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THE INSTITUTIONAL ANALYSIS OF THE MARKET AND ITS LINKS WITH GREEN ECONOMICS+

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INTRODUCTION

In our work, we will analyse the importance of a social and institutional framework for the existence and evolution of the "market economy", with a special focus on the interrelated issues of sustainable development and social justice.

As is known, the analysis¹ of the market constitutes perhaps one of the most controversial aspects in the study of the various forms of economic organization.

For instance, the long-standing debate on "market socialism" has triggered diametrically opposed positions as concerns the role played by the market in economic and social development: on the one hand, advocates of this system posit that the market existed before capitalism and, as a consequence, can also be present in a socialist society; on the other hand, opponents maintain that the market constitutes an economic device for the exploitation of workers and, as such, can exist in its most developed form only in a capitalistic economy. Even among non-socialist economists ideas widely differ with respect to the role of the market in many structural, and related, issues—for instance, scientific and technological progress, economic development, unemployment, environmental protection.

As a matter of fact, the analysis of the market lies at the juncture of many important aspects of economic and social structure and the corresponding policy action: in particular, public action and private initiative, forms of competition, and the correlated concepts of capitalism, socialism, sustainable development, participation and democracy.

In order to enquire into these complex relations, we employ, in an interdisciplinary and pluralistic perspective, a number of contributions from institutional economics and other important social and psychological theories.

In light of these insights, we try to evidence that the market does not constitute an "exogenous mechanism" but, rather, an institution which co-evolves with other institutions, thus contributing to shape the distinctive economic, social and cultural features of any given context.

In the analysis of such issues, these theories can contribute to cast a deeper light on the following interrelated aspects: (i) the structure of collective action; (ii) the relations between market and non-market arrangements; (iii) the nature of market failures and

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¹ This work builds on my article "The Institutional Analysis of the Market", published in the *International Journal of Green Economics*, vol.2, n.4., pp.379-391, 2008; link www.inderscience.com/ijge

imperfections; (iv) the problems of co-ordination between the various policies bearing on the market structure, also considered in their supranational dimension.

1. THE APPROACH OF INSTITUTIONAL ECONOMICS

As is known, institutional economics² originated in the United States in the first decades of the 20th century. Its cultural roots can be identified in the philosophy and psychology of Pragmatism — in particular in the theories of Charles Sanders Peirce, John Dewey and William James — and in the German historical school, whose principles were developed by a scholar, Richard T.Ely, who had a considerable influence on the formation of the first generation of institutionalists.

The principal exponents of institutional economics are Thorstein Veblen, John Rogers Commons, Wesley Clair Mitchell and Clarence Ayres. Relevant contributions were also provided by J.Fagg Foster, David Hamilton, Walton Hale Hamilton and Gardiner C.Means.

Significant contributions with important connections to institutional economics were provided by, among others, John Kenneth Galbraith, Fred Hirsch, Albert Hirschman, Gunnar Myrdal, Karl Polanyi and Michael Polanyi. Furthermore, institutional economics has significant links with other significant strands of social thought: among others, philosophical realism, the "new economic sociology", and the theory of technological innovation falling within the "neo-Schumpeterian" tradition.

Within institutional economics, two main groups can be identified: (i) the *old institutional economics* (OIE), constituted by the first institutionalists and by subsequent scholars who shared its main concepts; (ii) and the *new institutional economics* (NIE), composed of later scholars adopting principles having important references in the Neoclassical and Austrian traditions³.

The pivotal concepts characterizing the *old institutional economics* can be summarized as follows: ceremonial/instrumental behaviour dichotomy, instincts, culture, evolution, habits, path-dependency, tacit knowledge, technology, collective action, working rules and social valuing. As evidenced by numerous authors, OIE does not present a

³ For an analysis of the potentialities and problems of collaboration between the OIE and NIE refer to the previous quotations. In another work, we have shown the usefulness of employing the conceptual framework of the OIE — in particular, the concepts of habits, social valuing, path-dependency, culture and evolution — in order to cast more light on the evolutionary and institutional contents of concepts (in particular, transactions costs, informational asymmetries and principal/agent relations) developed in particular by NIE contributions.

² For a detailed analysis of these issues refer, among others, to Hodgson (2004) and the Elgar Companion to Institutional and Evolutionary Economics (1994).

completely unitary framework; within this ambit, two main strands can be identified:

- An approach first expounded by Veblen, stressing the dichotomy between ceremonial and instrumental institutions; the role of habits of thoughts and action; the cumulative character of technology in its relations with the workmanship and parental bent propensions.
- An approach initiated by Commons, which focuses on the evolutionary relations between economy, law and institutions; the nature of transactions and institutions; the role of conflicts of interest and of the social valuing associated with them; the evolution of ownership, from a material notion to one of relations, duties and opportunities; the role of negotiational psychology for understanding economic and social phenomena.

Notwithstanding some differences between these approaches, the elements of convergence are remarkable: for instance, between the concept of ceremonial and instrumental institution, 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 the OIE.

Within this conceptual framework, institutional economics highlights that the presence of a collective context — with its values, norms, organizations, routines, customs and habits — represents a necessary factor for the performance of human activity in the socio-economic domain. In fact, every individual action possesses, simultaneously, also a social, institutional, historical and psychological dimension. For this reason, an understanding of economic actions requires a joint analysis of all these dimensions which, of course, necessitates the adoption of an interdisciplinary approach.

Now, we will concentrate on a number of aspects of Commons's theory of collective action, as it lays the foundations of the institutional analysis of the market.

2. COMMONS'S THEORY OF COLLECTIVE ACTION

One of Commons's most important insights (in particular, 1924 and 1934) is that, within a social context, collective action is a necessary element for the 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.", (Commons, 1934: 58).

Transactions are classified into three categories — Bargaining, Managerial and Rationing — according to the relationship established between the parties involved. The first concerns the relations between individuals with equal rights — which do not necessarily correspond to equal economic power — for instance, between buyer and seller; the second regards the relations between people organized 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 no direct involvement, as it happens, in particular, with the policy action of Government. These transactions are quite diverse according to the degree of direct intervention of collective action but, at the same time, are extremely intertwined. In their various combinations, they make up the tangled weft of collective action. It is interesting to observe the complex, conflicting and evolutionary role that institutions perform in Commons's analysis, as expressed in the following passage,

"Since liberation and expansion for some persons consist in restraint, for their benefit, of other persons, and while the short definition of an institutions is collective action in control of individual action, the derived definition is: collective action in restraint, liberation, and expansion of individual action", (Commons, 1934: 73).

The importance attributed by Commons to "human-wills-in-action" and his interpretation of collective action as a system of transactions does not imply, however, the adoption of a mere "contractual" view of institutions that overlooks the role of coercion and unexpected consequences of human action. In fact, in many ways collective action has

a bearing on individual behaviour and, furthermore, can generate effects which do not reside in the intentions of the individuals promoting it. But, and this constitutes one of Commons's most significant insights, individual action tends increasingly to take place within institutions — e.g., within a framework of collective action — rather than unfolding through a series of self-contained acts.

In particular, his definition of transactions and institutions makes it easier to look into the various forms of collective action in the economic, social, cultural and psychological domains, also in their interrelations with political economy.

In this connection, Commons elaborated the concept of "negotiational psychology", which should be employed for a better understanding of the complex relations underlying the various transactions and institutions in their individual and collective dimension. Indeed, negotiational psychology involves the idea of conflict between different feelings and values, which find their manifold expressions at the various level of collective action.

The Juridical Articulation of Transactions and the "Double" Definition of the Market

As we have seen, an interesting aspect of Commons's analysis rests on the joint consideration of the individual and collective element as two necessary aspects of collective action. This entails a shift of the analysis from a "man-to-nature" to a "person-to-person" relation. Even when the action seems utterly individualistic — for instance in the case of a bargaining transaction where the buyer and the seller seem to act exclusively out of their personal interests — there is the presence, often implicitly, of a significant collective element.

By employing these concepts, it is possible to identify for every transaction — which, as observed before, are classified into bargaining, managerial and rationing — the set of rights, duties, liberties and exposures, which are exercised through a combination of performance, forbearance and avoidance behaviour. In this way, it is possible to address in more detail the significant relations occurring inside and between the various transactions, and how they impinge upon the related social, cultural and institutional framework. In particular, the complex relations between:

- "market and hierarchy", which refers to the distinction between bargaining and managerial transactions;
- "market and political economy", which alludes to the distinction between bargaining and rationing transactions;
- "hierarchy and political economy", which can be traced back to the distinction between managerial and rationing transactions;
- as a way of synthesis, between "market, hierarchy and political economy".

With regard to the analysis of market-based transactions, in Commons's theory the concept of market acquires an interesting "double" meaning, which relates to the various definitions of the market in economics. In fact, Commons's notion of the market, which includes not only the sphere of exchange but also that of production, is of particular value for our theme as it orients the analysis to important phenomena like cooperatives organizations and collective bargaining. In Commons's words,

"With Ricardo, as afterwards with Marx, a market was a part of the whole process of production, and not a process of bargaining....This technological process of a marketing mechanism, considered as a part of the process of producing use-values, we distinguish as the technology of marketing. The other meaning is the institution of bargaining. These meanings are the difference between managerial transactions and bargaining transactions....This double meaning of marketing and exchanging was the root of difference between Malthus and Ricardo. It persists, with practical consequences, in modern economics. One is the technology of markets, the other is the pricing and valuing upon the markets.", (Commons, 1934: 364, 365).

In this respect, Commons provides a historical reconstruction of the emergence of the market, in which he underscores the importance of deliberate public intervention in its creation. The origin of the market is located in the following process, in which the role of the justice courts in deciding disputes and so establishing the reasonable value (cf. the next paragraph) prevailing at the time appears paramount,

"....A market usually originated with a special monopolistic franchise, named a "liberty," and granted to a powerful individual or ecclesiastical magnate, authorizing him to hold concourse of buyers and sellers, with the privilege of taking tolls in consideration of the protection afforded. These markets, thus established, were governed, eventually, by rules laid down by the common-law courts in the decisions of disputes, but originally by rules of their own making. The courts, in their decisions, developed the principle of the "market overt," or the public, free and equal market....These principles were not something innate and natural but were actually constructed out of the good and bad practices of the time. The early physiocrat and classical economists thought of them as handed down by divine Providence or the natural order.", (Commons, 1934: 775).

Social Value and Policy Action

As we have seen, Commons's analysis of transactions includes, in their mutual interaction, all kinds of social and economic relations—from the more individualistic to the more collective ones. In this respect, a crucial element concerns the role played by all these transactions in making up policy action. These aspects, in turn, relate to the importance of the process of social value in the dynamics of collective action. Within this ambit, Commons elaborated the concept of reasonable value in order to draw attention on the conflicting and evolutionary nature of the process of social valuing. In this sense,

"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....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, 1934: 681, 683-684).

Reasonable value is by definition an imperfect entity whose characteristics can be interpreted as the synthesis of the conflicting and evolutionary structure of collective action. In fact, the social value process goes at the heart of the nature of political economy, which is considered not as an activity stemming from the application of some abstract laws but as a collective decision-making process involving many groups and institutions.

3. THE MARKET AS A MANIFOLD ENTITY

Now, we try to employ these concepts for the analysis of some controversial aspects of the market. In this regard, it can be useful to look more closely into its definition. The market, in its simplest and broadest meaning, can be defined as the possibility for persons to exchange their goods and services, either directly or through the medium of any socially accepted definition of "money".

As can be seen, this definition includes a countless range of economic situations: for instance, isolated, bartered-based, exchanges in primitive economies, or more articulated exchanges in well developed markets—which can be more or less capitalistic or socialistic. In the related debate, and also in psychological perception, the market appears as a manifold entity, which embodies various and often contradictory features. In this sense, the market can appear, on the positive side, as

- (I) An instrument for attaining more liberty and better economic co-ordination, in that it allows the unfolding of personal initiative and creativity through a system of decentralized actions.
- (II) A means for comparing and revealing information about the characteristics of goods and services.

On the negative side, the market can appear as:

- (III) A device, under the appearance of equal opportunities in the labour market, for exploitation of workers.
- (IV) A way for devising, within the reality of pronounced market imperfections, unfair deals in the marketplace, through reduction in the quality of products and shrewd manipulation of information realized also by means of well organized advertisement strategies.
- (V) As a consequence of these negative characteristics, the market may constitute an ineffective system for resource allocation. Also for this reason, the market is likely to entail alienation, frustration and distorted social value process for all the participants, also through its effects on the increase of the economic inequalities, the uncertainty and disorder of the economic system, and the environmental decay.

What is the relevance of all these aspects? In our view, they are all potentially truly significant for social life and interact among one another in a dialectic and conflicting way. The prevalence of one or the other depends on the social, economic and psychological relations underpinning market structures and the related typologies of transactions occurring therein. If these relations engender an increasingly unequal distribution of power and income — in short, if they rest on a kind of more or less sublimated "predatory attitude" rooted in the structure of the social, cultural and institutional framework — then it follows that the market can reinforce the negative effects outlined before. But, supposing that the predatory aspects are not so predominant, the positive effects of market can, at varying degrees, outweigh the negative effects.

In our view, the real problems do not lie in the market — e.g., in the exchange activity per se — but in the complexity and often conflicting character of our motivations which are reflected in, and at the same time blurred by, the complexity and ambiguity of the market in any given context.

In fact, there occurs a complex reciprocal interaction between the "individual" and "holistic" aspects of the market, where, in the former, individual action influences market structure and, in the latter, market structure has a bearing on individual behaviour.

For instance, a professional can sell his or her services in the market chiefly out of creative and altruistic motivations — for instance, out of Veblen's workmanship and parental bent propensions — but even chiefly out of predatory and aggressive propensions aimed at increasing without limits the quest for money and power. And, in turn, market structure impinges more or less heavily on the shaping of these propensions and the related "freedom" of individual action within the market.

Thus, different propensions, both among different individuals and within the orientations and motivations of each individual, are likely to be always present in the market and therefore constitute one of the most intricate aspects of the socio-economic dynamics.

By adopting this approach, the market cannot realistically be appraised as an abstract mechanism amenable automatically — provided only that it be perfect enough — to individual and social utility maximization.

In fact, the market constitutes an institution which has been created and maintained by public policies and therefore is heavily embedded in the economic, social and cultural domain. This happens not only when market transactions clearly acquire the nature of a social and cultural phenomenon, as in the cases, widely investigated in social sciences,

of the numerous economic relations framed within a well-established family and social network of customs, trust, kinship, friendship and citizenship.

As a matter of fact, even the (seemingly) most atomistic and impersonal transaction occurring between individuals unknown to each other is rooted within a dense framework of collective action, with all its rights, duties, values and cultural orientations. In this sense, the "market" implies, on the part of the actors involved, a process of social valuing which, however, can be seriously impaired in situations where the negative aspects of market prevail.

Furthermore, it is important to remember that market relations certainly constitute one important way for expressing predatory attitude but by no means the only one. In this sense, predatory behaviour can be present also in non-market relations and, in this regard, human history is full of these instances. Thus, the fundamental problem becomes to understand the psychological reasons and problems underlying predatory relations in their connections with the economic, social and cultural structure.

Likewise, the market does not constitute the sole instance for expressing personal initiative. In fact, on the one side, market can be compatible with a socialist society; and, on the other side, personal initiative can unfold very well in public administration providing that the related organization is flexible enough for allowing a real involvement of the workers in its activities. As emerges from Commons's analysis and, within a different context, from the literature on quasi-markets, forms of transactions and competition can exist in any kind of public institution.

The International Dimension of Market Relations

In that connection, it is worth noting that the more harmful effects of market relations tend to be more pronounced in the international domain. In fact, as investigated in particular by the literature on economic development and on the "unequal exchange", it is through the internationalization of production involving the developing and emerging countries that the worst forms of exploitation are likely to take place. There are several reasons for this. Firstly, as highlighted in particular by Veblenian contributions, the formation of modern nation-states has its economic and cultural ancestors in ceremonial institutions chiefly rooted on emulative and predatory habits of thought and life.

In this respect, the capitalistic institutions of today, including the juridical form of nationstate, continue to express these predatory attitudes, even though, as we have seen, in Veblen's analysis such situation could be overcome by the rationalizing role of technology. But, this being the case, then it follows that competition associated to market process comes about not only between individual and firms but also, and perhaps even more, between nations and larger supranational agglomerations. As a matter of fact, in the latter cases economic competition is likely to be more intense. Not only because a cultural and political rivalry is most often injected in such competition, but also for the reason that such competition — unlike national situations where in most cases economic competition is regulated and "concerted" in many respects through legislative and contractual provisions — tends to be almost completely unregulated in the "globalized" world.

True, there are important initiatives for promoting fair trade but they have not yet taken a strong foothold in developing and emerging economies.

Market, Capitalism, Socialism and Democracy

We will address some elements of such issues by analysing how institutional analysis can help us to define significant aspects of market, capitalism, socialism and democracy.

For instance, what has been the historical evolution of capitalism towards economic systems marked by a growing complexity of public intervention in the economy? And, with respect to the various conceptions of socialism, what are the criteria for evaluating "what is socialized" and through which institutional frameworks are the decisional processes in a hypothetical socialist society organized? If the socialization extends beyond income distribution, the central problem becomes that of ensuring an increasing participation in collective life: that is, of realizing an increasingly complete form of democracy. But how can we appraise whether these conditions are met in real situations?

The previous considerations directly bear on the role of the market and the forms of competition in social dynamics. This is perhaps one of the most controversial aspects in the debate on the various forms of socialism. In fact, as underlined in particular by the literature on market socialism, the market is not necessarily associated with capitalism. In fact, in the opinions of many authors, market pre-existed capitalism and, consequently, can also exist in a socialist⁴ society.

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⁴ In Lawler's analysis (in Ollman, 1998) the decisive factor for the development of the socialist economy is not the elimination of the market for goods but the progressive limitation and regulation of competition in the labour market. Of course, as we are trying to make evident, also the market for goods would require different types of

The main problem in this debate is that the concepts involved are extremely complex and intertwined and can be interpreted differently according to the experiences and values of the different subjects. In fact, as we have tried to show, the market does not constitute an "exogenous mechanism" in relation to the goals and values of the subjects involved. But, rather, it is an institution that, with its relationships of "conflict", "dependence", and "order" — which are expressed, as noted above, in a complex system of juridical relations of rights, duties, liberties and exposures — evolves along with other institutions, thus contributing to identify the distinctive features of economic, social and cultural evolution⁵ in any given context.

In this respect, if we consider the alleged more free market-oriented productive sectors, we realize that, even in these instances, consumers' demand rarely constitute the sole criterion for the existence and development of these sectors.

Indeed, in the related policy action there often comes into play other goals which tend to embrace numerous policies and institutions: for example, scientific and technological development, increase in employment, industrial restructuring, social and environmental impact. Moreover, these policies tend to carry multifarious influences on consumers' demand.

This complexity tends also to be reflected in the increasing articulation of the ownership structures of companies, which tend to mirror the presence of the various — "public" and "private" — interest groups involved⁶.

It is also important to note that changes occurring in the market system directly impinge upon the forms of competition: in this sense, we can observe — without entering into

intervention and would be compatible with a notion of socialized ownership (for a comprehensive analysis of socialist thought see the encyclopedic work edited by A.Salsano, *Antologia del Pensiero Socialista*, Bari, Laterza, 1979)

In this regard, we can note that the issues of market socialism can receive a better insight by employing also the concepts of institutional economics and psychoanalysis. In this regard, a good example is Commons's account of the evolution of the concept of ownership, from a notion of simple possession of goods to one of relationships, rights, and opportunities referred to as incorporeal and intangible property. In this regard, Commons shows how the evolution of the concepts of ownership and freedom has accompanied the birth and evolution of capitalism that saw (and sees) the rise and development of new social classes in respect to which has arisen the need of building a body of norms, transactions and institutions in order to increase their participation in economic and social life. With regard to the worker, this implies a significant shift from a physical concept of ownership, tending to consider the workforce as mere goods, to a notion of rights and relationships extending their opportunities to participate in productive life. It is from this basis that, through a wide scrutiny of legislation and court rulings, Commons investigated the evolution of labour rights, union rights, and social legislation. We can also observe that the enquiry into these issues would demand a more pluralistic and socially—grounded approach to the notion of human capital (for an interesting analysis cf. Bottone 2008).

⁵ This relates to the importance of cultural factors (meant in a broad sense) in determining the forms of economic and social organization: in this regard, we can observe that in different historical experiences the various forms of capitalism and socialism, while sharing important features and in turn influencing pre-existing cultural structures, also acquired their own distinct specificity.

⁶ It is important to note that also the notions of "public" and "private" are not absolute concepts but are created by, and evolve with, the set of norms, institutions and policies of any given context.

the complex psychological and social implications⁷ of the concept of competition — that competition does not constitute a static concept but evolves along with the transformations of economic and social organization.

Bringing together Liberty and Social Justice

The previous discussion directly bears on the issues of democracy and participation, which, as is known, have always been the crux of the debate on the various forms of economic organizations. As a matter of fact, there seems to exist an irreconcilable trade off between social justice, on the one hand, and liberty and democracy, on the other.

In this regard, socialist thought often regards the so-called "bourgeois liberty" and the market system associated with it as a stratagem for exploiting the worker in the factory system under the guise of an apparent equality of conditions.

For instance, in Marxist theory the market produces an "exchange of equivalents", which, however, actually is based on workers' exploitation and on the corresponding extraction of their "surplus value", which accrues to the company's owners. As a consequence, the most appropriate solution would be — possibly through a revolutionary process — the abolition of this system of the "freedom of the strongest" and the establishment of a system of centralized economic planning, the contents of which are to be defined by the new political leaders⁸.

This solution, however, as pointed out by many scholar both pro- and anti- socialism, is inadequate for reaching the goal of a complete development of the person. This type of system, in fact, gives rise to problems of self-referential action at all levels of public management. For that reason, all the problems of policy action and the related tendencies towards authoritarian "solutions" (see also the next sections) tend to become more acute.

In fact, even supposing that political leaders are driven by the best intentions to realize the common good for citizens — a hypothesis known in economic literature as that of the "benevolent dictator" — there remains the fundamental problem of evaluation: what

"institutional" character. As effectively expressed by Commons, "Competition is not Nature's "struggle for existence" but is an artificial arrangement supported by the moral, economic, and physical sanctions of collective action.", (Commons, 1934: 713).

⁷ It is important to note that competition arises not only in economic action. As widely investigated in psychology, psychoanalysis and sociology, forms of rivalry and competition, often associated with emotional problems, are likely to play a pivotal role in childhood during family and school experiences. Relatedly, social environment can also embody forms of competition among persons, groups, classes, institutions and nations based on values not directly economic-driven, such as influence, power and prestige. In this regard, also competition assumes a distinct "institutional" character. As effectively expressed by Commons, "Competition is not Nature's "struggle for

⁸ In this regard, it seems appropriate to pinpoint that in every process of social change Marx gave primary importance to workers' active participation in all aspects of collective life (cf. also the next footnote).

are the social arrangements (and hence the corresponding norms and institutions) for assessing whether the policies pursued are truly "socialist"? On the basis of what criteria, informational background and systems of coordination are made the thousands of micro-decisions necessary to keep the system working? How can those who govern provide for the full expression of the true needs of citizens without involving them in the process of social decision-making? And how can citizens express their different wills, opinions and conflicts in this context?

From such considerations one can infer that, if socialism means a type of social organization the main goal of which is citizens' untrammeled participation in economic and social life then, in addition to the satisfaction of primary needs, a system of substantial democracy constitutes an essential ingredient of every socialist organization. But, critics could object, democracy implies freedom and freedom means the possibility for the individual to carry out his or her own initiative, which can lead to different outcomes in the economic sphere, according to circumstances. As a result, critics claim, democracy would once again provide the opportunity for individuals to exploit their fellows and so to obtain unfair advantages, with all the resulting negative consequences.

How, then, can freedom and social justice be brought together? In this regard, we believe that a joint consideration of institutional theories and psychological sciences can contribute — by helping to identify the advantages and disadvantages of the various options of economic policy — to bring to the fore the issues related (and extremely interwoven) to both the "collapse of capitalism" and the "cultural indeterminacy" of socialism⁹. An analysis of this sort involves the definition and study of the following interrelated aspects:

⁹ For instance, J.A.Schumpeter, in his book *Capitalism, Socialism and Democracy*, points to the growing complexity and "bureaucratization" of the system as a main cause for the collapse of capitalism and — from the title of an address delivered before the American Economic Association the 30 December 1949 — for the corresponding "March into Socialism". Interestingly for our theme, in his work the so called "March into Socialism" does not acquire a deterministic character because he stresses the importance of the "cultural indeterminacy" of socialism—an aspect which, as can easily be noted, is also at the heart of the institutional analysis. Nevertheless, as highlighted by many authors, Schumpeter's perspective tends to be in many respects considerably distant from heterodox economics and closer to neoclassical economics.

It is also worth noting that one reason for this complexity can be found in the parallel increase in the complexity of the various "macro-fields" of the system (for example, science, technology, economy, society, culture, ethics and values). In this sense, it is interesting to observe that policy measures taken toward administrative simplification and privatization of public utilities have shared the common need to try to manage an increasingly complex system. As also noted in another work, these measures have not eliminated the strategic role of public intervention: for example, privatization of public utilities and the parallel creation of regulatory authorities increased, among numerous other effects, the need for better coordination among the policies and institutions which in various ways impinge upon the structure and evolution of these companies.

Recognizing the importance of the role of public intervention in the economy does not imply, however, that in the early periods of capitalistic development such intervention had played a secondary role. As also stressed in Karl Polanyi's seminal book (1944), not only was public intervention in the economy never absent in that period but,

- Functions and evolution of social classes and groups in relation to the various forms of capitalism, socialism, and democracy, considered also in their institutional expressions. In this sense, the problem becomes not the elimination of the functions of the various social classes, if held useful for the development of the system, but rather the elimination of the privileges built on these functions.
- ◆ Workers participation in the new institutions of production¹⁰ and the related problem of continuing upgrading their capabilities. In this regard, as proposed by Schweickart (1998), it can be useful to distinguish between negative controls, aimed at progressively reducing the harmful effects of economic activity and positive controls, aimed at facilitating patterns of behaviour considered beneficial for the system—for example, development of individual knowledge and creativity. It would thus become possible to build, through appropriate policies, an economic environment which, without eliminating individual freedom and expression, is nevertheless able to increase the beneficial effects and substantially reduce the potentially harmful effects of economic action.

conversely, it had played a major role in the development of the main institutions of capitalism.

¹⁰ For a more in-depth treatment of these aspects, see Jossa (2005), who stresses the importance of the co-operatives of production for increasing workers' participation and reducing the power of abstract and alienated capital. In this respect, he also emphasizes that Marx, within the necessarily long process of transition to socialism, looked favourably upon the institution of co-operatives of production. On these aspects see also Ollman and Salsano, quoted.

4. THE LINKS WITH GREEN ECONOMICS

The previous conclusions, mainly based on the approach of the "old institutional economics" (OIE), are particularly relevant for the issues elaborated by Green Economics. In fact, as highlighted in particular by Reardon (2007), there are significant similarities between a holistic perspective in social sciences and Green Economics in that both adopt a pluralistic and interdisciplinary approach to the study of economic and social phenomena.

In this light, let us know briefly consider how the previous analysis can be utilised for addressing many issues relevant to Green Economics. An approach whose aim is,

"....to create a new discipline that works for the benefit of all people everywhere, for the planet, the biosphere, non-human species, nature, and other life forms. Green Economics integrates ideas and theories, which are also designed to help end the systemic and institutional causes of inequity and poverty.

It therefore takes an inclusive approach, promoting fairness, equity, participation, freedom, democracy with social and environmental justice at its core.", (Kennet and Heinemann, 2006: 70)

As can be easily noted, this view embodies and encourages a thorough process of social value which constitutes, as we have seen, a leading concept also of the OIE. The essence of that process is effectively set forth in the following passage,

"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 e Tool, 1994: 406, 407).

This theory is particularly relevant for casting more light on the links between market structure and the attainment of environmental and social objectives.

In fact, as we have tried to show, the market should not be appraised as an "exogenous mechanism" but as an institution created and maintained by a complex web of norms, institutions and policies and, therefore, heavily embedded in the social and cultural domain. In these dynamics, social value process plays an exceedingly important role,

because it permeates all the economic, social and cultural relations occurring therein. However, as also emerges from the previous discussion, social value constitutes an evolutionary and imperfect entity, heavily rooted in consolidated habits of thought and life, which often acquires an implicit and conflicting character. For this reason, one significant explanation of financial crisis and other drawbacks pervading economic systems can be traced back to the shortcomings of the social value process — namely, of policies, institutions and, more generally, of the dynamics of collective action — to respond to the profound needs of society.

The Mythology of the Perfect Flexibility of the Market

An instance of the usefulness of considering the microeconomic — e.g., the institutional-based — foundations of macroeconomic dynamics can be found in the analysis of the so-called market "rigidities". These rigidities, highly present in many markets, have been deeply investigated especially within institutional and regulatory economics, and within the Keynesian developments of macroeconomics.

These rigidities are often depicted only as a negative factor as they are supposed to impair, by deviating the economic system away from the "first best" world of perfect flexibility, the growth potential of the economy. Hence, in the discussion of the economic aspects of a market, synthesized in the general equation:

$$D(p) = S(p)$$

where $\bf D$ is the aggregate demand, $\bf S$ the aggregate supply and $\bf p$ the price, we should consider that the analysis of all the possible rigidities is much more complex than it appears at first sight.

In fact, these "rigidities", as embodying complex institutional relations and expectations, should not be considered only negatively as "market imperfections", since they also perform the fundamental function of stabilizing all the "market" and "non-market" institutional-based frameworks upon which the economic, social and cultural fabric rests.

In this sense, one of the fundamental role of these rigidities is to reduce transaction costs which, in this light, should not be interpreted simply as a "market imperfection" but as a highly institutional-rooted phenomenon.

Hence, it seems paramount to regard any given market structure not as an isolated phenomenon but as an institution which interacts in a complex way with the economic, social, cultural and psychological relations which concur to shape any given ISEF.

For instance, in analysing, for a given market, the slow reaction of demand and supply behaviour to changes in "the other side" of the market (supply and demand, respectively), institutional and Keynesian oriented theories stress the importance, for the demand side, of the role of imperfect and asymmetric information. And, for the supply side — in particular in the theory of "small menù costs" — of the role of transaction costs and the related difficulty of promptly modifying the middle and long-term firm's strategy.

For instance, the difficulty or unwillingness of a firm to promptly adjust its price strategy whenever it would seem profit-maximizing takes, in a sense, an objective character — as when it is expensive to continually update information and/or there are administrative costs in managing too frequent changes in prices. At the same time, however, one important source of such difficulty lies in the circumstance that all the transactions wherein a firm is engaged carry with them also significant social, cultural and psychological aspects. For this reason, changing a price also implies modifying these social relations and, for this reason, too frequent changes may, at real or imaginary level, jeopardize the stability and reliability of these relations.

The same reasoning can be applied to the demand side, and to all "managerial and rationing transactions" identified by Commons, in particular labour relations and the process of formulation of policies.

In all these instances, the search for more stable and "institutionalized" patterns of action can also express the profound need, stressed in particular by psychoanalysis, of establishing sound interpersonal relations. In this respect, collaboration between institutional economics and psychoanalysis can help to locate more precisely the multifarious and conflicting ways of expressing these instances within any given ISEF and, on that basis, to formulate policies more focussed on the profound needs and orientations of society. In that connection, the failures of the market in "signalling" the negative effects of economic action on environmental and social objectives do not simply reflect some "negative externalities" and "imperfections" of an otherwise "perfect

Administration, 1913).

¹¹ This theory highlights that firms, even in presence of little costs of adjustment — as in the case of a restaurant menù — often do not quickly modify their prices even when it would seem more profitable to do so. The same phenomenon has been discovered in labour markets, where both firms and workers prefer to negotiate long-term contracts. It is also interesting to note that this theme had already been investigated by Commons in his enquiry into the emergence of unions and labour contracts in the USA (cf. in particular the essays contained in *Labor and*

mechanism". Rather, according to our definition of the market, these failures witness and convey a more profound difficulty of economy, society, institutions and policies to really embrace these objectives within their action.

Looking beyond the Metaphysics of "Utility Maximization"

In this perspective, this institutional approach implies a critical appraisal of the concepts typical of mainstream economics, in particular markets perfection and utility maximization. As a matter of fact, our analysis pinpoints that a "perfect flexibility" of the market is a goal neither feasible nor advisable. In fact, pushing flexibility too much would not warrant any maximization as it would end up jeopardizing the social and cultural fabric which, as we have seen, constitutes an essential ingredient of market relations.

This reasoning bears, of course, also on the related concept of "utility maximization" which, as is known, lies at the heart of mainstream economics as an attempt to explain every human behaviour in strictly-conceived economic terms. In this hypothesis, people act like rational calculators. Hence, if a person prefers A to B this implies that he or she has maximized their utility function. Everything people would do is only for the sake of maximizing their real or virtual net revenue. In fact, this theory tends to postulate a kind of in-born "rational" behaviour in human action. For this reason, every action must be rendered compatible with such postulate and, furthermore, must always acquire an economic dimension. Also altruistic behaviour, when admitted in orthodox analysis, is explained as a way to obtain more net gain in the future—for instance, in the form of social approval, which, therefore, is always rated in economic terms.

In this way, however, as extensively highlighted in another work, such analysis becomes generic and unclear as it rests on a quite unrealistic basis. In fact, according to mainstream hypotheses, economic action must be considered as a kind of behaviour — whose "instrumental logic" is fully independent of the social domain — which "naturally" embodies all degrees of perfection and "rationality": hence, every human action is, by definition, utility-maximizing in economic terms, and then, little, if any, can be improved upon such already-perfect-behaviour. In this sense, as underlined in particular by Veblen, mainstream world of perfect, immutable, ahistorical "rationality" comes to be similar to a metaphysical entity.

Conversely, in institutional analysis "the rationale" of economic behaviour cannot be predetermined in advance and away from social context. In fact, as many psychological,

social, economic, historical and cultural dimensions combine to explain altruistic behaviour, the reasons for such behaviour should be found in the complex interchange of these dimensions. In this light, economic action acquires a dense social and cultural meaning, often involving several conflicting (and related) dimensions, which cannot be reduced to a simple parameter of "instrumental rationality" of an isolated individual.

In this context, the criteria for assessing the adequacy of the market in attaining policy objectives should acquire a broader social dimension, just because the market constitutes a social phenomenon. Hence, instead of considering isolated individuals who, out of their unsocial and monetary-based "utility maximization", will, at same time, also realize a "social maximization", it would be much more realistic to work out the following questions: if the market constitutes a part of a broader social and institutional framework, then, to what extent should it exist and how should it be organized for attaining the economic and social objectives?

The focus on collective objectives is not tantamount to downplaying the importance of individual action. Rather, is a way to give it its full significance. In fact, as theorized in particular by Commons, individual and collective action should not be considered as opposite entities as they constitute different aspects of the same phenomenon of "human-wills-in-action". As a matter of fact, an overwhelming stake of our individual action takes place within a collective domain—namely, within a well defined framework of institutions, transactions and policies.

In this regard, these phenomena can receive a more far-reaching explanation also by considering the many links between institutional economics and other social and psychological sciences.

The "Trading" of the Environment and the "Willingness to Pay" Concept

As a way of conclusion, let us briefly consider the rationale of the "willingness to pay" concept underlying many green tax policies. Here, we can note that the mainstream analysis of the environmental issues tends to be based on the ideal of perfect market and rational actor model. Therefore, what matters in¹² environmental issues is "the

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¹² This is another contradictory aspect of orthodox analysis: for instance, if a person looks for scientific (and hence, also social) realization, the degree of attainment of this objective should be rated according to the related scientific parameters (for instance, the number and quality of publications). Trying to hand down an economic benchmark on these parameters can be quite arbitrary, as it implies that a well defined objective, in our case scientific attainments, can be easily substituted for just another one (and hence, for money as a general purchase power) along an hypothetical indifference curve. But, as it easily observable, scientific (and social) objectives are, for their very nature, individual and context specific at the greatest extent, and, therefore, cannot be "naturally" traded off with other goods and services. Furthermore, even supposing that in some cases a limited exchange can occur between the

willingness to pay" of an hypothetical "representative citizen". In this case, the attempt to render the quality of environment — that is, the very quality of our life — a perfectly substitute for money acquires the nature of an arbitrary means for overlooking the intangibility of environmental values.

But, what are the implications of our analysis on the adequacy of green taxes in solving environmental problems? In this regard, we can note the differences between two policy strategies: (i) in one case, the mainstream domain, the analysis centres on the market as the sole exogenous mechanism for solving every economic and environmental problem. Accordingly, the only thing we should do is render the market more and more "perfect" by lessening the role of public intervention. In this way, as the economic agents are perfectly rational, the best outcome would be close at hand. (ii) In the alternative perspective, the investigation on the institutional character of the market would pinpoint its highly endogenous character and, therefore, its multifarious links with the social and cultural domain. Hence, there is no immanent, pre-built rationality in market behaviour, but only a set of evolutionary and socially constructed interchange between individual and collective needs, conflicts and propensions. It is for this reason that a more realistic and comprehensive policy approach is needed for addressing the issues of sustainable development.

In that connection, while green taxes can certainly be useful in a number of instances, they are unlikely to attain, in the absence of a more comprehensive policy strategy, enduring positive effects on the environment. In fact, as we will see presently, as many policies are likely to impinge on the market structure, we should consider all these effects in order to devise an effective policy strategy. For instance, a carbon tax can really work only if we provide adequate incentives — namely, through industrial, social, education, research and innovation policies — for firms and public institutions to create and diffuse green oriented technologies and consumer goods.

social and economic level — for example, in discovering and then marketing a patent — the theoretical attempt to generalize this exchange would end up in a wholly artificial and normative operation: in fact, for what purpose should we at any cost try to superimpose an extraneous standard for measuring very specific accomplishments?

5. IMPLICATIONS FOR SUSTAINABLE POLICIES

As we have tried to set forth, markets can be appraised as institutions, created and maintained by public policies, which are deeply "embedded" in the economic, social and cultural domain.

In the analysis of policy action, the enquiry into its effects on the related market structure and bargaining process becomes paramount. As a matter of fact, every bit of policy action is bound to influence, in one way or another, the market structure and the related dynamics of price formation.

This process is rendered even more intricate by the interrelations intervening between different policies and institutions. For instance, considering a set of liberalization measures aimed at opening up some markets, what are the possible effects? Would these policies foster virtuous personal initiative, fair bargaining, efficiency and economic progress, or, on the contrary, would they increase inequalities, alienation, exploitation, unfair dealings and environmental decay? Or, instead, would these effects be mixed up in a very tangled way?

In order to get a clearer picture of the effects of these measures, we should enquire on the interrelations between the following policies at the most significant institutional levels (for example, regional, national, supranational): in particular, macroeconomic, industrial, research and innovation, regional, social.

In this light, an abstract dualism between the "State" and the "Market", or between "Economic Planning" and "Capitalism", tends to miss the key feature of the economic organization: the fact that the market is not an exogenous "mechanism" but an economic and social institution framed within, in Commons's terminology, an evolving set of "rights", "duties", "liberties" and "exposures" to which corresponds the multifarious realms of individuals, groups, institutions and policies which, through the various kinds of transactions reviewed before, express their different objectives, needs and values.

These aspects were investigated with great insight also in the historical reconstruction of Karl Polanyi (in particular, 1944), where he pointed out the role of public intervention in the emergence of the market economy associated with the rise of capitalism. In his analysis, Polanyi also highlights that the rationale for an increasing public intervention resides in the attempt to avert the destructive effects of an unregulated capitalistic market-based economy on social structure.

In this regard, also Dewey (in particular, 1939) underlines that economic and social phenomena should be studied not only in their materialistic aspects but also in their psychological and cultural significance.

In the analysis of such issues, institutional theories can contribute to achieve a better insight into the features of any given market context, through the study of the following interrelated aspects:

- ◆ The structure of collective action, in particular the relations of conflict, dependence and order, and the corresponding systems of rights, duties, liberties and exposures among individuals, groups and social classes, and their means of expression in institutional, social and cultural forms.
- The analysis of public goods which, as is known, constitutes one of the most relevant instance of market failure: in this regard, particular importance assumes the preservation over time of the environment and, in that connection, the working out of adequate policies for sustainable development.
- The nature of other market failures and imperfections in particular, as arising from the widely analyzed phenomena of externalities, informational asymmetries, monopoly power, path-dependency and lock-in — in their relations with the growing complexity of economic systems.
- ◆ The role of social valuing processes associated with these developments from a historical, social, economic and psychological perspective; how explicit these assessments are; and how they can be better formulated and compared.

This new approach can cast a better light on the set of policies needed for attaining environmental and social objectives. In fact, in order to attain these objectives, we need to foster far-reaching changes in production and consumption aimed at realizing a really sustainable economy and society. But, as production and consumption mostly unfold in the market system, the enquiry into how policy action impinges on its structure and evolution becomes paramount.

These issues relate to the problem of co-ordination between the various policies in an international context marked by a growing "globalization" which, as is known, chiefly develops through a widespread system of market-oriented relations. As noted before,

these processes tend to be based on a cut-throat economic competition, often associated with various types of cultural conflicts between nations and economic areas. In this regard, a more comprehensive approach to the study of the multifarious links between markets, cultures and societies can help to frame a set of institutions and policies more conducive to useful and friendly-oriented relations at all levels of collective action. This process, in turn, would help to reduce the typical problems of policy action, which refer to the following interrelated factors:

- Complexity and uncertainty of policy action, also due to the interrelations between policies and the consequent involvement of many institutions;
- different opinions and objectives of the actors involved in policy-making;
- difficulty due also to path-dependency and lock-in phenomena of prompting the economic and institutional changes which may be necessary for the effectiveness of policies.

In this perspective, a closer collaboration between Green Economics and other pluralistic-oriented strands of social sciences, by helping to shed more light on the interrelations between the numerous policies and institutions impinging on market structure, can contribute to formulate policy strategies more able to pursue in an integrated way the aims of environmental and social justice.

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