taken advantage of every concrete opportunity to *act*, one’s character may remain entirely unaffected for the better... There is no more contemptible type of human character than that of the nerveless sentimentalist and dreamer, who spends his life in a weltering sea of sensibility and emotion, but who never does a manly concrete deed... Every smallest stroke of virtue or of vice leaves its never so little scar. The drunken Rip Van Winkle, in Jefferson’s play, excuses himself for every fresh dereliction by saying, “I won’t count this time!” Well! He may not count it, and a kind Heaven may not count it; but it is being counted none the less. Down among his nerve-cells and fibres the molecules are counting it, registering and storing it up to be used against him when the next temptation comes. Nothing we ever do is, in strict scientific literalness, wiped out. Of course, this has its good side as well as its bad one. As we become permanent drunkards by so many separate drinks, so we become saints in the moral, and authorities and experts in the practical and scientific spheres, by so many separate acts and hours of work’ (James, 1950[1890], Vol. I, pp. 125, 127).

By developing these insights, pragmatist thinkers have stressed in many contributions the twofold nature of habits. Indeed, habits embody and synthesise, in an evolutionary way, the principles, values and knowledge accumulated over time. In this sense, they exhibit in every context both the ceremonial and instrumental aspects pointed out by institutional economists (later in the paper).

#### ***Other Relevant Concepts: Emotions, Instincts, Will***

We will now make a sketch of some other relevant concepts developed by James, especially in his *Principles of Psychology*. Surely one of most famous is his theory of emotions. Here he puts forward the counter-intuitive hypothesis that, in presence of an emotion stirred up by an external event (e.g., fear, anger, etc.), it is not the mental perception that engenders bodily modification – for instance, trembling in case of fear and swelling and contraction in case of anger – but it is the other way round. Namely, it is bodily excitation that engenders and reinforces mental reactions.

The gist of his view is that emotion is a feeling of bodily state and is related to a purely bodily cause. By this he does not mean that the mental states are irrelevant, but that they have in bodily reactions their central medium. In fact, a mental state without bodily changes would amount to a pure intellectual activity. One can agree more or less with this theory. Probably, it is a bit of an exaggeration to say that if we run away from a lion we are afraid only because we run. It seems more reasonable to suppose that if we see a lion, mental and bodily reaction reinforce each other. In this sense, James’s intuition that the more we run the more we are afraid; and the corresponding pedagogical maxim that a bodily

control of our emotions can help control the expression of the emotions, is true.

For instance, if we are angry at someone's behaviour and then start shouting, this is likely to reinforce in an uncontrolled way our anger. This is true, of course, but we also believe that too much repression can be negative as well. Anyway, whatever might be the true sequence of mental-bodily reaction, the pertinence of his analysis rests in introducing a holistic approach to the study of psychological phenomena. This allows us to consider in a more integrated way the links between mind and body and the cognitive and emotional aspects of the person.

Related to his analysis of emotions stands his theory of instincts. Here he makes the interesting observation that almost all human instincts are made up of a pair of opposites: for instance, audacity and timidity, liveliness and apathy, sociability and aloofness, love and hate, solicitude and indifference. These instincts are in dialectical struggle, and the prevalence of one or other aspect depends on a host of internal and external circumstances. Among the latter, social habits play a central role in inhibiting some instincts and/or directing their expression in a socially approved way.

A significant implication of this analysis is that, contrary to what may appear at first sight, people often behave in a more uncertain and conflicting way, not because they are less 'instincts-driven', but because their instincts are more numerous and complex than those of animals. In this sense, an action driven by instinct cannot be opposed by 'reason', but by a contrary instinct. However, reason can help the 'right instincts' to make their way in shaping human personality. Another relevant factor in this process is the effort related to will. Here James notes that, while it is always arduous to know the degree of freedom of human will, such freedom increases with the prevalence of the bright aspects of personality.

In this sense, 'will is a relation to the mind and its ideas....with the prevalence, once there as a fact, of the motive idea, the *psychology* of volition properly stops...the *willing* terminates with the prevalence of the idea' (James, 1950[1890], Vol. II, p. 560).

Another interesting field of application of this theory pertains to human motivation. Here James clearly departs from a hedonistic approach by noting that the related criteria of searching pleasure and avoiding pain are by no means the sole drivers of human action. In fact, the realms of instincts and emotions are driven by totally different principles. In the former case, as noted before, by a functional criterion and in the latter instance, by a set of forces much more complex than mere hedonism. In his words,

'If a movement feels agreeable, we repeat and repeat it as long as the pleasure lasts. If it hurts us, our muscular contractions at the instant stop... so widespread and searching is this influence of pleasures and pain upon our movements that a premature philosophy has decided that these are our only spur to action... this is a great mistake, however. Important as is the influence of pleasures and pains upon our movements, they are far from being our only stimuli. With the manifestations of instincts and emotional expression, for instance, they have absolutely nothing to do... [for instance]... who smiles for the pleasure of the smiling, or frowns for the pleasure of the frown? Who blushes to escape the discomfort of not blushing?' (James, 1950[1890], Vol. II, p. 550).

Hence, if we have to identify a more encompassing criterion accounting for human motivation, this can be located in the interest attached by the person to various groups of action. This 'interest' is something decidedly more multifarious than a simple pleasure/pain dichotomy. In fact,

'The "interesting" is a title that covers not only the pleasant and the painful, but also the morbidly fascinating, the tediously haunting, and even the simply habitual, inasmuch as the attention usually travels on habitual lines, and what-we-attend-to-do and what-interest-us are synonymous terms' (James, 1950[1890], Vol. II, p. 559).

### **Further Remarks**

As can be seen from the previous account, William James provides a far-reaching theory of relevant psychological phenomena. Perhaps for the first time, the bodily and mental dimensions of psychological phenomena have been treated in a systematic way.

This goes in tandem with an analysis of the cognitive and emotional aspects of human personality, which renders possible a consideration of the role of conflicts in mental life. From this, a number of significant implications for individual and collective life are drawn. The analysis of habits is of particular significance, as it contributes to explain the relative sticky and past-binding nature of individual and collective behaviour.

There are also in James's theory some weaker aspects. One of them refers to a certain lack of relational content in his psychology: in fact, there is little explanation of what factors – from the birth onwards – would lead a person to interact with others and with what effects on his/her intellectual and emotional life. The psychological conflicts are appraised, in a 'Faustian' spirit, like a struggle between good choices and bad choices – for instance, between drinking and being sober – in rather abstract moral terms.

True, there is an analysis of the various 'selves' of the person and of the possible conflicts between them: for instance, notes James, one cannot be, at the very same time, a sports champion, a scientist, a musician and an adventurer. Hence, there is a trade off (namely, a conflict) between various objectives. However, these choices – and in particular the most dysfunctional ones, like drinking too much – seem to bear no clear relation to the economic, social, or psychological aspects of the person's living context.

Also for this reason, his theory does not deal enough with the analysis of the collective life and of the possibilities of social change. For instance, after saying that habit, 'saves the children of fortune from the envious uprising of the poor... [and that]... keeps different social strata from mixing', he remarks that, in the main, such an outcome is better for social life – but he does not explain why. Relatedly, in discussing the social unrest of his time, he notes that a better dialogue between social classes could improve the situation, but he does not seem to believe in any structural change of capitalistic societies.

Last but not least, James's account of the tangled issue of the scientific character of psychology is somewhat influenced by positivism. In fact, he states in the preface of *The Principles of Psychology* that,

'This book, assuming that thoughts and feelings exist and are vehicles of knowledge, whereupon contends that psychology when she has ascertained the empirical correlation of the various sorts of thought and feeling with definite conditions of the brain, can go no farther – can go no farther, that is, as a natural science. If she goes farther she becomes metaphysical... this book consequently rejects both the associationist and the spiritualist theories; and in this strictly positivistic point of view consists the only feature of it for which I feel tempted to claim originality... [then he adds, probably not very convinced about this aspect]... Of course this point of view is anything but ultimate' (James, 1950[1890], Preface, Vol. I, p. vi).

Then, he goes on by remarking that he certainly appreciates metaphysics but that nonetheless it cannot be considered as a science. This opinion, however, flies against his overall treatment of psychological phenomena – in particular, feelings and emotions – which is inherently qualitative in nature.

Here we can note that James's position – oscillating between positivism and a more humanistic approach – is typical of the social scientists of the early 20<sup>th</sup> century (and also, to a degree, of our time). How can we go beyond the reductive dimension of positivism in psychology and in the social sciences? A simple path could be the following: if we consider as scientific not only quantitative/measurable phenomena, but everything going on in our inner and external world, then it follows that also qualitative aspects, – for instance, the emotional life of a person, literary criticism and the assessment of students in music schools – although not amenable to quantitative assessment, can be nonetheless, in our view, scientifically investigated. Needless to say these assessments will tend to be more indirect and uncertain than clear-cut (but most often quite illusory) measurable scientific evidence, but this depends on the complexity of the issues addressed.

## **1.2. The Social Psychology of George Herbert Mead**

### ***Introduction***

In this context, the social psychology (also indicated as ‘symbolic interactionism’) of George Herbert Mead appears quite significant for our theme.

He brings together philosophical and psychological aspects to an analysis of the dynamics of the human mind and social evolution. Perhaps more than other pragmatist authors, he places the analysis of the human mind in its social context, to the point that individual and collective aspects appear as two dimensions of a manifold but unitary phenomenon.

This approach is closely related to the intense activity that Mead performed as a social reformer. We will analyse, without any claim of completeness, some relevant aspects<sup>2</sup> of his theory of the ‘social self’.

### ***The Theory of Social Self***

A good starting point is the article ‘The Mechanism of Social Consciousness’, where he makes interesting remarks on the definition of ‘social object’ and its link with the development of personality. In his words,

‘The social object will then be the gestures, i.e., the early indications of an ongoing social act in another plus the imagery of our response to that stimulation... In the organisation of the baby’s physical experience the appearance of his body as a unitary thing, as an object, will be relatively late, and must follow upon the structure of the objects of his environment. This is as true of the object that appears in social conduct, the self... The child’s early social percepts are of others. After these arise incomplete and partial selves – or “me’s” – which are quite analogous to the child’s percepts of his hands and feet, which precede his perception of himself as a whole... [and such perception can be realised only when]... the child is able to experience

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<sup>2</sup> We will employ to that purpose the book edited by Andrew J. Reck *Selected Writings – George Herbert Mead*, Chicago: University of Chicago Press, 1964. All the quotations are taken by such reference.

himself as he experiences other selves' (Mead, ['The Mechanism of Social Consciousness', 1912] in Reck, 1964, pp. 137, 138, 139).

Hence, not until the person interiorises the role of others does he/she develop a complete self-consciousness. This implies the capacity to observe and talk to oneself. In this sense, 'the "me" is a man's reply to his own talk', (Mead in Reck, 1964, p. 140).

The 'me' of a person, then, is formed gradually out of the process of his/her development. Such 'me', however, which constitutes in a way the psychoanalytic ego, does not exhaust the mental life of the person. There are in fact other instances, indicated by Mead as the 'I', and that broadly corresponds to the psychoanalytic notion of the 'unconscious', that are no less important in psychic life. In this sense,

'The "I" therefore never can exist as an object in consciousness, but the very conversational character of our inner experience, the very process of replying to one's own talk, implies an 'I' behind the scenes who answers to the gestures, the symbols, that arise in consciousness. The "I" is the transcendental self of Kant, the soul that James conceived behind the scenes holding on to the skirts of an idea to give it an added increment of emphasis' (Mead in Reck, 1964[1912], p. 141).

In a cognate article, 'The Social Self', Mead carries on with the previous analysis by underscoring the capacity of the human mind for self-observation: a process whereby both the observer and the observed appear and where the 'me' can observe the 'I' acting.

Of course, the observing instance can remain in some way unconscious. Moreover, we can certainly observe us when speaking, but this detracts from the spontaneity of the act. Indeed, it is more difficult to observe our speech if we are emotionally involved.

However, in normal circumstances this capacity to observe and assess our behaviour allows for the emergence of the social self. In his words,

'The self which consciously stands over against other selves thus becomes an object, another to himself, through the very fact that he hears himself talk, and replies. The mechanism of introspection is therefore given in the social attitude which necessarily man assumes toward himself, and the mechanism of thought, insofar as thought uses symbols which are used in social intercourse, is but an inner conversation', (Mead, ['The Social Self', 1913], in Reck, 1964, p. 146).

The interest of this analysis lies in the circumstance that it wonderfully blends the individual and social aspects of human psychology. For instance, the capacity of the person to respond to his/her own inner talk implies the capacity of the self to take the role of others (or of a 'generalised other') in the case of widely shared opinions.

This capacity also constitutes an essential ingredient of child development. In this regard, notes Mead, the capacity of the child to acquire the role of parents cannot be reduced to mere imitation, since it represents for the child a way for getting acquainted with its social world. In this respect,

'Not that we assume the role of others toward ourselves because we are subject to a mere imitative instinct, but because of in responding to ourselves we are in the nature of the case taking an attitude of another than the self that

is directly acting, and into this reaction there naturally flows the memory images of the responses of those about us....thus the child can think about his conduct as good or bad only as he react to his own acts in the remembered words of his parents' (Mead in Reck, 1964[1913], p. 146).

As one can easily note, this process carries a striking resemblance with important psychoanalytic<sup>3</sup> concepts.

Now we will consider the implications of this reasoning for the psychology of ethics and social change.

He starts with the interesting remark that persons, when they have to confront themselves with new values, first direct attention to the external objects embodying such values, and only afterwards do they become aware of the inner change required to embrace the new values. Hence, only when the self becomes an object to itself, can we observe and assess our behaviour.

At this stage, changes in the external objects and in the self are co-extensive. Such a process implies a conflict between different systems of values, often ending up in a transformation of personality. More precisely,

'certain values find a spokesman in the old self or in the dominant part of the old self, while other values answering to other tendencies and impulses arise in opposition and find other spokesmen to present their cases. To leave the field to the values represented by the old self is exactly what we term selfishness' (Mead in Reck, 1964[1913], p. 148).

What will be the result of this struggle between conflicting tendencies? One outcome is the prevalence of the subjective aspects of the question. In this case the prevalence of one tendency (e.g., the old or the new) is seen as a corresponding sacrifice of the other.

Conversely, when the issue is addressed in objective terms, the conflict between old and new self ends up in a reconstruction of the situation and the parallel formation of a new personality.

This process, notes Mead, is similar to the abandonment of old theories brought about by scientific discoveries. The main difference between scientific and social realms is that in the latter – being intrinsically tied to ethics and morality – a more complete involvement of self is likely to arise.

In this respect, 'the growth of self arises out of a partial disintegration, – the appearance of different interests in the forum of reflection, the reconstruction of the social

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<sup>3</sup> We can mention the complex processes, starting from infancy, of (i) identification/differentiation in interpersonal relations, and of (ii) internalisation of norms and values in the formation of individual and social identity, to which broadly corresponds the formation of the ego and of the *superego*. The latter arises from the internalisation of the prohibitions and of the moral and cultural values – as perceived by the child – of the child's parents and also of later institutional figures such as teachers and opinion leaders (see also footnote 12). However, whereas in non-neurotic situations, the 'code of conduct' emerging from such tendencies asserts itself as a genuine behaviour, in neurotic situations, leading to the formation of *superego*, things run in a completely different way. In fact, on account of the sense of guilt arising from the child's aggressiveness towards its caretakers, a good portion of such aggressiveness is directed towards the child's ego in the role of a controlling and punitive instance. From this aspect stems the severity, rigidity and inflexibility of the *superego*. However, these characteristics of *superego* are able neither to create a better environment for the person nor solve his or her problems. In fact, the tendency of improving personality tends to be, under an appearance of goodness and morality, subordinated to the expression of neurotic content at cross-purposes with such a tendency. These tendencies take most often the form – especially when the paranoid aspects of personality are overwhelming – of marginalisation and persecution of persons and groups where the aggressiveness has been projected. History is full of such tendencies.

world, and the consequent appearance of the new self that answers to the new object' (Mead in Reck, 1964[1913], p. 149).

But how should scientific hypotheses be validated? Here Mead follows – along with William James and the majority of scholars of that period – a positivistic attitude, according to which only quantifiable phenomena can be scientifically tested. This appears clearly in the following passage,

'There is certainly no fundamental distinction between the researches of the historian, the philologist, the social statistician and those of biologist, the geologist and even the physicist or chemist, in point of method. Each is approaching problems that must be solved, and to be solved must be presented in the form of carefully gathered data' (Mead 'The Teaching of Science in College' in Reck, 1964, p. 61).

As noted before, quantitative data are important and should be obtained wherever possible. Moreover, quantitative data constitute only an aspect of, in general, much more complex phenomena, where the qualitative (and most often unmeasurable) aspects of phenomena are equally relevant. Hence, relying only on measurable phenomena is particularly inadequate for the social sciences, and stridently runs counter to the richness of Mead's humanistic approach.

For instance, just a few pages after the above remarks, he laments in university courses the excessive specialisation and the loss of a holistic perspective. In this regard, he notes,

'That unity of social sciences which is given in subject-matter and in human nature itself... is absent from modern sciences... the interconnections are not apparent to the students who are in the special groups... through the history of science, especially of the other sciences which they [the students] do not specialise in, through lecture courses which give them the results of these other sciences they should be able to get the unity of Weltanschauung, which is requisite for any college course' (Mead in Reck, 1964, p. 72).

In order to realise all this, not a positivistic, but a true humanistic approach, giving due weight also to the qualitative aspects of phenomena, is required. Since the qualitative sphere is tied to the issue of social valuing (see also later), this broader approach would demand more scientific pluralism.

### ***Implications for Social Reforms***

The foregoing concepts were applied by Mead to a number of social issues with the objective of reforming the most problematic aspects. We will provide some significant examples. In 'The Philosophical Basis of Ethics' he observes that it is useless to apply to individual and social objectives an abstract canon of morality. This comes about because the person and the environment are not independent of each other, but co-evolve in a reciprocal influence. Hence, moral action is effective when it succeeds in embodying and mediating different values and interests. This implies not an uncritical adherence to moral rules, but a creative process of reconstruction of the persons and their environment.

When there is a severance in social relations, social conflicts and alienation will follow. These problems become particularly acute in industrial and commercial relations.

Especially in these realms,

'The individual is treated as if he were quite separable from his environment; and still more is the environment conceived as if it were quite independent of the individual. Both labourer and the society which employs him are exhorted to recognise their obligations to each other, while each continues to operate within its own narrow radius... [for this reason]... it is the incompleteness with which the different social interests are present that is responsible for the inadequacy of social judgement. If the community educated and housed its members properly....the problems at present vexing the industrial world would largely disappear... [hence]... if the social activities involved in the conception of the standard of life were given full expression, the wage question would be nearly answered' (Mead, 'The Philosophical Basis of Ethics' in Reck, 1964[1908] p. 89].

The relevance of this perspective lies in the circumstance that appraises social and psychological analysis as two prongs of the process of social valuation. When such valuation is effective, this means that the person is able to acquire the role of others. And this implies, not only a better social valuation, but a sounder psychological condition coming from an improved capacity to be in an empathic relation with others. If instead social valuation is defective, this indicates, not only the inability of a person to get into the role of others, but a more alienated psychological condition resulting from the lack of empathy.

By employing this framework, many social and political issues can be addressed. For instance, in property rights, one can be tempted to say, in an individualistic way, 'this car is mine and I do not care about the world'. However, this statement would betray at the same time: (i) an incapacity to assess the effects of such property rights in the social sphere (for instance in the form of pollution and/or traffic congestion); (ii) a parallel incapacity to realise the social foundation of property, in the sense that it has been created and maintained by a well-defined legal and institutional framework; and (iii) a mental condition of alienation (or neurosis in psychoanalytic terms) stemming from lack of social empathy.

This incapacity of social empathy is at root of many social evils. For instance, Mead notes, there can be persons who would risk their lives to save other persons in danger, but that nonetheless would consider<sup>4</sup> it 'normal or inevitable' the deaths linked to bad road conditions and lack of medical aid for the poor.

These aspects are addressed from a different angle in the article 'Natural Rights and the Theory of Political Institution'. Here he underscores the necessity for the system of natural rights – as set forth in the 17<sup>th</sup> and 18<sup>th</sup> centuries in Europe – to go beyond an abstract formulation in order to reach out to the living society.

By anticipating several insights of the theories of complexity and open society, he notes that the legal and institutional framework alone is not sufficient to really guarantee its ideal of social justice. In this sense,

'Human rights are never in such danger as when their only defenders are political institutions and their officers... [in fact]... every right that comes up for protection by our courts or other constitutional institution is confessedly in a form which is incomplete and inadequate, because it represents a social

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<sup>4</sup> A typical perception in this respect, most often linked to economic liberalism, is that the state 'cannot afford' the related public spending. An alternative view is contained, among others, in *The Affluent Society* of John Kenneth Galbraith.

situation which is incomplete and inadequate' (Mead, 'Natural Rights and the Theory of Political Institution', in Reck 1964[1914], p. 169).

Of course, this is not to overlook the role of institutions in fostering social progress, but to remember that in the end 'the ultimate guarantee must be found in the reaction of men and women to a human situation so fully presented that their whole natures respond' (Mead, in Reck 1964[1914], p. 170). In order to promote among persons a better awareness of social problems, measures oriented to improve empathy and participation are paramount.

This perspective finds an interesting application in the article 'The Psychology of Punitive Justice'. In this instance, notes Mead, the tendency of law and society is to adopt a criterion of retributive justice and of permanent stigma on the criminal. This attitude, however, not only does not help to solve problems, but rather contributes to creating a criminal class as a structural counterpart – a kind of social *alter ego* – of the legal foundations of society.

The reason for the inadequacy of a concept of retributive justice rests on a negative definition of rights. In this respect,

'Abstract individualism and a negative conception of liberty in terms of freedom from restraints become the working ideas in the community....Thus we see society almost helpless in the grip of hostile attitude it has taken toward those who break its laws and contravene its institutions. Hostility toward the lawbreaker inevitably brings with it the attitudes of retribution, repression, and exclusion. These provide no principle for the eradication of crime, for returning the delinquent to normal social relations, nor for stating the transgressed rights and institutions in terms of their positive social functions' (Mead, 'The Psychology of Punitive Justice' [1917-1918], in Reck, 1964, pp. 226-227).

In particular, what happens in these instances is that – in a typical psychological mechanism of group members projecting their aggressiveness on to a common enemy – all the problems and contradictions of our society are negated and projected on the criminals.

Conversely a better awareness of these problems would constitute a first step for their solution. In his words,

'The discovery that tuberculosis, alcoholism, unemployment, school retardation, adolescent delinquency, among other social evils, reach their higher percentages in the same areas not only awakens the interest we have in combating each of these evils, but creates a definite object, that of human misery, which focuses endeavor and builds up a concrete object of human welfare which is a complex of values' (Mead in Reck, 1964[1917], p. 234).

The issue of transforming the hostility of the offenders and of society towards them into more constructive behaviour becomes a general objective, reaching out to many domains of societal functioning. The problem lies in transforming a primitive and destructive aggressiveness, aimed at annihilating 'the enemy', into a constructive one directed towards problem-solving. For instance,

'The energy that expressed itself in burning witches as the causes of plagues expends itself at present in medical research and sanitary regulations and may still be called a fight with disease. In all these changes the interest shifts

from the enemy to the reconstruction of social conditions' (Mead in Reck, 1964[1917], p. 239).

This perspective is complemented in the article 'Philanthropy from the Point of View of Ethics'. Here the author notes that philanthropic actions tend to fill a gap between reality and an ideal world – or between 'what is and what ought to be' in the terminology of social value theory (see also later). Philanthropic action, then, always implies a process of social valuation which, however, can be more or less explicit. Thus, the task for social reformers is to render explicit these valuations, with a view to transforming them into precise objectives of policy action. These would constitute, in Mead's perspective, true realisation of the democratic ideal. This means the removal of class and group restrictions on the social and cultural values, so that everybody can have the possibility to really enjoy them.

## **2. The Psychological Contributions of Original Institutional Economics**

In this section we will consider the perspective of original institutional economics, with particular attention to some relevant psychological contributions and their implications for the notion of social valuing. We also briefly consider the psychological contributions of John Maynard Keynes.

### **2.1 *The Institutional Economics' Perspective***

Institutional economics originated in the United States in the first decades of the 20<sup>th</sup> century. Its cultural roots can be identified in the philosophy and psychology of Pragmatism<sup>5</sup> – in particular in the theories of Charles Sanders Peirce, John Dewey and William James – and in the German historical school. The principal founders of institutional economics are Thorstein Veblen, John Rogers Commons, Walton Hale Hamilton, Wesley Mitchell and Clarence Ayres. Within this ambit, three main strands can be identified:

- (I) An approach first expounded by Thorstein Veblen, stressing the dichotomy between ceremonial and instrumental institutions;<sup>6</sup> the role of habits of thought and action; the

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<sup>5</sup> It is important to note that in their heyday pragmatist and institutionalist theories were different both within and between themselves. Moreover, these emerging theories underwent a complex and not always 'linear' evolution, characterised by shifts, at times, towards a behaviouristic (and positivistic) conception of psychology, according to which only observable and measurable phenomena are amenable to truly scientific investigation (see, in particular, Hodgson 2004). However, along these aspects, there were various links and convergences between these theories, whose roots can be found in a cultural climate – such as that informing a significant part of the scientific and intellectual life in the US in the first decades of the 20<sup>th</sup> century – favourable to progressive social reforms. Another relevant commonality relates to the circumstance that all these theories were elaborated, not on the basis of metaphysical 'first principles', but through the study of real actions in real economies.

<sup>6</sup> Such dichotomy is related to the distinction between industrial and pecuniary employments, where the former are related to serviceability and latter to the profit motive. In his words, 'The characteristics in which these business employments resemble one another... is that they are concerned primarily with exchange or market value and with purchase and sale... These activities begin and end within what may broadly be called 'the higgling of the market'. Of the industrial employments, in the stricter sense, it may be said, on the other hand, that they begin and end outside the higgling of the market... Broadly, they may be said to be primarily occupied with the phenomena of material serviceability, rather than of exchange value' 'Industrial and Pecuniary Employments' in *The Place of Science in Modern Civilization* (1990[1919], pp. 293, 294). Veblen's ideas on the relations between the quest for profit, conspicuous consumption and ceremonial institutions is vividly expressed in the following passage, 'The quest for profit leads to a predatory national policy. The resulting large fortunes call for a massive government apparatus to secure the accumulations, on the one hand, and for large and conspicuous opportunities to spend the resulting income, on the other hand; which means a militant, coercive home administration and something in the way of an imperial court life – a dynastic fountain of honor and a courtly bureau of ceremonial amenities' in *The Theory of Business Enterprise* (2012[1904], p. 398).

cumulative character of technology in its relations with the workmanship and parental bent propensities; the role of the business enterprise in the modern economy and its effects on business cycles.

(II) An approach initiated by John Rogers Commons, which focuses attention on the evolutionary relations between the economy, law and institutions; the nature of transactions, institutions and collective action, also in their relations to business cycles; the role of conflicts of interest and the social valuing associated with such conflicts; the nature and evolution of ownership, from a material notion of possession, to one of relations, duties and opportunities; the role of negotiational psychology in understanding economic and social phenomena.

(III) An approach developed by Walton Hale Hamilton, Wesley Clair Mitchell and other scholars, dealing with 'market imperfections' at micro and macro levels and their effects on economic systems. The aspects more widely investigated are: market power; the duplication of firms and the inefficiency of many industrial sectors; the insufficient capacity to consume of middle-low income classes; the dynamics of business cycles.

Despite several differences between these approaches,<sup>7</sup> the elements of convergence are remarkable. For instance, between the concepts of ceremonial and instrumental institutions, on the one side, and the process of social valuing, on the other. In this sense, the observed differences tend to concern more the issues addressed than the basic aspects of OIE. The leading ideas of the institutional economists appear to be the following: (i) a belief in the complex and interactive character of 'human nature', and the consequent importance of the social and institutional framework for its amelioration; (ii) a refusal to engage in abstract and deductive theorising, detached from the observation of reality, and, as a consequence, an emphasis on inductive methodology based on case studies and statistical analysis; (iii) the importance attributed to the notion of 'social control', by which was meant a proactive role for institutions and policies in addressing economic and social problems; (iv) an interdisciplinary orientation in order to acquire a more realistic account of the characteristics of human nature in its individual and social unfolding.

This new wave had its seats in various important universities – in particular, Amherst, Chicago, Columbia, Wisconsin – which became the springboard,<sup>8</sup> through their institutional economists, of important collaborations with numerous research institutions and governmental bodies. The general sentiment pervading these initiatives – and, more generally, the social science environment in that period – was one of optimism about the possibilities of social progress. There were in the OIE's heyday<sup>9</sup> several contributions that employed (and even created) psychological concepts for explaining economic behaviour. Such a process was strengthened by the parallel developments in the psychology and philosophy of Pragmatism, and in social psychology.<sup>10</sup> In the next paragraphs we will address in more detail two significant contributions<sup>11</sup> for our theme, Veblen's Theory of Instincts and

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<sup>7</sup> It is also important to note that, as stressed by various authors (for instance, Yonay, 1998), for a number of reasons neoclassical economics and OIE were in the early 20th century much closer than today. However, even in that period, the overall conception and methodology informing these theories remained different.

<sup>8</sup> For more details on these aspects refer in particular to Hodgson (2004), Rutherford (2011), Yonay (1998).

<sup>9</sup> Institutionalism, despite its affirmation in the first decades of the 20<sup>th</sup> century (until the time of the 'New Deal'), underwent afterwards a marked decline that lasted until the late 1980s. We have addressed this issue in Hermann (2018).

<sup>10</sup> We can mention, among others, the contributions of Ernest W. Burgess, Charles Horton Cooley, Everett Hughes, William F. Ogburn, Carleton H. Parker, William Thomas.

<sup>11</sup> As just noted, also other institutionalists provided contributions and/or were aware of the relevance of psychology for the study of economics. For instance, Walton Hale Hamilton (1919), identified for

Commons's Negotiations Psychology.

## **2.2 Veblen's Theory of Instincts**

Veblen, in his book, *The Instinct of Workmanship and the State of the Industrial Arts* (1914), examines the role of two fundamental instincts (or propensities), 'workmanship' and 'parental bent', in economic and social development. Both propensities are intended in a broad sense, 'workmanship' meaning not only technical abilities but the whole of manual and intellectual activities, and 'parental bent' means an inclination to look after the common good that extends beyond the sphere of the family alone.

In Veblen's analysis, these propensities tend, under ideal circumstances, to strengthen one another. This constitutes an important insight confirmed by studies in psychology and psychoanalysis, which stress the need for the person to enhance his or her intellectual, social, and emotional potential through the construction of adequate interpersonal relations.

These propensities are likely to prevail in a situation where other instincts that can act at cross-purposes to them – for instance, predatory instincts which may find expression through a framework of ceremonial and 'acquisitive' institutions based on invidious distinctions – have little social grounds to assert themselves.

Veblen seems to suppose that the first stage of human life was of this kind but that, since then, a number of disturbing factors – mainly related to the affirmation of a 'pecuniary way of life' – have caused a progressive deviation, which was reinforced by a process of cumulative habituation. This idea is conveyed in the following passage,

'The selective control exercised over custom and usage by these instincts of serviceability is neither too close nor too insistent....It appears, then, that so long as the parental solicitude and the sense of workmanship do not lead men to take thought and correct the otherwise unguarded drift of things, the growth of institutions – usage, customs, canons of conduct, principles of right and propriety, the course of cumulative habituation as it goes forward under the driving force of the several instincts native to man,— will commonly run at

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institutionalism the following aspects: (i) Economic theory should unify economic science; (ii) Economic theory should be relevant to the modern problem of control; (iii) The proper subject-matter of economics should be institutions; (iv) Economic theory is concerned with matters of process; (v) Economic theory must be based upon an acceptable theory of human behaviour.

In relation to the latter aspect, he clearly highlights the relevance of social psychology for a more realistic understanding of our behaviour. This is expressed in the following passage, 'The extreme individualism, rationality, and utilitarianism which animated eighteenth century thought still finds expression in neo-classical economics. In its stead a theory of motives must be used which is in harmony with the conclusions of modern social psychology... [neoclassical economics]... assumed that each judgment could be based upon the real facts of the situation and could be made in detachment. It failed to note that my life and yours is a continuous thing, and that what I do today constrains my acts of tomorrow. It overlooked the part that instinct and impulse play in impelling one along the path of his economic activity. And, most important of all, it neglected the influence exercised over conduct by the scheme of institutions under which one lives and must seek his good. Where it fails, institutional economics must strive for success. It must find the roots of activity in instinct, impulse, and other qualities of human nature; it must recognise that economy forbids the satisfaction of all instincts and yields a dignified place to reason; it must discern in the variety of institutional situations impinging upon individuals the chief source of differences in the content of their behaviour; and it must take account of the limitations imposed by past activity upon the flexibility with which one can act in future' (Walton Hale Hamilton, 1919, pp. 316, 317).

cross purposes with serviceability and the sense of workmanship' (Veblen, 1990[1914], pp. 49, 49-50].

This dichotomy lies at the basis of the famous Veblenian distinction between the role of the engineers, acting under the workmanship instinct and therefore directing their actions towards the objective of serviceability, and the role of the capitalists, acting under the influx of propensities at cross-purposes with workmanship, based on acquisitive and aggressive traits, and focused, through the applications of various restrictions on production, on pecuniary gains.

A central element that can strengthen workmanship and parental bent propensities against acquisitive and predatory attitudes rests on the characteristics and intensity of technological progress. In fact, by inducing individuals to adapt themselves to new methods of production, technological progress brings out, through a process of habituation to new habits of thought and life, the workmanship instinct.

As also noted in another work (Hermann, 2015), this view, if not properly qualified, can give rise to a kind of deterministic attitude. In this regard, technological progress is far from being 'neutral' as regards the attainment of social objectives. Therefore, it does not follow a deterministic pattern out of its 'immanent rationality', but it is partly moulded by the characteristics of any given context. In this regard, an increased capacity for analysing social problems – a capacity which can also benefit from progress in the psychological and social sciences – could well be regarded as a genuine expression of the instinct of workmanship which can play a relevant role in social evolution.

### **2.3 Commons's Theory of Negotiations Psychology**

One of Commons's most important insights is that collective action constitutes a necessary element for an adequate performance of individual action. The dialectic and dynamic relations intervening between individual and collective action are effectively expressed in this passage,

'Thus, the ultimate unit of activity, which correlates law, economics and ethics, must contain in itself the three principles of *conflict*, *dependence*, and *order*. This unit is a Transaction. A transaction, with its participants, is the smallest unit of institutional economics... since liberation and expansion for some persons consist in restraint, for their benefit, of other persons, and while the short definition of an institution is collective action in control of individual action, the derived definition is: collective action in restraint, liberation, and expansion of individual action' (Commons, 1990[1934], pp. 58, 73).

Transactions are classified into three categories – Bargaining, Managerial and Rationing – according to the relationship intervening between the parties involved.

The first concerns the relation between individuals with equal rights – which does not necessarily correspond to equal economic power – for instance, between buyer and seller. The second regards the relations between people organised within an institution, for instance between a manager and his or her collaborators. And the third refers to the relations between the person and a kind of collective action where there is less direct involvement. This happens, in particular, with the policy actions of Government and Parliament, but also with the collective action of the most important economic and social associations of society (for instance, political parties, unions, consumers associations).

In order to cast a better light on these manifold phenomena, he elaborated the concept of *negotiations psychology*, aimed at interpreting the conflicts of collective action as expressed through the complex web of transactions and institutions. In his words,

'If it be considered that, after all, it is the individual who is important, then the individual with whom we are dealing is the Institutionalised Mind. Individuals begin as babies... They meet each other, not as physiological bodies moved by glands, nor as "globules of desire" moved by pain and pleasure, similar to the forces of biological and animal nature, but as prepared more or less by habit, induced by the pressure of custom, to engage in those highly artificial transactions created by the collective human will... Every choice, on analysis, turns out to be a three-dimensional act, which – as may be observed in the issues brought out in disputes – is at one and the same time, a performance, an avoidance, and a forbearance... The psychology of transactions is the social psychology of negotiations and the transfers of ownership... Thus each endeavors to change the dimensions of the economic values to be transferred... This negotiations psychology takes three forms according to the three kinds of transactions: the psychology of persuasion, coercion, or duress in bargaining transactions; the psychology of command and obedience in managerial transactions; and the psychology of pleading and argument in rationing transactions... Negotiations psychology is strictly a psychology of ideas, meanings, and customary units of measurement' (Commons, 1990[1934], pp. 73-74, 88, 91, 106).

On that account, we can note that, while it is certainly true that Commons's negotiations psychology originates from his institutional role of arbitrator, it is also true that his vision is inscribed in a more far-reaching social ontology. This perspective rests (in particular, Commons, 1990[1934], Vol. I, Chapter II) on the pragmatist approach,<sup>12</sup> on philosophers like David Hume and John Locke, and on Gestalt psychology. On that account, he clarifies that,

'Negotiations psychology approaches more nearly to the "Gestalt" psychology which, however, is distinctly an individualistic psychology... the resemblance consists in the fact that Gestalt psychology is a part-whole psychology, wherein each particular act is connected with the whole configuration of all acts of the individual' (Commons, 1990[1934], p. 106).

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<sup>12</sup> In this regard, Commons provides interesting remarks on the meanings of pragmatism and their relation with institutionalism, '[in the discussion of pragmatism] we are compelled, therefore, to distinguish and use two meanings of pragmatism: Peirce's of purely a method of scientific investigation, derived by him from the physical sciences but applicable also to economic transactions and concerns; and the meaning of various social-philosophies assumed by the parties themselves who participate in these transactions. We therefore, under the latter meaning, follow most closely the pragmatism of Dewey; while in our method of investigation we follow the pragmatism of Peirce. One is scientific pragmatism – a method of investigation – the other is the pragmatism of human beings – the subject-matter of the science of economics... Not until we reach John Dewey do we find Peirce expanded to ethics, and not until we reach institutional economics do we find it expanded to transactions, going concerns, and reasonable value' (Commons 1990[1934], pp. 150-151, 155). Shortly afterwards, Commons makes other interesting remarks on the reason why he developed his negotiations psychology, 'Something similar is the test in economic science, as Peirce found in physical science. But the essential difference is that physical science deals with knowledge of activities within the body of cosmos, including human beings as nature's objects; while the economics deals with the individual as a citizen endowed with rights, duties, liberties, and exposures, in varying degrees imposed by various concerns. It is this distinction that requires a negotiations psychology, different from historic psychologies and different even from what is currently known as social psychology' (*ibidem*, p. 157).

Within this context, the concept of reasonable value<sup>13</sup> is employed by Commons in order to draw attention to the conflicting, imperfect and evolutionary nature of the process of social value. This is set forth in the following passages,

'The preceding sections of this book brought us to the problems of Public Policy and Social Utility. These are the same as the problems of Reasonable Value and Due Process of Law. The problem arises out of the three principles underlying all transactions: conflict, dependence and order. Each economic transaction is a process of joint valuation by participants, wherein each is moved by diversity of interests, by dependence upon the others, and by the working rules which, for the time being, require conformity of transactions to collective action. Hence, reasonable values are reasonable transactions, reasonable practices, and social utility, equivalent to public purpose....Reasonable Value is the evolutionary collective determination of what is reasonable in view of all changing political, moral, and economic circumstances and the personalities that arise therefrom to the Supreme bench' (Commons, 1990[1934], pp. 681, 683-684).

Reasonable value is, by definition, an imperfect process, whose characteristics can be interpreted as the synthesis of the conflicting and evolutionary components of collective action. The imperfection of social valuing stems also from its partly unconscious and conflicting character, often embodied in habits of thought and life. In this sense, social value process goes to the heart of the nature of political economy, which is considered, not an activity stemming from the application of abstract laws, but as a collective and evolutionary decision-making process involving many institutions. In this sense, political economy has a close relation with law and ethics,

'If the subject-matter of political economy is not individuals and nature's forces, but is human beings getting their living out of each other by mutual transfers of property rights, then it is to law and ethics that we look for the critical turning points of this human activity' (Commons, 1990[1934], p. 57).

### ***Other Contributions of Heterodox Economics***

The previous theories do not exhaust the spectrum of psychological contributions provided by heterodox fields of economics.

Another interesting employment of a psychological perspective can be found in John Maynard Keynes. He was well acquainted with psychoanalysis, and introduced into the *General Theory* (1936) the central notion of 'animal spirits', whereby people engage in economic and social activities, not only out of strictly economic calculation, but also out of a propensity to do something, to keep themselves engaged in social life.

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<sup>13</sup> An interesting definition of the concept of social valuing is the following 'To conceive of a problem requires the perception of a difference between 'what is going on' and 'what ought to go on'. Social value theory is logically and inescapably required to distinguish what ought to be from what is....The role of social value theory is to provide analyses of criteria in terms of which such choices are made' (M. Tool, in Hodgson, Samuels & Tool, 1994, pp. 406, 407). This is linked to the 'instrumental value criterion' which pertains to the goal of 'the continuity of human life and the non-invidious re-creation of community through the instrumental use of knowledge' (Tool, 1986, p. 50).

This notion goes in tandem with his analysis – set forth in *Essays in Persuasion* (1931) – of the long-term transformation of the system. These changes, by increasing the productivity of labour, will open the way for a society of ‘free time’. In this regard, Keynes notes, with a notable psychoanalytic insight, that the main obstacle to this transformation is not technical but psychological. In his words,

‘We are being afflicted with a new disease of which some readers may not yet have heard the name, but of which they will hear a great deal in the years to come—namely, *technological unemployment*. This means unemployment due to our discovery of means of economising the use of labour outrunning the pace at which we can find new uses for labour....But this is only a temporary stage of maladjustment. All this means in the long run *that mankind is solving its economic problem*....[but, despite this opportunity]....Yet there is no country and no people, I think, who can look forward to the age of leisure and of abundance without a dread. For we have been trained too long to strive and not to enjoy....[hence, in this perspective, economics]....should be a matter for specialists—like dentistry. If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!’ (Keynes 1963[1931], pp. 364, 368, 373).

## Conclusions

As emerged from the previous account, the psychological perspectives of pragmatism and institutionalism undoubtedly constitute the most elaborate body of social psychology of the time, which has exerted a significant influence up to our time. As noted before, these theories are different both within and between themselves, but also present notable complementarities. Starting with pragmatist psychology, we can recall its attempt to provide a well grounded ontological perspective to the study of persons in their individual and collective actions.

In a sense, pragmatist psychology is chiefly an extension of the main principles of pragmatist philosophy to sphere of psychological life. However, there are also notable differences between the theories addressed before. In fact, James’s approach is definitely more individualistic than Mead’s. The latter’s perspective is explicitly focused on the analysis of social self and the role of social reform in its improvement.

Despite their differences, James’s and Mead’s theories are complementary in many respects. For instance, there can be a useful synergy between James’s notions of habits, instincts and will, and Mead’s theory of the social self as the integration of various social roles.

The same can be said for Commons’s and Veblen’s psychological theories. In fact, along with various differences, their theories present also notable complementarities. For instance, Commons’s negotational psychology can help locate the Veblenian dichotomy between instrumental and acquisitive propensities in the various transactions (and their interrelations) wherein persons and institutions are engaged. For instance, it is likely that these propensities would find a different expression according to the role of persons and institutions in society. In this sense, along with common aspects, there are distinct ‘psychologies’ for ‘white’ and ‘blue’ collar workers, freelancers, well established professionals, entrepreneurs, capitalists, public officials and politicians.

These ‘psychologies’, in turn, are co-extensive with the nature and evolutions of

economic systems (and in particular, with the complexity of the ‘mixed economies’ of our time).

Similar remarks can be made for the links between pragmatism and institutionalism. As noted before, these theories, along with several differences, also share a common ground whose roots can be found in a cultural climate favourable to the study of real economies and to the realisation of progressive social reforms. The most important implication of this analysis pertains to the necessity of overcoming the fragmentation (or limited collaboration), so often present in social and psychological sciences. As observed by the famous sociologist Karl Mannheim, a landscape can be seen only from a determined perspective, and without perspective there is no landscape. In this sense, observing a landscape (or phenomenon) from different angles (or disciplines) can help us to acquire a much clearer insight into the features of the various perspectives.

### ***Some Implications for Policy Action***

In this respect, the psychological concepts elaborated by institutionalist and pragmatist authors, also in collaboration<sup>14</sup> with social psychology and psychoanalysis, can lead to a better understanding of the features and evolution of social valuing in any given context, which finds expression in the complex tangle of motivations, conflicts, and expectations, both at an individual and collective level. An improved process of social valuation, in turn, will improve the capacity of policy action to understand and respond to the profound needs of society. The stress put by many institutional economists on policy action brings to the fore the issue of economic planning. On that account, OIE (see, in particular, Dugger, 1988; Tool, 1986; 1988), identifies three kinds of economic planning: corporate, totalitarian, and democratic. Corporate planning is the reality of modern capitalism. In this system, the operation of ‘free market forces’ is heavily conditioned by the interests of big corporations.

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<sup>14</sup> For an analysis of some important psychological and psychoanalytic contributions to the study of social sciences refer, among others, to S. Freud (1912-1913, 1921, 1930), Ammon (1971), Bion (1970), Desjarlais and others (1995), Fenichel (1945), Horney (1939), Kahneman and Tversky (2000), Kernberg (1998), M. Klein, Heimann and Money-Kyrle (1955), Nisbett e Ross (1980), Ross and Nisbett (1991), Sullivan (1953).

These studies underscore in various ways the role of groups and organisations in expressing the needs and conflicts of the person. For instance, to the person, the group may represent an idealised ego; and, in this connection, its ‘morals’ and ‘code of conduct’ symbolise parental figures that, through a process of ‘internalisation’, play the role of superego.

In this respect, the concept of the *superego* represents the psychological instance through which cultural values are internalised by the child. For this reason, it constitutes a fundamental link between individual and collective psychology. In this light, and contrary to a rather common view that considers psychoanalysis an individual psychology, it can be interesting to note that Sigmund Freud considers individual and collective psychology as two complementary aspects of the same phenomenon – owing to the circumstance, stressed in particular in his *Group Psychology and the Analysis of the Ego*, that in ancient times, group life was preponderant and that only subsequently has the person gradually come to assume a more distinct role within the various groups of society.

Hence, psychoanalysis can cast light on the psychological conflicts that, while arising in the early emotional life of the child in the family setting, will bear on its future socio-economic relations.

In such enquiry, psychoanalytic concepts can usefully complement with the concepts of pragmatist and OIE psychology. For instance, in the analysis of the effects of psychological conflicts on (i) the formation of the ‘social self’ and the related process of internalising the attitude of others (and hence in the formation of individual and social identity); (ii) in the shaping of the various propensities of the persons.

All this would allow a more far-reaching analysis of the motivations and conflicts underlying the various spheres of economic action – work, consumption, investment, saving – related to persons, groups, classes and how they impinge on the evolution of the system. For instance, does the *homo oeconomicus* maximise money only for ‘material reasons’? Or does the quest for money also cover (in a partly unconscious and conflicting way) the need to be accepted by following a socially approved behaviour? An analysis of this kind is interesting not only *per se*, but also because such understanding can improve the effectiveness of policy action (some more remarks in the next footnote).

They possess a wide array of instruments to influence the structure of all the relevant markets in which are engaged. In Dugger's words,

'The corporation is privately efficient in its pursuit, but it is not socially efficient because its low-cost, high-productivity performance benefit those who control it, generally at the expense of those who depend upon it but frequently also at the expense of the society at large' (Dugger, 1988, p. 239).

Corporate planning is highly hierarchical, since the key decisions are taken by the top managers with little involvement of workers and citizens at large.

Totalitarian planning is a system characterised by a public purpose, which is pursued through a highly hierarchical structure. Such organisations – though they may have sometimes achieved important results in building infrastructure and poverty alleviation – are flawed due to a fundamental lack of accountability and democratic representation. This system, then, by acquiring a marked self-referential character, makes impossible any objective and pluralistic assessment of the policies adopted and the results achieved.

We switch then to the third alternative, democratic planning. This system, although it does not always work miracles, is definitely more promising. In fact, one central difference of democratic planning with respect to corporate and totalitarian systems resides in a better capacity to self-correct – by a process of trial and error – its own shortcomings. Of course, the unfolding of such potential crucially depends on the effectiveness of social valuing<sup>15</sup> related to different policy options. In this perspective, democratic planning can find application in the reality of concerted or regulated capitalism as a powerful way to address the major economic imbalances of our time (and in this way was intended by their chief proponents). In this light, a

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<sup>15</sup> A central step in such process relates to getting a better look at the manifold aspects of our habits of thought as stressed by the pragmatist and institutionalist authors. They shed light on the following aspects of habits: (i) to economise mental energies; (ii) to internalise norms of behaviour; (iii) to adapt to the circumstances of life.

These authors were well aware that habits often embody 'non rational' aspects (in the sense that they are more based on socially shared patterns of action than on a clear analysis of the pros and cons). For this reason, these scholars set, somewhat implicitly, as one goal of their enquiry, the attainment of a better awareness of the inner meaning of our habits of thoughts and life.

On that account, a better social valuation process, by facilitating a thorough comparison between different policy options, most often rooted in entrenched habits of thought, constitutes a crucial step in building more informed policy actions.

Such a process, in turn, can benefit from the employment of the concepts addressed in this work. As a case in point, let us recall Mead's example of persons who would risk their lives to save other persons in danger but that nonetheless would consider 'normal or inevitable' the deaths linked to bad road conditions (or the lack of aid for disadvantaged people). Such habits of thought are most often linked to the neoliberal idea that the state 'cannot afford' the related public spending. In this respect, we can wonder how realistic such a perception is and what is the role of psychological factors in its shaping. For instance, what is the role of *superego* – as a kind of defensive and punitive instance against our aggressive and greedy fantasies – in creating in our mind a notion of 'artificial scarcity'?

An important distinction between natural and artificial scarcity was drawn by Commons. In his words, 'Natural selection, which is the natural survival of the "fit", produces wolves, snakes, poisons, destructive microbes; but artificial selection converts wolves into dogs, nature's poisons into medicines, eliminates wicked microbes, and multiplies the good microbes... here the survival is the "artificial selection" [driven by the social valuation related to different cultural and policy orientations] of good customs and punishment of bad customs, and it is this artificiality, which is merely the human will in action, that converts mechanisms into machines, living organisms into institutionalised minds, and unorganised custom or habit into orderly transactions and going concerns' (Commons, 1990[1934], pp. 636, 638).

These concepts were also expounded by John Kenneth Galbraith's *The Affluent Society*, which has interesting parallels with the OIE's perspective. The closing sentences of this book well synthesise these aspects, 'To furnish a barren room is one thing. To continue to crowd in furniture until the foundation buckles is quite another. To have failed to solve the problem of producing goods would have been to continue man in his oldest and most grievous misfortune. But to fail to see that we have solved it, and to fail to proceed thence to the next tasks, would be fully as tragic' (Galbraith, 1998[1958], p. 260).

wide array of contemporary issues, most often involving a supranational dimension, can be addressed. These include the building of peaceful relations, the reduction of gross inequalities between persons and economic areas, and, as a pivotal theme traversing the previous issues, the solution of environmental problems.

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