

Heterodox Economics Newsletter

ECONOMIA INSTITUCIONAL Y EVOLUTIVA CONTEMPORANEA, by Geoffrey M. Hodgson, Mexico: Universidad Autónoma Metropolitana Cuajimalpa-Xochimilco, 2007, ISBN: 0-970-31-0753-2; 249 pages.

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This book is an important editorial effort. There are not many translations of institutional economics books into Spanish. Several decades ago one was able to find only two translations of Veblen's works in Spanish such as the *Theory of Leisure Class* and the *Theory of Business Enterprise*. A few years ago, the Universidad Externado de Colombia translated and published some of Veblen's seminal papers. Professor Bruno Gandlgruber and Arturo Lara undertook a similar task with some of Geoffrey Hodgson's papers. No doubt these translations will help to overcome the divide in the field caused by language and geographical differences. Translation is a very difficult task since language is a social institution, even though it is based on biological preconditions. When Jorge Luis Borges wrote the prologue to the Spanish edition of Veblen's *Theory of Leisure Class* (Orbis, Barcelona, 1988), with the translation of Vicente Herrero del Fondo de Cultura Económica of 1944, it underlined the relevance of this work as one can appreciate how difficult it is to find words in Spanish that fit Veblenian terminology.

Gandlgruber and Lara offer the readers an excellent introduction, underlying the vastness of Hodgson's work that combines Evolutionary Economics and Institutional Economics, aiming his efforts to key issues as the theory of human behavior, biology, philosophical standpoints, mathematical models and organizational theory. They stressed key assumptions in Hodgson's work such as questioning the assumption of limited and bounded rationality of the agents, and the nature of firms and the role of institutions. They aimed to show how Hodgson's specific views about these topics are at quite a variance with standard Neo-institutional Economics. They explored Hodgson's definition of institutions as socially embedded systems of rules, even though I question the word used in Spanish for "embedded" (p. 20) by the translators. Afterwards, in this introduction these scholars offer a good review of Hodgson's views about the theory of the firm that differs clearly from the Neo-institutional Economics perspective. Yet I think the authors are not correct when they claim that there is an absence of a theory of the firm in the Original Institutional Economics (OIE) perspective (p.23).

In Hodgson's preface to the book, Hodgson draws our attention to the main theoretical underpinnings of the institutional agenda during the 1990s. He deals with issues of methodological individualism that have plagued economic analysis, but he is also very critical of methodological collectivism that has permeated many social science centers in Latin America. Issues such as "history matters" and the complex criterion of upward and downward causation are explained carefully in order to avoid methodological problems. He also explores the notion of 'causal mechanism,' which is crucial for understanding economic and political events.

Hodgson's essay "The Approach of Institutional Economics" illuminates the readers about the theoretical evolution of Original Institutional Economics, a complex

struggle between Veblen's adequate perspective and the influences of behaviorism and cultural approaches. Hodgson illustrates his perspective using 'applied' institutional economics regarding a possible Veblenian price theory. Hodgson builds similar cases regarding Macro analysis recalling Duesenberry's Consumption function theory, underlying the links between Wesley Mitchell's writings on macro variables and Post Keynesian theory. In this section, Hodgson also develops an OIE approach on the relationship between institutions and individuals, emphasizing the connections between habits and institutions and elaborating on the problem of "infinite regress" as well. Hodgson makes explicit the limits of rational behavior of the agents and carefully reminds us of the influence of biology on human behavior. Yet at the same time he stresses the emergent properties of socioeconomic phenomena. He properly vindicates the role of Biology in the 21st century as a guide to generate analogies and metaphors to enable us to understand economic processes.

The section about the ubiquity of habits and rules puts in an adequate perspective the so-called rules of optimization and enriches our analysis with topics about wide information, complexity, uncertainty, and cognition, thus targeting several myths of mainstream economics about these issues. Hodgson criticizes empiricist epistemology and warns us about the functionalist trap. Habits and rules build routines and social institutions, but through a feedback process among these elements of the social structure. Indeed, this is a good section to explore if we are looking for a better theory of human behavior.

In section III of the book, Hodgson establishes solid grounds about the precise usage of the word "evolutionary" as Veblen did in his first works. Hodgson depicts the taxonomy of the term "evolutionary economics" that is illustrated on Fig. 2 (p. 131), avoiding determinism and methodological individualism, and reductionism as well. In this section the reader gets a taste about what Veblen, Commons, Hobson, Mitchell and Keynes asserted about "evolutionary economics". Hodgson underlines the theoretical, ontological, epistemological, and methodological challenges derived from a Darwinian and Veblenian perspective about this field, recognizing many mutations and variations within this strand of economic thought.

The fourth essay of this book refers to Hodgson's examination of social evolution regarding the characterization of the process as Lamarckian or Darwinian. The readers learn from the beginning that there is no easy solution for this puzzle. Some economists reject the Lamarckian view in Economics but many also support it. The problem stems from the comparison of biological evolution with social evolution. As Hodgson posits from the beginning of the section we can be Lamarckian in social sciences and Darwinian in biology. In p. 161, he starts exploring the options, carefully building on philosophical and etymological considerations. In order to avoid reductionism – and it is a different matter to 'practice' some kind of 'reduction' of the problems from a theoretical perspective – Hodgson develops his approach based on the existence of emergent properties in the real world. Without this principle it is impossible to create an autonomous social science capable enough to be compared with natural sciences. But

Hodgson states that if we avoid reductionism we are forced to rule out any attempt to break up all the connections between biology and social sciences.

In this section Hodgson also illustrates his ideas by using a set of graphs that allow us to understand the differences between the Lamarckian, Darwinian and NeoDarwinian perspectives, following Weismann's insights. Hodgson explores deeply this discussion, finding that habits link the biological dominium on one hand, and the psychological and social realms on the other. He then concludes that there is some base to accept social evolution as Lamarckian (inheritance of acquired characteristics). Hence, social evolution follows Darwinian principles and at the same time it can have a Lamarckian characteristic. With no doubt, I am convinced that this chapter brings out a very promising theoretical achievement to be explored in the future.

The last chapter of the book deals with an evolutionary and competence-based theory of the firm following a perspective rooted in Smith, Marx, Knight, Penrose and Nelson and Winter that is compared with the contractual theory of the firm (Coase, William, Alchian, etc.). Hodgson elaborates and advances a critique of new institutional economics contracting theory of the firm, offering an alternative inspired by a dynamic evolutionary perspective, at variance with the comparative static perspective. At the end of the chapter, Hodgson asserts that Nelson and Winter's theory of the firm is in fact a subset of competence-based theories of the firm, inviting us to further research in this area.

A final thought regarding the book I want to point out is a philosophical issue linked to the OIE tradition. Sometimes Hodgson mentions William James and Peirce as fathers of this theoretical tradition, and sometimes he includes the works of John Dewey. In the American tradition of institutionalism, we prefer the Dewey-Peirce strand of thought as Dewey himself was at variance with W. James in fundamental topics. Also, Hodgson portrays himself as an evolutionary Darwinian economist but not so much inspired by Dewey's pragmatism.

With no doubt, Spanish speaking scholars and students owe a lot to Bruno and Arturo for their effort in this translation. Despite the popular claim that in a global world a bilingual culture is possible, the truth is that in Latin America we are far from such a reality. For Hispanic students, teachers, and scholars, this book illuminates in our own language the possibility to know and understand important leading topics in institutional economics. Our debt to Bruno and Arturo has no limits for their endeavor.