

*Institutionalists as Dissenters: Why Were Institutionalists Strongly Dissatisfied with
Economics during the Postwar Period?*

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Abstract

In the 1940s and 1950s, institutionalist economists rapidly lost their influence over American economics. In parallel, a new mainstream emerged, and the institutionalists were extremely dissatisfied with the path taken by the economic science. This paper analyzes the opinions and the feelings about this context to shed light on their understanding of the new mainstream economics. We construct a historical account of the institutionalists' dissatisfaction about postwar economics based on archival material from the personal papers of Allan Gruchy, John Gamba, John Blair, and Clarence Ayres. In the period analyzed, the economists, who would later found the Association for Evolutionary Economics, acted as dissenters rather than institutionalists. In part, this explains the pluralistic path that the association has followed ever since its foundation.

Keywords: Institutionalism; dissent economics; standard economics; heterodox economics; Keynesianism

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Introduction

The Association for Evolutionary Economics (AFEE) was officially founded in 1965. However, the discussions and movements to organize an association of economists dissatisfied with the state of economic science had begun in the late 1950s. The heirs of the interwar institutionalism formed the core of the group that would later found AFEE.¹ In this

paper, we construct a historical account of the contextual and specific dissent of the group, analyzing some of its aspects.

We analyze, mainly through archival evidence, three aspects of the group's dissent: (1) how institutionalists regarded themselves as part of a "long line of descent"; (2) how institutionalists perceive the influence of the new mainstream on their activities; (3) how institutionalists criticized Keynes and Keynesian influence on economics. In addition, as our research was mainly based on personal communications, it emphasizes the psychological aspects of the arguments, or the subjective feelings of the dissenters.

How Institutionalists Regarded Themselves as Dissenters: A Long Line of Dissent

A paper by Backhouse (2004) instigated a debate around the concept of dissent. He describes dissent as "disagreement that, in some way, goes beyond 'normal' disagreement" (Backhouse, 2004: 263). Moreover, because the concept of dissent involves the existence of insiders and outsiders, he stated that this asymmetry is an important feature of dissent. Nonetheless, although Backhouse's work was invaluable in the sense that it instigated a debate on these concepts, some authors criticized Backhouse for his somewhat ahistorical conceptualization (Barnett, 2006; Samuels, 2006; Mata, 2006).²

Briefly stated, critics perceive so many types of dissent that only historical case studies can reasonably fill this category. Hence, the idea of dissent centers around contextual studies, conducted mainly through the analysis of specific dissenting groups and communities and the mainstreams from which they dissent. Considering this, the history of dissent that we present in this paper is a history of a group of economists who would found AFEE in 1965. Hence, we are writing the history of dissent from the specific point of view of that group. In the following, we try to analyze the labels used by the group under focus

to refer to the type of economics they denounce. These labels can reveal how the group contextualized its tradition in the history of economic thought.

We were able to find in the archives references to the type of economics the institutionalists were against as “the traditional line of development” or “the grand tradition of price theory” (Foster to Ayres, May 16, 1943, Ayres Papers, Box 3F287; Ayres to Gambs, June 6, 1963, Gambs Papers). Another expression commonly used by the dissenters was “classical” (Abe Melton to Ayres, March 18, 1946, Ayres Papers, Box 3F291; Gambs to Ayres, April 10, 1962, Ayres Papers, Box 3F287). In addition, the expression “traditional” was used to refer to the paradigm they disagreed with, for instance, in a series of exchanges during the 1960s between Ayres, Ben Seligman, and Warren Samuels, and even in the official documents of the AFEE (Ayres to Warren Samuels, October 8, 1968, Ayres Papers, Box 3F294; Seligman to Executive Board of AFEE, 1968, Ayres Papers, Box 3F285). Another word that appears many times describing the type of economics the dissenters were fighting against is “analysis.” For example, Phillip Klein, an institutionalist well trained in the then-contemporary mainstream economics, harshly criticized the dominance of “mathematical analysis” and “American Economic Review-type of articles” (Klein to Ayres, December 31, 1956, Ayres Papers, Box 3F290).

Moreover, an additional and indeed a very common label found by us in the archives is “standard” (Arthur Schweitzer to Gambs, April 11, 1960, Gambs to Ayres, April 10, 1962, Ayres to Gambs, May 8, 1962, Gambs Papers; Ayres to Samuels, August 15, 1968, Ayres Papers, Box 3F294; Minutes of the Meeting AEA Group, 1962, Gruchy Papers). Although “standard” could just refer to the then-dominant paradigm in economics, the expression appears, in a few instances, to be linked to the fact that the mainstream was indeed, and allegedly, a descendent of the most traditional line of theoretical developments.

For example, Allan Gruchy and John Gambs, talking about the “standard” approach, referred to “a body of theory of universal nature” that is part of “the accumulated so-called pure economics developed from Ricardo to Keynes” or the “Smith-Keynes-Samuelson model” (Gruchy, 1962; Gambs, 1972: 7).

In sum, what we are trying to show here is that, by placing themselves against the “traditional line of development,” the dissenters stressed their descent from an outsider tradition. They perceived the institutionalist movement as a movement that had been more influential and prestigious before. However, in our opinion, the feeling that institutionalism has been chiefly blasphemous, heretic, or just dissent had been always present among the group that would found AFEE. Definitely, despite the fact that Hodgson (2004) and Rutherford (2011) are right to point to the influential aspect of the interwar institutionalism, the feeling among the people who would found AFEE was one of a long line of dissent.³

The Then-New Mainstream at the Universities

Another focus of criticism of the group that would later found AFEE was the professional training of economics at universities. The hostile environment in the universities grew in a twofold manner. First, the training of the talented students inclined to institutional economics was somewhat, or even completely, hindered by the fact that the curriculum of the top universities was almost absolutely devoted to the new mainstream. Second, dissenters teaching at the time faced pressure from the hiring of unfriendly faculty—who was not willing to compromise on anything—and being called upon by their superiors to change what they were teaching.

For instance, Phillip Klein, an institutionalist educated at Texas (BA) and later at Berkeley (Ph.D.) strongly complained about the situation at Berkeley. Klein affirms that he

was very disappointed with the advice that Ayres had given him “to go to a large diploma mill with a lot of prestige.” As stated by Klein, he was the opposite of what Berkeley people expected a Ph.D. candidate should be—someone interested in mathematical analysis and model building (Klein to Ayres, December 31, 1954, Ayres Papers, Box 3F290). David Hamilton, who visited California at about the same time, reported that people there had the impression that what was taught at Texas by Ayres was not economic theory at all (Hamilton to Ayres, February 5, 1953, Ayres Papers, Box 3F288). Answering to Klein, Ayres wrote he had received other similar reports about Harvard, stating sadly: “I am afraid it isn’t Berkeley; It’s the world!” (Ayres to Klein, January, 7 1955, Ayres Papers, Box 3F290).⁴ Another institutionalist who obtained a Ph.D. from a mainstream “diploma mill” was Forest Hill. However, he reported to Ayres that the students at Columbia were somewhat skeptical about “the realism and the utility of economic analysis.” Consequently, as education at Columbia was almost devoted to marginal analysis, the students organized a series of seminars with more pluralistic leanings. Actually, Hill invited Ayres to deliver one of these seminars (Hill to Ayres, October 31, 1947, Ayres Papers, Box 3F289).⁵

The almost ubiquitous influence of the then new “analysis” mainstream also influenced institutionalists who were looking for a place to take their Ph.D. It was difficult to find a place where one could study without incurring the huge sunk costs of learning a lot of “economic analysis.” In 1950, for instance, Ayres wrote to Jim E. Reese about Kendall Cochran, who was looking for a Ph.D. program. According to Ayres, Cochran was disconcerted by the reports received from his colleagues who had gone to the “great universities” (Ayres to Reese, March 31, 1950, Ayres Papers, Box 3F293).⁶

The process of marginalizing everything that was not within the narrow range of the then-new mainstream also affected the position of dissenting economists at the universities.

For example, David Hamilton affirmed that the economics department of the University of New Mexico had gotten a person in “micro theory,” in Hamilton’s words “a University of Chicago product” who thought “Milton Friedman has replaced the Pope” (Hamilton to Ayres, April 10, 1968, Ayres Papers, Box 3F288). Another economist involved in the foundation of AFEE who complained about his Chicago colleagues was Louis Junker. In 1967, he reported to Ayres a hostile process of exclusion based on sectarianism. As reported by Junker, his prospective graduate students had been “advised” by the faculty to bypass his courses based on institutional economics (Junker to Ayres, March 25, 1967, Ayres Papers, Box 3F289). Indeed, because Abe Melton complained about being pushed by his superiors to insert “orthodox price theory” in freshman courses at the University of Arkansas in 1946, we could state that the pressure on the courses by the dissenters started very early in the postwar period (Abe Melton to Ayres, November 6, 1946, Ayres Papers, Box 3F291).

Education is a crucial issue. Considering the mainly methodological difference between the dissenters’ approach and standard economics, the dissenters actually thought that training economists in “model building” and “analysis” was essentially a means of averting any chance the students might become dissenters, or even understand their criticism against mainstream economics. This point of view came to the fore in an exchange between Warren Samuels and Clarence Ayres in the late 1960s. Unlike Ayres, Samuels thought that institutionalism and standard economics could complement each other. However, both agreed that educating students in the then-new mainstream was something that would undoubtedly divert their attention from the dissenters’ viewpoints. In sum, even if one could construct complementary bridges between the two theoretical approaches, they were essentially competitive in recruiting. Dissenters brought the same

issue to the fore in the discussion about the effects of Keynes and Keynesian economics as an integral part of standard economics (Samuels to Ayres, October 11, 1968, Ayres Papers, Box 3F294).

Keynes and Keynesianism

Finally, we also have found harsh critiques against Keynes and Keynesian economics. These criticisms seemed to carry forward the reaction against Keynesianism started by some important economists of the preceding cohort of institutionalists (Rutherford, 2011: 300-6). As for the critiques of this earlier generation, it is important to mention that the Keynesian thought criticized by them was mainly, though not exclusively, Alvin Hansen's version of it (Rutherford, 2011: 300). Later, the generation of the founders of AFEE had to fight against, for example, the developments of Keynesianism at the hands of economists such as Samuelson, one of the main targets of their criticism regarding the economic analysis discussed above. Apparently, from the late 1940s until the late 1960s, these institutionalist dissenters perceived Keynesian economics as a full contribution to orthodoxy and, consequently, a backward step in the advancement of economic science. John Gamba and Allan Gruchy, the two main organizers of the movement that led to the founding of AFEE, were possibly the severest critics of Keynesianism.

The difference, as perceived by the dissenters, between their perspective and Keynesian thought seems to mainly concern methodology and, in consequence, the conception of how to build economic theory. Gruchy included Keynes in the "pure economics" and abstractionist tradition; hence, the Keynesian perspective is a type of economics against which institutionalism must compete by adding realism to theorizing (Gruchy, 1962). In an introduction written for a volume never published, Gamba and Gruchy (n.d.) placed Keynes alongside Lionel Robbins to exemplify a type of economics

against which they struggled. Later, in a manuscript called “What Is Galbraith Trying to Do to Us?,” Gambs (1972: 7) placed Keynes in a tradition that would lead economics to the “analysis” mode of theorizing, stating that Galbraith was trying to “detach us from the Smith-Keynes-Samuelson model,” a “grand plan” economic model. Refusing to accept Keynes in their tradition, even while reflecting on the reception of Keynes’s works in the 1930s, Gruchy (1958: 4) is keen to stress that the institutionalists preferred different theoretical perspectives lines, such as Veblen’s and Hobson’s analysis of the “failures of the capitalistic system.”

In addition, Gambs and Gruchy stressed the pernicious sociological and educational effects of Keynesian economics even as they perceived it as an integral part of traditional economics. In a 1946 exchange, Abe Melton argued that Keynesian economics downplayed the capacity of the economists trained in its tradition to understand government action from an “institutionalist” perspective (Melton to Ayres, 18 March 1946, Ayres Papers, Box 3F291). The pernicious effects occurred mainly because Keynes’ works reinforced the mathematical tendencies in economic theorizing. Gambs said that Keynes was therefore able to “breathe new life in standard theory” (Gambs, 1982: 348; Gambs to Ayres, April 10, 1962, Gambs Papers). For John Blair, another dissenter involved in the foundation of AFEE, the structure of the Keynesian approach guided macro-analysis to “model-building” (Blair to Gambs, May 27, 1964, Gambs Papers).

However, one must consider that the abovementioned critiques against Keynes and Keynesian economics were a reflection of a vision of Keynes held before the emergence of the post-Keynesian approach. Immediately after the famous Richard Ely Lecture delivered by Joan Robinson, in 1971, the work of Keynes came gradually to be interpreted in a way compatible with the dissenters’ criticism of mainstream economics. Nonetheless, the

plurality of approaches among the founders of AFEE was so ample that Gambs and Gruchy accepted without reservations people identified with Keynesian ideas (David Hamilton to Fred Lee, February 20, 1998, personal communication). In summary, what mattered during the foundational years of AFEE was much more a disposition to discuss the need to reconstruct economic science than an allegiance to some paradigm. Thus, despite the fact that Gambs and Gruchy bitterly criticized Keynes and Keynesian ideas, they decided to remain open to receive in AFEE all economists discontented with the then-mainstream economic science. In consequence, some Keynesians were indeed involved in the foundation of AFEE (Matters discussed at the First Meeting of Economists Interested in the Field of Institutional Economics, 1959, Gruchy Papers; Gambs to Ayres, April 10, 1962, Gambs Papers; Gambs, 1980).⁷

Concluding Remarks

We would like to stress three points in the course of this brief analysis of the dissent by a group that would later found AFEE. First, the institutionalists regarded themselves as the heirs of a long line of dissent struggling against the “traditional line of development.” Institutionalism had been more influential before; however, the battle was lost, and economic science continued in its traditional path largely unaffected. Second, the divergence between the dissenters and the standard economists was mainly one of method. In consequence, they stressed how training in the standard curriculum was destructive, ingraining in students’ minds methods that hindered the learning of the dissent perspectives. Third, there was a widespread feeling of drastic marginalization among the economists who would eventually found AFEE.

The sense of marginalization was critical because that is exactly what made them dissenters rather than institutionalists. We believe that this dissenting attitude, rather than their institutionalist thinking, was the main reason the founders of AFEE remained so pluralistic and open to different dissenting perspectives since its early years although the core founders were institutionalists. In our opinion, the openness during the foundational years of AFEE determined the path dependence of pluralism that is nowadays clearly visible in the association.

Notes

¹ As the interwar institutionalist movement gained influence among the profession and then lost it, the followers of the institutionalist path receded to a marginal position within the profession. More than that, the rise of the new mainstream, boosted by the ascent of econometrics, mathematical economics, and Samuelson's instrumentalism, pushed the institutionalists further to a marginal position of radical dissent.

² Barnett (2006) uses the history of economics in the Soviet Union as an argument to state that dissent should be considered as a contextual notion. He claimed that, in this case, Marxist economics went from being a revolutionary dissent, before 1917, to the status of official orthodoxy. Samuels (2006) calls for a historical comprehension of the category of dissent from which the process of discipline building is understood as open-ended. Furthermore, Mata's (2006) study of the intricate development of radical economics in the United States reinforces Barnett's and Samuels' viewpoints by adding that the category of dissent cannot be easily defined.

³ In the recent literature on the history of institutionalism and heterodox economics, we found three different interpretations about the status of institutionalist economics during the 1920s and the 1930s. Geoffrey Hodgson (2004: 4) states that institutionalists were the mainstream in the interwar period. However, Malcom Rutherford (2011: 7) regards Hodgson's thesis as an overstatement, arguing that, in the period between the wars, "institutionalism was far from marginalized". Fred Lee's (2009) dissonant view is also noteworthy. Lee polemically argued that institutionalism had never been the mainstream within American economics.

⁴ Ernest Patterson told Ayres, "[W]hat takes to be an economist at Harvard is being able to draw graphs on the blackboard with both hands and one foot" (Ayres to Klein, January 7, 1955, Ayres Papers, Box 3F290).

⁵ Some of the other speakers at the seminars organized by the students were Simon Kuznets, Alvin Hansen, Arthur Burns, and John Maurice Clark (Hill to Ayres, October 31, 1947, Ayres Papers, Box 3F289).

⁶ In Ayres's words, "[T]he present obsession with mathematical price 'analysis' as the core of the professional 'training' of economists finds our students rebellious and unamenable" (Ayres to Reese, March 31, 1950, Ayres Papers, Box 3F293).

⁷ According to David Hamilton, early active members such as Dudley Dillard, Wallace Peterson, and Robert Lekachman were deeply identified with Keynes' ideas (David Hamilton to Fred Lee, February 20, 1998, personal communication).

Archive Collections Consulted

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Clarence Ayres Papers, Briscoe Center for American History, The University of Texas at Austin, Austin, TX
John M. Blair Papers, National Archives, Washington, DC (kindly provided to us by Prof. Fred Lee)
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