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Presidential Address

"Contingency, Irony, and Solidarity" in the Era of Polycrisis: Institutionalist Economics beyond the t/T Duality

Gary Dymski

Abstract: This article has two objectives. The first is to understand why the 2008 Great Financial Crisis (GFC) did not lead to continuing intra-disciplinary debates between mainstream and heterodox economists. This gap is attributed here to mainstream macroeconomists' insistence on using a general equilibrium analytical lens: so doing invisibilizes key aspects of the GFC and restricts the space for inter-paradigmatic exchange. This leads to our second objective: to explore the place of institutional economics in an era in which our community exists outside the economics mainstream. Assisted by insights from Richard Rorty and Tom Shippey, we argue that institutional economics' role remains robust precisely because of features already present in the earliest original institutionalist explorations: analytical flexibility, and specifically understanding that no one model can fully describe lived reality or guide policy responses; a willingness to challenge the use of power for positional advantage, either by privileged agents in the economy itself or by economists defining acceptable terms of theoretical discourse; and an awareness that while social scientific inquiry can "make" (t) truths by careful explorations of socio-economic dynamics, it cannot "find" (T) truths that exist independent of human understanding.

Keywords: institutional economics, mainstream economics, polycrisis, power, general equilibrium, subprime crisis

JEL Classification Codes: B25, B41, B52, D50, D80, G01

In 1982, Godfrey Reggio captured the dislocations characteristic of modern life in a feature-length film consisting entirely of slow-motion and time-lapse footage. Philip Glass's score accompanies concatenating scenes ranging from the Great Gallery pictograph in Horseshoe Canyon, Utah, to overloaded rush-hour escalators in the World Trade Center, to the detonation of the Pruitt-Igoe housing project in St. Louis. The juxtaposition is dizzying, illustrating the meaning of the Hopi word *Koyaanisqatsi* (1982) that gives this film its name—"Life Out of Balance." Asked about the absence of dialogue in this film and in two sequels, Reggio commented, "it's not for lack of love of the language that these films have no words. It's because, from my point of view, our language is in a state of vast humiliation. It no longer describes the world in which we live."[1]

Gary Dymski is at the University of Leeds. This text was presented as the author's Presidential Address at the Association for Evolutionary Economics general membership meeting, January 6, 2024, at the 2024 Allied Social Science Association meetings in San Antonio, Texas.

[1] Taken from an interview with Reggio in *Essence of Life* (2002), a short 2002 documentary included with his film's re-release on DVD.

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Koyaanisqatsi's release coincided with the dawn of an era of deregulation and financialization. While that era has unlocked an unprecedented amassing of wealth for some, it has brought misery and loss for more. Episodes of financial crises have accompanied it from its beginning, striking first in emerging markets and culminating in a "great financial crisis" (GFC) in 2008 that struck hardest at countries most responsible for globalizing finance. And whether because of crisis-affected countries' limited policy space, of their tepid policy responses to affected communities' losses, or of their prioritizing of entrenched financial interests (or all of the above), the post-GFC world is now experiencing *polycrises*—simultaneous, interrelated economic, demographic, political, and ecological emergencies. There is no end in sight.

One would think that the transition from the "state of vast humiliation" already emerging in the frames of Reggio's 1982 film to cascading polycrises in "the world in which we live" would have spurred extensive intra-disciplinary debates among economists about these systemic dynamics. But such debates either haven't happened or have quickly dissipated.[2] This article's first objective is to investigate the causes and consequences of this failed dialogue about the GFC—especially between economists working within the Neoclassical mainstream in macroeconomics and economists in the discipline's heterodoxy. That economists whose explanations prioritize rational agents' behavior in market allocation processes would find little in common with those who reject that as an analytical point of departure is not surprising in itself. But since the GFC brought to the fore many of the social divides on which heterodox economists—especially institutionalists—focus, this lacuna demarcates an intra-disciplinary line in the sand that demands to be understood.

Reflecting on the causes and consequences of missing mainstream macroeconomics and heterodox dialogues about the GFC will bring us to our second objective, which involves answering a question: *What is the place of institutional economics in an era in which our community exists outside the economics mainstream?*[3] This question has a special urgency in this post-GFC moment. For as Adam Tooze (2018) has shown, the shocks and aftershocks accompanying the September 2008 "Minsky moment" of the GFC constitute a polycrisis. Its most obvious portent—the meltdown of globalized finance in September/October 2008—was preceded by the spread of racially non-neutral predatory finance, a shortage of affordable housing, and a housing price bubble (Dymski 2013), and followed by the expulsion of millions from their homes and a collective loss of wealth for communities of color across the country (Szymborska 2019). So there is a lot to unpack; but how much does it matter that heterodox economists, including institutionalists, are doing this unpacking largely in isolation from discourses unfolding in mainstream economics, and especially in Neoclassical macroeconomic theory?

The Dividing Line Exposed

Our second question would not have been understood prior to the 1960s, as institutionalists then occupied academic posts alongside Neoclassical colleagues in eminent universities throughout the United States.[4] Today, prominent academic economics

[2] One such partial exception is the UK Economic and Social Research Council's 2017–2020 "Rebuilding Macroeconomics" initiative. Of the 67 working papers posted on this project's website as of January 2024, only one directly addresses aspects of the 2008 event now referred to as either the subprime crisis or the Great Financial Crisis. (Rebuilding Macroeconomics 2024).

[3] The term "institutional economics" refers herein to "original" institutional economics, not to the New Institutional Economics associated with Douglas North, Masahiko Aoki, and others.

[4] Joseph Dorfman, in his chapter "The Background of Institutional Economics" (1–45) in Dorfman et al. (1963), provides a comprehensive overview of the heyday of institutional economics in the United States.

departments consist overwhelmingly of proponents of Neoclassical theory, especially in the field of macroeconomics. Institutional economists appear neither on the roster of National Bureau of Economic Research fellows nor on boards of editors of American Economic Association journals.

Just after the financial system imploded in September 2008, James K. Galbraith led an effort to respond to this enormous unfolding crisis. A future AFEE President, he was then Chair of Economists for Peace and Security (EPS), a pluralist association with a prominent representation of institutional economists. In November and December 2008, he organized EPS workshops in Washington, DC and in Cambridge, Massachusetts, the result of which was an integrated set of policy proposals responding to the economic meltdown. While the lame-duck Congress provided a hearing for these ideas, no access was granted to President-Elect Barack Obama until February 2009. At a brief meeting, the EPS proposals—put forward by Joseph Stiglitz—were dismissed as overly ambitious by the President-Elect, accompanied by close advisor (and mainstream economics stalwart) Lawrence Summers. That effort fed into an extended internal debate in Obama's White House. Jonathan Alter (2013, 28) describes this debate as pitting an "L" group that included Stiglitz and Paul Krugman against a "V" group (as in "V for victory in 2012"), consisting of White House advisors (including Summers) and government agency economists. The former group argued that strong stimulus measures were needed to avert an anemic economic recovery; the latter, that the economy would bounce back without extraordinary measures. The latter group won out, with dire consequences for the new president's policy agenda.[5]

Why did this dismissal happen so readily, and why didn't the outside-pressure effort continue? After all, Galbraith's EPS task force included both Washington, DC policy insiders and Nobel laureates in economics. The rapid dismissal itself reflects the policy conservatism of the Obama administration, as well as the capacity of a mainstream insider (Summers) to overmatch even the influence of two Nobel winners. This was positional power in action. The abrupt termination of the effort can be attributed to the combined heterodox and mainstream make-up of Galbraith's task force. Per Thomas Kuhn ([1962] 1970), these two subgroups' members belong to different scientific communities that do not meet in the normal course of their work. Once the extraordinary EPS sessions ended and the immediacy of financial collapse faded, then—notwithstanding the fact that the latter group contained dissidents from orthodox policy positions, such as Stiglitz and Krugman—these economists returned to very different communities of reference that use very different "models of the model" (to borrow a phrase from Hyman Minsky). With a few notable exceptions, institutionalists today have few opportunities to shape the policies being formulated by governments in power, and fewer still to engage in committed debate with mainstream (much less Neoclassical) economists over points of theory. Institutionalists are, in effect, left out in the hallway when insiders behind closed doors make decisions about policy and theory.

The Argument

We proceed as follows. We first summarize two parallel but non-intersecting trajectories: on one hand, mainstream macroeconomists' path to regarding general equilibrium models

[5] The Galbraith-led group pointed out that if Congressional Budget Office recovery estimates were too optimistic (as they proved to be), then the Republicans would seize control of the House of Representatives in 2010 (as they would do), and the Democratic Senate super-majority of 60–40 would be lost (which also happened), severely limiting Obama's scope for pushing through legislative initiatives (which these results did). James Galbraith's 2013 AFEE Presidential Address (Galbraith 2013) mentions some particulars of these events.

as the only valid form of theoretical expression; and on the other, institutional economics' increasing peripherality in leading academic economics departments. We argue that this critical (and physical) distance from mainstream macroeconomics should be reframed as an advantage, as it provides working institutionalists with the space to sustain three features that have shaped this tradition from its origins. The first is a flexible approach to governing ideas, a characteristic that reflects institutionalism's emphasis on theoretical innovation as an historically-informed discovery process without a pre-given analytical destination. The second is institutionalists' critique of economic power, and their wariness of the exercise of non-negotiable power in shaping explanations. The third, backstopping the first two features, is institutionalism's intellectual debt to pragmatic philosophy and historically informed critical analysis. To explain these last two features, we draw on the work of Richard Rorty and Tom Shippey. Rorty, a pragmatic philosopher in the tradition of John Dewey, sheds light on the limits of human inquiry. Shippey, an eminent philologist and medievalist, uses J. R. R. Tolkien's work to highlight the complex consequences of quests for power.

Two concluding sections borrow from the title of Rorty's 1989 book *Contingency, Irony, and Solidarity* to make two points. One: pre-commitment to a strictly policed modeling approach explains why Neoclassical macroeconomists have been unable to use their theoretical framework to respond to the post-GFC polycrisis. Two: institutionalism's three defining characteristics, underappreciated as sources of strength, can lead to solidarity in response to the "life out of balance" polycrisis now unfolding. Tolkien's work, seen through Shippey's lens, suggests the kind of heroic action that can oppose the lure of power in our post-heroic age.

Neoclassical Economics' Capture of Academic Departments and Macroeconomic Theory

Academic economics' shift from intellectual polycentrism before World War II to its current posture as a mathematically sophisticated "queen" presiding over all other social sciences was engineered, not happenstantial (Milonakis and Fine 2009). For reasons ranging from its proponents' claims of scientificity (Ingrao and Israel 1990) and their timidity in challenging industrial or government power structures, to "red scare" campaigns by political demagogues, to the massive financial support undergirding pro-market research and researchers (Mirowski and Plehwe 2009), Neoclassical economists took command of prominent universities from the 1950s onward. Places for institutional economists were squeezed out, retirement by retirement.

The use of abstract methods borrowed from physics provided a scientific core assuring the primacy of deductive reasoning at the heart of the mainstream enterprise (Mirowski 1989). These methods used individual preferences and endowments as the core determinants of resource allocation, and polished a theory of price based on the premise that competition represents the paradigm case of decentralized market exchange. Consequently, imperfections in market structures, such as monopoly power and cartelized land grabs, can be confined to analytical sideshows.

It will be useful at this point to clarify our use of the terms "Neoclassical" and "mainstream" in economics. Christian Arnsperger and Yanis Varoufakis (2006) usefully define Neoclassical economists as accepting three theoretical axioms: methodological

individualism, methodological instrumentalism, and methodological equilibration.[6] The term "mainstream" is a softer designation, indicating a practitioner who exclusively uses analytical tools based on utility maximization and equilibrium, and who makes no overt use of heterodox economic ideas.

Gerard Debreu's (1959) demonstration of the existence of a unique equilibrium for decentralized markets under conditions of perfect information and zero transaction costs illustrated the mathematical plausibility of a utility-maximizing market allocation in the absence of government interference. It also validated economics' claim to scientificity based on deductive logic and justified the severing of ties with other social sciences (Ingrao and Israel 1990).

This result was fragile in one sense: removing one market from a model that could otherwise achieve a unique equilibrium generates infinite possible equilibria (Geanakoplos, Magill, Quinzii, and Drèze 1990). But this result is precisely what led to general equilibrium not being set aside as a curiosum achieved under implausible laboratory conditions. Because of this analytical feature, general equilibrium models with incomplete markets were remarkably flexible analytical tools. Modified general equilibrium frameworks could show how rational agents achieve optimal allocations in a wide range of analytical (microfoundational) settings. For example, typical "Keynesian" IS-LM-curve results can be generated in a general equilibrium setting (Geanakoplos and Polemarchakis 1986).

Experiments with various "microfoundational" prototype models based on agents' preferences—overlapping-generations, real business-cycle, sunspot, and so on—accelerated in the 1980s. However, several developments led mainstream economists to converge on the Dynamic Stochastic General Equilibrium (DSGE) as a consensus framework for macroeconomic modeling. The first was a series of technical papers, known collectively as the Sonnenschein-Mantel-Debreu (SMD) theorem. This theorem showed that if conditions for the existence of a general equilibrium are met, an arbitrary excess-demand function can be found that will generate it.[7] That is, the form of microfoundational behavior is unimportant: it is the mathematical conditions guaranteeing general equilibrium that matter. So having insisted that no model is satisfactory unless it specifies the details of maximizing agents' behavior, DSGE proponents were reassured by this further development, which shows that any particular specification of these details is immaterial to the result.

The simplest formulation would be a model with one representative agent maximizing utility over an infinite lifespan: since such an "agent" would be perfectly capable of looking after its own "welfare," any action by "government" would be welfare-reducing—unless there were "rigidities" (transaction or information costs) that government tax or income policies might temporarily ease. Finn Kydland and Edward Prescott (1982) proposed just such a framework as a macroeconomic model; fluctuations in output around an imagined equilibrium path were attributed to unobservable technology shocks. Critics such as Alan Kirman (1989 and 1992) objected that such a formulation was empty of meaning, as it described nothing about any real economic agent: but this was precisely the point—the mathematics was liberated from the behavioral in the formulation of macroeconomic models. For mainstream economists pre-committed to general equilibrium as the sine qua

[6] The first axiom defines individuals as the primary unit of analysis; the second ensures that all behavior is "preference-driven"; the third assures that "rational agents will behave according to the theory's equilibrium prediction" (Arnsperger and Varoufakis 2006, 6).

[7] See Sonnenschein (1973), Debreu (1974), and Mantel (1974). Abu Rizvi (2006) provides a comprehensive review of the significance of this result.

non of their enterprise, there was only one conclusion, which Roger Farmer (1993, 2, italics in original) stated baldly: "the future of macroeconomics *is* as a branch of applied general equilibrium theory."

During the next two decades, the Kydland and Prescott framework morphed into the more general DSGE framework. Besides technology shocks per se, "menu costs" or informational problems could move an economy away from its long-run growth path and, in principle, permit stabilizing government interventions in the short run. Given the SMD theorem, details about how these further rigidities might work were purely secondary. Indeed, a famous paper by Ben Bernanke and Mark Gertler (1995) on the "credit channel" of monetary policy described it as a "black box": an implicit acknowledgement that such a channel could be arbitrarily described in the dynamic general equilibrium setting then emerging as macroeconomics' analytical standard. Michael Woodford's 2003 opus, *Interest and Prices*, consolidated the ground for what he termed a "new consensus" in macroeconomics. DSGE frameworks based on agent rationality, which deviated from long-run equilibrium paths only due to short-term rigidities, would define the operational framework for mainstream macroeconomics thence forward. He wrote:

> What appears to be developing, then, at the turn of another century, is a new consensus in favor of a monetary policy that is disciplined by clear rules intended to ensure a stable standard of value, rather than one that is determined on a purely discretionary basis to serve whatever ends may seem most pressing at any given time. (Woodford 2003, 2)

Institutional Economics: Peripheralization and Resilience

Institutionalist economics' roots are to be found in the social, economic, and political upheavals that shook the United States in the later nineteenth century (Dorfman et al. 1963; Mayhew 1987). Its proponents' writings protested against the unchecked rise of monopolies and the power of unaccountable elites, while resisting the rise of economic analysis based on "hedonistic calculus" (Veblen 1908; Kilpinen 1999). The problems of concentrated economic power, urbanization, and disputes over land and labor rights provided the backdrop for the work of Thorstein Veblen and other institutionalist pioneers. Malcolm Rutherford (2001) points out that the institutionalists had advantages over their Neoclassical colleagues in the pre-WWII period, including their focus on the intersection of law and economics and more extensive policy engagement, as well as their emphases on "empirical science" and on "the critical examination of the existing institutional structure" (Rutherford 2001, 177–178).

After World War II, decline set in. Rutherford mentions the failure to provide psychological foundations. Dimitris Milonakis and Ben Fine (2009) emphasize the separation of sociology from economics. Neoclassical theorists developed their own models of monopoly and imperfect competition; so this topic was no longer institutionalists' sole reserve. In addition, econometrics was developed largely by Neoclassical economists, who also incorporated some of John Maynard Keynes' insights into a macroeconomic synthesis approach—a development implicitly encouraged by Keynes' having adapted many Neoclassical concepts for his own analytical purposes.

One persistent critique made of institutional economics centers on its protagonists' failure to provide a well-worked-out logic for the ideas they introduced. Clarence Ayres himself described a central failing: "[w]hat is commonly said of Veblen—that his works are

diffuse, vague, inchoate, and devoid of any sort of system—is also said of institutionalism" (Ayres 1963, 46).

This last critique certainly stands, but it is important for our purpose to highlight areas of consensus within institutional economics. Milonakis and Fine (2009, 160–161) summarize the points of agreement held by the institutionalists, despite their many differences, as follows:

> First and foremost is their concern with institutions as providing the template for all economic activity. Second, . . . their science [is] interdisciplinary in nature. . . . This is in sharp contrast to the neoclassicals, . . . for whom a strict separation of social sciences is possible . . .
>
> Third, for them, economics is a historically specific science . . . Unlike neoclassical economics, they are against the use of universal concepts and categories . . .
>
> Fourth, the institutionalists were against any brand of methodological individualism . . .
>
> . . . fifth is their shared critique of the neoclassical assumption of rational economic man . . . Instead of this 'isolated, definitive human datum,' they focused their attention, much like the historicists, on the social (or institutionalised) individual, whose behaviour is conditioned by the social environment. 'Man is a social animal,' Veblen . . . declared. . . .
>
> Sixth, they also favoured a dynamic approach, as opposed to static equilibrium analysis.

Milonakis and Fine quote Ayres ([1944] 1962, xi) on what is shared across this approach: "if there is anything that all institutionalists have in common it is dissatisfaction with orthodox price theory." For these authors, "the most important lacunae in institutionalist thought it exactly the absence of a theory of price, or value theory" (Milonakis and Fine 2009, 162).

A reframing of this last point of critique, apparently the most devastating, is arguably in order. Seen differently, institutionalists' analytical flexibility—their refusal to be nailed down to one iconic theory of value or meta-model—represents a strength. We have seen how mainstream macroeconomics has settled on one approach to value and, indeed, to explaining how macroeconomic dynamics unfold. The following section shows the dire consequences for mainstream macroeconomists of having to work through the prism of their theory of value—general equilibrium driven by optimizing agents' preferences and endowments—when interpreting macroeconomic developments.

Institutionalists face no such restrictions—not when they occupied chairs in prestigious universities, and not today. This conceptual flexibility, the open door to analytical exploration that the institutional economics approach enables, is its first defining characteristic. Veblen's evolutionary approach provides an example of this sense of restless analytical exploration. In one 1898 paper, he articulates the deductive and mechanical approach that will form the basis of real business cycle theory ninety years later, and then rejects it as "taxonomic" and lacking any attention to "habits of mind" (Veblen 1898). Veblen is not bound here by a theoretical straitjacket determining how he can and cannot properly conceptualize a dynamic economic trajectory; he leaves off without having resolved some complications he has identified in seeking a single true approach. This exploratory, unresolved analysis in fact anticipates a cornerstone 1943 paper by Paul Samuelson recognizing the same complications:

complications largely set aside in subsequent mainstream constructions of "dynamic" general equilibrium models.[8]

A second defining feature of institutional economics is its proponents' emphasis on the importance of power in economic processes. For one thing, as indicated above, the institutionalists' point of historical reference was the period in which trusts and corporations used their monopoly power and influence in their owners' interest. John R. Commons, in identifying the "trans-action" (Commons 1931, 171) as the central building-block of economic analysis, observes that power imbalances often shape it.[9] Since each transaction involves three social relations—conflict of interest, dependence on each other, and working rules creating order—then the power and conflict embedded in these social relationships permeate the sum of transactions constituting the economy (Marangos 2006, 56–57). Adolph Berle and Gardiner Means' (1932) analysis of the separation of ownership and control saw diffusion of ownership shares as freeing corporations from owners' control. Berle and Means left open the question of whether centralized control would permit corporations to serve the public good and not just their own private interest—a criterion on which Commons (1924) had also insisted. In subsequent years, as the consequences of corporate power became clearer, other authors in this tradition—Robert A. Brady (1943) and John Kenneth Galbraith (1952), and even Berle (1955) himself—developed more systematic (if characteristically diverse) critiques of corporate power and its adverse implications for wage levels and working conditions.

Aside from its role in economic relations, power has another dimension herein: the ability of leading figures in a field of discourse to force other participants therein to conform with the norms, methods, and conclusions their work has already established. In this respect, institutional economists' tolerance for the non-hegemonic presentation of ideas is a distinguishing feature of their collective enterprise. This may be, as Ayres notes in the essay cited above, because of its practitioners' emphasis on qualititative, historically bounded investigations; in any case, it is remarkable that each one of its leading figures have developed almost completely independent concepts and analytical frameworks..

The third defining characteristic of institutional economics is its understanding of the basis and limitation of knowledge. This characteristic can be elaborated with the assistance of insights found in the writings of Richard Rorty and Tom Shippey.

The Fellowship of Rorty and Tolkien: The Search for "t-truth" and the Critique of Power

While Rorty's work post-dates institutional economics' high-water mark, his pragmatism connects him with John Dewey, whose "pragmatic instrumentalism" has been described as

[8] Samuelson resolves these complications as follows (italics in the original): "We may say that *a system is dynamical if its behavior over time is determined by functional equations in which 'variables at different points of time' are involved in an 'essential' way*" (Samuelson 1943, 59). Virtually no real business-cycle or DSGE models qualify as dynamic under this definition.

[9] Keeping "original" institutionalists' writings in active use forces a reckoning with the fact that these authors were developing "evolutionary" ideas in an era of rampant social Darwinism. While some of their texts involve elliptical or passing references to race, Commons' fifth book, *Races and Immigrants in America* (Commons 1907), makes full use of racial tropes about lower and higher orders of the human race, with different capacities to innovate and self-govern. Commons' ideas here closely resemble those of contemporary social scientists, such as Robert Park (see Park and Burgess 1925). As Stephen Gould (1981) has shown, racial measurement and (mis)classification has a particularly foul legacy that stretches over at least two centuries. All this said, Commons' 1924 book provided an important entry point for an article my co-authors and I placed in the AFEE-sponsored *Journal of Economic Issues* (Chiong, Dymski, and Hernandez 2014)—ironically, an analysis of how subprime lending weaponized unequal racial power.

an important philosophical foundation for institutional economics (Bush 1993; Rutherford 2022).

Rorty's 1989 book *Contingency, Irony, and Solidarity* provides a guiding logic for the investigation that follows. To be sure, Rorty is a complicated travel companion. His quest is to develop a guide to human action in both public and public realms by reconciling actions promoting justice, a social project, with those promoting self-creation, a private one. This leads him to attempt to harmonize the ideas of widely different thinkers (Friedrich Nietzsche and Martin Heidegger on one side, Karl Marx and Jürgen Habermas on the other). As he puts it:

> This book tries to show how things look if we drop the demand for a theory which unifies the public and private, and are content to treat the demands of self-creation and of human solidarity as equally valid, yet forever incommensurable. (Rorty 1989, xv)

The key, he argues, is "to think of the relation between writers on autonomy and writers on justice as being like the relation between two kinds of tools—as little in need of synthesis as are paintbrushes and crowbars" (Rorty 1989, xiv). This view, translated to the realm of economic policy formation, has been termed "horses for courses" by Geoff Harcourt.[10]

The reason he can even attempt the reconciliation of these differing views derives from his ideas about the limits to human knowledge. He argues that truth is made rather than found—it is not "out there," waiting to be discovered. Only human beings can discover truth, but they cannot do so outside of limits of language and understanding. As he puts it:

> The world does not speak. Only we do. The world can, once we have programmed ourselves with a language, cause us to hold beliefs. But it cannot propose a language for us to speak. Only other human beings can do that. (Rorty 1989, 6)

Let's localize this insight for our purposes here. For institutional economists, what it means to explain and to suggest relevant policies—questions all economists confront—then has three aspects that mainstream economists who see themselves as in command of T-truths largely ignore. The first involves accepting and working with the limits of explanation—of what we can know about how things work. Here we follow Rorty: while we can make truths rooted in the contingencies we confront, we have no power to identify True causes that all other economists (in this case) must acknowledge—since the Truth we've identified exists whether or not those working with other paradigms want to "see" it. We can make our truths and work out their policy implications. We can share and compare insights with other paradigmatic communities. But we cannot overcome this barrier. We have to know this and "own" it. The contingent path that leads a mainstream economist to build a model of a certain kind—say, a real business cycle model—is different from ours; they will see connections and links that we will not. This is the t/T problem alluded to in the above title.[11]

[10] Geoffrey Harcourt (1999, 7) writes: "I call the approach 'horses for courses': each issue is treated as situation-specific, that is to say, there are no preconceived ideas or general theory about underlying structural relationships and their interrelationships."

[11] The t/T contrast in the title is a dual reference: first to Rorty, of course; but second, to an extended debate during my 2001–2004 tenure on the JEI board of editors. Following a January 2000 AFEE session on "Institutional Economics at the Millenium"—featuring contributions by Malcolm Rutherford (2000), Warren J. Samuels (2000), and Geoffrey M. Hodgson (2000)—two different views emerged among board members. One position held that institutionalist scholarship should refer (preferably explicitly) to the writings of iconic "original" institutional economists (Veblen, Commons, Ayres, and so on). A second view argued that scholarship meets the

One implication of this argument is that the knowledge problem creates an acknowledgement challenge. Clearly, "t"-truths emerge from particular social contexts, informed by—or perhaps, made in the context of—the "pre-analytic vision" (Schumpeter 1954, 41) of the parties involved. Institutionalists' pre-analytical vision is broader than that of most other economists. Thus, institutionalists must be prepared to explain themselves—to do the translation, both for fellow economists and for others in social and human sciences. To be shared, the t-truth one makes must be acknowledged by others. So special attention must be paid to the problem of gathering empirical or historical evidence to convince others—especially those working in other paradigms—why the links we find might matter. This is a profound challenge, since no matter how much evidence we find, we can never claim to have reached T-truth.

This acknowledgement of t-truth limits to our knowledge suggests a further comment on institutionalists' approach to power, and to theory itself, based on an insight of medievalist Tom Shippey (2022) into J. R. R. Tolkien's *Lord of the Rings* trilogy. Shippey argues that the Ring of Power raises the question of the nature of evil. Does evil reside in a person—Sauron, in Tolkien's trilogy; if so, then that Ring, wielded by another, can be used to do good. Tolkien's plot disproves this possibility—evil resides in what the Ring represents, that is, the potential to wield ultimate power. The only resolution is then to destroy the Ring. This is, as Shippey points out, a reformulation of the adage that "absolute power corrupts absolutely." The equivalent to the Ring of Power, in the domain of economic policy, is the ability of a ruler or a privileged group to dictate policy without fear of contradiction or protest.

One way of avoiding protest is to invalidate it on prior methodological grounds: if only certain kinds of models can yield valid policy conclusions, then those not using those models have no standing. An absolute power of a sort is concentrated, in this case, in the Neoclassical mainstream. Economists in this privileged position can generate a meta-theorem or a master discourse whose authority cannot be challenged; for to do so demonstrates that one lacks the knowledge to be granted any authority. Institutional economists, in their criticisms of mainstream models, especially mainstream macroeconomic models—are pointing out the pitfalls to which absolute power leads. This is, however, an asymmetric undertaking. Institutionalists cannot substitute a new T-truth (a Ring of Power) for the T-truth they have challenged. They lack the required positional leverage within their discipline: but more to the point, such an assertion is negated by their theory of knowledge.

Contingency: The Subprime Crisis of 2008 and the Reassertion of Neoclassical Macroeconomics' Power

Rorty uses an extended section entitled "contingency" to unfold his central points: our need to make our t-truth—using what language we have to discover, to find, and own it—while abandoning hope of finding T-truths outside of language. What we think we understand depends on the historical and institutional context that has shaped us, the analytical and moral commitments we have made, and the consequences that follow from this context and these commitments. In the case of academic economics, what we understand and its consequences for policy choice depend on our theoretical pre-commitments; for these are

test of constituting institutional economics if it builds on the premise that economic theory cannot meaningfully be constructed without incorporating institutions from the beginning. These positions were respectively termed the "capital T" and "small t" views. The gap between them has arguably shrunk with the passage of time.

likely to bring us—or deny us—membership in academic circumstances that are accorded higher or lower levels of prestige, work requirements, and remuneration.

Thomas Kuhn's notion of scientific paradigm will be useful in understanding why these additional restrictions on our already limited capacity to know come into play. This extended passage from Kuhn's 1970 postscript to his 1962 book is useful both for what it gets right and wrong when applied to economists' knowledge problem:

> A scientific community consists, on this view, of the practitioners of a scientific specialty. To an extent unparalleled in most other fields, they have undergone similar educations and professional initiations; in the process they have absorbed the same technical literature and drawn many of the same lessons from it. Usually the boundaries of that standard literature mark the limits of a scientific subject matter, and each community ordinarily has a subject matter of its own. There are schools in the sciences, communities, that is, which approach the same subject from incompatible viewpoints. But they are far rarer there than in other fields; they are always in competition; and their competition is usually quickly ended. (Kuhn [1962] 1970, 177).

Consider economists' divergent "L" and "V" reactions to the 2008 financial meltdown. The dismissal of the "L" by the "V" view did not reflect the triumph of one scientific community over another in any linear way. That said, the "L"/"V" debate reflects participants' differing paradigmatic situatedness in the crisis-lit dawn of Obama's first presidential term. And per Kuhn, that competition ended quickly, with the adoption of the policy approach favored by the "V" view.

The influence of paradigmatic pre-commitments on what was seen and how it was assessed is more strongly evident when we turn from policy reactions to academic ones. Institutional economists explored some of the novel mechanisms and processes associated with subprime lending, relating these to themes of justice, distribution, financial fragility, and governance that are long-standing paradigmatic concerns.[12] This contrasts with a remarkable absence of palpable reactions by key figures in mainstream macroeconomics.

Mainstream macroeconomics had by this time been completely captured by the DSGE framework, policed by Michael Woodford's 2003 book and his prominent role as curator of entries in leading publications.[13] This did not settle all doubts. To the contrary, just prior to the subprime meltdown of September 2008, a debate about the link between theory and policy intervention broke out between two of its leading members. Gregory Mankiw (2006) spared no words in arguing that macroeconomists should be engineers, not scientists:

> The fact that modern macroeconomic research is not widely used in practical policymaking is prima facie evidence that it is of little use for this purpose. The research may have been successful as a matter of science,

[12] The *Journal of Economic Issues,* for example, published fourteen articles between 2011 and 2023 on these aspects of the subprime crisis; see especially Spithoven (2013), Zalewski (2014), Ashton (2014), and Chiong, Dymski, and Hernandez (2014). Galbraith (2009) points out that much of this analysis by institutionalist authors anticipated the subprime crisis.

[13] Woodford has been co-editor of both the NBER *Handbook of Macroeconomics* and the NBER *Handbook of Monetary Economics* since 1999. His 2003 volume has been cited over 12,000 times, including (according to Google Scholar) 436 citations in 2023 alone.

> but it has not contributed significantly to macroeconomic engineering. (Mankiw 2006, 43)

Mankiw's point here hit its mark. Woodford's pointed response, in a January 2009 article sent to the printers before the Wall Street meltdown, mentioned that the speeches of then-Federal Reserve chair Ben Bernanke and of other Federal Reserve officials were "laced with footnotes to the recent research literature" (Woodford 2009, 277). His paper went on to defend the six points of "convergence in macroeconomics" in the paradigm he had done much to shape. The first and most emphatically emphasized of these points is this:

> First, it is now widely agreed that macroeconomic analysis should employ models with coherent intertemporal general-equilibrium foundations. These make it possible to analyze both short-run fluctuations and long-run growth within a single consistent framework. Of course, different model elements will be more important when addressing different questions, so that the complications from which one will frequently abstract will be different in the case of short-run and long-run issues. But it is now accepted that one should know how to render one's growth model and one's business-cycle model consistent with one another, in principle, on those occasions when it is necessary to make such connections. Similarly, microeconomic and macroeconomic analysis are no longer considered to involve fundamentally different principles, so that it should be possible to reconcile one's views about household or firm behavior, or one's view of the functioning of individual markets, with one's model of the aggregate economy, when one needs to do so. (Woodford 2009, 269)

He went on to enumerate four further points of convergence before coming to "II. Remaining disagreement":

> There remains, of course, a great deal for macroeconomists to be humble about, as Mankiw urges. The reduced level of dissension within the field does not mean that we have an adequate understanding of the problems addressed by it. One can still hope for much more progress, and competition among contending approaches and hypotheses will almost inevitably be part of the process through which such progress can occur. But the current moment is one in which prospects are unusually bright for progress with lasting consequences, due to the increased possibility of productive dialogue between theory and empirical work on the one hand, and between theory and practice on the other. (Woodford 2009, 277)

Before the ink was dry on the published version of this article, any prospect of dynamic general-equilibrium macroeconomic models showing the way to a bright economic future had been dashed.[14] Woodford briefly adapted. His 2010 paper, shorn of any DSGE trappings, illustrates how shifting credit demand and supply conditions could be transmitted to macroeconomic outcomes. But then he doubled down. In 2016, he co-authored a paper incorporating financial crises into the DSGE model simply as "financial frictions" (Cúrdia

[14] Mankiw has published nothing in response in an academic journal. In a 2009 speech at the Philadelphia Federal Reserve Bank (Mankiw 2010), he discussed the Obama policy response approvingly and referred to himself as a Keynesian, while also expressing agreement with a recent publication by Kydland on European tax policy.

and Woodford 2016). While these frictions may be attributed to informational anomalies, those anomalies can be left otherwise unspecified, thus accommodating the DSGE framework's strict model-building rules.

Guido Ascari took a different tack (2011) in a Royal Economic Society post-crisis debate spurred by a strongly worded letter from the Queen: DSGE models cannot be blamed for the subprime crisis because they contain no financial sector.[15] So the core Neoclassical macro model is innocent; explaining crisis of any kind means inserting additional elements into that canonical model.

And indeed, economists who use Neoclassical axioms as their point of theoretical departure have invented new regularities arguably associated with higher-level equilibration processes—especially the "global financial cycle"[16] and the "shortage of safe assets"[17]—to turn trends and patterns that existing models cannot account for into new analytical categories. The main benefit of these novel terms is to disguise the circular reasoning that underlies these efforts: rather than admitting that equilibrium-based models are not sufficiently flexible to describe rifts rooted in disequilibria and imbalances, an appeal is made to higher-level regularities—global financial cycles and safe-asset shortages. A rush for empirical gold then follows.

Irony and Solidarity: Building the Place of Institutional Economics, Now

The category that Rorty uses to name the second portion of his book, "Irony," clearly troubles him (and has been subsequently much debated). At several points, Rorty equates irony with "attempting autonomy" (Rorty 1989, 96) via self-creation, a private undertaking. But he also ridicules this possibility, arguing that an ironist wants "to create the taste by which he will be judged" (Rorty 1989, 97), and that "[i]ronist theory is thus a ladder which is to be thrown away as soon as one has figured out what it was that drove one's predecessors to theorize" (Rorty 1989, 97). At book's end he assures his reader that "ironist theory can be privatized, and thus prevented from becoming a threat to political liberalism" (Rorty 1989, 190).

Rorty addresses his third category, "solidarity," in more unambiguous terms. For him,

> solidarity would be seen not as a fact to be recognized by clearing away 'prejudice' or burrowing down to previously hidden depths but, rather, as a goal to be achieved. . . . Solidarity is not discovered by reflection but created. It is created by increasing our sensitivity to the particular details of the pain and humiliation of other, unfamiliar sorts of people. Such

[15] Still another way of defending orthodoxy is to rewrite history. Calomiris and Haber (2015) trace the subprime crisis to a Clinton Administration directive, informed by the anti-redlining 1977 Community Reinvestment Act (CRA), that mortgage loans should be extended to risky low-income borrowers. This argument misrepresents the CRA and infers a correlation between excessively risky loans and minority borrowers. This exclusion of social factors from purely "economic" arguments provides convenient cover for the authors' underlying political message.

[16] Claudio Borio (2012) and Hélène Rey (2016) are co-inventors of the term. Both agree that accelerated global gross financial flows have reduced national governments' policy autonomy. But while Borio sees this as problematic, since it frustrates macroeconomic stabilization efforts, Rey and two co-authors have argued that the freer global flows of finance enhance allocative efficiency in financial markets (Coeurdacier, Rey, and Winant 2019).

[17] Caballero and Krishnamurthy (2009) assert that the demand of developing countries for safe assets led to inflows into the United States that are the root cause of both its current-account deficit and the 2008 financial meltdown: their argument is that excess overseas demand for United States assets encouraged overleveraging and excessive and speculative lending by domestic banks.

> increased sensitivity makes it more difficult to marginalize people different from ourselves . . . (Rorty 1989, xvi)

In this text and in Rorty (1997) he argues that seeking justice is a moral obligation, defining it as linked to a "larger loyalty" to humanity, albeit best expressed by making more localized connections: "our sense of solidarity is strongest when those with whom solidarity is expressed are thought of as 'one of us,' where 'us' means something smaller and more local than the human race" (Rorty 1997, 191).

We can again adapt these categories for our purposes. The common meaning of "irony" suits our purpose here: as the Oxford English Dictionary has it, "[a] state of affairs or an event that seems deliberately contrary to what was or might be expected." What is ironic about the irrelevance of Neoclassical macroeconomic discourse to the post-GFC polycrisis is that the possibility for critical discussion across paradigmatic lines is now more remote than ever. Many heterodox economists remember the Cambridge capital controversy as a high point in their exchanges with the mainstream, especially since the Cambridge, UK side evidently won.

Geoffrey Harcourt, the most important commentator on that extended episode (writing with Avi Cohen), observed in a retrospective that the severe restrictions shown to be necessary to continue use of aggregate production functions were not deal-breakers; "For neoclassicals . . . the controversies were conducted largely in neoclassical terms about neoclassical models" (Cohen and Harcourt 2003, 208). Consequently,

> The Cambridge controversies, if remembered at all, are usually portrayed today as a tempest in a teapot . . . When theories of endogenous growth and real business cycles took off in the 1980s using aggregate production functions, contributors usually wrote as if the controversies had never occurred and the Cambridge, England contributors had never existed. (Piero Sraffa and Joan Robinson obliged by dying in 1983.) (Cohen and Harcourt 2003, 200)

In any case, Veblen's critical attack on "Professor Clark's economics" (1908) half a century earlier made points as deep as any registered during the extended Cambridge-Cambridge exchanges—again without making a dent in the emerging Neoclassical theoretical edifice.[18]

Cohen and Harcourt then make a point that echoes this article's earlier depiction of the first characteristic of institutional economics:

> Another weakness on the 'English' side was that neither [Joan] Robinson nor her fellow Cambridge critics developed an alternative set of theoretical (as opposed to descriptive) tools that avoid her concerns about the limitations of equilibrium analysis. Or even where they have—we think here of [Michał] Kalecki's (1968) and [Richard M.] Goodwin's (1967) cyclical growth models, [Nicholas] Kaldor's (1996) cumulative causation

[18] We might also remember that two authors contributing to a 1976 festschrift volume for Clarence Ayres (Breit and Culbertson 1976)—Gordon Tullock and James Buchanan, co-founders of the "public choice" approach that extends Neoclassical ideas to the political realm—used their entries to savage the institutionalist ideas of the author they were putatively honoring.

processes and [Luigi] Pasinetti's writings (1981, 1993)—the profession by and large ignored them." (Cohen and Harcourt 2003, 210)

Elsewhere, Harcourt (2012) talks appreciatively of Cambridge-U.S. protagonist Robert Solow's "frankness and honesty" in responding to a critical point registered by Anwar Shaikh in 1974. He reproduces Solow's quote: "[i]t merely shows how one goes about interpreting given time series if one starts by assuming that they were generated from a production function and that the competitive marginal-product relations apply." (39)

Besides reminding us of Harcourt's generosity of spirit, these reflections point to the problem for economic discourse when Rorty's private (hedonist) and public realms intersect in an arena of public discourse involving the public interest. Robert Solow's "merely shows" glosses over the implications of using aggregate production functions featuring the "Solow residual" as the basis of productivity and gross-value-added calculations for national and regional economies that feature only supply-side variables. The issue is that using aggregate production functions with Solow residuals in productivity studies attributes all output to supply, while ignoring demand factors—thus erasing effective demand (and the defining feature of "demand-led" Keynesian economics) from view. That erasure is, of course, convenient for the real business cycle and DSGE models that now dominate Neoclassical macroeconomic theory. And while Solow did register a critique of real-business cycle theory in 1997 (Hahn and Solow 1997) and later described himself as an exponent of "eclectic American Keynesianism" (Solow 2018, 424), these comments represent the objections of a privileged mainstream economist whose ideas have been surpassed. For Solow to have registered a more compelling theoretical challenge would have required his escape from the theoretical straitjacket into which macroeconomics has been forced by New Classical and New Keynesian economists' acceptance of the "new consensus."

Tolkien's notion of the Ring of Power, seen through Rorty's pragmatic lens, is helpful here. The current situation in mainstream macroeconomic discourse is that economists who do not express their ideas using a DSGE framework are seen as not actually doing macroeconomics. In the UK's 2017–2020 ESRC Rebuilding Macroeconomics Network-Plus project, in which this author and a number of heterodox economists played a small part, efforts by Post-Keynesian economists to present stock-flow consistent "structural" models were dismissed out of hand by Neoclassical mainstream participants. This was, of course, a manifestation of Power: one's opponents can be made invisible in "discourse that matters." It is not that those economists defending the "DSGE-equals-macroeconomics" line are badly intentioned. They are, possibly, naïve acolytes of the "economy as a system of power" (Brady 1943). Their refusal to admit a larger variety of phenomena into their range of vision is simply a pledge of loyalty to an insiders' club.

This then brings us back to the question of the place of institutional economics in a polycrisis world. Shippey's point about the absolute evil represented by a Ring of Power, along with a further point he makes about the nature of heroism in our age, are pertinent to our answer. Any grounding of institutional economics must resist the idea that a final theory can anticipate every situation any economic policy maker might face. Efforts to set boundaries on what counts as scientific discourse and models in economics must be resisted. In particular, the notion that the conditions required for an idealized, never-achieved point of unique decentralized equilibrium can serve as a standard for efficiency in economic discourse must be resisted. Institutional economists' very diversity of modelling approaches and ideas prepares them well for this stance. To be an institutionalist in the sense developed

here is to take heroic action in our post-heroic world. Shippey notes that Hobbits are heroes of this sort in the *Lord of the Rings* trilogy: small in stature, unable to slay mythical warriors in battle, they achieve heroic status by doing what they are capable of within the larger landscape of events. Institutionalists now are in an equivalent place in the landscape of economic debate.

For institutional economics, as for other hyphenated heterodox approaches in economics (Marxian and post-Keynesian economics, to cite two), revered elders have left texts to guide our steps, insights that can be renewed. But precisely because of their conceptual modesty—or, if you will, vagueness—institutionalism's pathfinders left no definitive models or formulas to be followed. There is institutional economics now, but there is no Veblenian economics, nor a Commonsian, nor an Ayresian one. The three characteristics of institutional economics set out here—its conceptual flexibility, its focus on the problem of power, and its pragmatic conception of knowledge—make this approach well-suited to sincere and open dialogue with economists and policy activists with a wide range of prior interests—gender inequality; racial/ethnic discrimination and redlining; ecological unsustainability; uneven development, within and across national boundaries; and so on. Erasing Walrasian general equilibrium as a one-size-fits-all starting point for theoretical discussion, recognizing the multiple dimensions of social power, and being open to the idea that t-truth is to be made, not discovered: these characteristics open the way to a deeper engagement of economists and their theoretical strivings with principles of justice and sustainability that are essential in our era of polycrisis.

If no model can do everything, but none has to, plenty of room remains available for communication, dialogue, and co-discovery. Residents of excluded communities in regions throughout the world are not waiting to be handed a master meta-theory containing pre-programmed solutions. They want a voice. Institutional economists are well-positioned to contribute both to the listening process and to further co-creation efforts. We might remember and expand on John R. Commons' useful definition of "institutions" in the *American Economic Review*: "an institution is a collective action in control, liberation and expansion of individual action" (Commons 1931, 651). There are not only already-existing institutions to be analyzed; there are institutions that the times are calling forth and that have yet to be invented.

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