Critical Realism and Institutionalism: Integrating the Scientific Method of John R. Commons and Douglass C. North

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ABSTRACT

The paper explores whether critical realism, a recent meta-theory, is an effective way in integrating the scientific method of Commons and North. Critical realism objects to orthodox positivism, stresses the importance of socioeconomic ontology and advocates the approach of retrodiction. This paper finds that critical realism is not only consistent with the institutionalism of Commons and North but also contributes to the integration of their scientific methods. Moreover, critical realism is helpful to eliminate traditional sources of confusion in institutionalism and offers a theoretical foundation of employing orthodox scientific tools and theories for institutionalism. Based on the commonalties in methodology of Commons and North, it is possible to develop a new scientific perspective by virtue of critical realism.

Keywords: Institutionalism, Critical realism, Methodology, Commons, North

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1. INTRODUCTION

The resurgence of institutional economics has raised a number of important issues regarding the commensurability between the original institutional economics (OIE) and the new institutional economics (NIE). Some researchers (Rutherford, 1994 and 1995; Groenewegen, Kerstholt, and Nagelkerke, 1995; Cheng, 1998 and 2002) find significant commonality between the theories of John R. Commons, a leading figure of OIE, and Douglass C. North, the forerunner of NIE, in general, and between their scientific method, in particular. An interesting issue is whether their scientific methods can be integrated and in which way if it is possible.

Commons's scientific method has a holistic characteristic, whereas North's scientific theory carries a collective attribute in his late period although it is partly grafted onto neoclassicism in his early stage (Cheng, 1998). Apparently, orthodox positivism, based on methodological individualism, not only does not offer a foundation for communication between the two, but also indeed contradicts to the common collective elements in two institutionalists.

Critical realism, which arose in the late 1980s, provides a new perspective on economic method. It stresses the importance of socioeconomic ontology and advocates the approach of retroduction or abduction. Critical realism especially objects to orthodox positivism, or Humean empiricism, which tends to neglect ontology and advocate deductive modeling resulted from misconceived epistemological reductionism. Critical realism is against the scientific view of positivism, which views science as seeking the regularities of events, and asserts that economic science should center on identifying and illuminating the deep structure of reality, such as power, tendencies, mechanisms, and trends.

Is critical realism an effective way in integrating the scientific methods of Commons and North? This study explores that question in several steps. First, I will discuss the features of critical realism. Second, I will apply it to the work of Commons and then to that of North. Third, I will explain how an effective integration of their scientific methods is possible through critical realism. The final section is a brief conclusion.
2. THE FEATURES OF CRITICAL REALISM

Critical realism, which originated in the philosophy of science of Roy Bhaskar and was developed further in economics by Tony Lawson (1994, 1997 and 1999), is one of significant recent developments in economic methodology (Backhouse, 1994; Davis, Hands, and Maki 1998, pp.404-9). It has been both critical implications about the poverty of mainstream economics and developmentally constructive in elaborating an alternative perspective. Its realistic feature is to oppose doctrines such as idealism, empiricism, conventionalism, instrumentalism, relativism and constructivism. It claims that economics should avoid the use of concepts without real references, but should be constructed as truth-functionals. It is committed to elaborate the nature of social being and/or how we access social reality (Lawson, T., 1999; Foss, 1994)

Critical realism principally stresses socioeconomic ontology, whereas mainstream economics tends to neglect ontology and emphasize epistemology, which T. Lawson claims is the consequence of epistemic fallacy. This fallacy leads that matters of ontology can always be re-phrased in epistemological terms and view that statements about being can always be reduced to statements about knowledge (Fleetwood 1999, p.129). The perseverance of mainstream deductive modeling is the result of that matters of a misconceived epistemological reductionism.8

For Lawson, socioeconomic reality includes not only events and experiences but also structures and mechanisms which are neglected in most orthodox economic theories. Reality includes three levels: (1) the empirical — experiences and perceptions; (2) the actual — events; (3) and the deep — entities and mechanisms (Foss, 1994; Lawson, T. 1997). These three domains are separate, and moves between them are contingent operations. Economic knowledge starts from “the empirical” perceived by theorist from “the actual,” and then is theorized in terms of “the deep” underlying “the actual.” This view of theory implies that empirical regularities are neither sufficient nor necessary to produce laws (Foss, 1994, p. 25).

By stressing the deep of social ontology, critical realism objects to orthodox positivism, mainly Humean empiricism, which asserts that science should be confined to, or even de-
dependent upon, seeking out constant event conjunctions. Instead, science should aim at identifying and illustrating the structures and mechanisms, powers and tendencies, that govern the course of events. Phenomena thus should be analyzed in terms of nature of entities, their powers and the interaction of entities and their powers (Foss, 1994; Lawson, T., 1997 [AAA1]).

In order to construct a knowledge of underlying structures and other phenomena, critical realism advocates the approach of retroduction or abduction. In contrast to induction, which moves from the particular to the general, and deduction, which moves from the general to the particular, retroduction moves from the level of the phenomenon identified to a different “deep” level in order to explain the phenomenon and to illuminate a causal mechanism responsible (Lawson, T., 1999, p. 10).

Critical realists assert that the social world is intransitive — the objects of research have an existence independent of scientific activity. Some realists, however, adopt a relativist stance, which asserts that there is a mutual interaction between the social entity and human behavior. Social structure is as much a condition for human action as it is a consequence. They assert that social structure is both condition and consequence of action, and social reproduction is always accomplished through some human doing (Lawson, C., 1996, pp. 980-1).

Orthodox economics denies the realistic generative mechanisms because its scientific inquiry is based on a closed system. Critical realism stresses the openness and dynamics of social ontology and insists that scientific inquiry must be based on an open system.

In formulating an alternative perspective, critical realists have examined the work of largely heterodox economists, who are dissatisfied with the mainstream position, including Commons, Hayek, Kaldor, Keynes, Marx, Menger, Schumpeter, Shacke, Smith, and Veblen (Fleetwood, 1999, pp.127-8). However, the relation of critical realism to institutionalism in general and to the institutionalism of Commons and North in particular requires further consideration.
3. CRITICAL REALISM AND JOHN R. COMMONS

Is Commons a realist? What is his argument regarding ontology versus epistemology? Does his theory contain the element of “the deep”? What is the relationship between retro-action and Commons’s approach? Does his theory have the characteristics of critical realism, such as the transformation mode of activities, intransitiveness, and openness? Is Commons’s scientific method compatible with critical realism?

In contrast to the formalists of mainstream economics, Commons is committed to a realist kind of theory concerning practical issues. His institutional economics falls more in the realm of social reality/entities. Commons seeks to identify, for example, the social relationship of working rules and custom. Social ontology is a domain with which he is consistently concerned.

Commons’s holism avoids the epistemic fallacy because his theory mixes ontological essence with an epistemological approach. According to Ramstad (1986, p.1070), Commons’s holism conveys three quite different but interdependent meanings: an ontological perspective (What is the nature of reality?), an epistemological posture (When do we “know” something?), and a perspective on method (How do we “do” some social science?).

Commons sternly criticizes the atomistic concept of society that, in particular, underlies mainstream economics, and his concept of the social world is likely irreducible to individuals. His theory of social evolution is stratified and differentiated, but it concerns the “becoming” more than the “being” aspects of social entities. His theory is not intended to seek the constant conjunction of events, although it does not deny the existence of certain trends in a specific time-space, that is, semi-regularity, in the terminology of T. Lawson. Instead, much of Commons’s writing is an attempt to identify the deep. To illustrate, in exploring the processes of transaction, he indicates how definite structures endure and change and how human intentions and purposes influence such processes (Lawson, C., 1996, p.981). One example of the deep, adopted in T. Lawson(1997), by Commons identified is as follow:
The businessman who declines to use the banking system which has grown up in the past, the labourer who refuses to come to work when others come, may be industrious, but he cannot live in industrial society. This is familiar enough… But when customs change, or when judges and arbitrators enforce a custom by deciding a dispute, or when labourers or farmers strike in order to modify a custom of business, or when a revolution confiscates slaves or other property of capitalists, or when a statute prohibits a customary mode of living, or when a holding company extends an old custom into new field-then it is realized that the compulsion of custom has been there all along, but unquestioned and undisturbed (Commons, 1934, p. 701).

The underlying structure and mechanism of economic events in Commons's theory include both internal and external causal domains. In particular, Commons endeavors to identify the internal structure of individual behavior, namely, human volition. His human will argument is exactly the same as the criterion of critical realism: the requirement for a thing or aspect to be designated social is a dependency on intentional human action. For Commons, there is mutual interaction between the internal and external causal structure. That is, social structure is viewed as both condition and consequence of intentional human agency.

In contrast to both induction and deduction, Commons uses his own method, the comparative method of reasoning, in seeking to distinguish the similarity and difference among various economic events. Yet, Commons also claims that the subjective matter of economics can be investigated by the pragmatic method of science constructed by C. S. Peirce. “Peirce’s pragmatism, applied to institutional economics, is the scientific investigation of these economic relations of citizens to citizens. Its subject-matter is the whole concern of which the individuals are members, and the activities investigated are their transactions governed by an entirely different law, not a law of nature but a working rule, for the time being, of collective action” (Commons, 1934, pp.156-7).

Coincidentally, according to critical realism, Pierce is one of the most important interpreters of the retroduction/abduction method. Pierce wrote in 1867 that induction “never can originate any idea whatever. No more can deduction. All the ideas of science come to it by the way of abduction. Abduction consists in studying the facts and devising a theory to explain them. Its only justification is that if we are ever to understand things at all, it must be
in this way” (quoted in Lawson, 1997, p.294).

According to Commons, the analysis of individual behavior requires an understanding of the interactive process between agents and the whole. Human action is always “loose end,” however, because both human purpose and social structure are complex and constantly evolving. That is, in Commons's theory economic agents live in an economic universe that is fundamentally open-ended.

The scientific method of Commons has a character of holism, in the sense that reality is captured only by a whole-part approach. Commons views science as socially constructed and asserts that economics, as the science of political economy, should include power, psychology, law, and ethics (Commons, 1934, p.387; 1950, p.203). Although he treats science not as finite givens but as matters of process, Commons is strongly against the deductive method in economics. He proposes his own approach, the comparative method of reasoning, which seeks “similarities and differences within a complex of future indeterminate causes, purposes, and events” (Commons, 1934, p.53). He believes that the methods of argument and dialectics are more essential than quantitative and mathematical tools.

The case study figures prominently in Commons's work. This approach stresses the specificity of every human activity or historical event and rejects the possibility that an event/conflict can be worked out without considering its particular context. For Commons, economics cannot be viewed as a physical science because there are a number of limitations.

By carefully inspecting Commons's scientific approach, I find it contains the following characteristics of critical realism: (1) carrying ontological essence; (2) intending to identify the grand structure behind events; (3) sharing the spirit of Peirce's abduction; (4) human behavior is mutually interacting with social institutions. Therefore, Commons's theory is completely compatible with critical realism.
4. CRITICAL REALISM AND DOUGLASS C. NORTH

Regarding the relationship between North and critical realism, the following questions must be asked. Is North a realist? What is his argument regarding ontology? Does his theory reflect the three levels of reality, especially “the deep”? Is North’s approach compatible with the method of retroduction/abduction? Does his theory carry the characteristics of critical realism, such as intransitiveness and openness? Is North’s scientific method consistent with critical realism?

Tony Lawson (1997) doesn’t seem to consider all NIE as being consistent with critical realism. He essentially agrees with such new institutionalists as, David, Hodgson, Posner, Pratten, Vanberg, and Williamson but not with North (Lawson 1997, T., p.326, note 3). But I would argue that there is no contradiction between North and a realist. It is no doubt that North is interested in realistic issues because he is not satisfied with a purely abstract theory that has little connection to social reality. North seeks to understand why economies work badly or well and how to account for complex historical issues. North’s inherent practicality continually causes him to transcend his own work. Many of his earlier arguments have been superseded by his later theory due to pursuing reality.

The early North concentrated on how to reappraise economic history by virtue of neoclassicism and did not pay attention to ontological problems. However, later North has tacitly given weight to socio-economic ontology. He now endeavors to identify evolving institutional structures that govern various levels of economic performance. He also attempts to construct a cognitive theory to account for how internal causal structures, namely mental constructs and learning process, decisively influence individual decision-making.

North's interest in identifying causal structure indicates a consistency between his theory and the three levels of reality of critical realism. One example of North’s “deep” can be seen in his effort to identify the governing mechanism of institutions. According to North, institutions, defined as rules of the game, consist of formal rules, informal rules, and enforcement mechanisms. Moreover, his theory provides theorems about the origins, creation, caution, causes and impact of such rules (Gustafsson, 1998, p.5). North’s theory of cognition
is another aspect of “the deep.” He seeks to develop his own theory of ideology, namely, shared mental models (SMMs).

Critical realism offers an alternative to orthodox deductivism. Is North a deductivist? With regard to the early North, the answer is “yes.” He referred model and theory to a logical structure “that relates a set of assumptions to a certain set of conclusions. In economics, it is initially assumed that a firm attempts to maximize its profit and that it is constrained in its production possibilities” (Davis and North, 1971, p.4). The later North, however, not only is not a deductivist but also adopts a literary style. Many political and cultural factors are endogenized in his later models, which involve complicated interactions among those factors that cannot be condensed into a few axioms and initial conditions. His later work is mainly descriptive, eschewing the equations, tables, statistical data, and mathematical models of contemporary neoclassical deductivists. Moreover, his grand work in figuring out the mutual interaction between causal structure and socioeconomic events cannot be classified as either inductive or deductive; it is close to the retroduction or abduction of critical realism.

The later North’s theory is broad and operates dynamically. Is it a close and determinate system? A typical North explanation of economic-historical change and performance goes like this:

Under the influence of changing technology, relative prices and/or preferences, economic agents and organizations create institutions, emerging from culture, that help them to reduce uncertainty and transaction costs and call forth or strengthen appropriate incentives for their activity. The (new) institutions act as constraints on their choices and are enforced by enforcement mechanisms. The choices result in the transformation of goods in production and marketing and, finally, the outcome in the output of goods and services as we register it in economic performance (Gustafsson, 1998, p.22).

Obviously, the system is not closed and determinate.

The early North’s scientific method is primarily Popperian. The criteria North proposed for economics as a science consist of logical structure, testable hypotheses, predictable theory, and specific results rather than indeterminate consequences. Especially, he stressed the character of falsificationism: the theory must be potentially refutable. However, the later
North admits that it is impossible to test economic hypotheses rigorously; that is, most ontological hypotheses are not refutable.\textsuperscript{19}

Is North's scientific method compatible with critical realism? North believes that economics not only can be but also should be a science. The early North adopted the mainstream scientific perspective grounded in positivism, but in his later work the scientific method changed (Cheng, 1998, pp.23-36). One Popperian criterion the early North proposed, is that theory must be potentially refutable,\textsuperscript{20} but most of North's hypotheses cannot easily be verified by statistical analysis.

Despite the fact that North has a strong inclination to generalize economic theory, he and his disciples have used the case study method to explore numerous empirical issues (Alston, Eggertsson, and North, 1996). North also admits that the scientific approach in explaining historical performance has several limitations. (1) Economic history and institutional analysis lack accurate data. (2) Economic theory can only explain the behavior of the representative individual, not any specific person. (3) It is impossible to make a precise test in economic history. (4) Rigor and scientific pretension in economic theory ignores many crucial issues, such as a fundamental set of questions about the evolving structure of economics that underlies performance (Cheng, 1998).

Therefore, North's scientific method also contains the features of critical realism: (1) caring ontological essence of economic phenomenon; (2) intending to illuminate the institutional structure governing the regularities of events; (3) the later North gradually departing from deductivism; (4) asserting that human behavior is directed by ideology and mutually interacting with circumstances. Therefore, North's theory in general and his scientific method in particular are compatible with critical realism.

5. INTEGRATING THE SCIENTIFIC METHOD OF COMMONS AND NORTH

Based on certain commonalties within OIE and NIE, such as those found in the theories of Commons and North, many commentators are seeking a third or a middle way that incorporates the less extreme versions of methodological stances (Groenewegen et al., 1995;
Lawson, C., 1996; Rutherford, 1994 and 1995). Although C. Lawson (1996, p.982) doubts whether this reasonable third way exists, I contend that critical realism may provide a solution. Although the preceding analysis indicates that the theories of Commons and North are each consistent with critical realism, what common elements in their scientific methods are congruent with critical realism? Is it possible to develop a new scientific perspective by virtue of critical realism, based on the commonalties in scientific method of Commons and North?

There are some commonalties between the scientific method of Commons and North. First, both men agree that economics can be seen as science, and they view scientific methods—mainly measurement, statistics, and logical structure—as useful. Second, Commons agrees with North about the rules of economic science: logical structure and testable hypotheses. Third, the later North's style not only is not formalistic but also comes close to Commons's literary style of argumentation and dialectics. Fourth, both men would agree that economic analysis must use both general modeling and the case study approach (Cheng, 1998).

Whereas positivism is useless to institutionalism, critical realism offers some insights into the scientific method of Commons and North. (1) The theories of both men carry more ontological essence than epistemological simplification. (2) They are not merely interested in finding the causal laws of events, but want to identify and illuminate the grand structure governing and directing the laws of events. (3) Commons's approach carries the spirit of Peirce's abduction, and the later North is gradually departing from deductivism. Indeed, both are close to retroduction. (4) Human behavior in the scientific narrative of Commons and North is habitual, motivated, and mutually interacting with other individuals as well as social institutions. That is, for both men, the system is relational, open, dynamic, and intransitive.

Critical realism can consistently link both men's scientific stance, and their theories are complementary under the framework of critical realism. In other words, the two theories have different domains of applicability in seeking structures, mechanisms, powers, and tendencies. Commons's scientific inquiry concentrates on the legal foundations of the socioeconomic system, and North focuses on the causal structure driving various levels of
economic performances through time\textsuperscript{23}.

Critical realism also helps to clarify some sources of confusion in the work of Commons and North\textsuperscript{24}. The confusion arises because: (1) the definitions of basic concepts by institutionalists differ enormously from the precise terminologies employed by formalists; (2) most explanations based on an institutionalist model are descriptive; and (3) the institutional models lack predictive ability. From the perspective of critical realism, all these sources of confusion are characteristic of scientific investigation. First, because meaning is contextual, definitions cannot always be precise. Second, description is a major method of explanation for a critical realist, rather than the orthodox deductive mode. Third, theory is primarily an aid in achieving understanding, not a tool for making predictions (Ramstad, 1986, p.1073; Lawson, T., 1997).\textsuperscript{25}

Furthermore, critical realism can add to the theories of Commons and North the advantage of mainstream analytical tools, such as price theory. Although critical realism opposes Humean empiricism, which claims that social science should merely identify the event regularity, it does not deny that conjunctions of events exist. Quite often, trends and tendencies dominate for a significant period; that is, some partial regularities can be observed and identified.\textsuperscript{26} It is not necessary to discard all the theoretical works of mainstream economics. T. Lawson (1997) has extensively criticized the inappropriate application of mathematics and econometrics, but he does not deny the effectiveness of those tools themselves. Mathematics and statistics can be useful as long as they are appropriately applied.\textsuperscript{27}

Until now, critical realists have delineated only a very abstract method, without offering a set of operable instruments, but it is possible for critical realism to generate a new perspective of science.\textsuperscript{28} That perspective could carry the theories of Commons and North in a new direction. It should be able to answer the following questions. What is science? What is the scope of scientific study? What does scientific progress mean? What is the set of scientific tools? To what extent can this program be used to develop institutionalism?\textsuperscript{29}

As for the definition of critical realism, one would say that science is not the search for the regular causal relations among empirical events but the identification of deep social structures, such as trends, tendencies, power, and mechanisms. Science is not a measurement and finite givens but a matter of process (Samuels, 1997).
The scope of economic science is not restricted to the economy as narrowly defined but includes the broad external structure of society, the interaction among law, polity, ethics, and so on. It also is not restricted to the experience of individuals but must concern the internal structure of human agents, such as motivation, volition, psychology, cognitive behavior, and influences from the external environment, such as ideology.

Scientific progress is not a singular line of development and a homogeneous enterprise. It could mean illuminating social ontology, from the superficial to the deep (Lawson, Peacock, and Pratten, 1996, p.143), as well as uncovering, identifying, and interpreting profound layers of social reality. Scientific progress requires inquiry into the suppositions upon which a theory rests. That is, scientific explanation is open to challenge.

The tools of new science would be based on retroduction. The case study method and general modeling are both useful, as are statistics and mathematics in certain very limited contexts. Mathematical models would not exclude other forms of narrative, such as descriptions and classifications.

It is not possible to say how far the theory of institutionalism can be extended by critical realism until more substantive theories are developed based on this new scientific perspective.

6. CONCLUSION

The emergence of critical realism opens up new avenues of economic research in general and can help the communication between Commons and North in particular. Critical realism not only is consistent with the institutionalism of both Commons and North, but also can be helpful in integrating their scientific methods.

The revival of institutional economics is promising, but both OIE and NIE face many difficulties. Both camps could speak to each other to a much greater extent, and there could be significant gain from such a conversation. Based on critical realism, an integration of the scientific methods of Commons and North might not be able to establish a discipline-wide conventional rule (Samuels, 1997, p.77), but it could point to a direction that might be taken in the pursuit of a more satisfactory program of research than either OIE and NIE currently
provides (Rutherford, 1994, p.173). Much remains to be done.  

For example, a new transaction theory could be based on Commons’s analytical unit-transaction and North’s transaction costs. Critical realism points us in a new direction, and institutionalists now must develop substantial theory.
While orthodox neoclassicism is based on methodological individualism and focuses on the field of resources allocation, institutional economics is more or less carrying the feature of methodological collectivism and stresses the importance of transactions, property rights, power and ideology. However, there is a significant difference, both in terms of methodology and theory, between original institutionalism and new institutionalism. See Samuels (1995), Cheng (1998).

Original institutionalism refers to the school co-founded by Veblen, Commons, and Mitchell and its younger generation, including John K. Galbraith and Warren Samuels.

Definitions of NIE vary. Some include the Austrian school economists, the neoclassical wing of institutionalists, Shackle's radical subjectivists, and neo-Schumpeterians (Hodgson, 1989; Lawson, C., 1999; Rutherford, 1994). In this paper, NIE refers to the neoclassical wing of institutionalists, including R. Coase, D. North and O. Williamson.

John R. Commons (1862 - 1945) is one of the founders of OIE. His collective perspective of analyzing economic behavior, lifelong interest in promoting social and economic reform, and empirical research style lie at the core of a version of American institutionalism known as the Wisconsin branch.

Douglass C. North (b. 1920), the 1993 Nobel Laureate in economics, is one of the major figures in the new institutionalism. His transaction costs approach (in his term, the University of Washington approach) has profoundly influenced contemporary economic theory.

For critical realism, the classical conception of empiricism as developed by Hume is the primary foundation of positivism. “Following Hume, classical empiricism understands causality in terms of (observation of) constant conjunctions of events, backing away from such Aristotelian notions as ‘causal power’ and ‘necessity’” (Foss 1994, p.24).

Some economists assert that evolutionary economic should be inspected by three criteria: the ontological criterion, the methodological criterion, and the metaphorical criterion. The paper intends to explore the dialectic relationship between ontological criterion and methodological criterion within Commons's and North's institutional economics. However, the metaphorical criterion is not key part at this paper because most efforts of critical realism is to identifying “the deep” of reality in which “metaphor” may be useful but not crucial. According to Hodgson's Evolution and Institutions, metaphysical method may be consistent to the retrodication method of critical realism. However, the metaphorical criterion is still an underdeveloped region in both Commons's and North's institutional the-
ories. It is another interesting topic for the future research.

9. “Open system leads to the empiricist dilemma of denying either the generality of laws or their empirical relevance. Only the realist ontology of generative mechanisms governing events can eliminate this dilemma” (Foss 1994, p. 26). The argument is based on Bhaskar’s discussion of the role of experiment in scientific activity; see Foss (1994) and T. Lawson (1997).

10. According to Foss (1994, p. 29), several heterodox traditions in economics—such as post-Keynesianism, Austrian economics, and evolutionary economics—share a common characteristic in that they have attempted to pursue “research based on the assumption that the economic universe is fundamentally open-ended, and that economic theorizing should reflect this.”

11. The comparative method of reasoning is a cornerstone of Commons’s holism. In using this method, the researcher compares cases by focusing upon differences and similarities.

12. Commons considered himself a pragmatist: “We endeavor to follow [C. S. Pierce] and to accept the term Pragmatism as the name of the method of investigation which we apply to economics” (Commons 1934, p. 150).

13. Several scholars, mainly Rutherford (1994) and C. Lawson (1996), claim that most interpretations of new institutionalists—based on Agassi’s (1975) definition, which claims that wholes possess their own preference, purpose, and will and are a sufficient level of analysis—are irrelevant to the spirit of Commons’s holism. For example, “Commons works with a transformational concept of social activity and [his] concept of purpose has nothing at all to do with the idea that wholes have purposes or aims of their own in the way that individuals do” (C. Lawson 1996, p. 982, n. 7).

14. Diesing (1971) and Ramstad (1986) have examined the whole-part theory. “The whole is seen in the main to determine the part. … Indeed, in principle, one should investigate nearly the whole culture in order to understand and explain one institution” (Diesing 1971, p. 204). “Holists employ a part-whole mode of apprehending reality. Reality is conceptualized as an integrated whole, a unity, not as a set of logically separate structures and processes (for example, ‘the price system’) as perceived by formalists” (Ramstad 1986, p. 1071).

15. The limitations include: (1) Human beings are treated as atoms rather than subjects with free will. (2) The analysis is incomplete since human progress ultimately rests with the human will (1950, p. 114). (3) There is a normative bias because human activities are purposeful and inevitably involve value selection (1950, p. 185). (4) Measurement alone is inadequate.

16. C. Lawson et al. (1996) also observes a methodological contradiction within North’s work.

17. North criticized the old history, which all too often was rooted in brilliant historical intuition rather than in sound logical deductions from explicit premises (Davis and North 1971, p. 4).

18. Rutherford (1994, pp. 22-3) claims that the later North is hardly a deductivist and might be included
in the literary group of NIE, along with Alchian, Coase, Demsetz, and Williamson. Also see Cheng (1998, chap.2).

19 North (1990, p.vii) admits that his theory is “illustrative, designed to show the promise of the approach, but far from providing for the kind of hypothesis testing that must ultimately be done.”

20 Some examples of North’s refutable hypotheses are as follows. (1) British policy was vindictive and injurious to the Colonial economy after 1763 (1966, p.12). (2) The railroad was indispensable for American economic growth (1966, p.12). (3) The continuous interaction between institutions and organizations in the economic setting of scarcity, and hence competition, is the key to institutional change (1995, p.15). (4) The economies of scope, complementarities, and network externalities of an institutional matrix make institutional change overwhelmingly incremental and path-dependent (1995, p.15).

21 Positivism, including logical empiricism, rests on at least two fundamental assumptions: (1) scientific theory must be rigorous, robust, and useful for prediction, and (2) science is deductive in structure (Caldwell 1994, p.36; Lawson 1997, p.xv). The scientific stance of Commons and North cannot be viewed as positivism. First, neither of them, especially the later North, would assert that prediction is a primary function of theory, whereas both agree that theory is a tool for achieving understanding and explanation. Second, both Commons and the later North would agree that deductivism is an invalid method for institutional analysis. Moreover, the scientific theories of Commons and North convey the notion of process instead of “a specific complex of ideas about the relationship between facts or events” (Commons 1934, p.98; Ramstad 1986, p.1079). It is obvious that positivism is not an adequate ground for the institutional analysis of Commons and North.

22 As Foss suggests, the relationship can be viewed as consistent in terms of an expectation that a more encompassing theory is constructed. That is, a new theory can incorporate the theories of both Commons and North. Even within neoclassicism, change is possible. “Evidence for the speculative conjecture has primarily to do with changing nature of neoclassical economics. Neoclassical economics is no longer purely ‘assimilative’—so that any phenomenon is pressed into the straitjacket of maximization and equilibrium—but has become increasingly ‘absorptive,’ in the sense that insights from outside neoclassical economics are allowed to influence the core of the theory” (Foss 1994, pp. 36-7).

23 According to neoclassical economics, the value of good is determined by the marginal utility which imply a presumption of individualism. However, if we adopt the theory of critical realism, the value of a good is not merely decided by an individual's preference, but also is decide by social entity. Therefore, if critical realism is an effective way to combine Commons and North, the traditional value theory will be extended.
For example, according to one critic, “North has not presented his theory formally, concepts are not rigorously defined and may also vary according to context, and there is no standard interpretation of the theory” (Gustafsson 1998, p.10).

My argument here is primarily inspired by Ramstad (1986).

“Although the social world is open, dynamic, and changing, certain mechanism may, over restricted regions of time-space, be reproduced continuously and come to be (occasionally) apparent in their effects at the level of actual phenomena, giving rise to rough and ready generalities or partial regularities, holding to such a degree that prima facie an explanation is called for” (T. Lawson 1997, p.204).

As Ramstad (1986) and Cheng (1998) have shown, even Commons is not against modern scientific tools. For example, in terms of Popper’s falsificationism, Commons asserts: “At some point a theme becomes a tentative hypothesis. The researcher then tests the hypothesis by consulting as wide a variety of data as possible-statistical data, survey data, participant observation data, case studies, anything he can get his hands on. No particular type of data is considered supreme; all are subjected to ‘contextual validation’” (Ramstad 1986, pp.1072-3).

I largely agree with Fleetwood (1999, p.132) that critical realism incorporates aspects of all traditional methodological perspectives, but I do not agree with his claim (p.133, n. 12) that, as a meta-theory, critical realism will not license any particular theoretical perspective. As I argue here, it could have a role in the further development of the substantive theories of Commons and North.

Based on critical realism, a new scientific approach integrated from Commons and North should be able to account for various social phenomena deeply because it inspect things not only by the events, but also by the deep. The new approach is neither methodological individualism nor methodological collectivism, but close to Agassi’s institutional individualism (Agassi 1975).

Many topics common to OIE and NIE need to be further developed, such as “pressure groups and political parties, the significant role of common law, the motivations of judges, types of transactions, and collective organizations” (Rutherford, 1994, p.127).

Clive Lawson seems to claim that North’s concept of transaction costs is incompatible with his larger institutional framework, but the concept of transaction costs is not necessarily based on methodological individualism. It can be redefined under a collective transaction. Indeed, North himself sees the limits of individual calculation of interest. See Rutherford (1994, p.81).
References

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摘 要

本文探索晚近興起的批判實在論是否有助於整合 Commons 和 North 的科學方法。批判實在論反對主流的實証主義，認為後者長期忽略了本體論的重要性，並且犯了將本體論的問題認識論化的誤謬。本文的研究發現Lawson所提倡的經濟學批判實在論，不僅相容於Commons和North的制度經濟學，也有助於二者的科學方法之整合。此外，批判實在論能夠消除長期以來對於制度經濟學理論不足的誤解，同時也能為制度經濟學吸納主流經濟學的數量研究方法提供理論基礎。最後，在Commons和North科學方法的基礎之上，制度經濟學應該能夠依循批判實在論的論述，發展出一個全新的科學研究方法。

關鍵詞：制度經濟學、批判實在論、方法論、Commons、North

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