

John R. Commons: *Institutional Economics. Its Place in Political Economy* [L'économie institutionnelle. Sa place dans l'économie politique]. Edited by Jean-Jacques Gislain et Bruno Théret. Paris : Classiques Garnier. 2024.

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The French translation of John R. Commons' *Institutional Economics: Its Place in Political Economy* is an ambitious and long-term undertaking that has kept editors Jean Jacques Gislain and Bruno Théret busy for a period exceeding 15 years. This substantial book, which is divided into two volumes, comprises approximately 2,000 pages. Of these, approximately half is attributed to Commons' own work, with the other half allocated to four pieces by the editors. First, the document incorporates a note on translation. This note provides an explanation of the translation choices made for the most idiosyncratic terms and it also lists the publications and conferences devoted to Commons that have taken place in the French-speaking world since the 1990s. Subsequently, the Introduction underscores the significance of the study of institutional economics by virtue of this seminal work within the theoretical framework of the social sciences in their totality. Then, Commons' *magnum opus* is followed by a rich intellectual biography that traces the evolution and reception of Commons' thought, as well as a complete bibliography of his work, which is lacking in the reprints of the American version. Last, a comparative study of Commons' economic thought, that of Karl Polanyi, and that of P.J. Proudhon, establishes an intellectual kinship between the various currents of American and French-speaking economic institutionalism.

This critical edition includes an extensive index of names and concepts of more than 20 pages, although Hawtrey is still missing, as in the index of the American edition (Commons 1934).

The translation is timely for French-speaking readers, as no work by Commons was available in French until 2024. This is not the case for Veblen, who is regarded as the pioneer of institutionalism (Veblen 1898), four of whose works have been translated since 1970. It was Veblen who first inspired the institutionalist research programme (Hamilton 1919), which Commons (1931) defined as the analysis of institutions, that is to say, collective action directed towards the control, liberation and expansion of individual action.

Commons' book departs from the classical analysis based on the accumulation of past goods and the 'hedonistic' analysis based on the desire for current goods. It is a history of economic thought and facts, wherein money plays a dominant role, at the heart of the institutionalist theory of transactions based on property and debt.

A difficult work to access, a critical political economy and an original theory

One likely reason for the absence of translation of Commons' major work is its intricate style, whose specific vocabulary is challenging to transpose, thus underlining the arduous task of the editors. In

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his introduction to the American reprint of *Institutional Economics* (Commons 1934), Rutherford (1990) acknowledges the complexity, obscurity, unfamiliar terminology and challenging nature of the book, emphasising the significant effort required to understand it. Commons (1934, chapter 1) himself points out that the book contains a significant degree of repetition, which makes it uneasy to read.

Commons' thought is complex, and his analytical categories and methodology are original compared with the more familiar approaches of classical and neo-classical economics and Marxism. Hence, it requires a special effort to grasp its meaning.

This book offers a synthesis in the form of a treatise on political economy which, according to Commons, can be traced back to John Locke. This synthesis covers both a critical analysis of the contributions of the classics and the marginalists, as well as both an institutionalist theory and economic policy, in particular a monetary policy that is distinctly *non-laissez-faire*.

This monumental work, several fragments of which circulated from 1927 onwards (Commons 1927), comprises 11 chapters of unequal length. The introduction (chapter 1) runs to 14 pages, while chapter 9 (316 pages) and chapter 10 (281 pages) take up half the book. Chapter 2 (John Locke) outlines the theory of property rights and contracts; Chapter 3 (Quesnay) tackles physical value and the natural order; Chapter 4 (Hume and Peirce) sets out the empiricist approach of the former and the method of abduction of the latter; Chapter 5 (Adam Smith) is devoted to the value of labour, which is also defended by Ricardo and Marx; Chapter 6 (Bentham versus Blackstone) contrasts the reformist utilitarianism of the former with the preservation of custom by the latter; Chapter 7 (Malthus) focuses on the principle of scarcity. Commons then develops the founding concepts that underpin his institutionalist theory: efficiency and scarcity in Chapter 8, futurity in Chapter 9 and reasonable value in Chapter 10. Chapter 11 dedicated to Communism, Fascism and Capitalism sketches out a prospective comparison of these regimes.

Sources of inspiration of Commons' thinking

Three main sources can be identified. First, the empiricist approach of the German Historical School, which Commons inherited from his teacher Ely and which distinguished him from Veblen, who was more critical of historicist economics. It was within this tradition of empirical research that Commons coined his pioneering contributions in the field of employment and social policy, for which he was recognised and elected President of the *American Economic Association* in 1917. Second, Spencer's methodological Darwinism or evolutionary approach (1864), and finally Peirce's pragmatist philosophy (1878), which conceives of truth as a contingent notion and includes a third form of inference after induction and deduction, abduction, namely the statement of a new hypothesis derived from experience according to Dewey's theory of enquiry (1938).

The demarcation between conventional theory and institutionalist theory is based on opposing assumptions. Conventional economic analysis, whether classical or neoclassical, is based on four postulates, to which Commons opposes his own postulates underpinning his institutionalist theory.

(i) The postulate of nomenclature: the object of economic activity does not deal with goods and services but with *property rights* over expected future income from goods and services.

(ii) The postulate of exchange based on the equivalence or equilibrium between quantities of goods and services is replaced by that of *transactions* from bargaining, authority and distribution; *transactional processes* substitute to “equilibrium” .

(iii) The postulate of price determination resulting from a single causality (the single price) is rejected in favour of processes of multicausal evaluation of the nominal values of property rights resulting from transactions. Three principles govern prices: scarcity determined by supply and demand, which expresses the monetary measure of ‘exchange value’; efficiency, which corresponds to the physical measure of ‘use value’ or ‘utility’; and “futuraity”, which is the monetary measure of ‘anticipated value’.

(iv) The postulate of the primacy of a ‘real’ economy over the ‘monetary’ economy is challenged and the sequence is reversed; the “monetary” economy governs ‘real’ activity and generates recurring fluctuations.

According to Commons, money is the fundamental institution at the stage of development of contemporary capitalism represented by the credit economy, and price movements are the explanatory element of the economic fluctuations that give rise to the instability of economic activity. Commons develops a theory of endogenous money that makes money creation resulting from bank credit the source of price fluctuations.

The analysis of money, the theory of capital and interest, the quantitative theory

According to Commons, money settles all transactions relating to the market for goods or ‘incorporeal property’ corresponding to the present value of the net income anticipated from future sales, and transactions relating to the market for credit and securities, which constitute capital or ‘intangible property’ that corresponds to the present value of the repayment of debts. Money is an institution for settling debts. It has no predetermined use and fungibility is therefore its major attribute.

McLeod was the first in 1856 to consider debt as the present right of ownership over future income, which Böhm-Bawerk expressed in 1881 with the concept of ‘futuraity’.

The monetary theory of capital and interest developed by Böhm-Bawerk in 1884 and 1889 replaces the money market (metallic money) with the debt market (paper money and commercial paper), and the goods market with the capital market (securities). Monetary interest is defined as the price of

forfeiting the use of a quantity of money or goods. He identifies interest with the discount rate (*agio*), which equates present value with future value.

According to Knapp (1905), the function of money is to settle debts; it is a legal institution that is recognised by the paying community. Consequently, the focus is on the quantity of debts rather than the quantity of money.

According to Commons, the transactional system of money and value is a theory of the transfer of property rights. These transactions, founded on expected prices, always precede the future production of goods and establish the banker as a specialist in “futuraity”. The quantity of money is a variable volume determined by the process of monetary creation and settlement. Causality therefore runs from money creation to the production of goods.

From Hume's quantitative theory, Commons concluded that money is the causal factor of real activity. Commons considers that money is not a stable unit of measurement; it can only be stabilised by reference to an index number, as expressed in the quantitative theory of the first Fisher (1911; 1922). However, Fisher retained the assumption of exogenous money, whereas Commons based his theory on the assumption of endogenous money.

Commons' theory of the monetary cycle: relationships with Wicksell, Hawtrey and Fisher

Commons explicitly draws on Wicksell's (1898) theory of the cumulative process, which distinguishes two rates that determine the general price level. The natural rate (or rate of profit) is determined by the marginal productivity of factors, while the monetary rate of interest (market rate for loanable funds or discount rate) is determined by the supply and demand for bank credit. When the monetary interest rate stands below the natural rate, corporate indebtedness and prices rise: a cumulative process of expansion comes up against the inelasticity of the supply of loanable funds. When the monetary interest rate rises above the natural rate, the debt burden increases and, as prices fall, the cumulative process turns towards depression.

Commons reformulates Wicksell in three respects. In place of marginal productivity, he substitutes the financial profitability of securities, which determines the long-term rate. If financial profitability is low (and securities prices are high), the short-term discount rate should be set at a lower level in order to stimulate short-term borrowing and thus increase prices. Conversely, if the discount rate is set above financial profitability, short-term borrowing tends to contract and prices tend to fall. The discrepancy between the bank discount rate and financial profitability affects the variation in prices; the concomitant variation in the short-term rate and the long-term rate should make it possible to stabilise prices. Last, Commons incorporates risk discounting. If the discounted profit is low due to high expected prices (in an inflationary situation), the discounted interest rate is high. If the discounted profit is high due to low expected prices (deflation), the discounted interest rate is low.

Discounted profit and interest rate move in the same direction if risk is low and in the opposite direction if risk is high.

Hawtrey (1919) considered that credit pre-existed money and that the bank was an intermediary in transactions involving debts, whose liquidity and solvency it ensured. He presented a monetary theory of the cycle based on income, which rests on the central hypothesis that credit generates deposits. Commons exposes Hawtrey's theory by beginning with the contraction of the supply of credit, which in turn generates a fall in the demand for goods, a fall in prices, a fall in profits and a reduction in credit demand. The deflationary mechanism of debt liquidation leads to depression. Conversely, the expansion in credit supply drives higher prices and increased demand for credit, which in turn fuels the increase in the supply of credit that serves the interests of bankers. Based on short-term credit (discounting commercial paper), Hawtrey's theory holds that money creation by banks is indeed endogenous.

Fisher (1933) relinquished the neutrality of money that he had previously assumed (Fisher, 1911) and recognised the non-neutrality of money by developing a theory of debt deflation resulting from endogenous over-indebtedness, which Commons held for a major contribution. Commons briefly outlines Fisher's nine-step theory, which he begins with the transactions that create debt, as Hawtrey (1919) did, and includes Wicksell's (1898) cumulative process, as in Keynes (1930). Commons emphasises the velocity of circulation of money through the turnover of credit/debit movements on the money market, namely transactions relating to present goods, and asset/liability movements on the securities market, namely transactions relating to future goods.

Role of the Central Bank and monetary policy instruments

According to Commons, the Central Bank is the legal institution that regulates the behaviour of individuals in a capitalist economy. Commons rejected the Treasury's policy of issuing debt securities to stabilise interest rates (the discount rate), which led to post-war inflation and destabilised the purchasing power of money. He held that a credit system should substitute the gold standard system to replace gold transfers that affected the balance of payments.

In line with Wicksell, Commons recommended an active monetary policy of raising interest rates in order to curb inflation, favouring price stabilisation through open market operations, the mechanism of which he was the first to explain in 1925. He was in favour of a discretionary policy and opposed a rule of issuance based on gold reserves. He believed that the Central Bank (*Fed*) should embody the general interest against the particular interests of second-tier banks, ensuring coordination and control, and argued that it should have all the attributes of an independent authority, free from the supervision of the Treasury. He advocates concerted action by the banking system, both at federal level and among the 10,000 or so second-tier banks, with a view to establishing an administered gold standard regime combined with a discretionary interest rate

policy. The *Fed* must give precedence to its own price index over the specific price indices that form the basis of banks' credit policy. The aim of monetary policy is to cushion (if not avoid) excessive fluctuations.

The monetary policy implemented by the *Fed* played a passive role, combining the rules of the gold standard, the banking theory of commercial paper and price stabilisation only in situations of inflation, which paralysed its function as lender of last resort. Money creation could have been freed from the banking theory of commercial paper or the gold standard thanks to the *open market* policy advocated by Commons, which the *Fed* did not systematically implement until 1932.

Monetary regimes and regulation: quantitative theory, rules vs. pragmatism

Wicksell, Fisher and Commons considered that money tends to influence price levels according to quantitative theory, but they differed both in terms of the status of money, whether endogenous or exogenous (Fisher) and its regulatory mechanism based on rules (Fisher) vs. discretionary policy (Wicksell and Commons).

Wicksell (1898) rejects the assumption that the velocity of circulation is constant, as presupposed by Fisher's version of the quantity theory (1911), but not by the Cambridge version that Pigou would provide in 1917. Wicksell considers that the quantity theory is relevant for a metal currency regime based on cash – whose monetary neutrality is ensured in the short and long term – but not for a pure credit regime in which the money supply results from the demand for money, so as the price level is indeterminate.

Fisher advocates the adoption of rules that change according to economic conditions and the prevailing monetary regime. Under the gold standard, Fisher believed that price stability could be achieved by adjusting the gold parity of the currency. After 1933, Fisher opted for a policy of interest rate adjustment (open market) and 100% coverage of credit by bank reserves, which subordinated credit to the capacity to issue money.

Commons' pragmatism advocated the regulation of interest rates by the Central Bank, aligning with the 'indirect mechanism' proposed by Wicksell, and recommended the substitution of the gold standard with a credit system to replace gold transfers that affect the balance of payments. Commons argues for strong and independent monetary institutions that would regulate gold reserves in a concerted manner and implement a price stabilisation policy at both the US (with a large *Federal Reserve System*) and international levels.

Commons' intellectual legacy: institutionalism and post-Keynesianism

How does Commons' contribution to monetary theory compare with that of other contemporary economists, and what is his legacy for his successors?

Regarding the connections between Commons and Keynes, Keynes (1927 in Carnevali & Fontana 2023) expressed his deep admiration for Commons, who had sent him a copy of *Legal Foundations*

of Capitalism (1924). Keynes refers to this work in two lectures he gave in 1925 (Whalen 2008). Commons refers to Keynes three times, but only quotes his work once.

Like Commons, Minsky (1975, 57-58) emphasises that finance precedes production according to a monetary theory of production that is also consistent with the monetary circuit, the process by which debt is created, circulates and is destroyed (Tymoigne 2003).

It was Minsky (1982) who developed an endogenous theory of debt deflation inspired by Fisher (1933) and a dynamic interpretation of Keynes, which makes financial instability the major attribute of fluctuations in real activity, thereby reinforcing Commons' contribution.

Commons' intellectual legacy lies in the post-Keynesian monetary thinking continued by Whalen (2022). Post-Keynesian heterodoxy can be traced back to the publication of Eichner and Kregel (1975). According to Charles and Marie (2025), it is represented in France by the 'circuit theory', which overlaps with the 'monetary theory of production' (Graziani 2003). The 'regulation theory' initiated by Aglietta (1976) draws inspiration from both post-Keynesian and institutionalist economic thought. Similarly, Boyer establishes an explicit link between the regulation theory he represents and American institutionalism (Boyer & Saillard, 2002, p. 16). Conversely, Le Héron (2020), an eminent French post-Keynesian, establishes a connection with some works of the regulation theory.

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