

CHAPTER 3

THE INSTITUTIONAL AND ECOLOGICAL DIMENSION OF AN ECONOMY

In the previous chapter, I argued for *deliberative democracy* as a suitable conceptual construct of the *political* sphere in order to deal with the problem of sustainability. The normative ideal of a deliberative democracy embroiders on a distinction between economic and political actions. It presumes a typically economic (i.e., instrumental) and a typically political (i.e., communicative) rationality, typically economic and typically political products (i.e., commodities and institutions respectively), and typically economic and political decision units. In this chapter, on the contrary, I will reflect on a suitable conceptual construct of the *economic* sphere in order to deal with the problem of sustainability.

In the introductory chapter 1, I argued that economics should investigate *reasons* for the present unmanageability of the ecological performance of industrial economies. This statement is still too abstract. For a politically relevant economics should not investigate whatever kind of reasons, but reasons that can be influenced, transformed or removed through political action. Since institutions are the domain of political action, this implies that it should look for *institutional reasons*. In other words, the nature of my research question prompts for an institutional perspective on the economic sphere. Such institutional interpretation accepts the distinctions between (the rationality of) economic and political action underlying the normative ideal of a deliberative democracy, but it concentrates on “economic institutions” as the entities that make economic rationality as well as economic products and economic decision units concrete.

The statement that it is economic institutions that make economic action concrete implies that it is economic institutions that define the ecological performance of economic action. This latter implication expresses the conviction that an internal relationship exists between the ecological performance of an economy and its institutional organisation. In order to found this conviction, I will, in section 1, deal extensively with the concept “institution” in general. I will propose an interpretation of the concept that considers it as one dimension, namely the symbolic dimension, of human action. The other dimension of human action consists of its material (or physical or ecological) *substratum*. This interpretation of institutions allows us to understand (economic and other) actions as phenomena that unavoidably consist of

both a symbolic and an ecological dimension. In section 2, I will concentrate on *economic* institutions and I will illustrate the idea that the ecological performance of an economy is internally connected to its institutional organisation. I will, further, argue that, in order to understand this internal connection, we need insights into the institutional whole of an economy. This institutional whole can be interpreted in a classificatory or a hierarchical way.

1 INSTITUTIONS

The term “institution” is a concept with many senses. Economics, political science, history, sociology and philosophy each have their own interpretation of the concept. In this section I will, first, propose a definition of an institution that is in line with its use in the tradition of institutional economics. Veblen and Commons are two important originators of this tradition; Neale is a prominent present-day representative. For that reason, their interpretations of the concept “institution” function as starting points. Since Bromley, whose theoretical work is the subject matter of chapter 7 and 8, also belongs to this same tradition, his interpretation will be another point of reference. The definition I propose is so constructed that it allows us to distinguish between economic and other institutions, and to consider of an economy as a sphere in human reality of which its ecological performance is the counterpart of its institutional organisation. The latter part of this statement will be illustrated in section 2.

Second, I will enlarge on the way institutions come about. This explanation will enforce Arendt’s statement (see section 4.2 in chapter 2) that one cannot characterise a particular “rationality” with which to grasp the coming into existence of institutions. Institutions are creative, unpredictable and irreversible events. They have no single author. They are, nevertheless, the (often unintended) result of intentional interaction.

Third, I will deal with the nature of institutions as both enabling and restricting. This nature holds in a double sense: In one sense, institutions that restrict one party enable another party. In another sense, individuals are only able to act thanks to institutions that condition the form of their actions. This is another way to say that absolute freedom does not exist. Freedom is always relative to rules that provide actions with meaning.

Finally, I will reflect on the nature of institutions as “public facts”. Institutions are public facts in the sense that they result from political action and in the sense that they are valid for all members of a political community. I introduce the concept “public fact” to distinguish institutions from “public goods”. (The relevance of this distinction will become more clear in section 2). Institutions as “public facts” are political entities, while “public goods” are economic entities.

1.1 Institutions as the Symbolic Dimension of Action

Veblen defines institutions as

prevalent habits of thought with respect to particular relations and particular functions of the individual and of the community (Veblen 1965, 190).

According to Commons, an institution is

collective action in control of individual action (Commons 1934, 1).

Neale's understanding of institutions comes close to a sociological definition. According to Neale, an institution is identified by three characteristics (Neale 1987, 1182-1185). First, there are a number of people doing. The people doing can be seen doing; their actions can be observed empirically. Second, there are rules. From the observation of actions, an analyst can construct testable rules of regularity. By ordering actions into repetitive event sequences, an analyst can state that

in such-and-such a kind of situation this person will do thus-and-such and another will do thus-and-so, with some variation in the detail and style with which it is done (Neale 1987, 1182).

Third, there are folk views. Neale notes that observing a certain regularity in people's actions does not yet imply understanding their actions. Knowing the rules is insufficient for understanding, i.e. knowing when to participate and being able to explain why one is participating. Knowing the rules is, therefore, insufficient for identifying institutions.

Consider how easy it would be to confuse dancing for fun at a party, dancing for rain in a religious ceremony, and dancing for money on the evidence of the dancing alone (Neale 1987, 1183).

Folk views provide the information needed to participate intelligently in the activities of society. Folk views justify the activities or explain why they are going on, how they are related, what is thought important and what unimportant in the patterns of regularity. Folk views, Neale adds, can also be discovered by observation, but here the ear is the relevant instrument. The analyst has to ask questions and listen to the answers in order to "observe" folk views. These answers provide us with the ideas of a culture that constitute interpretations of events and explanations of the world.

After this identification of the three characteristics of institutions, Neale defines an institution as a grouping of situations in accordance with the organising ideas of the folk view. A situation is the total relevant context in which a participant in a society finds himself at any moment. It includes the social rules and the cultural folk views as well as the physical or natural environment. The relevant context is this whole environment *as perceived by the participants*. The perception of the total context is defined by the folk view of relevancy, i.e. ideas of cause and effect and of decency and morality.

Bromley's definition of institutions remains close to Commons' interpretation. Bromley distinguishes two classes of institutions: conventions and rules or entitlements (Bromley 1989, 41-43).

A *convention* is a regularity in human behavior in which everyone prefers to conform to R [i.e., the regularity in question; MD] on the expectation that all others will also

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