Induction and Instrumentalism in Institutional Thought

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This article addresses the twin issues of method and valuation in current institutional thought. The purpose is to critique the use of the term "induction" to describe the method of institutional economics and to suggest that methodology and valuation should be joined. This joining would permit the building of a methodological base from which to pursue further development of institutional theory and practice. It would also advance the open disavowal of the position that a particular method is "just a tool." Examined here are ways in which views captioned as "induction" have hampered the development of institutional thought. The last section proposes the theory of valuation, which has been called "instrumentalism," as a way to evaluate current ideas concerning method and a method itself. Space and time considerations prevent more than an introduction to this topic.

Induction—The Problem of its Meaning

Institutional economics has disappointed its critics by not dying. But a candid examination of the present status of institutional economics reveals
a disturbing situation. The rate of reproduction, a crucial measure of viability, seems to be lessening. Though some universities are more favorably disposed to it than others, I know of no doctoral dissertation on institutional theory per se in the last fifteen years. The last major theoretical publication in the field, Clarence Ayres's *Theory of Economic Progress*, was almost forty years ago. This situation may be improving slightly with the appearance of some scholarly work clarifying specific points of method and theory and even extending some of it into new areas. Sadly, though, at this juncture, an area that institutionalists have held in the forefront, methodology, and in particular, induction, has restrained the further development and implementation of the paradigm.

A critique of induction has merit because in many ways induction has come to serve as a symbol or slogan for modes of practice (methodologies) in institutional economics that regulate investigation. Notice must be taken of the recurrent references made to induction as a method or even the method of institutional economics. From Walton Hamilton, Relford Tugwell, and John R. Commons up to the present, institutionalists have used the term “induction,” in part at least, to describe their method. Especially in the contemporary period this usage is problematic at best. Since induction has come to be considered a curiosity, a semi-antiquity in philosophy and the history of science, the insistence upon induction as an essential element seems peculiar. In a literal sense there is nothing in experience corresponding to the conception of induction as a process of beginning with particulars and, through any conceivable process of manipulation, creating knowledge that has the character of unexceptional generality. The flaw of induction, especially when it is conceived as fact-gathering, is that it fails to take into account the necessity for defining the problem on which the facts are to be brought to bear. And, it makes way for the idea that sooner or later gathering of the singulars will yield the generals. Induction fairly reeks of the taint of immediate knowledge, and once established, the “facts” tend to close us off from further inquiry.

Among the conceptions of induction there is no provision for how the singulars are to be found. There is no provision for how observation and experimentation are to be ordered to prepare the existential material so it has convincing evidential weight allowing an inferred generalization. John Dewey pointed out that “the operations of experimental observation which prepare standardized materials need direction by conceptions. Until the conceptions in question are formulated as hypotheses and their meanings developed in ordered discourse, observation and assemblage of data are carried on at random—though even then there is at least some vague
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anticipation or guess which leads to the observation of some phenomena in preference to others."6

Dewey also pointed out that the concept of induction was one of the problems created by the failure of prior philosophies to formulate a proper theory of logic. Dewey attributed the confusion over the location and standing of logical entities to philosophers not treating logic as a continuation, extension, and refinement of the biological process of an organism's adaptation to meet the threats posed by its environment. In this sense Dewey seems to prefer the use of the term "inference" to describe the ability of many organisms to organize their future behavior according to signs interpreted in the present. The continuum of complexity and graded sophistication evident in the biological species has proceeded without the perfect assurance that it will be successful—so too psychological processes fail to exhibit the uncanny grasp of infallibility that characterizes the formulation of induction. Induction as it presents itself is not an artifact of the functioning catalog of instrumental culture; rather it is, like the unicorn and the werewolf, a creation of the human imagination.

The frequent and continued use of the term "induction" by institutionalists is indicative of (1) an apparent lack of acquaintance with the contemporary literature in the philosophy of science, which requires supporting the use of the term by reference to literature demonstrating why the contemporary position is faulty rather than assuming that the use of the term without justification or modification is an accepted feature of methodology, (2) the maintenance within institutional thought of a pattern of thought and usage foreign to the core of that portion of institutional thought that identifies itself with an instrumental theory of value and logic, (3) the acceptance of the view that institutional thought is fundamentally corrective and complementary (or supplementary) to the standard tradition in economic thought, and (4) the tendency to identify anyone as an institutionalist who takes either an empirical approach or who takes social institutions to be an aspect of the economic problem. Here I shall not consider point number one.7 Point number two is treated in the last section. Points three and four are treated briefly below.

Point three, the opinion that institutional economics needs to affiliate itself with either neo-classical, Marxian, or other systems of thought indicates that there are gaps in institutional thought. The existence of gaps is likely, but filling them with incompatible concepts is much different than prosecuting the sound concepts in institutional thought to yield new areas of insight.

There is a long list of citations to the effect that institutional economics
and neo-classical theory are or should be integrated, that they are compatible at least in part and that institutionalists should not wholly reject neoclassical theory, but should accept that which is valid in it.\footnote{Yet, I am prepared to agree that the Robinson-Chamberlain contribution has merit. But how did they come to their view? What was their method? Most likely it was an effort to explain actual behaviors that did not fit those of the existing theory. At least this is what they both say.} The question is not whether institutionalists should accept what is "valid" in standard or Marxian economics; of course they should. But what is valid? And how do we know it is? Unfortunately, suggestions for accepting parts of standard economics have yet to be followed by a list of what is considered valid. Some might say that the theory of imperfect competition is useful and should be incorporated by institutionalists. But whatever else might be said of this theory, it must be said that the first to come to grips with the problem of advertising, trademarks, and differentiated products was not a neoclassical, but Thorstein Veblen. Furthermore, Veblen's analysis goes beyond that of Joan Robinson and Edward Chamberlain in that he also analyzes the nature of the want-creating process and thus shows why imperfect competitors are more likely to be able to differentiate their products—namely consumer readiness to engage in pecuniary emulation.

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Furthermore, borrowing is different from integrating. One may as well talk about cross-breeding a fox and a chicken as integrating institutional and mainstream economics. This notion, it seems to me, is on par with William Penn's proposal that old learning be combined with the new by writing texts for mechanics in Latin.

As to the fourth point, the broad definition of the institutionalist school, there appears to be a great deal of flexibility in the criteria for determining what or whose work is in the institutional vein.\footnote{As the fourth point, the broad definition of the institutionalist school, there appears to be a great deal of flexibility in the criteria for determining what or whose work is in the institutional vein. It should be noted that one way of disintegrating a scholarly tradition is through a method of tolerance. Tolerance can be used to avoid conflict in situations in which a lack of communication has generated a multiplicity of irreconcilable views. It is a measure appropriate to the formative period of association. But all associations, however trivial, are governed by purpose, and scholarly associations are regulated by principles considered essential to maintenance and extension of intellectual pursuit. Foremost among such principles is freedom of inquiry. But like all other concepts it does not stand alone. Publishing the results of scholarly inquiry makes claims that exceed ordinary speech. More weight is given to statements of scholars on certain subjects than to those of used car salesmen because of the presumption} It should be noted that one way of disintegrating a scholarly tradition is through a method of tolerance. Tolerance can be used to avoid conflict in situations in which a lack of communication has generated a multiplicity of irreconcilable views. It is a measure appropriate to the formative period of association. But all associations, however trivial, are governed by purpose, and scholarly associations are regulated by principles considered essential to maintenance and extension of intellectual pursuit. Foremost among such principles is freedom of inquiry. But like all other concepts it does not stand alone. Publishing the results of scholarly inquiry makes claims that exceed ordinary speech. More weight is given to statements of scholars on certain subjects than to those of used car salesmen because of the presumption
that the preparation, motivation, and regulation of scholarly activity is of a character distinct from that of used car sales.

Part of the intellectual standard is the presumption that a scholar ought to be capable of handling a body of material such as the available literature. Most scholarly associations establish certain pieces of literature as authoritative and these serve to regulate and organize inquiry. This is not an infringement of the freedom of inquiry. Scholars are free to depart from these reference works if they choose. But in so doing it is customary that they state the basis of their departure.9

The Consequences of Induction

One consequence of induction for institutional thought is that it has led to the notion of no "formal" models. This position is well stated by Charles Wilber and Robert Harrison when they say that formal models simply cannot handle the range of variables, the specificity of institutions, and the nongenerality of behavior.10 And they correctly quote Paul Diesing when he observes that misuse can occur when a person has too much theory and not enough experience, and tries to make theory substitute for careful empirical study of cases.11 Indeed, institutionalists have avoided formal models. But further, with a few exceptions, they have been reluctant to reduce their body of thought to any systematic condensation. They have preferred description to definition. This inclination may have been well suited to the situation institutionalists faced in the past. No definition was perhaps better than the wrong one. It was probably better to have things loose than to resort prematurely to faulty concepts that once formalized took on the status of truth. But the economy of succinct symbols that stand for definitions is so appealing that symbols, or alternatively slogans, come into use even when adequate definitions have not been provided for them. This appears to be the case with the term "induction." Institutionalists seem typically to use the term as a slogan standing for some method or combination of methods that is either the converse of deduction or all methods excluding deduction. The problem is that the institutionalists have by now a rather large catalog of concepts that could be stated as fundamental principles of institutional thought. I think Dewey was exactly right when he said, "Failure to translate influential conceptions into formulated propositions is especially harmful. For only explicit formulation stimulates examination of their meanings in terms of consequences to which they lead and promotes critical comparison of alternative hypotheses. Without systematic formulation of ruling ideas, inquiry
is kept in the domain of opinion and action in the realm of conflict.”12 We are in danger not of too much theory and too little experience but of too little theory to guide observation and experience, and the use of induction as a slogan has contributed to the retardation of the movement to “formulation of influential conceptions” and hence has retarded the development of institutional theory.

Wilber and Harrison put their finger on part of the methodological problem when they point out that “balance serves the conflicting scientific needs of creativity and control. Precision and rigor provide empirical or logical control. Vagueness and suggestiveness facilitate creativity. If a school of thought, as have certain traditions within institutionalism, begins to overemphasize vagueness and suggestiveness it will tend to fall into diffuse and uncontrolled speculation.”13

Not only has the reliance on induction as a slogan had the consequence of nurturing a reluctance to develop further the fundamental principles of institutional theory and extend them into more areas of analysis, it has also been characteristic of institutional thought that its practice has been and remains a highly personal movement. Each practitioner works in relative isolation out of a relatively small body of literature. The result has been a lack of consistency. Some will retain as sound what others reject altogether, and modifications made to existing concepts are often highly original. Such diversity makes communication difficult and this further fragments and isolates the work in progress. This can destroy any commonality of effort by dissipating the context in which work may have significance.

A lack of formal models, in part due to retarded methodological development, has bred discontent with institutional theory and is partly—largely, perhaps—responsible for many institutionalists borrowing from and in-breeding with neo-classical or Marxian theories. The methodological failure has retarded the growth and maintenance of the theoretical concepts and the development of requisites that allow these concepts to be extended into areas of problematic analysis that have been dominated by either neoclassical or Marxian theory, such as economic concentration, income distribution, “macro” policy, and anti-trust. It also helps explain why it is losing force to the onslaught of neoclassical ideology in some of its traditional areas of influence, such as public regulation of business.

Instrumental Method and Valuation

Two of the more important methodological reactions to Darwinian thought were logical positivism and scientific humanism. Logical positiv-
ism is closely aligned with the positivism of the neo-classical doctrine. Logical positivists insist that morals have no place in science. This has been interpreted to mean subjective judgments of morals and expanded to include value judgments. This is an advance in human thinking over moral sentimentalists such as John Locke and Adam Smith because part of moral sentiment included an overwhelming sense of the divine origin of morals. It includes the concept of chosen ones being moral and deserving, the doctrine of the divine right of kings, and a generally invidious conception of the organization of society. Much of this type of thinking was fairly oozing with the rankest kind of political motivation.

The logical positivist movement in part sought to purge scientific and philosophical thought of its basis in superstition and divine morality by ridding it of moral judgments. This was promptly extended to include all judgment of values. The most onerous legacy of the purge as it relates to the present topic is that it treated all human judgments and choosings as if they were methodologically the same. All valuations were placed in the same category—subjective—and one person’s subjective judgment of value was no better or worse than another’s. Furthermore, value judgments came to be associated with the “oughts” as seen from the standpoint of the individual. Of course, as movement away from the invidious view that what the king or church thought ought to be was better than any other person’s idea, this is an advance. But it places valuing in the never-never land of individual subjectivism: Some like it hot and some like it cold and that is all we can say about it.

Here the starting point for a joining of value theory and methodology is the Veblenian dichotomy.\(^{14}\) It is used to distinguish two ways of knowing and valuing, ceremonial and instrumental. It seems that it is often overlooked that the technological process and heritage have as their basis an instrumental process for both valuing and knowing and that these two are inseparable; that is, the instrumental theory of knowing. That is why discussions of the “value problem” always involve discussions of how we know what we know and lead to a distinction between the ceremonial seat of authority and the instrumental seat. Conversely, all discussions of the “method problem” lead to a discussion of how we come to value what we do, and hence to a distinction between instrumental and ceremonial valuing. Since a major feature of the institutional frame of reference is the processional nature of life, and since knowing and valuing are inseparable from the life process, the analysis leads to a fundamental principle of institutional theory. The cumulative and dynamic character of the continuum of inquiry, and the continuum of value, arise out of and are based upon instrumental valuing and knowing, not ceremonial valuing and
knowing, which are discontinuous and static in character. The instrumental principle of knowing and valuing means that consequences function as the necessary tests of the validity of propositions and judgments, provided such consequences are operationally instituted and resolve the specific problem giving rise to the operations.

Institutionalist instrumentalism takes valuing as a fundamental principle of methodology. It is the joining of the instrumental method that places doing and knowing on an equal footing, so that doers and knowers are not of a different class by virtue of birth or intellect. The instrumental value theory has allowed institutionalists to avoid the nihilism of the positivists since it takes the consequences as the single most important criteria for evaluation of the inquiry.

The model in Figure 1 is designed to show the relationship between the life processes and its two major aspects, valuation and inquiry. The two are constantly and simultaneously at work in coming to grips with the problematical character of the life process. There are constant "perchings and flights" between the two as problems come into being and are dealt with. Problems require judgments, which have consequences for that life process. And the judgments draw upon inquiry. When problems arise they trigger doubts and thoughts that draw upon the stock of warranted judgments and propositions. This reflective thought becomes both a guide to further inquiry and an assessment of alternatives. Inquiry and alternatives lead to inference and evaluation. And these two, inferences and evaluations, feed into the life process by way of consequences that flow into the community's stock of warranted propositions and valuations.

Conclusion

The conclusion here is apparent. Institutionalists have leaned on the empty concept of induction as a slogan for their methodology. In the process they have weakened the advance of institutional theory by not developing a stronger method. It has caused some to try to fill these gaps with fragments from other theories. It has led to a failure to provide a discriminant for identification of the essential character of institutional economics and to a reluctance to formalize the more important and influential conceptions into a cohesive body of principles.

A partial remedy is seen in moving toward replacing induction with what Dewey called "inquiry," and seeking to lodge the development of method in the instrumental theory of valuation.
Figure 1. The Continuum of Valuation and Inquiry
Notes

1. I would like to acknowledge the very considerable assistance of William D. Williams in researching the use of the term “induction” and statements of many writers on the subject of method and theory and whether institutional theory can draw upon standard theory. He has gathered a long list of citations documenting the use of the term induction by institutionalists and those alleging induction as the method of institutionalists. Likewise he has developed a long list of citations where institutionalists advocate a borrowing from or synthesis with either neo-classical or Marxian theory. This research will be used in his forthcoming book on institutional theory.

2. There have been several dissertations that could be considered institutionalist, but none on institutional policy.

3. By designating The Theory of Economic Progress as the last major theoretical contribution I do not mean to neglect several other works, usually familiar to institutionalists, or to glorify Clarence Ayres. Rather I would point out that there has not been much in the way of extension and modification of a theoretical character.

4. Two associations, the Association for Evolutionary Economics and later the Association for Institutional Thought, have been founded with the partial purpose of reversing this trend and there appears to be progress in some areas, for example, instrumental value theory.

5. John R. Commons's definition is perhaps the best I have seen. It is strikingly similar to Dewey's in that it points to the consequences of situations as being the chief methodological insight of induction. See his Institutional Economics (Madison: University of Wisconsin Press, 1934), p. 101.

6. The reader is referred to Dewey's Logic, especially chapter 21, "Induction and Deduction," as a beginning for this discussion.


11. Ibid., p. 78.


13. There are several sources in which one can find a discussion of this concept. For a review and bibliography, see William T. Waller, "The Evolution of the Veblenian Dichotomy," *Journal of Economic Issues* 16 (September 1982): 757-72.