

The History of the Institutionalism Inception

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Abstract. The author studied the institutionalism theoretical foundations, stated each founder's contribution to the economic theory development and highlighted the institutionalism formation in stages characterizing each one. The main postulates are accented and an attempt to consider some distinctive features of each stage is made in the study. The article considers the evolution of the institutionalism formation as well as the features of institutional theory as an economic thought school. The author also highlighted distinctive characteristics and similar elements in economic thought theories at each evolutionary stage of the institutionalism development. According to leading Russian researchers, institutionalism at the current stage of economic development is one of the popular modern economic thought schools. Currently, not only economists but also sociologists as well as legal scholars and political scientists take a neo-institutional approach in their teachings

1 Introduction

Institutionalism arose as a revolutionary course, oppositional to the classical economic thought theory. The predecessors of institutionalism are representatives of the German classical school. The essence of their pillars can be divided into several main directions. Firstly, the development of the country's economy depends on its national characteristics such as historical heritage, natural and climate conditions, mentality, etc. Secondly, the human capital role in the economic development gradually increased. Thirdly, there is an opposition to the classical political economy treaties. The economic thought evolution can be represented as the following graphic material (Figure 1).

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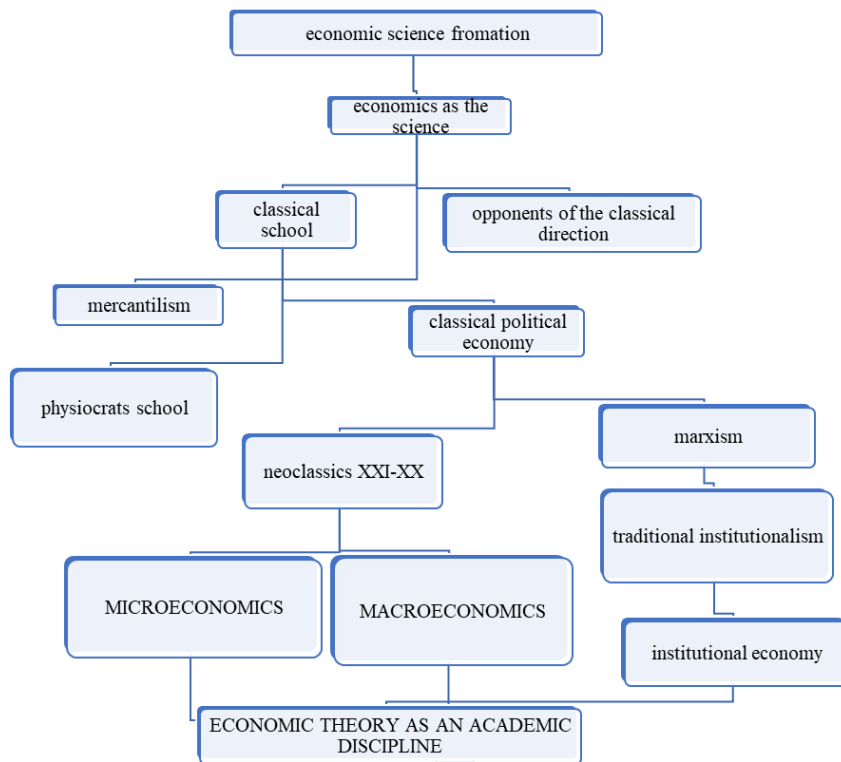


Fig. 1. The economic theory formation history as the science.

2 Materials and Methods

A systematic approach, an evolutionary approach and approaches to the theory of sustainable development are used in the study process. Methods of analysis and synthesis, grouping and comparing are used as methodical apparatus of the research point). Try to ensure that lines are no thinner than 0.25 point.

3 Results and Discussion

The following main institutionalism directions should be pointed (Figure 2):

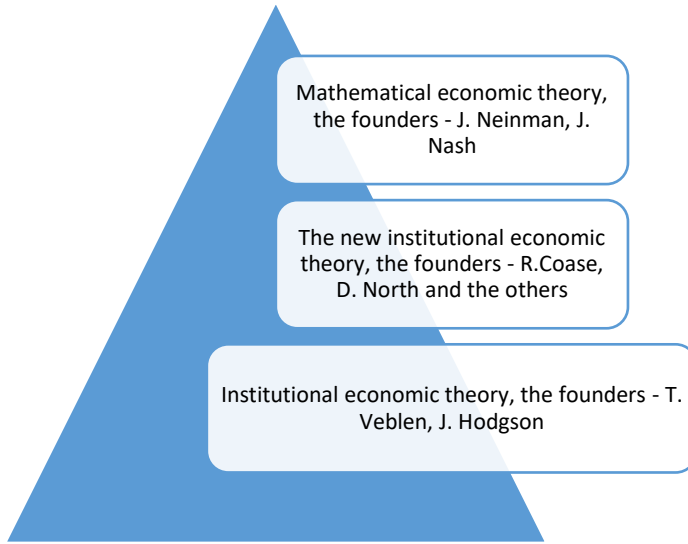


Fig. 2. The institutionalism directions.

Since institutional economy has replaced neoclassical economy, it will be appropriate to make a comparative characterization of similar features and fundamental differences. First of all, it is important to note that institutionalists present economy as a dynamic process under the constant influence of various factors of internal and external nature which changes accordingly. In contrast, neo-classicists tend to present economy as a phenomenon found in statics. A special feature of the conceptual approach inherent in neo-institutional economic theory is the integration of the category of transaction costs into the structure of neoclassical analysis as well as the expansion of the restrictions category by taking certain features of the property rights system into account. The new institutional and neo-institutional theories represent all kinds of methods for studying issues that relate to the existence of transaction costs and specialized contractual structures that ensure their minimization. The focus of both branches is on the problem of enterprise finance in this case. Although institutionalism as a significant current developed at the beginning of the twentieth century, it has been in the province of the financial thought for a long time. Explaining the financial benefits movement only by institutional factors, a large number of adherents were not found. It was partly associated with the uncertainty of the term "institute" itself which some analysts consider as -business, - trade unions, - power, -organizations, etc. [1].

Institutionalism has gone through several stages in its development as it was noted earlier. Considering the main components of each stage, the following is worth mentioning. The first stage called the "old negative school" was criticized by the capitalist system existed at that time. According to the opinion of the "old negative school" founder, T. Veblen, the old economic school did not study a person as a person and his surroundings environment. Human instincts and desires underlie a person's urge to accumulate funds according to T. Veblen. It is a generation of such negative emotions as "envy" for large capital owners that makes a person work harder and accumulate more [2].

J. Commons paid more attention to the legal foundations of capitalism in his research. According to him, the modern legislative system requires the reform at its root. J. Commons believed that the vast majority of the modern economic society negative phenomena with dishonest market relations can be solved only by the law [3].

The next progenitor of the first institutionalism stage - Wesley Mitchell – considered he national culture, customs and traditions as the economy driving force; such economic

categories as finance, monetary circulation and credit were also important according to his theory [4]. State legislative institutions in his opinion require special attention since it is impossible to build an effective market system without their intervention (as well as J. Commons considered).

The second institutionalism stage begins from the middle of the twentieth century. The most prominent representative of the second stage is J. Maurice Clark. As well as his predecessors, J. Maurice Clark paid great attention to the behavioural people's characteristics. In his opinion, people are the economy driving force. However, it is worth noting that he studied this fact more deliberately. He is one of the first researchers who points the role of information costs in human decision-making. He is also one of the first to introduce such a concept as "invoice" costs, such costs that are not directly related to the production process. Also, J. Maurice Clark was engaged in the study of business cycles studying business cycles as a multifactorial phenomenon that is influenced by many causes and consequences [5].

The third stage which is still called "neo-institutionalism" was in the 60th-70th years of the twentieth century. The most prominent founding economists of neo-institutionalism are Nove, J. Galbraith, R. Heilbroner, R. Coase [6,7].

The main states of neo-institutionalism are the following. Firstly, social institutions are of great importance in the market relations development. All neo-institutional theory is built around the concepts of "institution." Important attention in neo-institutionalism is paid to a person as a key driving force of the economy as well as at the "old, negative school" times. According to representatives of neo-institutionalism, the desire of a person to increase capital is the basis of all economic phenomena and processes. The fundamental difference of the "new" institutional economy is the neoclassical approach to the institutional environment analysis that is also considered as an important factor in influencing economic processes. The research program of R. Coase and other representatives of the "new" institutional economy involves changes in the "protective shell" of neoclassical theory in an economic approach to other phenomena (institutions). Secondly, a wider range of ownership forms and all their kinds of legal manifestations takes attention. The specific completion of a transaction is an agreement or a contract which becomes the object of analysis in the "theory of the optimal contract." Since participation in the economic activities of the state becomes generally recognized, politicians are charged with the same economic interest as business agents in the "theory of public choice". Significant differences in the methods of analysis used by "old" and "new" institutionalists are also worth noting. "Old" institutionalists use the induction method, they analyse from private to general while "new" institutionalists use the deduction method in their research and analyse institutions on the basis of a single theory [8].

The development of neo-institutionalism cannot be called perfect since many contemporaries adopted its postulates sceptically and sometimes even negatively. First of all, they emphasize but that neo-institutionalists are too vague about the basic concepts' interpretation. According to the opponents of neo-institutionalism, there is a large gap in the definition of transaction costs since ineffective and irrational economic policy is explained by reference to the transaction costs that raises doubts. According to critics of neo-institutional theory, much attention is paid to the transaction publishers and it sometimes takes attention from production costs.

Considering neo-institutionalism, it is also worth paying attention to its branches (Figure 3).

A neo-institutional approach to property rights theory involves combining economic and legal frameworks which requires an interdisciplinary approach to exploring such a term as "ownership." According to the theory of property law, property law refers to the norms accepted by society in order to regulate access to resources. Furthermore, norms can be accepted both by the state and by traditions and customs. The legal ownership basis must be

clearly defined for the successful functioning of the market according to the researchers [9 10].

Transaction cost theory is one of the basic categories of neo-institutional theory. There is a transaction concept or an act of economic interaction in other words at the centre of the entire transaction costs theory. Transaction costs are losses resulting from poor decision-making and the lack of made decisions efficiency is a multifactorial consequence. The authors of the theory classify transaction costs according to several features each of which considers transaction costs from different angles.

It was the theorists of transaction costs who managed to theoretically characterize the essence of the company for the first time.

According to the theory of public choice, the key driver of economy is individualism that points that all people actions are connected exclusively with their personal interests and are managed only by personal instincts. Adherents of the public choice theory analyse various methods and tools with which society uses state institutions to realize its goals.

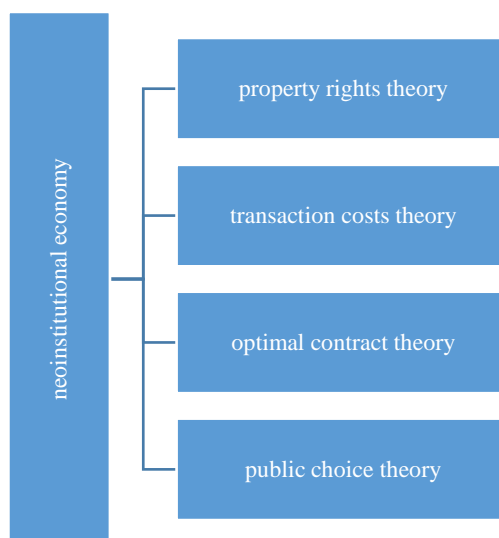


Fig. 3. The neo-institutionalism theories.

4 Conclusion

Institutionalism is one of the popular schools of modern economic thought at the current stage of economic development [10,11,12]. Currently, the neo-institutional approach is used not only by economists but also by sociologists as well as legal scholars and political scientists in their teachings [8]. The neo-institutionalists' achievements accepting was expressed in the Nobel Prize award in Economics to James Buchanan (1986), Ronald Coase (1991), Douglas North (1993), Joseph Stiglitz (2001), Oliver Williamson (2009). The institutional economy is also the most relevant economic teaching acceptable at the current stage of economic development in the Russian Federation.

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