

Claiming Choice for Institutional Economics

Ana Narciso Costa and José Castro Caldas

Abstract: Institutional economics is often presented by its critics as a tradition in political economy purporting a mechanistic, robot-like, view of the human agent. In this paper this portrayal of institutional economics is rejected and choice is reclaimed for institutionalism. In fact, institutional economics is not committed to an understanding of behavior as mere stimulus-response. Notwithstanding the fact that institutionalism places great emphasis on habit in human conduct, this does not mean that it excludes autonomy, volition or rationality.

The paper addresses the notion of habit within the pragmatist-institutionalist tradition with the aim of clarifying this concept, disentangling it from current misconceptions. With the intention of contributing to the development of a theory of choice in institutionalism, it then deals with deliberation and choice in the pragmatist literature, namely in John Dewey's *Human Action and Conduct*. Finally, the implications of deliberation thus conceived, namely in respect to collective action and institutional change, are highlighted.

Keywords: conflict, deliberation, institutional change, institutional economics, pragmatism

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The distinction between neoclassical economics and institutionalism is often misconceived in terms of an opposition between a “science of choice” (neoclassical economics) and an account of behavior guided by instincts, habits or custom (institutional economics). In order to construct this dichotomy the image of institutional economics is distorted by its critics to make it look like a theory purporting a mechanistic, robot-like, view of the human agent. This portrayal of

Ana Narciso Costa is an assistant professor at ISCTE – Lisbon University Institute and José Castro Caldas is a researcher at the Centre for Social Studies (CES) of Coimbra University. The authors benefited from suggestions offered to them from participants on the 2009 Critical Economics CES Summer School. A special thank you is due to the very helpful comments of two anonymous reviewers. The errors remaining are the authors'. The research was partially funded by FCT under project “Choice beyond (in)commensurability (BeCom)” (PTDC/CS-ECS/099630/2008).

institutional economics is rejected in this paper. In fact, contrary to current misrepresentations, the account of behavior in institutional economics is far from mechanistic.

Institutional economics is not committed to an understanding of behavior as mere stimulus-response. Notwithstanding the fact that institutional economics places emphasis on habit in human conduct, this does not mean that it excludes autonomy, volition or rationality. At the root of the above misconception, as shown by Geoffrey Hodgson (2004a), is a notion of habit as non-reflective, stimulus-response behavior, presently prevailing among economists, but foreign to the broader understanding of habit in institutional economics. In fact, in the institutionalist tradition which draws on the pragmatism of Charles Sanders Peirce, William James and John Dewey, habit is not only compatible with reflection and deliberation, but a precondition for all thought. Rather than viewing habit-driven human conduct merely in terms of stimulus-response behavior, pragmatism holds that individuals are capable of recognizing and shaping their habits. In the pragmatist perspective, there is indeed room for volition and rationality – both the narrow calculative rationality of neoclassic economics and the creative rationality of non-calculative deliberation (Bromley 2006; Hands 2001; Hodgson 2004a; Joas 1996; Kilpinen 2003; Lawlor 2006; Mirowski 1987; Twomey 1998; Yilmaz 2007).

In this paper we address the notion of habit within the pragmatist-institutionalist tradition, with the aim of clarifying this concept and disentangling it from current misconceptions. We further argue that institutionalism, in order to advance in the analysis of processes of institutional change, needs a more developed theory of choice. Intending to contribute to this development in institutionalism we turn once again to the pragmatist literature, namely John Dewey's *Human Nature and Conduct* ([1922] 1930). In fact Dewey's approach to deliberation as a process of conflict resolution, while leaving open a whole research agenda, provides a foundation for a theory of institutional change on which present day institutionalists can rely.

Habit in the Pragmatist-Institutionalist Tradition

Habit once had a central place in the lexicon of social theory (Camic 1986). However, starting in the 1920s the concept was marginalized in sociology and economics, and finally captured by behaviorism.

In fact, for the then new behavioral stream in psychology, habit became a mere system of acquired reflexes. From a stimulus response notion of habit, behaviorism offered a whole program of biological reduction that threatened to colonize the social sciences. Camic describes the movement of resistance to this “imperialistic” offensive in Sociology and shows how it led not to the advocacy of a notion of habit compatible with reflection and choice, but to a surrender of that concept to behaviorism. According to influential sociologists of the time, habit should be “restricted to the biological field; [for it] involves no conscious, purposeful regulation of [conduct], but merely . . . is unreflective . . . the uniformity of behavior [that constitutes social life] is

not a uniformity of organic habits but of consciously followed rules” (Thomas and Znaniecki, quoted in Camic 1986, 1072).

In economics, including institutional economics, as in sociology, habit – a concept which was central in Veblen – was in the same period progressively abandoned and associated with the behaviorist notion of automatic response to external stimuli and opposed to volition, reflection and choice. The resulting confusions, namely the habit-choice opposition, were well understood by Hodgson (2004a), who felt the need to recall the pragmatist notion of habit as distinct from the behaviorist, claiming it back for institutional economics.¹

The origin of the pragmatist-institutionalist concept of habit is to be found in the work of Peirce. However, for the economist lacking the training of a philosopher, James (1890) and Dewey ([1922] 1930) may convey the same or a similar notion in a rather more “reader-friendly” form. As we will see the pragmatist notion of habit, in that it so deeply contrasts with the current understanding of the word, is a source of surprise.

Habit is an Attribute of Matter

In the opening of Chapter IV of *Principles of Psychology*, James announced that “[t]he moment one tries to define what habit is, one is led to the fundamental properties of matter,” adding immediately afterwards that “the philosophy of habit is thus, in the first instance a chapter in physics rather than in physiology or psychology” (1890, 104-105). And Dewey ([1922] 1930, 62), thirty two years later, agreed: “to understand the existence of organized ways or habits we surely need to go to physics, chemistry and physiology rather than to psychology.” This seemingly bizarre idea of habit as primarily a property of matter documents well the “thoroughgoing naturalism [of classical pragmatism] in which the behavior and characteristics of the human species are not treated in a metaphysical or epistemologically separate realm” (Webb 2005, 511).

For the pragmatists, habit was the conceptual vehicle that allowed them to travel across the matter-spirit and the body-mind separations, replacing them by a continuum.

For James, the laws of nature were no more than the immutable habits of the elementary types of matter. The same immutability, explained James, is not present in compounds. The structure of a compound may change due to “outward forces or inward tensions” (1890, 104) if the action of those forces is sufficiently persistent to win over the inertia of the structure and if the structure is sufficiently plastic to accommodate the action of the forces without disintegrating. Plasticity was, then, the property of matter allowing for habit formation – a property which, according to James, is present in “the organic matter, specially nervous tissue” (104).

The attribution of habit to matter provided James and his readers with lively metaphors: used a thousand times, a garment clings to the shape of its owner’s body (it habituates), repeatedly opened and closed a lock adapts (habituates) to its key, once folded a sheet of paper tends to reproduce (habituates to) that form even if unfolded

again. More suggestively yet: “Water, in flowing, hollows out for itself a channel, which grows broader and deeper; and, after having ceased to flow, it resumes, when it flows again, the path traced by itself before” (Léon Dumont quoted by James 1890, 106).

These metaphors surely inspired James in the search for the neurophysiologic mechanisms of habit, a discovery that allowed him to anchor mental phenomena in the brain matter (Damásio 1994, 2003). James writes (1890, 108):

the entire nervous system is nothing but a system of paths between a sensory *terminus a quo* and a muscular, glandular, or other *terminus ad quem*. A path once traversed by a nerve-current might be expected to follow the law of most of the paths we know, and to be scooped out and made more permeable than before; and this ought to be repeated with each new passage of the current.

Although rooted in physics, the pragmatist notion of habit is in fact very encompassing. Once transported into biology and psychology, it denotes attributes which “are common to the race generally” and others which “are peculiar to the individual” (Carpenter, quoted by James 1890, 111), traits which are genetically determined and others which are the result of education. Once transported into sociology or economics, it denotes custom and, more generally, institutions. We thus find in the work of Veblen instincts, acquired dispositions and institutions – all subsumed under the habit category.²

Living Beings (Including Humans) Are Bundles of Habits . . .

In the opening of Chapter IV of James’s (1890) *Principles of Psychology*, we also find the following proclamation:

When we look at living creatures from an outward point of view, one of the first things that strike us is that they are bundles of habits. In wild animals, the usual round of daily behavior seems a necessity implanted at birth; in animals domesticated, and especially in man, it seems, to a great extent, to be the result of education. The habits to which there is an innate tendency are called instincts; some of those due to education would by most persons be called acts of reason.

Thus, from instincts to “acts of reason,” we find that habit covers a great part of life, in a continuum that includes both “wild animals” and human beings as “animals domesticated.” All is stated in a manner suited for appropriation by behavioristic psychology, seemingly with no room for volition or rational action, including only something that “most persons” would call acts of reason.

In fact, for the pragmatists, the activities of the mind, from perception to cognition, are manifestations of the phenomena of habit: “we find ourselves

automatically prompted to *think, feel, or do* what we have been before accustomed to think, feel, or do, under like circumstances, without any consciously formed *purpose*, or anticipation of results” (Carpenter, quoted by James 1890, 112).

Peirce, before all others, evoked habit to analyze perception and cognition. Peirce rejected the doctrine of intuition and the idea, found in Descartes, that the search for knowledge must start with complete doubt (Twomey 1998; Webb 2007).³ For him, the search for knowledge, “the action of thought,” starts from “the irritation of doubt” (Peirce [1878] 1986, 261). His, however, was not Descartes’s doubt: “We cannot begin with complete doubt. We must begin with all the prejudices which we actually have when we enter upon the study of philosophy” (Peirce [1868] 1986, 212). We must begin with our habits of thought, our beliefs.

If the point of departure is doubt (and previous beliefs), the stopping-place is the establishment of a new belief, of a new “rule of action, or, say for short, a *habit*” (Peirce [1878] 1986, 263). But the new rule of action (or habit) is not the product of an intuition, that is, of a “cognition not determined by a previous cognition of the same object” (Peirce [1868] 1986, 193); it is rather the product of a recomposition of previous cognitions, that is, of previous beliefs (habits). The process is not finalized, and it is in this sense that Peirce may be considered a fallibilist: “since belief is a rule for action, the application of which involves further doubt and further thought, at the same time that it is a stopping-place, it is also a new starting place for thought” (Peirce [1878] 1986, 263).

For Peirce and for the pragmatists in general, the rejection of Cartesian dualism did not involve an adherence to a Lockean empiricism which conceives of the mind as a passive container of sensory impressions. Under Peirce’s influence, Dewey ([1922] 1930, 31) explained:

Reason pure of all influences from prior habit is a fiction. But pure sensations out of which ideas can be framed apart from habit are equally fictitious. . . . The dependence of thought . . . upon prior experiences is usually admitted. But those who attack the notion of thought pure from the influence of experiences, usually identified experiences with sensations impressed upon an empty mind. . . . But distinct and independent sensory qualities, far from being originally elements, are the products of a highly skilled analysis which disposes of immense technical scientific resources. To be able to single out a definitive sensory element in any field is evidence of a high degree of previous training, that is, of well-formed habits.

Action, like belief and perception, is also a matter of habit. In James’s *Principles*, the prevalence of mechanical habit in conduct is even appreciated as a condition for survival: were it possible to conceive of a human incapable of forming habits such a person would be a “miserable” being, undecided even when lighting, or not lighting, a cigarette, drinking, or not drinking, a cup of tea, choosing when to get up or go to bed (James 1890, 122).

Whoever wishes to establish the prevalence of habit in the pragmatist and institutionalist conception of action will easily find evidence. From Dewey ([1922] 1930, 25), the reader may glean that:

All habits are demands for certain kinds of activity; and they constitute the self. In any intelligible sense of the word will, they *are* will. They form our effective desires, and they furnish us with our working capacities. They rule our thoughts, determining which shall appear and be strong and which shall pass from light into obscurity.

And in Veblen (1898, 188), the reader will find: “Like other animals, man is an agent that acts and responds to stimuli afforded by the environment in which he lives. Like other species, he is a creature of habit and propensity.”

If beliefs, perceptions, purposes and will itself *are* habit, what place is left for volition and rationality? In what sense can we say that pragmatism helps us overcome the habit-choice dichotomy?

Consider Dewey, however ([1922] 1930, 70):

All habit involves mechanization. Habit is impossible without setting up a mechanism of action, psychologically ingrained, which operates “spontaneously,” automatically, whenever the cue is given. But mechanization is not of necessity *all* there is to habit.

. . . *But They Are Intelligent Bundles of Habits.*

The same Chapter IV of the *Principles of Psychology*, which opens with a presentation of human beings as “bundles of habits” closes with individuals in command of their habits: “Could the young but realize how soon they will become mere walking bundles of habits, they would give more heed to their conduct while in the plastic state. We are spinning our own fates, good or evil, and never to be undone” (James 1890, 127).

Dewey ([1922] 1930, 28) writes abundantly about “intelligently controlled habit” – such is precisely the central topic of *Human Nature and Conduct*. And Veblen (1898, 188) added to his definition of the human being as a creature of habits:

But in a higher degree than other species, man mentally digests the content of the habits under whose guidance he acts, and appreciates the trend of these habits and propensities. He is in an eminent sense an intelligent agent.

All this clearly suggests that in the pragmatist’s conception of action, behavior guided by habit means more than *thinking, feeling* or *doing* “what we have been before accustomed to think, feel, or do, under like circumstances.” In this conception of

action, there is clearly a place for reflection, volition, intelligent (or rational) action and creativity.

Given that habit had been captured by behaviorism, Dewey protested against the tendency in (behavioral) psychology to limit its meaning to repetition and to subsume habit in routine. Routine, he explained, is habit – routine action takes place without thought of path and destination, “stimulus and response are mechanically linked together in an unbroken chain” (Dewey [1922] 1930, 173) – but the mechanic dimension of habit does not exclude thought, sentiment and creativity (71):

How delicate, prompt, sure and varied are the movements of a violin player or an engraver! How unerringly they phrase every shade of emotion and every turn of idea! Mechanism is indispensable. If each act has to be consciously searched for at the moment and intentionally performed, execution is painful and the product is clumsy and halting. . . . The artist is a masterful technician. The technique or mechanism is fused with thought and feeling.

The pragmatist notion of habit also involves the capacity to acknowledge and judge our own habits. In discussing “the ethical implications of the law of habit” (James 1890, 120), James (122, emphasis in original) exhorts us to “*make automatic and habitual, as early as possible, as many useful actions as we can, and guard against the growing into ways that are likely to be disadvantageous to us, as we should guard against the plague.*” And Dewey ([1922] 1930, 24), referring to “bad habits” and to the command that they may have over us, writes that they make “us do things we are ashamed of, things that we tell ourselves we prefer not to do.”

The capacity to recognize and judge our own habits is not an attribute of a consciousness separated from the body and experience. The recognizing and the judgment take place in the context of action (or, for Dewey, also in the imaginative enacting of action). Even if routinized, a habit may be disturbed by the “irritation of doubt” when the habitual action leads to unexpected and undesired consequences. Habits, as Dewey explains ([1922] 1930, 56), “are not things self-enclosed to be known by introspection . . . like thunderbolts and tubercular disease and the rainbow they can be known only by extensive and minute observations of consequences in current action.” The judgment of habit is always made from the point of view of the consequences they *tend* to originate, including the consequences for the character of the agent.

But James and Dewey admit even further the possibility of a deliberative reconstruction of the bundle of habits, or, as Dewey also says, of character, involving the deliberative acquisition of new (desired) habits and the demise of other (undesirable) ones.

The capacity to eradicate or modify old habits by replacing them with new ones raises difficulties openly admitted by James. In a significant footnote (James 1890, 109) he states that we cannot attribute this capacity to will. And further, in Chapter IV (126), he confesses:

Attention and effort [involved in volition] are . . . but two names for the same psychic fact. To what brain-processes they correspond we do not know. The strongest reason for believing that they do depend on brain-processes at all, and are no pure acts of the spirit, is just this fact, that they seem in some degree subject to the law of habit, which is a material law.

For Dewey, the observation and control of habits denotes the essence of the activity of intelligence (or rationality). In discussing the readjusting of habits, Dewey, like James, rejects the attribution of a causal power to will. An individual may recognize his/her habits and wish to modify them, but “a wish gets definite form only in connection with an idea, an idea gets shape and consistence only when it has a habit back of it” (Dewey [1922] 1930, 30). Or, stated differently (22):

Taste, appreciation and effort . . . represent the liberation of something formerly accomplished . . . A genuine appreciation of the beauty of flowers is not generated within a self-enclosed consciousness. It reflects a world in which beautiful flowers have already grown and been enjoyed.

The reconstruction of habits is, then, not the product of a will emanating from a consciousness disconnected from the body and experience; the cause is *impulse*. The habits acquired mold original impulses and orient them in particular directions. But under the thin crust of habit, there are always propensities which to a lesser or greater degree are suppressed. Besides, habits, in their rigidity, are diverse and very often inconsistent.

Between diverse habits there may be attrition, and from attrition, as with tectonic plates, suppressed energy may be released in waves that shake the structure of personality. Dewey ([1922] 1930, 156) admits three possibilities in this case: 1) impulse gives rise to an explosive discharge – “blind, unintelligent;” 2) impulse is “suppressed” (not meaning nullified); and 3) “the impulse is ‘sublimated’,” that is, it becomes “a factor coordinated intelligently with others in a continuing course of action.”

Dewey ([1922] 1930, 130) writes:

Hence habits are divided against one another, personality is disrupted, the scheme of conduct is confused and disintegrated. But the remedy lies in a development of a new moral which can be attained only as released impulses are intelligently employed to form harmonious habits adapted to one another in a new situation.

The place of intelligence (or rationality) in human conduct is thus clearly established: reconstructing habit, so that impulse and habit are integrated in a harmonious whole. Thus understood intelligence (or rationality) and action are creative (Yilmaz 2007). Caught by surprise and conflict, actors are forced to

continuously reshape their habits. This requires the imagining of modes of action that once acted upon change the world and change the actor. The meaning here of “creative” is a double one, encompassing the imagining involved in the process, and the transformative effect of the action.

Nonetheless, intelligence (rational deliberation) and human conduct is grounded in habit (Twomey 1998, 434) or, following Joas (1996, 158), “habits . . . form the background to all conscious goal-setting, in other words, to our intentionality.”

Dewey ([1922] 1930, 179-180) accounts for the habitual foundation of intelligence as follows: (a) “a novel factor in the surroundings releases some impulse which tends to initiate a different and incompatible activity”; (b) “at these moments of a shifting in activity conscious feeling and thought arise and are accentuated” in a search for new configurations of habits which may unify the “new impulse” with the “old habit”; and (c) during this search all habits are giving shape and content to the imagined objects.

The following sums up Dewey’s argument in respect to the role of intelligence in human action:

We compare life to a traveler faring forth. We may consider him first at a moment where his activity is confident, straightforward, organized. He marches on giving no direct attention to his path, nor thinking of his destination. Abruptly he is pulled up, arrested. Something is going wrong in his activity. From the standpoint of an onlooker, he has met an obstacle which must be overcome before his behavior can be unified into a successful ongoing. From his own standpoint, there is shock, confusion, perturbation, uncertainty. For the moment he doesn’t know what hit him, as we say, nor where he is going. But a new impulse is stirred which becomes the starting point of an investigation, a looking into things, a trying to see them, to find out what is going on. Habits which were interfered with begin to get a new direction as they cluster about the impulse to look and see. The blocked habits of locomotion give him a sense of where he *was* going, of what he had set out to do, and of the ground already traversed. As he looks, he sees definite things which are not just things at large but which are related to his course of action. The momentum of the activity entered upon persists as a sense of direction, of aim; it is an anticipatory project. In short, he recollects, observes and plans. (Dewey [1922] 1930, 181-182)

What Then Is Habit in a Pragmatist Sense?

In what comes close to a definition, Dewey ([1922] 1930, 42) describes habit as an (innate or acquired) predisposition “to ways or modes of response, . . . a special sensitiveness or accessibility to certain classes of stimuli, standing predilections and aversions” and at the same time as a propulsor.

Habit may be routine – recurrent behavior, with no ends-in-view. But habit may also be the companion of “direct consciousness” (Dewey [1922] 1930, 32), providing a vague “feeling” of finality and direction to action. For pragmatism, our mental experiences usually take place under the influence of habit operating below consciousness (32), and no pragmatist would oppose Dennett (quoted in Twomey 1998, 437) when he writes:

Although we are occasionally conscious of performing elaborate practical reasoning, leading to a conclusion about what, all things considered, we ought to do, followed by a conscious decision to do that very thing, and culminating finally in actually doing it, these are relatively rare experiences.

The conception of action, which is based on this notion of habit, admits that deliberation or conscious reasoning are “relatively rare experiences,” but it does not exclude them. Endowed with the capacity to control habits intelligently, the pragmatist agent is responsible. But the intelligent control of habits, the capacities of reflection and deliberation, are neither a manifestation of a spirit which is separated from the body, nor are they disconnected from the active experience of the agent and the pre-existing habits acquired throughout this experience.

The true opposition, writes Dewey ([1922] 1930, 77), “is not between reason and habit but between routine, an unintelligent habit, and intelligent habit, or art.” Reason itself is grounded in habit.

Deliberation, Choice and Action in Dewey

Habits are recognized by the subject and become an object of reflection in the face of the imbalance of organism and environment caused by the emergence of an impulse, or by a change in the action context.

Deliberation thus stems from conflict and it is a process of overcoming conflict, “the emergence of a unified preference out of competing preferences” (Dewey [1922] 1930, 193). This is, for Dewey, deliberation: a discovery process, “an experiment in making various combinations of selected elements of habits and impulses, to see what the resultant action would be like if it were entered upon” (Dewey [1922] 1930, 190). The experiment takes place in imagination. The objects present (in imagination) trigger different emotions: “The reaction of joy and sorrow, elation and depression, is as natural a response to objects present in imagination as to those present in senses” (200). These objects may be felt as welcome, or inversely, as disagreeable. In whichever of the two ways, they are felt “not as matter of calculation, but as matter of experienced fact” (200-201).

Perception and interpretation of the situation, of the possibilities and conflicts presented, thus depend on an experience, which although unfolding in imagination, is emotional. For Dewey, in line with the most recent discoveries in the neurosciences (Damásio 1994, 2003): “[o]ne cannot fully apprehend a particular situation in all its richness and complexity unless one feels at an emotional level” (McVea 2007, 380).

Deliberation is an unfolding process culminating in choice. And choice is seen by Dewey ([1922], 1930, 192) as “[s]imply hitting in imagination upon an object which furnishes an adequate stimulus to the recovery of overt action.” When this happens, “[t]he energy is released. The mind is made up, composed, unified” (192). A new configuration of habits – of old habits integrated with new impulse – is made possible.

However, the unification of the mind or the emergence of a unified preference meant by Dewey should not be equated with any process of value aggregation or commensuration. According to Dewey, such reduction would imply that among conflicting reasons for action “no real or significant conflict . . . is possible” (Dewey [1922] 1930, 216). Deliberation should not be reduced to mere calculus. Taking deliberation as an equivalent to a calculus of quantities, to an estimation of pleasure and pain, would imply that the individual was not experiencing any kind of uncertainty in respect to the meaning of his/her impulses and habits: “[t]his assumption does violence to facts. The poignancy of situations that evoke reflection lies in the fact that we really do not know the meaning of the tendencies that are pressing for action” (216).

Action as Process

For Dewey, all action involves a transformation of both the acting individual and the context of action. The action process is necessarily experimental, not finalized. Although the aim of deliberation is a new equilibrium between organism and environment, deliberation does not lead to final conclusions, only to hypotheses subject to revision. The balance between individual and context obtained with choice and action is always precarious: “Even the most comprehensive deliberation leading to the most momentous choice only fixes a disposition which has to be continuously applied in new and unforeseen conditions, re-adapted by future deliberations” (Dewey [1922] 1930, 208).

For Dewey, deliberation thus establishes only a pattern, a way of acting or of solving a problem, not a final and universal solution. The good, which configures the way the conflict was solved, is unique. But since the conditions behind conflict are in continuous transformation, the individual is always confronted by new situations. The uniqueness of the good does not translate into finality or universality.

Notwithstanding the rejection by Dewey ([1922] 1930) of the existence of a unique and universal end to which all the other ends are reducible, this does not imply an absence of permanence in deliberation and action. For Dewey, current deliberation is constrained by the choices and actions resulting from previous deliberations. The habits and dispositions which shape the character of individuals have a tendency to reinforce themselves: “all habit has *continuity*, and while a flexible habit does not secure in its operation bare recurrence nor absolute assurance neither does it plunge us into the hopeless confusion of the absolutely different” (244, emphasis in original).

Action is thus viewed as a process and not as a discrete succession of deliberations (Kilpinen 2003). Actual deliberation and action are connected with forthcoming deliberations by the construction of future scenarios, in imagination, which are pursued in order to be effective, and they are constrained by the consequences of previous deliberations.

Each choice made is not a fact separate and independent from all other individual choices, previous or forthcoming. Actions have potentially irreversible consequences in individuals' character and in the world. Just as the present self and the current context of action are consequences of choices made by the past self in a previous context, the future self and the forthcoming context are consequences of choices and actions made by the present self in the current context. Present, past and future choices are connected by consequences.

Deliberation and the Means-Ends Relation

In Dewey's perspective, the work of discovery in deliberation is devoted to the search for both means and ends capable of articulating the various habits which are in conflict. Dewey ([1922] 1930) distinguishes between mere calculation, in which case ends are external and previously fixed to the activity, and deliberation where ends and means emerge in the course of the process of discovery and experimentation, in imagination, of the various courses of action. According to Dewey (215), there is a narrow use of reason which "holds a fixed end-in-view and deliberates only upon means of reaching it," and a wide use which "regards the end-in-view in deliberation as tentative and permits, nay encourages the coming into view of consequences which will transform it and create a new purpose and plan."

Means and ends are reciprocally determined. As clearly stated by Joas (1996, 154), "the goals of action are usually relatively undefined, and only become more specific as a consequence of the decision to use particular means. Reciprocity of goals and means therefore signifies the interaction of the choice of means and the definition of goals." The consideration of means not only allows for the specification of ends, but also for the possible emergence of new ends: "Only when we recognize that certain means are available to us do we discover goals which had not occurred to us before. Thus, means not only specify goals, but they also expand the scope for possible goal-setting" (Joas 1996, 154).

The unification of the mind meant by Dewey could thus be equated to a discovery process throughout which new means and ends are brought in and articulated in a coherent whole. It is Dewey that Nussbaum (1997, 1208) is following when she writes:

People do deliberate about ends all the time. . . . Such deliberations, which seek to *specify* the content of a vague end, do not have the simple vertical structure of means-ends deliberation. They typically proceed by moving horizontally, consulting other ends the person may have. . . . This is how we really do deliberate in life, in this holistic manner that seeks broad coherence and fit among our ends considered as a group.

The Moral Dimension of Deliberation

In the course of action not only the agent, but also the environment are transformed. Deliberation hence involves a reflection on questions such as: “what kind of person one is to become, what sort of self is in the making, what kind of a world is in the making” (Dewey [1922] 1930, 217). The agent knows that her/his choices and actions give rise to consequences not only upon her/his own character, but also upon the world in which s/he acts; the action changes habits and molds new preferences, as well as transforms the world. For this reason, “[p]otentially . . . every and any act is within the scope of morals, being a candidate for possible judgment with respect to its better-or-worse quality” (279).

Since the context of action also includes others, the moral meant by Dewey is necessarily social. For the acting person, the reactions of others to his/her own action are also consequences of the action produced. In this vein, Dewey assumes that the attitudes of others are also part of the dramatic rehearsal of deliberation: “[a]n assembly is formed within our breast which discusses and appraises proposed and performed acts. The community without becomes a forum and tribunal within, a judgment-seat of charges, assessments and exculpations” (Dewey [1922] 1930, 315).

Dewey’s Conception of Deliberation and Action Versus “Rational Choice”

Dewey’s view of deliberation challenges “rational choice” in respects that pertain to the core of that theory. It clearly shows that the reduction of rationality to the choice of means, together with other assumptions on exogenous and stable preferences and commensurability, are methodological simplifications, arbitrary in that they deprive human beings of some of their more important attributes: their moral capabilities.

Individuals, for Dewey, are not characterized by the stability and homogeneity of their preferences, but by

the relative fluidity and diversity of the constituents of selfhood. There is no one ready-made self behind activities. There are complex, unstable, opposing attitudes, habits, impulses which gradually come to terms with one another, and assume a certain consistency of configuration. (Dewey [1922] 1930, 138)

However, those self-contradictory individuals, whom rational choice theorists would describe as irrational, have capacities that are lacking in their consistent counterparts – they are able to scrutinize their preferences from a moral point of view, and choose the ends worth pursuing in light of their own judgment.

In opposition to “rational choice,” Dewey’s view of deliberation does not impose the commensurability of value as a precondition for rationality. Choice is rational when it is the outcome of a process in which the various reasons justifying choice are brought together, but not necessarily amalgamated in a single dimension. *Justifying*

choice is meant to correspond to the way values are coordinated highlighting an alternative of choice that should be selected. This does not require that any specific combination of values has to offer a single value or reason larger or better than others, determining choice (Dewey [1922] 1930; Raz 1986). One of the implications is that Dewey can account for moral commitments, while in “rational choice theory” values that cannot be traded-off are inconceivable or at least awkward.

But Dewey’s conceptions of deliberation and choice also depart from “rational choice” in another important respect. According to Dewey ([1922] 1930), reason and intelligence are not to be opposed to impulse or emotion. As stated by Dewey:

The conclusion is not that the emotional, passionate phase of action can be or should be eliminated in behalf of a bloodless reason. More “passions,” not fewer, is the answer. To check the influence of hate there must be sympathy, while to rationalize sympathy there are needed emotions of curiosity, caution, respect for the freedom of others – dispositions which evoke objects which balance those called up by sympathy, and prevent its degeneration into maudlin sentiment and meddling interference. (Dewey [1922] 1930, 195-196)

Overall, Dewey’s conception of deliberation and choice involves a view of action that bears little resemblance to that purported by rational choice. In Dewey’s perspective, deliberation (and choice) is not a momentum prior to activity and much less a cause of activity. Deliberation, according to Dewey, stems from a disruption of activity; it is the process of conflict resolution through which the course of action is recovered (Anderson 2005). Choice, that is, the articulation of habits or ends that unify the mind and free the action from its previous entanglement, is internal or an integral part of action itself and of the context in which action is situated.

In light of Dewey’s account of deliberation, “rational choice” emerges at best as a narrow version of rationality. In fact, the “rational choice” agent to whom preferences were given and to whom the consequences of each one of the choice alternatives were revealed is best described as mechanistic. She/he is the one who must always act according to the prescription of a maximization algorithm.

Arguably, therefore, Dewey’s conception of deliberation, and not “rational choice,” is compatible with freedom and creativity. The capacity for revising ends is, as stated by Mousavi and Garrison (2003), a prerequisite of the exercise of self-control upon the self’s dispositions and habits, that is, a prerequisite of autonomy.

Explaining Institutional Change

The rereading of Veblen in light of pragmatist literature dissolves much of what may appear in first encounters with the former as a contradiction or tension. No longer after reading Pierce, James or Dewey can one confidently state that Veblen’s picture of “man” as “a creature of habit and propensity” conflicts with his being “in an eminent sense an intelligent agent,” or that his stress on the non-teleological nature of

institutional evolution, on “blindly cumulative causation, in which there is no trend, no final term, no consummation” (Veblen 1907, 304), contradicts his portrait of the human agent as someone who is “in his own apprehension, a centre of unfolding impulsive activity – ‘teleological’ activity . . . an agent seeking in every act the accomplishment of some concrete, objective, impersonal end” (Veblen 1899, 15).

Veblen’s may indeed be accurately described as an attempt to reconcile “the reality of human will and intentionality with science and causal explanation” (Hodgson 2004b, 348), thus overcoming the dual opposition of choice and causal determination. This is done along lines familiar to all pragmatists by rejecting and dissolving the mind-body duality they found in both Descartes and Locke, and by grounding intelligence and volition in acquired habits and instincts.

The pragmatist endeavor, including Veblen’s, amounts to “bringing purposes and preferences [and we would add values] within the orbit of scientific explanation” (Hodgson 2004b, 351). In economics this stance is opposed by both “positivists” – who exclude values and preference formation from the scope of science – and much subtler by subjectivists as George Shackle or the Austrian economists – who deny causation in “real choices.” Independently of determining how successful the pragmatists are in resting their case against these rival views, the fact remains that the pragmatist-institutionalist attempt to overcome the mind-body and the volition-causality separations does not equate with a denial of volition, rationality and creativity. On the contrary, in their account of action there is much more room for these features of human beings than on the “rational choice” means-centered calculative frame.

Arguably, however, Dewey was much more successful than Veblen in fleshing out the theory of action that stems out of the whole pragmatist endeavor. Hence the need to bring forth his contribution in present day debates in economics.

The accusation of “mechanisticism” stems therefore from a superficial reading of Veblen, reinforced by Veblen’s occasional ambiguous formulations, that do not take into account the pragmatist thought that influenced institutionalism in its inception.

However a large question remains: is there in Veblen’s account of institutional change room for volition and intelligence similar to the one we find in his account of behavior and habit formation and reconfiguration?

Malcolm Rutherford (quoted in Hodgson 2004b, 351) clearly does not think so:

Following Darwin, [Veblen] sought an evolutionary theory that was free from teleology and ran in purely causal terms. He was aware that individuals acted in a goal-directed manner, but he wanted to present institutional change as unintended result – as result of causal processes that did not rely on intentionality or on the appraisal of one institutional scheme as compared to another.

Indeed, for Veblen, institutions, although part of the environment that exerted selective pressures on habits (and possibly instincts) thus accounting for the molding of preferences and values, were subject to change and development as a consequence of variations that might be “random or purposive in origin” (Hodgson 2004b, 353).

In Veblen, “idle curiosity” was evoked as an instinctual source of innovation, namely technological innovation, which might precipitate a cascade of new variations at the institutional level. Technology in this account may be viewed as an “outward force” operating upon the institutional structure, which combined with “the inner tensions” resulting from existing institutional variety leads to new accommodations.

Veblen’s “idle curiosity” undoubtedly introduces an element of individual volition and creativity in his account of institutional change (Yilmaz 2007). However, in this account, between the individual volition and the institutional variation stands, somehow awkwardly, technological change. The question therefore remains: can individuals step aside from their habits of thought and acknowledge the malfunctioning of institutions, consciously devise new configurations, as they do with individual habits, and, finally, act in order to reconfigure institutions? Or to put the question in Deweyan terms: “[h]abits once formed perpetuate themselves . . . Existing institutions impose their stamp, their superscription, upon impulse and instinct . . . How then can we get leverage for changing institutions?” (Dewey [1922] 1930, 125-126).

Hodgson while disagreeing with Rutherford in that Veblen ruled out intentionality as a source of institutional change recognizes that “Veblen did not provide a full account of the sources of variation of social institutions” (2004b, 353). Providing such a full account, however, requires a theory of (collective) action that may bridge the gap between the individual recognition of malfunctionings in the institutional structure, and action directed and capable of changing that structure. This is what John Commons ([1934] 1990) tried to achieve. Others (see Bromley 2006) in the present proceed in the same direction.

Giving an account of Commons contributions and of further advances on “volitional” theories of institutional change is beyond the scope and intent of this paper. Here we limit ourselves in the following to highlight ideas in Dewey and others that may provide guidance for future work on collective action and institutional change, and to single out questions standing in the way.

From Personal (Moral) Conflicts to Collective Action

Similarly to Veblen, Dewey thought that in any complex culture, habits are formed in differing and conflicting patterns. While each custom may be rigid, from the attrition of rigid customs “impulse for new adventures” (Dewey [1922] 1930, 128) may be released: “the conflict of patterns involved in institutions which are inharmonious with one another” (129) gives plasticity to the institutional structure.

Moreover, the conflicting institutional patterns are reflected in the inner (moral) conflicts experienced by individuals: “Habits divided against one another, personality . . . disrupted, the scheme of conduct . . . confused and disintegrated” (Dewey [1922] 1930, 130).

Divided and disrupted individuals may nevertheless have to act. Very often they *act in conflict* – they could not choose or they may know they did not choose what they preferred. Their choice was incomplete: as Dewey admitted “[t]he unification

which ends thought in act [that is, choice] may be only a superficial compromise, not a real decision but a postponement of the issue, . . . a victory of a temporally intense impulse over its rivals, a unity by oppression and suppression, not by coordination” (Dewey [1922] 1930, 210-211). The postponed issue may re-emerge in the future. The suppressed impulse or habit may continue to operate as “an ideal or imagined object which embodies within itself the force of a frustrated habit” (53).

In *Human Action and Conduct*, Dewey does provide important clues for understanding the nexus between action and institutional change: (a) habits *tend* indeed to perpetuate themselves, but (b) cultural complexity gives rise to a clash of habits which are individually experienced as confusion and disintegration; (c) in the face of internal conflict individuals recognize and scrutinize not only their own habits but institutions; (d) individuals wish for a harmonization of the “patterns involved in institutions” (129) possibly involving a reshaping of those institutions; and (e) they may have to act even without having achieved the desired harmonization; in this case they are acting in conflict: harmonization is still desired, only postponed.

However, this is only part of the road toward a full account of the mechanisms involved in the transformation into institutional change of conflicts which are individually experienced. As stated by Bromley (2006, 17), “individuals cannot change [the] institutional structure; only collective action can alter the choice domains of individuals.” This means that institutional change, even if rooted in conflicts which are personally experienced, must be a consequence, not of individual, but of collective action, that is, of the association of individual wills toward common goals.

From individually experienced internal conflicts to collective action aimed at institutional change there is a long way to go. We can only present here, in anticipation of future work, a set of conditions for the internal conflict-institutional change nexus.

Firstly, the conflict which is individually experienced must not be suppressed or attributed to an immutable nature, but rather associated by the individual to the institutional context in which action is taking place.

In any choice situation, Nussbaum (2000) identifies “an obvious question” (what to do?) and a “tragic question” (among the choice alternatives, is there one which is not dubious or unacceptable from a moral point of view?). When not omitted or suppressed, the “tragic question” may be attributed either to objective or “natural” conditions or to institutions. According to Nussbaum (2000, 1015-1016): “many tragedies are produced not by natural necessity or by anything about the character of the contending values, but simply by habit or tradition, treated as natural and inevitable. . . . Tragedy is rarely tragedy. Most often, behind the gloom is stupidity, or selfishness, or laziness, or malice.”

If the agent is aware of the conflict and attributes it to features of the institutional context that might be modified, the experience of the conflict may indeed impel him/her presently or in the future to act on the institutional context in order to modify the conditions of action.

Secondly, individuals must recognize that there are others experiencing a similar conflict and making the same attribution of the conflict to institutions. As signaled by

Hirschman (1970), dissatisfaction experienced in isolation may lead either to conformism or exit, not voice and action with others.

Thirdly, individuals must have the capacity collectively to imagine institutional reconfigurations (Bromley 2006) which may overcome or alleviate the conflict that is individually and collectively experienced. Unable to conceive solutions, individuals would either have to retreat into Hirschman's "unconscious loyalist behavior," or exit.

Lastly, all this presupposes free communication and the emergence of a moral sense of community – the preconditions for collective deliberation processes highlighted by Dewey (1927).

According to this perspective, institutional change is always the outcome of conflict and clash. Individuals who are able to scrutinize their habits are also able to consciously recognize institutions and their malfunctionings and creatively engage in devising scenarios for institutional change. This is done in communication with others. We get leverage for changing institutions by engaging with others in deliberation. Choice – collective choice – and action with others – collective action aimed at reshaping institutions – may follow.

The tensions in the institutional structure are both macro and micro, among conflicting cultural patterns and among conflicting individual habits. The conflicts are neither simply structural nor simply individual. Institutional change is neither a spontaneous evolutionary process at a structural level, nor a result of individual human action. Conflicts, individual and structural, are entangled, with the personal experience reflecting the macro conflict, and the direction of change of the macro structure being determined by the (collective) action of individuals. From the point of view of individual experience, engaging in deliberation and collective action signifies responding to a desire for harmonization which is intersubjective. From the point of view of social order, harmonizing conflict is a condition for reproduction.

Conclusion

In claiming choice for institutional economics, this article set out both to counter the current misinterpretation of institutionalism as a theory purporting a mechanistic account of human agency, and to argue for a more articulate institutionalist theory of choice.

The first goal was pursued by an examination of the pragmatist conception of habit. We argued that habit, once freed from its behaviorist connotation with mere stimulus-response types of behavior, is not only compatible with volition and deliberation, but a precondition for choice.

The second goal was approached by recalling Dewey's view on deliberation and choice as presented in *Human Nature and Conduct*, and by suggesting why and how this view of deliberation might illuminate the action-institution nexus.

An articulated institutionalist theory of choice can account for the fact that the same institutions that "impose their stamp, their superscription, upon impulse and instinct" are open to transformation as a consequence of human action. Dewey took the first step toward an articulated account of the processes that mediate between, on

the one hand, conflicts that are individually experienced and, on the other hand, collective action for institutional change. Following the milestones presented above, we intend to contribute to the building of the road ahead.

Arguing in favor of an institutionalist theory of choice should not be understood as advocacy of an individualistic turn in institutional economics. Along Deweyan lines the internal (personal) deliberation is as social as the external (collective) deliberation. In the internal dramatic rehearsal, not only the possible consequences of action for affected others are enacted, but those others participate as a chorus which comments upon and judges the competing lines of action. The external rehearsal is as dramatic with the chorus no longer in imagination. Collective deliberation is a communicative process very often starting in cacophony and hopefully ending in harmony.

Notes

1. In borrowing part of Hodgson's article title we are paying tribute to his contribution to the revival of institutional economics in Europe.
2. For the pragmatists, institutions are "collective habit" (Dewey [1922] 1930, 58). Recall that Hamilton (1932, 84), in particular, defined institutions as "a way of thought or action of some prevalence and permanence, which is embedded in the *habits* of a group or the customs of a people" (emphasis added).
3. As the online *Stanford Encyclopedia of Philosophy* explains, Peirce was "an anti-foundationalist and a fallibilist. From his earliest to his latest writings Peirce opposed and attacked all forms of epistemological foundationalism."

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