

Spring 1942

Economics 305: Economics From an Institutional Standpoint

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F. H. Knight
2, P. ~

Economics from an Institutional Standpoint:

The Institutional Movement

Refers to 2nd Outline - May 1939

Historically it is similar to the
German Historical School.

Questions:

Classical Supply + demand
Competitive economics

Problem of the Classification of
the Social Sciences:

Institutional Economics ^{+ Classical} the
looking at the same data from
from different points of
view.

Knight L. P.

- ① Society as an institutional complex
- ② Institutional change

Counterbalance the individualism
& traditional approach.

philosophical pluralism: man
willingly belong at the same time to
number of different fields of
science. : e.g. man a mass

of matter, an infinitely complex
mechanism, a chemical mechanism.

↳ Man as a human being different
from the mere physical
mechanism,

Problems of
Social Science

a problem of Scope & Method

What do you mean by
Economic Behaviour

Knight 1, P3

Constructive Part:

Some Notion of Society as
an institutional complex.

Survey of the Evolution of
Economic Society. ▽

Herbert Hester:

Economic History of Europe

Notion of the Evolution
of Economic Life

Meaning of Institutions
Institutional Evolution

Categories in
which History
is written:

Knight & P₄

History not a chronological
chronicle of events.

Historiography: Best in
German. Some in English

Articles in the Encyclopedia of
the Social Science

Part 1 Course of Events +
Causality

Institutional Complex of
Modern Economic Life ~

Modern Capitalism

~ Modern Economic Life

Understand it as an

institutional Complex and
as a ^{result of} historical evolution

Sombart & Weber / Knight & Po

Uniqueness of Capitalism as
an Economic Institution

Civilizations more or less
like until you come to
modern Civilization which is
different.

Marx's Economic Interpretation

Webster's Religious Interpretation

Irreligious Interpretation of History

Modern History isn't religious.
but this doesn't mean that it
can be described as Economic.

^{Knight:}
Modern History motivated by
Secular; the disinterested
pursuit of truth which is
something new. Nowhere
else have you had the
pursuit of truth untrammelled
by religion

K. P. P.

The institutional Knight 7, P 6
point of view of
society and the traditional
economic point of view.

Traditional economic view
Society as a collection of markets
Man as a purchaser & ^{producer} ~~producer~~

Institutional view:

① The customary ^{cultural} ~~view~~ view: Society
as a complex of established
ways of thinking & acting.
Distinguishes man from
the brute: Man as the
bearer of a culture.

Faculty of imitating from
generation to another of
his actions: not biologically
inherited but either

traditions
customs
institutions | the same
thing

How far animals
do have this institutional
interested patterns? Knight, P.

The Institutional Man:

Penny. J.P.E August 1940

The Market is an institution +
Market behavior is institutional
behavior.

Traditional Meaning of Institutions
is antithetical to individualism
& yet ~~is~~ individualism is
itself institutional

The Political Man:

Man as a participant
in group self-determination
as a participant in a
democratic society.

Political Man dates from the
day of the American Revolution.

The liberating of Knight & P

Conscience +

Intelligences have all developed together in the transition of medieval society to modern civilization

Political Man + the democratic process + legislation:

Legislation the controlling + development of ~~within~~ societies own institutions

views / 3 main corners:

Economic Behavior

1. (Partly Institutional
2. (Interaction of individuals trying to promote their own interests
3. (Politically trying to change institutions

Knight, Pg

Institutions a
behavior pattern which
people are unconscious of
of + also it may be
something deliberately
set up.

How far do men take
the initiative in
changing institutions.

Language as an ideal
institution.

Ordinary social usages.

Political Man who becomes
self conscious + critical
about his institutions +
tries to do something
about their evolution.

Difficulty of Manufacturing
institutions + that is what
man is trying to do.

Social change:

Krugger, P. 10

Max Weber: General Economic
History.

Economics from an institutional
point of view ~~should~~ would
have to explain the modern
economic scheme as a
whole.

We know very little about
this. The evolution of man +

B. 20: General Anthropology

- ① Long article about the origin
+ evolution of Man
- ② Evolution of cultures: called
prehistoric anthropology; too
technical

③ S. Zuckerman = Functional
Affinities of Man, Monkeys
+ Apes

The change of
languages.

Knight, P. 11

ETH/14. 2 P₁

F. H. Knight:

Economics from the
Institutional Standpoint

At least 1 or if not 2
papers

Institutionalism in General

Abraham Harris
on Reserve

Can't make anything out of it
Joseph Marger Mayer in the light of
Social Science & Scientific
Method.

Annals of Political &
Social Science
last issue as we before.

Get into idea of Law.

Development of Evolution of
Economic institutions practically
coincident with History of
Business Law.

F.A.H. 2.12

Topics of Science & Action

Social Science & Social Action

Science, Philosophy & Social
Procedure - A full issue of
Ethics. Read

Man is an active animal

≠ man is free

man is rational.

Means that he initiates
action on the basis of
thinking.

Consciousness associated
with thought and will.

Problem solving ability of
man differs from problem
solving ability of animals.

Man's faculty to plan in
things which do not think
or act which do not initiate
action.

Work toward Social Action -

Start with idea of a
Crusoe & his knowledge
& action acting only upon
next action. / Man's relation
to domestic animals not the

F.H.K. L2P3

Man as man acter toward
inert objects.

Crude isolated life
acting only upon inert
objects which do not act
upon him.

① There would be
no such things as
morality e.g. Cause uses
all objects to further his own
desires as tools. None of the
higher values.

Two meanings of value

- ① comparative of worth
- ② normative

① man as a mechanism
is not free or rational
and is not active
is not an agent.

All which exists is a
transformation of energy

Values only as desires
directed desires of all
its critical aspects

F. N. K. L. 2. 14

Crusoe would not behold
to any standards of values

More taste ^{is} good taste

Concept of values as desires
without any questioning of
their godliness.

Notions of Man

1. Mechanical - stimulus

Response

2. Man with desires
& thought & effort to
fulfill them

3. Man as critically
desiring

Critical desires ~~at~~
to truth no opinion.

Man who takes his desire
as absolute is similar to
man who takes his
opinions as fact

F.H. K. 2, P 5

Contradicting is position
that man can believe
what he knows is
not true.

Distinction between meaning of
action & action without
criticism of desires.

Put two people in the
world.

~~Autonomous~~

Either they must
have a 'treaty' & delimit
their spheres of action
or they must fight to
exterminate each other
either an impassable
barrier or a society must
ingrain.

One of major functions of
law is to delimit the
spheres of action of the
members their spheres
of individualism

M.H. H. 2. 12

Cooperation - the sphere of which must be delimited by law.

Problem of freedom is the problem of a coercion.

Determination of a sphere of individual freedom not to be trespassed upon.

Sociality }
Cultural } planes of
Cooperation, Economic } relations between
Man + Man.

Ethics almost universally concerned with serious side of life } Esp Religious Ethics;

Even psychology generally looks over play + laughter + Humor.

Book on Play. Huizinga, J
Homo Ludens, +
Man the Player.

F.H.K. L.P.

The frivolous side of
life has to have
rules of the game.

'Man is a cheating animal'

Man is a competitive animal.

Economic man is not
competitive + is not cooperative

Economic interest is not
selfish it is not not selfish.

Competitive & Cooperative interests
are not Economic as such.

Economic associations
purely impersonal transactions

Economic man cold bloodedly
~~trades out~~ ~~desires~~ &
attempts, works, to
satisfy his desires.

Greenson (The Silent Trade)

The carrying on of
commerce without ever
coming in sight of each
other.

V.F.H.K. 2/18

Origins of Commerce
Mutual Game Robbing

+ Gifts: Mutual Hospitality
& the exchange of gift

De Gifts of Hospitality

Meat of the matter:

Regulated regulation of
the relations between
persons of a society: the
established way of doing
things \equiv institutions.

Law is another thread for
institutions: a framework
in carrying on a
conversation.

Intentional framework
law over all actions
which more than one
man participates in.

Difference between thought
and action where people
are involved; psychologically

12/19

* logical impossibility of
treating another individual
as an inent object

Only all out effort of
extermination would
contract this

People do have the
instrumental attitude to
other people but it is
not the same thing as
taking the instrumental
attitude towards inent
object

You do not coerce
inent objects; when you
use other people you
coerce them

persuade
bribe

have
good fellowship

F.H.K. L.P. 10

Modern times instrumental
attitude is unethical

Humanity always to be
treated as an ~~end~~ ^{means}
rather than as ~~means~~ ^{end}.

Platz has a different set of rules.

① Instrumental relationship
[treating other people as a
tool & as a mechanism]
the ~~only~~ thing which we
could call immorality

Morality | largely
Individual Rationality | ~~substituted~~

Difference between Medieval Europe
(which was typical) & Modern
civilization is unique.

2 set of changes the Renaissance
& the Age of Reason produced
the Modern civilization which
is unique.

Individualism is
unique & different

F. H. K. L. P.

Relation between thought and action is the matter of the coming to agreement about rules.

How people come to agreement about rules of action! Not based upon recognized patterns of formal logic!

Rational Man.
Institutional Man.

Get a notion of the evolution of the association of individuals.

Knight & P
April 7, 1942

3 categories of action

1] mechanical

2] individual - biological

- purposive activity - free + uncaused

a. end is given

the term is
problem solving
it is not
predictable

Economic behavior: problem
regarding procedure
of realizing end.

b. problem solving
directed toward a given
end, the end is
not open to
discussion: it is
a given.

problem is the
economy of means.

b. Evaluative

: End Problematic.

distinctions between a + b
may be only analytical: it
may not exist: being deliberates
about ends: two aspects
of thought are probably
inseparable. Economic aspect
give aspect to realize an already
determined end.

Knights P₂

Mechanical causal process.

non-problematic not problem solving
'Economic' problem solving as to
^{procedure} procedure toward given
ends

3) Value Evaluation
End is Problematic.
Critical } effort to distinguish
 } values concisely.

Impossibility of separating
means from ends.

{ Religious and Romantic
views of life.

Religious - ideal - Hindu.

Romantic - the Western view of life

{ This discussion is preliminary
to the question of Social
Ends and How they are
arrived at.

Critics would not criticize
his values: Critical values
a social process would
not think about ends.
Economic man: Ends are
given; I want what I
want.

U. P. P.
F. Knight L. L.

more man intelligent about the
pursuit of given ends. Infallibility
of omniscient is the same as no
intelligence. Notion of omniscient
being 'cancels itself out'.

Propriety with respect to an
individual end with social
relations given.

Institutions enter where:

Especially Effort Hierarchy.

Mechanical

Plant? life

Institutions

Institutional life: where
the action patterns are
not biologically built
into the human
organisms but pattern
is

pure institutions
acquire by unconscious
set action & without
teaching

Knights 23 P4

Institutions vs customs.

custom: individual acquire
action pattern of
preceding generation.

overwhelming characteristic
of human race.
not instinctive and
not inborn.

Customary behavior is
a phenomena of some
size - of more than
the natural family
size.

Three type of society.

1) mechanical societies: the
termites colony - biologically
inherited pattern of
behavior.

2) Customary stages: prior to
the intelligent stage.
Institutional social life.
People do the accepted thing.

3) Free - Deliberative
Modern Society: 7
institutions but intelligence

1. M. D. P.
Knight 7, 18

used to question 'existing'
the substitutes.

Human Evolution:
If you read one book
you think you know a
lot, if you
read two you don't know
anything.

The human race did
not evolve from a
highly gregarious
species.

Superimposition of
sociability atop of intelligence
Intelligence developed ahead
of sociability.

Man is by nature anti-social
but desires the ends
which sociability can
give.

Knights P₁

Try to put together a pattern which isn't too obviously false.

Very little social intelligence for a long time: mixture of custom & innate behavior.

Lack of sexual instincts: great physical difference: no breeding season: physiologically phenomena of sex different.

Sex controlled by custom one of the Basis of modern society.

Patterns of dominance amongst animals: superordination & subordination established amongst higher animals by fighting difference in degree to which it remains fixed.

1. Knight L3 P7

Evolution of Speech: Know nothing about it. Most primitive languages we know are complex. ⊙

All we know of historical change in language is a process of degeneration.

Language first as vehicle for the conveyance of emotions. ~~is~~ rather than of intellectual communication.

If you are going to think about man you have to

'how the cutter got that way'

What about religion: Man developed emotionally prior to developing intellectually.

Physical modesty + decency: animals have no trace of it

Knights 23 P

Psychoanalysis will add
a lot of ill smelling
themes about it.

all men have some
trace of it

Man as he became more
rational became more irrational
& emotional.

Tomorrow at two

Social problem is
not a problem of using
means to achieve a given
goal.

The real problem of
social action is deciding
the problem of ends.

N. P. P.
1 Knight Ly P.
April 8, 1942

Idea of Social Action
Not the subject matter of
the course.

Theoretically pure limiting
case of an institutional society
is purely mechanical.

activity - effort & error

processes - positive-mechanical.
factual

Course - Course de philosophie positive
~~mechanical~~

Customary society

Given part of pattern you can
infer the end.

dynamic quality to problem
solving.

Description of a sequence in
time is predictive.

1 Knight dy P₂

Problem solving nature of human activity.

Instrumental thinking

Sharp contrast between natural social relations + customary relations:

Social relations: take point of view of contract

The whole relation by which two people come into contact with each other is agentively different phenomena than from manipulation of inert instruments

What human beings want of each other

- ① Use it for own purpose

Barriers are which people don't cross. May be a clash to define Barriers: Even after war they have to write a treaty

V Knight 24 P₃

Elaborate constitution and laws implicit in casual conversation:

more + D more may desire to:

- ① delimit sphere of action
- ② Sociability
- ③ Economic Cooperation

Economic Cooperation many different forms:

- ① ends still individual individual consumption with joint-co-operative production [capital elements]
- ② joint co-op production a common consumption highway: parts + costs. Consumption as a social unit - no apportionment amongst individuals of the product of joint social

problem of a free society to establish rules of abiding

Knights 24 Pg

gent agreement.

Ideal of pure democracy
best achieved in a
small discussion group
where there is a formal
organization.

Why rules: a rule is a
commitment to future
action.

All our thinking regard to
social action is moral.

When a group talks about what
ought to be done they are
talking about what ought to
be done.

If a group problem
unless there is a conflict of
individual interests.
predominant common interest
as to association's decision
terms of association. They
decide what they ought to

N. A. P.
Knight 4 p 5

Q: What rule will be a better rule.

Method of adjudication is what is discussed

Set up machinery which is of the nature of an impartial decision maker.

Problem of social action is a problem of agreeing about changes in the law \approx to problem of social control.

involves ① an institutional setup - the body of law -

② negotiation for change in laws.

Customary society, first step toward rational thought

Instinct \rightarrow custom \rightarrow rebellion against custom \rightarrow enforcement of custom \rightarrow repeal of custom by law.

1 2 3 4 5 6
Knight 4/6

Rationality Inherently
contradictory

Primitive Law: mob action.
hue & cry law enforcement.
in time it becomes to be
enforced by delegated
officials:

Law still not made.
Law making something
different.

Evolution of specialized
agents for enforcing law

Enforcing by specialized
officials.

Law making comes after
specialized agents for
enforcing the law

One of the very first
fruits of intelligence is
the feeling of diminism.

Primitive idea of religion
that of luck: Signs
& portents: ways of being lucky

Knights by P

next to last stage
is an Authoritarian state:

Democracy arises as a result
of the ^{revolutions} overthrow of an
authoritarian ruler

Tyranny: in which it is the
recognised prerogative of
a certain authority not only
to enforce law but to
make law

Authority a matter of
customary law.

Early middle ages +
western Europe a
matter of authoritarian
rule + customary
law: quite primitive.

Development of trade one
of the main elements
leading to a higher
civilization

Development of national state

Knight 24 Ps

Evolution of our culture

- ① Primitive.
- ② Feudalism.
- ③ National Dynastic State.
Authoritarian State.
- ④ Democratization of the
National state:
French & American Revolution

Representative Democracy

Laws provide for
Legislation, Administration
& Judicature of Laws

Evolution of Economic Institutions

Hamilton - used in Encyclopedia
of Social Science:

Kebley as an Institutional Economics

Institutional Economics ^{Approved} ~~is~~
the classical price theory

History of Business Law.

N. S. P.
Knight 25 P,
April 14/1942

Russell H. Dickson
Economics & Institutions

Dickson + Eberhart 1939 -
Economics + Social Change
Stage: unduly ^{Cultural} but goes out to
Poor Book Econ Hist

Descriptive Bibliographies
at end of each section

Most systematic book:

Muller - Fieser:

Muller - Fieser: ~~From~~ History
of Social Development
Survey of Cultural History

New Dickson book:

Takes up institutions of
Econ life:

Kristaun: History of Econ
Inst. Institutions of modern Europe

Tonight 2/3/2

Watters down of Sombart

Best of Sombart in

The Quintessence of Capitalism

Written between earlier &
later capitalism

Professors Sapor. on
Language

Idea of Institutional
History & change recommended
the two chapters on
Language change in
his book.

Can't explain
institutional change.

What any country does about
its language is unplanned
& unthought.

Wrought do 3

Institutional change:
can explain in
that you can find
a Law; rules

e.g. the explanation
of the change of Latin
into French:

Think around a few
very simple ideas

3 Heads

3 fundamental levels
of stages of behavior

- (1) Non Purpose
- (2) Purpose: Use of
means to realize
given ends.
- (3) Ends subject to
deliberation: ^{problematic} ends,
can put in more
stages

V. P. P
Knight 25/4

3 conceptions of human beings as they make up society:

Purposive individual
Institutional Man
Political Man

Institutional man essentially a mechanical man: the imitative conditioned response. But the nature of institutional drift: e.g. room for adjustment & flexibility

Purposive individual

Political man: when purposive man acts in society and have to make rules deliberately

Evolution of State Knight 15th

- ① Fighting power.
- ② State the enforcer of law.
- ③

Economic Man.

Political - Legal - Man

Man who participates in the making & changing of law.

Institutional man: figure of plant growing in a soil.

Law: that more self-conscious society comes down through history. People have more awareness of interest in laws + institutions.

Nothing sacred about a law. Only action was to compel obedience by violence.

Critical of institutions a Modern phenomenon

Knights P6

Institutional problem itself
unaccountable

Problem of control: The Political
= legal man is necessary
a moral man: In any
objective manner a
procedure to think about
law. All thinking
about law is normative.

Discussion presupposes
disagreement - looks toward
agreement + agreement
may be better or worse.
you discuss which
is the best.

Assumed to make a
difference as to what
you agree about.

Discussion implies a
willingness to find the
better rather than to
promote their own
interests.

Can't discuss when
participants all say
I want!

King Mt & P₂

People try to say
more than there is
to say.

Question of Ethical & Political
deliberations: Neither our
courts nor our legislative
quote general moral
principles.

Essential thing: The form
of social organization
called free-enterprise
Ethical principal
Laissez-faire
association, laissez-
faire

Laissez-faire: general
phrase of the law letting
people alone:
religious laissez-faire.

Church is a voluntary
association - law doesn't
tell them what to do.

Same with exchange:
Gov't's function to keep
one from forcing people into

~~Exchange~~ (Knight's 2008)

exchange they do not want

Peculiarity of Economic cooperation & exchange are quantified - Market organization where people meet to ~~buy~~ make & accept offers. Market; & any bargaining

Formal exchange

Systematizes & definitely quantified

Minimum institutionalization of society is this
identical of laissez-faire

Can think of History as
an evolution from
mechanical, through
institutional to the
ultimate laissez-faire

Equity with no other law
but moral law.

11.11.19
Knights 1509

mutual consent presupposes
competition: competition
in connection with
market does not mean
rivalry: competition
meant in connection
with a market freedom
of association.

competition: freedom of
communication
+ making of bargains.

Freedom from coercion
except for the moral
law.

greater detail in
looking at history.

History doesn't give any
answers to questions
we want answered.

Read Max Weber
General Economic History

(Knight 25 P. 10)

Nature of Primitive Economic life.

Logical formulation of Stages:

I Handicraft:

Exchange of services or
products by people who
carry on the whole
process of production.

II Group Production

Production carried on
by a larger group
than the family.

Cooperative | private enterprise
 | cooperative enterprise

Partnership
private enterprise
group cooperative
enterprise

Institution of the ^{market} ~~market~~
logically first with
respect to products.

Est. of a free market
for services & products
services is a late phenomenon

11/25/11
Knight 25 P.11

Markets for products; for
productive services

- 1) Land - leased
- 2) Labor - free
- 3) Capital goods - leased

lease; & loan at interest
identical

Form of contract by which
a user gets the
productive agents
from the owner
is a historical
institutional accident

History of Human Freedom:

The wage contract
instead of ownership.

History of free market
in Land, Capital.

Complicated by difference
between city & country.

✓ Knight + Osborn

Domestic trade & foreign
trade:
Institution of foreign
trade differing
from domestic trade

History

N.S.B. Gras
Introduction to
Economic History
~~History~~
History

N.S.B. Gras

Introduction to Economic
History