

ONE HUNDRED YEARS BETWEEN COMPLEMENTARY INSTITUTIONALIST THEORETICAL FRAMEWORKS: THORSTEIN VEBLEN AND GEOFFREY HODGSON

Cem anos entre arcabouços teóricos institucionalistas complementares:
Thorstein Veblen e Geoffrey Hodgson

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ABSTRACT

Objetivo: In this article, we seek to present complementarities between the main theoretical-analytical categories, approached by Thorstein Veblen and Geoffrey Hodgson, representatives, respectively, of Old North American Institutionalism and Neo-Institutionalism. Particular emphasis is given to institutionalist criticism concerning approaches that advocate the supremacy of the structure over the individual or of the individual over the structure. The alternative proposed by the authors above suggest that both individual can modify existing institutions, and the institutions themselves can affect individual preferences. Habits of thought and behavior emerge as a fundamental category in understanding this alternative proposal.

KEYWORDS: Institutions. Individual. Habits. Thorstein Veblen; Geoffrey Hodgson.

RESUMO

Objetivo: Neste artigo, busca-se apresentar complementariedades entre as principais categorias teórica-analíticas, abordadas por Thorstein Veblen e Geoffrey Hodgson, representantes, respectivamente, do Antigo Institucionalismo norte-americano e do Neo-Institucionalismo. Particular ênfase é dada à crítica institucionalista, no que se refere às abordagens que advogam a supremacia da estrutura sobre o indivíduo ou do indivíduo sobre a estrutura. A alternativa proposta pelos citados autores sugere que tanto os indivíduos podem modificar as instituições vigentes, quanto as próprias instituições podem afetar as preferências individuais. Os hábitos de pensamento e de comportamento emergem como categoria fundamental na compreensão dessa proposta alternativa.

PALAVRAS-CHAVE: Instituições. Indivíduos. Hábitos. Thorstein Veblen. Geoffrey Hodgson.

Classificação JEL: B1; B15

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1 INTRODUÇÃO

Institutionalism in the field of Economic Sciences originates in works published in the late nineteenth century and in the first decades of the following century by authors such as Thorstein Veblen, Wesley C. Mitchell, and John Commons, who composed a theoretical matrix, currently known as Old or Original Institutionalism. Among these three authors, Thorsten Veblen, an American economist and sociologist, who lived between 1857 and 1929, is considered the “father” of Institutional Economics.

Veblen's work reflects the historical context in which the author lived, a period marked by strong inequalities in the social field and by the supremacy of neoclassical ideas in economic theory. In his 1898 article “Why is economics not an evolutionary science?”, Veblen traces important criticisms of mainstream economics related to the hedonistic and rational conception of the individual and the purely teleological analyses adjacent to it. On the other hand, in “The Theory of the Leisure Class”, published the following year, the author condemns the ostentation promoted by the wealthier social classes, establishing their concept of institutions as habits of thought common to the generality of men.

From the whole of the Veblenian work, important analytical categories emerge. These have come to influence the institutionalist thinking of several authors who succeeded him and contribute to understanding social dynamics from a multidisciplinary perspective. It develops the concept of instincts, considered as the innate propensities of individuals that define the goal and end of behavior. These are necessary predispositions for repetitive behaviors to become possible. Also, how they are manifested and concretized in behavior patterns generates life habits (MONASTÉRIO, 1998).

Life habits are considered a key concept by Veblen for understanding institutions. These express the social nature of everyday practices, manifested by individuals' repetitive actions, thoughts, and behaviors in the face of particular occasions. Habits that are institutionalized in rules insofar as they prevail among a particular social group, and can, in turn, encourage and restrict individual actions. Therefore, habits can be maintained, but they can evolve in the face of social dynamics in constant transformation. With this, Veblen opposes the understanding, predominant at the time, founded on methodological individualism in which individuals are rational, hedonistic, and immutable beings.

One hundred years later, in 1998, Geoffrey Hodgson, inserted in the modern institutionalism framework, resumed the Veblenian theory to expand the understanding of the

behavior of individuals. He takes up the concept of habits as institutions, ensuring that these enable individuals to preserve cognitive ability and understand information from the environment, helping select their preferences. He observes that habits develop in a social context, generate learning, and allow individuals to adapt to new circumstances. Thus, they generate conditions for establishing rules that structure social interactions (HODGSON, 2011). Overall, explanations about social behavior resulting from individual behavior are opposed, but also those that seek to explain everything through social structures.

In the course of Veblen's and Hodgson's ideas, an approach is established that involves explanations of both individuals – their goals and beliefs – and structures - institutions - as well as the evolution and interactions between them. In this line, institutions shape individual aspirations, creating a basis for existence; however, institutions depend on individuals and their interactions as shared habits of thought. An interactive and cumulative process between institutions and individuals is established, fed back, and evolves.

In these terms, Hodgson has been establishing a greater approximation of the concept of the institution to Veblen's legacy, in which it must necessarily be inserted in an analytical environment that contemplates individuals, their habits, norms, and standards of conduct – which requires in the analysis, the inclusion of an environment of complexity that contemplates, interactively, all these concepts. In this line, the works of these authors address individual conduct and behavior, despite the hundred years that separate them. However, it is necessary to register the advances of the latter's work, based on the analytical categories developed by the former.

Considering this context, the purpose of this study is to contribute with analytical elements that allow a better understanding of the institutionalist matrix, identifying the links and theoretical complementarities of Old Institutionalism, considering the works of Veblen, and Neo-institutionalism, considering the writings of Hodgson. To this end, it is structured into five sections. In this first section, its purpose is described; in the second, the methodological procedures are exposed; in the third, the main theoretical assumptions presented by these authors; in the fourth, the analytical categories addressed by these authors are discussed in their differences, similarities, and advances; and, finally, in the fifth, the final considerations are presented.

2 METHODOLOGICAL PROCEDURES

As a database, Thorstein Veblen's (1898; 1899; 1909; 1914) and Geoffrey Hodgson's

(2003a; 2003b; 2004a; 2004b; 2006; 2007a; 2007b; 2009 and 2010) core texts were used. Furthermore, in order to seek contributions that endorse the central arguments of these authors, inferences are presented from excerpts from other writings of these same authors, as well as from researchers who have analyzed them. These writings were chosen as categories, and analytical procedures were evidenced in them, described explicitly enough to achieve the objective proposed in this study.

Thus, such evidence was analyzed based on the theoretical concepts of Bardin's Content Analysis (2006 [1977]), characterized by three distinct phases. First, a pre-analysis was performed, from floating reading on the material taken as a database, the previously referenced framework. Then, from a reflection on its propositions, a process of exploration of the material based on the coding and categorization of the information contained therein began.

For the formulation of the categories, concepts were used, identified as appropriate in the readings referring to the constructs of Institutional Economics, resulting in different levels of information (Theme, Category, and Indicator). As a "Theme", excerpts referring to the authors' analytical approaches were selected in the texts, namely, Veblen's "Evolutionary Economics"; and the "*Reconstitutive Downward Causation*", concerning Hodgson's proposal. Based on the result obtained in these stages, the excerpts, whose themes fit the proposal, were categorized through a transposition based on the analytical categories "Instincts", "Habits", and "Institutions". The indicators, similarities, differences, and advances between the approaches are in the fourth section of this article.

3. INSTITUTIONAL ECONOMICS: THEORETICAL ASPECTS IN THE PERSPECTIVES OF VEBLEN AND HODGSON

Conceição (2002) defines institutionalism as a line of thought opposed to neoclassicism, similar to Marxism in some aspects, and strongly linked to evolutionism. The "old" American institutionalism is attributed to the matrix of the institutionalist school, especially from the writings of Veblen, Commons, and Mitchel. Nonetheless, although institutionalist approaches differ in their definition, it is possible to affirm there is a defined theoretical body between them. To this end, the very diversity of approaches constitutes the source of wealth of institutionalist thinking.

Despite the conceptual differences and the different approaches assumed by the institutionalism components, this paradigm identifies common theoretical elements, such as:

the questioning of the validity of the market premise in the function of the allocator mechanism, the criticism of methodological individualism, a view of the economic process as an open system and part of a vast network of socio-cultural relations; the emphasis on behavior guided by habits and routines (and occasionally punctuated by acts of creativity and innovation); the influence of path dependence; and the view of technology as a primary motivator of development (CONCEIÇÃO, 2007). Hence, it revisits the main aspects of institutionalism based on the ideas of Veblen and Hodgson.

3.1 Veblen and Old Institutionalism

Thorstein Veblen presents his reading proposal on institutional changes in American society in two ways: initially, from a criticism of the analyses that consolidated and proposed to investigate this same object; and then, explaining the contemporary need to integrate the Economic Sciences to the evolutionary character, which manifested in several areas of science.

“Why is Economics not an Evolutionary Science” (1898) symbolizes the presentation of an analytical proposal for socioeconomic phenomena that, in its matrix, contemplates the tripod of categories: INSTINCTS-HABITS-INSTITUTIONS. By criticizing the approaches emphasized by the economic scenario of his time and that exposed as an agent of the model of the “hedonistic man”, with full capacity to calculate his choices and allocate resources efficiently relative to his desires and demands, Veblen indicates that the marginalist economics neglected aspects intrinsic to human nature, routines and habits of life and thought and the search for social ascension, which occurs comparatively. Such criticism receives even more endorsement in “*The Limitations of Marginal Utility*” (1909), postulating the economic sciences’ procedural inability – given its static character - to evaluate phenomena as dynamic as it was proposed.

Similarly, the anthropological emphasis on structure as a determinant for individual actions was criticized by Veblen. For him, the economic sciences should follow a theoretical trajectory, related structure and individual - without neglecting or overvaluing one or another- to consider the continuous and procedural nature of behavior construction. And, just as significant, *The Instinct of Workmanship and the State of Industrial Arts* (1914) contains the theoretical essence of Veblen’s political economics and how it links the aspects inherent in human nature – the instincts – to the identification of patterns of behavior of individuals in society (CAVALIERI, 2015).

Evident, in this sense, is the understanding that, in this new social context, consolidated by an urban-industrial system, whose currency would drive the conditions of exchange, private

property had become a fundamental factor in the composition of the model, being a reason for honor and exaltation in the eyes of the collective and indispensable to the affirmation of the individual before society. If, as mentioned, the proposal was to identify the reasons why reality presented itself, Veblen (1899) sought foundations, such as the property of man over woman or of wealthy families over enslaved people, to transcend the explanation to the logic of capitalist accumulation that conditioned the development he sought to investigate. At the time, there was an essential change among American social classes, in which both farmers and the industrial bourgeoisie were indisposed to the rise of an aristocracy benefiting from oligopolistic agreements and increased political power, demanding the contemplation of new interests to social pacts (CAVALIERI, 2015).

Thus, it is inferred that Veblen was conditioned to foster the filling of a methodological-analytical gap through a matrix, which did not neglect aspects intrinsic to the nature of capitalist relations. In this sense, we have the record of Conceição (2012):

Veblen employed the idea of a historical chain without breaking cause and effect to undermine the assumptions of the economic mainstream. His use of *Darwinian* methodological injunctions led to powerful criticism. This is because, in Veblen, the human agent was the subject of an evolutionary process and could never be regarded as fixed or given. Therefore, a causal assessment of the interaction between individual and social structure had to be provided. And this causal 'reckoning' should not stop at the individual, but should also try to explain the origin of psychological goals and preferences (CONCEIÇÃO, 2012, p. 123).

Thus, instincts would be listed as unique to the structural assumptions of the proposed Evolutionary Economics (1898) since they show human attributes in the face of a selection process of current institutions. But what is evolutionary economics? On the one hand, Thorstein Veblen's response to the emergence of these aforementioned economic analyses does not correspond to that scenario where urban-industrial structures were consolidated. Still, it is Veblen's search to solve a problem identified between simplified theoretical emphases, sometimes only on individual actions, sometimes only on the impact of the current structure as a determining factor of behavior.

3.1.1 The Proposal of Evolutionary Economics

Based on the scientific paradigm-breaking imposed by Charles Darwin in "On the Origin of Species" (1859), Veblen (1898; 1899) becomes a forerunner of American Institutionalism by presenting scathing critical readings of the Economic Sciences and, by extension, the imposing socioeconomic system of capitalist accumulation. Both works - one of more theoretical appeal

and the other more empirical - added up - indicate what was intended with this post-Darwinian analytical alternative to economics.

Veblen, although American, was raised under strong foreign cultural influence - since his parents were Norwegian immigrants and lived in a village of origin, where he spent his early years. In a way, his analyses started from the point of view that did not fully belong to that context, considering himself an outsider to the system he investigated. The contact and improvement of the English language occurred as a seminarian, which also made him approach Philosophy works. Later, he joined Yale University, approaching the work of Hegel, Spencer, Kant, Darwin, and Charles Pierce, among others (CRUZ, 2015). His prominence as a scholar occurred at the University of Chicago, where Darwin's works received strong interest and where he became a professor and editor of the *Journal of Political Economy* (RAYMER, 2013).

In his view, the object of analysis – an economic and social scenario – was dynamic, changing, and quite unequal. In this context, he observed changes in which capital stood out in urban development and land ownership stabilized as a source of speculative profit. At the end of the 19th century, he stated that society was directed toward urban industrialization, having as central agents businessmen on the one hand, and European immigrants, on the other (CRUZ, 2015). Thus, there was a significant change in the panorama of the American social classes, in which farmers in the Western region and the industrial bourgeoisie revolted against the escalation of an aristocracy, benefited from oligopolistic agreements, and increased political power. Upon noticing the stabilization of this industrial-pecuniary society, whose structure would be rooted in processes of cumulative causation involving instincts, habits, and institutions, Veblen's (1899) analysis began to take shape in his thinking.

And precisely in this causal process, the author based his evolutionary propositions inspired by Darwin. The environment influencing the development of species became a pillar for analogies to the different areas of science by destabilizing creationist proposals and solidifying various theories (CAVALIERI, 2015). What Veblen did was transcend this evolutionary logic to the social sciences. With explanatory didactics through concepts such as variance, inheritance, and natural selection, while old and new institutions were in constant conflict, the individual and collective behavioral changes that would occur would be qualified (VEBLEN, 1898).

His central thesis was based on a logic in which the demands of society would form ways for men to interact with the world, which would correspond to their habits of life. That is: if, on the one hand, these habits of life were linked to aspects inherent in men, whatever their instincts, on the other, these habits would connect to habits of thought, consolidating

consensuses in the individual and collective sense (VEBLEN, 1899). The dialectic here unites this analytical tripod: “instincts-habits-institutions,” so that habits express this dynamic feedback between human nature and institutions. Social dynamics would constantly evolve, starting from innate and individual expressions (although common to society) and expanding to collective expressions, the institutions themselves.

In “The Instinct of the Workmanship and the State of Industrial Arts” (1914), instincts are classified into four different groups: Instinct of Effective Work (related to the search for efficiency); Predatory Instinct (whose ultimate purpose would be extraction); Parental Instinct (related to collective care); and Instinct of Idle Curiosity (whose main link, given by the author, is with science). The Predatory Instinct, which would have its emergence from the passage from a wild, peaceful phase to a predatory phase, would be related to competition and would amplify in an industrial society (VEBLEN, 1899).

Habits of thought (habits of life rooted in common sense) can be understood as institutions, the main analytical category of what followed as “Institutional Economics”. Veblen (1899) indicates that the habits of thought are closely related to the habits of life and to what the author calls the “human spirit”- the instincts themselves. At this point, he manifests himself empirically about the relations between these categories and the development of societies. One suggested example is reactivity to changing situations, in which people tend to stick to their habits if they do not realize the need to do otherwise. Moreover, such changes in social institutions would be shaped coercively due to the imposed situation in the process of “selection” of institutions.

With these observations, it is understood that Evolutionary Economics starts from the assumption that habits of life and thought are emulated by consensus, depending on the acceptance of a dominant group in society. Institutions are elected under the interests of these groups, representing the maintenance or alteration of reality, causing effects on the whole society. In this sense, science conducted under interests could delay collective progress due to the maintenance of a situation that benefits such interests and/or as a reflection of the conservatism of the dominant group (the “idle class”, for Veblen).

3.1.2 The Idle Class Theory

Veblen’s “Idle Class Theory” (1899) is an empirical analysis in which one can observe the application of Evolutionary Economics. The critical work describes and infers the current socioeconomic system, verifying, by this empirical analysis, the stabilization of an industrial-pecuniary society, whose structure would be rooted in processes of cumulative causation, which

involve instincts and habits related to institutional dynamics. Deliberating on the development of civilizations, the characteristics of a “peaceful phase” are exposed, whose societies were primitive, and the distinction of functions and hierarchies was insignificant. With this, Veblen demonstrates how there are habits that adapt to different phases, such as those most common to industrial functions. At that time (XIX century), it was already found that social rules fostered competition among men. Therefore, It would be a “predatory phase”, whose predatory instincts for extraction would be fundamental to achieving success.

From this explanation, the concern to base a process of consolidation of social division, once based on issues of strength, war ability, and supposed divine blessings, is noted and is linked to wealth, political status, and sports skills. This superiority, therefore, institutionalizes the patterns of “doing things” and becomes a “target” for those who are in social classes “below”. Thus, social habits, from consumption to work, from leisure to education, are homogenized in the different social strata, based on consensus loaded with interests.

Elaborate clothing, well-presented women, pets, household employees, sports practice, and nature contemplation (among others) become fundamental in this comparative process. Veblen (1899) relates such articles and practices to emulating conspicuous consumption and idle, that is, exclusive life habits, to individuals with time and/or resources in excess of the amount demanded for their subsistence. Thus, while this group of people had moved away from industrial functions, it continued to institutionalize society’s consensus and development trajectories.

Faced with this constantly changing reality, Veblen, starting from Darwinian ideas, develops the didactics of his rhetoric. Focusing on the causal process of evolution (not considering here “evolution” as a solely improving process, but rather of causation and change), the influence of the environment on development (of species, in the case of Darwin; of societies and economic relations, in the case of Veblen), these assumptions had been incorporated by the most distinct areas of science. This use was endorsed by the academic atmosphere of the University of Chicago, where a notorious propensity to assimilate and propagate post-Darwinian science was built (CAVALIERI, 2015).

Institutionalist analyses should focus on transformative processes, not situations where the balance would be the end, and actions would be isolated from their historical and social context. In a scenario where social relations were influenced by individual and collective expressions, such as customs, habits, interests, and laws, the individual economic actions of capitalist agents would respond to the past and foster the future of this system of greater or lesser liberation, control, or expansion.

3.2 Neo-institutionalism

Criticism of economic-institutionalist constructs occurs mainly in two senses (HODGSON, 1998; ATKINSON and OLESON, 1996): either because they are extremely descriptive, abstract, and deterministic; or because they represent an approximation to neoclassicism due to affiliation with methodological individualism and, above all, to the evidence of maximizing economic performance and balance (through the correction of market failures). While the early critics of Old Institutionalism refer to the seminal constructions of the framework in question, the others refer to the New Institutional Economics (NIE) approaches. Hodgson sustains this critique of the NIE by deriving his analytical proposal, seeking to advance on points he considers that the old institutionalists did not advance.

Hodgson's critique of the NIE, when approaching methodological individualism, especially when the material analyzed comes from the microanalytical line (Transaction Cost Theory), shows his dissatisfaction with the rupture with Old Institutionalism. According to Williamson (1985; 1993; 1995), behavior is linked to the institutional environment, which is opposed by Hodgson (1998; 2000), noting the fact that behavior can be exogenous to structure, just as the structure itself cannot be widely understood from a unilateral point of view of action.

Concerning criticism of the NIE macroanalytical line (NORTH, 1991; 1994), Hodgson (2006) does not consider individuals as "players" in an environment emulated by "rules of the game", given that, from this point of view, it is indicated that all action has performance as its end. Non-economic dimensions related to the decision-making process are disregarded. Hence, the texts that serve as a foundation for this article seek to demonstrate ways to disconnect institutionalist approaches from such criticism. Approaching this exhibition, Hodgson (2006) indicates basic elements of research: the incorporation of cultural and institutional factors linked to economic development, the demand for interdisciplinary analysis and empirical-historical materials, and the non-overvaluation of mathematical-statistical models. In this sense, it also highlights the evolutionary characteristics it values in these investigative processes, citing, for example, the concepts of habit and routines, which encapsulate the essence of institutional change.

Thus, Hodgson's methodological proposal differs from the NIE in indicating that it is not fortuitous to consider that markets (or exchange transactions themselves) predate institutions. Still for Hodgson (2006), the question is not what first arose, but what factors explain both development. Individuals are not merely constrained or encouraged by institutions; rather,

individuals are constituted by institutions, and, reconstitutively, their actions interfere with institutional change. Institutions would therefore mean established rules that structure social interactions, acting as institutional constraints (external enforcement), which explain the behavioral constraints imposed and behaviors governed by habits (self-enforcement).

3.3 The thought of Geoffrey Hodgson

Born on July 28, 1946, Geoffrey Martin Hodgson is the author of essential works on Economic Institutionalism, which include critiques of mainstream theory and propositions about the need to analyze institutions in an evolutionary context. He is recognized as one of the leading figures of modern institutionalism, promoting the critical debate and intellectual tradition of the founders of the institutionalist school, especially Thorstein Veblen.

Inspired by the Veblenian concepts of “habits”, “instincts”, and “institutions”, Hodgson rejects the neoclassical understanding that individual preferences are fixed and immutable and seeks to relate them to the socio-institutional environment, where the interaction between agents takes place.

3.3.1 Relevance of institutions in Hodgson

Hodgson (2009) states that, for a long time, the predominant model in explaining the processes of growth and economic development understood firms as entities that used a given combination of inputs – capital and labor –, aiming at a certain flow of results. Individuals, in turn, were seen as maximizing and rational agents, holders of a preference function that determined their decisions. In this model, agents’ objectives were given, that is: firms sought to increase their profits; and individuals to satisfy their preferences. The production process itself was not explained, nor was the formation of individual choices: institutional structures and how they can condition agents’ behavior were not considered.

The growth of institutional economics as an area of knowledge and the greater frequency of using the concept of “institutions” in the social sciences in recent years have provoked the resurgence of debate in this field. As a consequence, the absence of consensus on central themes, such as “institutions” or “organizations”, became known, making it imperative to discuss them, as well as to try to reconcile their definitions, so that, from this, empirical studies and theoretical analyses can be conducted. For Hodgson (2006), the concept of institutions is linked to systems of prevailing and established social rules, which structure social interactions. It is increasingly recognized that most human activities and interactions are structured in terms

of more or less implicit social rules, which involve everything from money and language to firms and laws:

Institutions are enduring systems of socially ingrained rules. They channel and constrain behavior so that individuals form new habits as a result. People do not develop new preferences, wants or purposes simply because 'values' or 'social forces' control them. Instead, the framing, shifting and constraining capacities of social institutions give rise to new perceptions and dispositions within individuals (HODGSON, 2007a, p. 331).

According to Hodgson (2006), the stability and durability of institutions derive from their ability to create stable expectations about the behavior of individuals. To this end, institutions can impose consistency on human activity and depend on thought and individual activities but are not reducible to them. Also, they can both restrict, allow, and encourage behavior so that while determining constraints on human activity, they can open up opportunities that would otherwise not be glimpsed.

Like Veblen, Hodgson is also adept at Darwinian ideas and, as such, believes that science should be committed to providing causal explanations for all phenomena, including individuals' preferences and choices. The main failure of mainstream economics is to ignore the possibility that circumstances can reconstitute agents' goals and preferences. In turn, analyses intended to be evolutionary must consider individuals in their historical and institutional contexts (HODGSON, 2003b).

3.3.2 *The role played by habits*

Since the publication of "An Essay on the Nature and Significance of Economic Science" by Lionel Robbins, Economic Science has been understood as the "science of rational choice" since it conceives individuals as decision-makers who share a common set of preferences and who know the consequences of all their choices. As each agent chooses the alternative that he considers most attractive according to his preference function, the resulting decisions are evaluated as "rational". However, how these preferences are formed is not explained, generating the understanding that they are "given" or "exogenous". Still, according to Hodgson (2010), it is not correct to assume that choices are given or that they arise from chance, arguing, in this sense, that their causes need to be investigated.

Recent work in psychology is increasingly moving away from the "deliberative paradigm," according to which the human mind is deliberative, independent, and rational. Thus, it is moving towards a new paradigm, by which it is understood that human cognition depends on the social and material environment in which individuals are inserted, as well as their

interactions with other agents. This paradigm shift in Psychology affects how things are thought of in Economic Science, especially concerning the formation of individual preferences (HODGSON, 2007a).

These recent studies have shown that the combination of conscious and unconscious socialization and education, help create the cognitive apparatus necessary for agents' decision-making. In these circumstances, individual rationality becomes dependent on cultural and institutional mechanisms. For Hodgson (2007a), adopting context-dependent rationality is consistent with institutional economics in which agency and structure are important and mutually constitutive. In these terms, the reasoning is inseparable from its institutional and material context.

This "malleability" of preferences is necessary to explain institutional evolution and stability, reinforced by institutions' ability to modify individuals' choices. According to Hodgson (2007a), "habits" are the mechanisms that provide the foundations for modifying beliefs and preferences. Veblen is one of the first authors to examine what circumstances and restrictions lead to the formation of habits: "Through the individual mechanism of habit, the framing, shifting and constraining capacities of social institutions give rise to new perceptions and dispositions within individuals. This is a key element in the Veblenian legacy" (HODGSON, 2007a, p. 331).

For economists in the Veblenian tradition, institutions work because they are rooted in prevailing habits of thought and behavior. Habits are defined as acquired dispositions or capacities, which may or may not be expressed in the current behavior of individuals. Hodgson (2010) states that habits are submerged repertoires of potential behaviors which appropriate contexts can reinforce. They are propensities that behave in a certain way in particular situations.

For habits to be triggered, however, certain predispositions seem necessary, capable of identifying key stimuli. Hodgson (2007a) identifies, in the concept of "instincts", those predispositions necessary for repeated behaviors to become possible. In this sense, it defines instincts as reflexes, feelings, or inherently biological dispositions, which certain signs can incite. Instincts can be suppressed or stimulated, depending on the social and cultural context they face.

Besides modifying the axiom of "given" preferences, the inclusion of habits and instincts in considerations about the behavior of individuals also calls into question the assumption of rationality, traditionally adopted in Economic Science. Instead of assuming that individuals act as if they possess all possible information, that they calculate all the benefits and harms of their actions and make decisions according to their fixed preferences, the analysis of factors, often

unconscious – which leads to deliberation eases this assumption, making decisions vary according to the background of each individual, as well as according to the social and cultural environment they are inserted.

Hodgson (2007b) explains that for an individual habit to become a rule, it must be potentially codifiable and prevail among a given group. Since the prevailing rule structure – the institutions – encourages and restricts individual actions, concordant habits are reinforced among the population. In this sense, by reinforcing shared habits of thought and action, the institutional structure creates mechanisms that contribute to its reproduction.

Recognizing that institutions can alter individuals' preferences does not imply that the social structure determines their choices. The opposition between individualism and methodological collectivism is one of the central problems in the social sciences and is often understood as a problem of agent and structure. If, on the one hand, some versions of Marxism are criticized for emphasizing society (system, structure, institutions), neglecting the role played by individual agents. On the other hand, versions of methodological individualism – represented by the economic mainstream – are accused of focusing their analyses on individuals (agents), leaving structures in the background.

For Hodgson (2003a), the main problem of these two extremes is that neither of them delivers what it promises: methodological individualism fails to provide individual explanations of social phenomena by assuming that individuals are socially determined; at the same time that methodological collectivism when seeking to explain everything through social structures, ends up endowing institutions with their desires as if they were individuals. Without analyzing how they arise and the causes of individual preferences, purposes, and beliefs, opinion always tends to one of these reductionist extremes. An explanation is needed that invests the causes and recognizes the influence of psychology in this process.

3.3.3 Reconstitutive Downward Causation

By rejecting the pure analysis of individualism and methodological collectivism, Hodgson (2003a) seeks to solve the dilemma between these two extremes by rescuing the concept of habit, central to Veblenian analysis. Thus, an approach is needed that involves explanations of both individuals – their goals and beliefs - and structures (institutions), as well as their evolution and possible interactions between them. In this analysis, it is clear that preferences are endogenously formed.

Social structures depend on individuals because if they ceased to exist, they would not subsist: individuals create, reproduce, transform, or destroy institutions, intentionally or

involuntarily. However, even from this recognition, it is impossible to accept methodological individualism since social structures cannot be fully explained in terms of individuals and their relationships. Moreover, recognizing that the socio-institutional context profoundly affects individual behavior does not imply accepting methodological collectivism either: individuals cannot be reduced to the social structures they are inserted. Thus, Hodgson (2003a) states that it is possible to accept that individuals and institutions are mutually constitutive.

The existence of upward causation in the sense that elements of a lower ontological level affect those at a higher level is widely recognized in the social sciences. Moreover, this upward causation can be reconstitutive since the changes operated at a lower level can considerably affect the higher-level structures. The idea proposed by Hodgson (2003a) is that there is, in addition to those above, *reconstitutive upward causation*, also *reconstitutive downward causation*, in the sense that changes conducted at higher levels (institutions) are also capable of affecting and reconstituting elements of the lower levels (individuals). With this, it becomes impossible to take the parts as given and, from them, explain the whole since the whole reconstitutes the parts.

The main aspect in which the idea of Hodgson (2003a) differs from previous analyses, such as those of Campbell (1974) and Sperry (1969), is that the author examines the social and psychological mechanisms that allow institutions to process changes in individuals' preferences. Based on the concept of habits of thought and behavior, previously defined and analyzed by Veblen, Hodgson maintains it is through this mechanism that reconstitutive downward causation acts. Only after certain specific habits have been established that reason, deliberation, and calculation arise. "[...] reconstitutive downward causation works by creating and moulding habits. Habit is the crucial and hidden link in the causal chain" (HODGSON, 2003a, p. 171).

Hodgson (2006, 2007a) agrees with Veblen and maintains that habit formation constitutes a mechanism that allows cultural and institutional rules of cognition and action to enter the human mind. Thus, all deliberation depends on the prior formation of habits formed through repeated thoughts or behaviors in specific social environments. Although they are individual connections – which form in the mind of each individual – habits have a strong social imprint. It is this process, which operates through the molding of habits and goes from the specific social structure to the individual, that Hodgson (2013) calls "reconstitutive downward causation", being so named because it emphasizes the reconstitutive effects of institutions on individuals, while at the same time evidencing the dependence of institutional evolution on the formation of concordant habits.

Reconstitutive downward causation occurs because institutions can create new habits or alter existing habits in a reconstitutive way. Institutions can even lead directly to changes in individual intentions (preferences), but only in a non-reconstitutive way. On the other hand, when institutions act not directly upon the actions of individuals but upon their habitual dispositions, they exercise downward causation without the individual agency being reduced to its effects.

Habits are acceptable mechanisms of reconstitutive downward causation since it is possible to explain how institutions affect individual behavior through them. It is recognized that institutions can also directly affect the intentions of agents – through incentives, sanctions, or restrictions – but the reconstitutive downward causation comes into play when this occurs indirectly through the formation and support of habits.

Positive feedback between institutions and individuals is the element that supports the institutional structure. Institutions are perpetuated not only by the rules of coordination they offer but mainly because they shape individual aspirations, creating a basis for their existence. This does not mean, however, that institutions are independent: they depend on individuals and, above all, on the interactions between them, as well as on their shared habits of thought (HODGSON, 2006).

With this discussion of the concept of reconstitutive downward causation, Hodgson and Knudsen (2004) argue that it is possible to overcome the dilemma between individualism and methodological collectivism because, by acting on habitual dispositions – and not directly on the decisions of individuals – institutions exert reconstitutive downward causation on individuals, without, however, reducing the role of individual agency. Hence, explanations about socioeconomic phenomena are not reduced to individuals or institutions.

4. VEBLEN'S INFLUENCE ON HODGSON'S INSTITUTIONALIST APPROACH

From the identification made so far of positions contrary to strictly economist analyses based on a teleological process and through static tools, it is understood that both authors agree that economic actions do not necessarily seek efficiency or maximization. There are other dimensions, not only the economic one, building the personal and social context in which decisions are made. Assuming that the control and expansion of individual actions always result in gains and losses for one of the sides involved, the consensus is the search for this process

emulated by the strength of social habits. Such habits are the link that connects these consensuses and intrinsic aspects of human nature, a fact that cannot be denied, as the origin of preferences and interests is evidenced.

However, there is a gap of about a century between its constructions; therefore, Hodgson's advances in the Veblenian framework are clear. Although Evolutionary Economics is competent to present the limitations of the economic mainstream, it has limitations related to the lack of a clear scheme that communicates human intentionality to causation in the development of institutions (HODGSON, 2004b).

4.1 Instincts, Habits, and Institutions

The dialectic in the interactions between the innate dispositions of agents and the consolidation of social consensuses is the main point of convergence between Veblen and Hodgson. Instincts, regarded in this logic of reasoning as such innate propensities, do not determine behaviors; they are subject to development and modification by the force of habits (VEBLEN, 1914). This is what Veblen intends to say when he mentions that habits of thought or life, formed in response to a given stimulus, will undoubtedly affect the nature of responses to future stimuli, as they will modify the cognitive framework of the individual, supporting decision-making in the future. Hodgson (2007b) clarifies that habit formation requires repeated behaviors, which can often be triggered by the propensity to imitate other individuals. Hence, repeated behavior leads to forming habits of action and thought. "Habit is the psychological mechanism that forms the basis of much rule-following behaviour (HODGSON, 2007b, p.107).

An identical understanding can be verified in Veblen (1899) when the author deliberates on how habits of life and thought represent what is elected as ideal. In this sense, it is admitted that a scheme of life exists in which patterns are codified (what is beautiful, good, convenient, for example) from the life of a part of the individuals. These codes represent answers found by the collective interaction between human nature and the structure that presents itself: systems of convention and common sense. Thus, the premise is clear that this path between instincts, habits, and institutions is not homogeneous and unidirectional since, with each movement, a new context is formed. Although mechanisms aim to stabilize institutions, this scenario must be seen as dynamic.

The proposed analytical core resides in the path of individual human nature and of the institutions in the social structure. When Hodgson (2007a, p. 331) mentions that "the capacities of human deliberation are linked to the evolution of their social and biological contexts" (our

translation), it is evident that his analysis of rationalization does not neglect either the aspects intrinsic to man or those constructed by society and in which the actions orbit. Thus, by giving space to the interaction between instinctive triggers and structural forces, Veblen and Hodgson demonstrate the cumulative character they consider present in actions. Thus, a biological and social heritage is observed, on which institutions once molded act, encouraging and constraining certain behaviors.

Veblen, approaching this realization that the interactions between structure and individual must be considered dialectically in the process of feedback, thus deliberates:

The growth and mutations of the institutional fabric are an outcome of the conduct of the individual members of the group, since it is out of the experience of the individuals, through the habituation of individuals, that institutions arise; and it is in this same experience that these institutions act to direct and define the aims and end of conduct. It is, of course, on individuals that the system of institutions imposes those conventional standards, ideals, and canons of conduct that make up the community's scheme of life (VEBLEN, 1909, p. 628).

Cultural growth represents the cumulative sequence of how human nature responds to the demands that appear to it. However, this system of conventions is supported with some flexibility, as Veblen (1909) points out, diagnosing that, from the moment it is understood that the institutions of the past influence those of the future, it is correct to say that it is the habits that act in this mutational condition. Cultural growth, thus, would be "a cumulative sequence of habituation, and the ways and means for this are the natural human response to the demands that arise" (VEBLEN, 1909, p. 628), creating, each movement in the sense of responding to these incentives, a new situation, and inducing new forms of response.

The cumulative and consistent character makes habituation as significant as an analytical proposal. Although the premise of the aforementioned constant variation of the institutional scenario is considered, there is a certain consistency in the process of cognition when going through innate propensities and aptitudes, adding to this the inferred cumulativity, which allows us to seek the past attributes that corroborate the object under evaluation (VEBLEN, 1909).

With the above, it was intended to demonstrate how both authors in debate face the context of institutional change. This understanding is considered a prerequisite for postulating its analytical proposals and those of the institutionalist matrix as a whole. Moreover, institutions cannot be seen as solid and permanent structures since the "evolution of the social structure was a natural selection process of institutions" (VEBLEN, 1899, p. 179), just as the institutional

environment cannot be taken as external to behavior in the repetition of habits of life and thought.

Chart 1 – Comparison between approach and treatment given to the different elements of analysis in Veblen and Hodgson

Veblen Approach/Handling	Elements of analysis	Hodgson's Approach/Handling
Observation of the transformative processes of society; Rejection of the static character of Economics; Emphasis on the importance of considering the continuous and procedural process of construction of behaviors	Criticism to neoclassicism	Criticism of maximizing rationality; Rejection of the idea of exogenous preferences; Rejection of the deliberative paradigm
Criticism of the “hedonistic man”, able to calculate his choices relative to his desires	Criticism of methodological individualism	Rejection of individual preferences as fixed and unchanging; Emphasis on the importance of considering individuals in their historical and institutional contexts; Recognition of the reconstitutive effects of institutions on individuals
Criticism of anthropological emphasis on structure as a determinant for individual actions	Criticism of methodological collectivism	Recognition that individuals create, reproduce, transform, or destroy institutions, intentionally or involuntarily
Emphasis on the phenomena of variance, inheritance, and natural selection of institutions; causal assessment of the interaction between individual and social structure	Darwinism	Commitment to causal explanations
Understanding of the human agent as part of an evolutionary process; Criticism of simplifying analyses; Finding the constant evolution of social dynamics	Evolutionary Character of Economic Science	Need for analysis of institutions in an evolutionary context; Emphasis on the need to analyze individuals in their respective contexts
Habits of life and thought; Social habits, consumption, and emulation; Expression of dynamic feedback between human nature and institutions	Habits	Mechanisms that provide the foundations for changing beliefs and preferences; submerged repertoires of potential behaviors, which appropriate contexts can reinforce
Habits of thought common to most men	Institutions	Imposition of consistency on human activity; enduring systems of social rules, which structure human interactions

Source: Prepared by the authors (2024).

This is a significant advance in Hodgson's analysis, which interprets the interaction between structure and individual proposed by Veblen in a reconstitutive (in which both feedback) and downward (from structure to individual) way. In other words, institutional forces

can restrict or expand certain behaviors, but it is through the repetition of these behaviors, in the form of habits, that the institutions perpetuate. Such indirect interaction between institutions and behaviors can be understood as follows:

It is not simply the individual behavior that has been changed: there are also changes in habitual dispositions. In turn, these are associated with changed individual understandings, purposes and preferences (HODGSON, 2003b, p.167).

Analyzing this information, we seek to transpose these analytical mechanisms for their use in current phenomena and objects of investigation. Veblen (1914) already indicated that, with the evolution of science and the body of knowledge of societies, innate propensities would be incorporated into the legacy of habits and behaviors of past generations. Hodgson (1994), in turn, demonstrates that some modern economic schools use this logic by indicating that the acquisition of technological skills and the ways used for these skills to be transmitted within the economy represent the “memory of the organization”, that is, the institutionalized habits and routines in the company.

Veblen's environment and object of investigation were different; so were his interests. Management and microeconomics arose only adjacent to assessments of the evolutionary aspects underpinning capital growth and emerging businessmen's characteristics. However, it is in the evolutionary premises that the similarities are sustained. As well as work routines and operating protocols, for Veblen (1914, p. 07), “[...] paths and means fit into conventional lines, acquire the consistency of custom and prescription, and then take on an institutional character and strength”. Thus, choices and decisions made will bring future results, as “the current situation shapes the institutions of tomorrow through a selective and coercive process, acting in the usual human opinion about things, and thus altering or invigorating a point of view or a mental attitude inherited from the past” (VEBLEN, 1899, p. 88). Chart 1 presents a summary of the approaches of these authors.

4.2 From Veblen's “Evolutionary Economics” to Hodgson's “Reconstitutive Downward Causation”

As stated in the theoretical framework, Veblen's writings of the late nineteenth and early twentieth centuries expose his criticisms of traditional economic analyses. It is inferred, from this, that his criticism lies, above all, in considering the phenomena unilaterally and statically. In the economic sciences, he considered that analyses that placed the individual as a sovereign decision maker, a homogeneous entity separated from its social-historical context, did not

match reality, thus needing to adjust to the evidence (VEBLEN, 1899). Thus, although the chronological distance between Veblen's writings and those of Hodgson, the latter maintains and supports criticism of the neglect of mainstream economics in the fact that objects and preferences reconstitute in a continuous historical-institutional evolution (HODGSON, 2003b).

For Veblen (1914), scientists usually had to act to seek facts that corroborated existing theories. When this tension between theory and reality became incompatible, such facts would be considered disturbing. For him, even analyses with the statistical appeal should detach from the emphasis on individuals and consider they are incorporated into complex life schemes, which makes it difficult to homogenize behavior patterns. Even though they are endogenously formed (HODGSON, 2003b), preferences could not be separated from reality under penalty of substantiating unlikely evidence.

Hence, Veblen makes it clear that the analyses existing at the time, which stood as an alternative, especially in anthropology, suffered from the evil of transferring the founding elements of action to the structure. It was necessary to take as assumptions the facts that social development and human conduct would ultimately be reducible to both the "living tissue" and the "material environment" (VEBLEN, 1899). The following excerpt best exposes this diagnosis:

The economists have accepted the hedonistic preconceptions concerning human nature and human action, and the conception of the economic interest which a hedonistic psychology gives does not afford material for a theory of the development of human nature [...] At the same time the anthropological preconceptions current in that common-sense apprehension of human nature to which economists have habitually turned has not enforced the formulation of human nature in terms of a cumulative growth of habits of life.(VEBLEN, 1898, p. 22).

In this citation, we describe what Hodgson considers the problem of analytical emphasis to be either in the individual or the structure. For him, both individualism and methodological collectivism represent, at their extremes, versions of exploratory reductionism, which tends to consider complex phenomena from a single analytical level. Hodgson himself (2004b) corroborates Veblen's thinking, inferring that confining human deliberation to a rational teleological process in terms of calculation and choice hides the cumulative sequence of factors that composed the cognitive subsidies for this deliberation. Thus, he approaches Veblen, who, by valuing habits as mechanisms of interaction between individual and structure, moves away from the analyses purely linked to individualism or methodological collectivism.

Hence, both authors are directed to the search for an analytical answer that positions between these extremes and moves away from the abovementioned extremes. Thus, if, for

Veblen, this answer would be “Evolutionary Economics,” for Hodgson, the answer would be “Reconstitutive Downward Causation.” Although the latter relies on the former, it seeks to demystify an abstract and generalist character of the Veblenian proposal, filling the gaps left:

Veblen outlined the problem of reconciling human volition and causality but failed to develop an adequate and non-reductionist philosophical framework in which human intentionality, monism and causality could be reconciled; without reducing mind to matter, or matter to mind (HODGSON, 2004b, p.351).

Thus, Hodgson (2003a) clarifies this dialectical process from this derivation, showing evidence of the triangulation between the categories of instincts, habits, and institutions, which he hopes to incorporate into the analyses. In this context, by connecting instincts to the regulatory aspects of society, habits are more than simple behaviors. They represent the agents' understanding of reality. Thus, institutional change affects not only actions but also the understanding of the world of a given society.

To the extent that the downward impact of institutional forces does not affect instincts (they would be organic and hereditary), it is in the habitual formulation of ways of doing things and responding to incentives that the structure interferes with human cognition indirectly. And, in a complementary way, habituation interferes with this system of conventions, as it roots points of view in the cognitive apparatus used for future deliberations. On the other hand, if institutions directly affect the preferences of individuals, that is, without the intermediary of the habituation process, it is impossible to state that this interference will affect future deliberations and give stability to the reigning institutions. Again, it is the mechanism of habit that ensures such stability.

5 FINAL CONSIDERATIONS

Institutionalism, within the Social Sciences, emerged as an alternative to neoclassical theory, which traditionally disregarded the influence of socioeconomic and institutional contexts on individuals' decisions. This alternative, in addition to constituting opposition to neoclassicalism, provided a theoretical apparatus for robust and consistent analysis of reality, especially in Economic Sciences. Hence, the rapprochement of Economics with Psychology and Sociology provided such analyses of empirical applicability while promoting the departure from the deliberative paradigm present in this field.

Thorstein Veblen, chief representative of American Institutionalism, in considering institutions as established habits of thought common to the generality of men, emphasized the tripod: “instincts – habits – institutions”, and established the feedback process between these

categories. Understanding economics as an “evolutionary science”, he argues that analyses do not need to consider the social and economic contexts in which they are conceived, as they are dynamic and constantly changing.

Geoffrey Hodgson, in turn, heir to the original institutionalist tradition, defined institutions as enduring systems of social rules that structure human interactions. By disapproving both the analyses that advocate methodological individualism and those that support methodological collectivism, Hodgson suggests the rescue of the Veblenian approach and, above all, the central concept of “habits” to understand that individuals affect institutions, but they are also affected by them. The “reconstitutive downward causation” of the structure toward the agent is only possible through the prior modification of individual habits, as this mechanism allows cultural and institutional rules to actually enter the human mind.

Nevertheless, the hundred years of theoretical developments that separate these two authors, the approaches undertaken by them seem to go in a very convergent direction: the rejection of the analyses that advocate individuals without considering the social and institutional structures in which they are inserted; and, at the same time, those that infer that such structures are so determinant of individual behavior that they can withdraw their power of action. In this sense, it can be affirmed that, for Veblen and Hodgson, habitual dispositions emerge as fundamental for understanding feedback between individuals and institutions.

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