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VEBLÉN: PIONEER OF OPEN ECONOMIC REALITY

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Abstract

In this study, it is argued that the main failure of mainstream economics is its inability to establish a social ontology and Thorstein Veblen, the founder of the Institutional Economics school, has an important role in establishing this social ontology. Considering the social and economic reality as a closed system, which mainstream economics presupposes in the analysis, is the main reason behind its failure to produce solutions to real world problems. The necessity of an open system ontology is a common issue for heterodox schools of economics that opposes the mainstream. It will be argued that Veblen's analysis has the ideas that form the basis of this concept. First, the basic elements of the open system approach will be discussed. Then, it will be argued that the elements of the evolutionist approach, the relationship between structure-agent, the rejection of positivism and the cumulative causality in Veblen's analysis are consistent with the open system approach.

Keywords: Thorstein Veblen, Open system, Institutional Economics, Ontology, Methodology.

1. INTRODUCTION

Thorstein Veblen is known as having written his thoughts in the heyday of neoclassical economics which considered the mainstream today. He subjected this paradigm to severe criticism (Chavance, 2019, p. 30), as well as naming it. He published the methodology critique only few years after the marginalist revolution. Veblen's critique made a huge impact on economic science and led to the birth of a new paradigm. In this new paradigm, the basic building blocks of neoclassical economics are criticized and a proposal to develop a new economic science is presented, namely institutional economics. Although this new paradigm lost its

attractiveness after the Second World War, it has regained its popularity today and continues to maintain its place among other important heterodox paradigms.

Thorstein Veblen, who is regarded as the founder of institutional¹ and evolutionary economics, is a very skilful critic of the analysis of mainstream economics based on the concepts of equilibrium and stability. His criticism to be detailed later can be roughly grouped as follows: the animistic approach in mainstream economics; the atomistic and hedonistic treatment of individuals who are independent of other individuals; and, most importantly, the neglect of the evolutionary approach. In line with these criticisms, Veblen's suggestion is that economics should be a theory of processes. He argues that the institutions are formed because of habits and instincts and institutional change must be at the core of economic analysis. Therefore, economic analysis is evolutionary and dynamic.

Neoclassical economics has been criticized for a long time with its static, stationary, equilibrium-oriented, and in a sense deterministic approach. Neoclassicals treat social and economic reality as a closed system: change and evolution are neglected. Ontological presuppositions determine the scientific method. Therefore, the method of mainstream economics is determined as a deduction, which is possible only in closed systems. For this reason, policy recommendations derived from this paradigm would be insufficient to perceive real-world problems and produce solutions.

There are two poles in the history of economic analysis. One considers the market as a dynamic and unstable system whereas the other considers the market as a static, adaptive and equilibrium-oriented system. The necessity for this evolutionist perspective in economic analysis is essential for understanding the changes prevailing in the real world and exposing the inherent instability of the capitalist system (Soylu et al. 2020).

Veblen is known for ideas that economics should be an evolutionary science and institutional analysis must be adopted to economics. This article aims to evaluate the underappreciated contribution of Veblen to the economic theory. This contribution is that the social and economic reality in Veblen's analysis is open. Although Veblen does not explicitly state in his works that economic reality is an open system, the ideas that form the basis of his criticisms of mainstream economics have pioneered the open system approach. Considering the debates that have flared up in recent years and the newly emerging alternative approaches, the idea that economics should perceive social reality as an open system has become

¹ The term institutional economics was coined by Walton Hamilton at a meeting of the American Economic Association in 1918 (Hamilton 1919). Institutionalism is an approach that dominated the American economy until the 1940s. Walton Hamilton revealed the characteristics of this school in his article in 1919. He argued that institutional economics alone could unify economics by showing how the parts of the economic system relate to the whole. According to Hamilton, for institutional economists, the most appropriate subject of economic theory is institution and economic theory deals with process (Hodgson, 2000, p. 317).

quite widespread. For this reason, in this study, some open system approaches will be mentioned, and it will be argued how Veblen's ideas form the basis of these approaches.

Veblen aimed to build a unified social science which considers habits, habits of thought, instincts, culture, institutions and technological change. He claims that the history of humanity is the history of the evolution of social institutions. Veblen argued that these institutions are habits of thought. The basic elements behind institutional change are instincts, habits, and technological change. His understanding of an evolutionary historical world requires that the social world be viewed as open.

In section 2, various open system approaches outside the institutional economics will be examined before moving on to Veblen's ideas. In this context, the critical realism and Post Keynesian economics come to the forefront. So, section 2 will analyse Roy Bhaskar's and Post Keynesians' open system approaches. Section 3 will trace the open system approach in Veblen's economic analysis on the basis of Veblen's criticisms of neoclassical economics. The institutionalists ideas on open systems will be discussed in section 4. Although Veblen does not explicitly state in his works that economic reality is an open system, followers of Veblen and institutionalists adopted the idea that economic reality is open. So, in this section modern synthesis will be analysed.

2. OPEN SYSTEM APPROACHES IN ECONOMICS LITERATURE

The open system concept has a long intellectual legacy in various disciplines. The ontology presented here will be based on the definitions provided in economic theory and will be limited due to the scope of the study. There is confusion about what exactly the open system approach means as a concept common to economic paradigms that critically approach the static, stable, equilibrium-prone world of neoclassical economics. This approach, which is especially identified in the Post Keynesian school of economics, is also used by contemporary followers of the institutional economics, complexity economics and new evolutionary economics. The Post Keynesian school was influenced by critical realism (see Lawson, 1997, 2003), in which "open systems" is a very important concept. Post Keynesians such as Tony Lawson, Paul Downward, Sheila Dow, Victoria Chick, Paul Davidson, George Shackle used this concept at the core of their analysis. In addition to this, followers of institutional economics, and especially of Veblen, such as Geoffrey Hodgson and William Kapp, are among those who have adopted the open systems approach. It can be said that the correct determination of the nature of economic and social reality and the tendency to conduct an analysis on this reality have been one of the leading tendencies in the struggle to overcome the shortcomings of mainstream economics.

Roy Bhaskar (1975), the founder of critical realism, has brought in the open system approach to the philosophy of science, and this approach entered

economics with the Post Keynesian school. Bhaskar worked on an inference about how the world should be for scientific activity to be possible. It can be said that he brought ontological reasoning back to the field of science. According to Bhaskar, while doing science, scientists should conduct research at levels lower than the empirically observable event level. This is because apparent phenomena and events are governed by deeper causal mechanisms that are not always observable. What is meant by lower levels can be understood from Bhaskar's idea that social reality consists of three domains – real, empirical and actual- that cannot be reduced to one another. The general tendency when carrying out the scientific activity is to do research at the empirical level only. This means that reality is accepted as a closed system. Accepting the existence of this stratification between the domains that make up reality means accepting reality as an open system. This is Bhaskar's call for the transition from epistemology to ontology: reality must be conceived as an open system.

Bhaskar explains open systems by the stratification between these domains of reality and the inability of these domains to be reduced to one another. What Bhaskar means by irreducibility is that the higher domains of reality are brought about by the lower domains, but the innovations that have arisen cannot be reduced to this lower domain. The lower real domain leads to the actual domain, and the actual domain leads to the empirical domain. That is, the empirical domain is a subset of the actual domain, and the actual domain is a subset of the real domain. While the largest area is the real domain, the smallest is the empirical domain (Bhaskar, 1975, p. 56). The concept that comes into play here is concept of emergence. Emergence is the opposite of irreducibility. Bhaskar defines emergence as

The relationship between two terms such that one diachronically, or perhaps synchronically, arises out of the other, but is capable of reacting back on the first and is in any event causally and taxonomically irreducible to it, as society is to nature or mind to matter (Bhaskar, 1994, p. 73).

The causal power of an emergent power or quality is not the sum of the causal powers of its constituent parts. For instance, the causal power of water is not found in the atoms that make up water, either hydrogen or oxygen (Elder-Vass, 2010, pp. 4-17). Emergent qualities are relational, they are not included in the parts that make it up, however, it is not possible for them to exist without these parts (Archer, 1982, p. 475).

In the system of emergent powers and qualities, unpredictable innovations emerge, and the openness of these systems stems from these powers and qualities. Bhaskar sees the effort to obtain empirical regularity as a causal law a futile effort if the presuppositions are based on a closed system. In open systems where unpredictable innovations can occur, it is not possible to derive empirical regularities that are considered causal laws. Laws should be only understood as tendencies. In summary, it can be said that Bhaskar defines open systems with a stratified reality. In this reality there is an emergence, and regularity determinism is not possible to obtain.

Tony Lawson is one of the important names who studies the open system approach and criticizes the method of mainstream economics due to the closed system ontology. Lawson, who was introduced to critical realism and the ideas of Roy Bhaskar in the 1980s, tried to apply this approach to economics. Drawing attention to the incompatibility of the perception of reality required by the method used by mainstream economics with the real world, Lawson argues that social reality is an organic, dynamic, and stratified field that includes internal social relations. By internally related Lawson means that “aspects of reality are what they are can do what they do in virtue of the relations in which they stand to others... The result is a holistic conception that cannot easily be carved up into isolatable atomistic bits” (Lawson, 2008, p. 11).

Lawson (1997, 2003, 2004) associates closed systems with event regularities. In an open system, these event regularities do not exist. The deductive method used by mainstream economics is based on causal laws. Causal laws are reduced to empirical regularities, which in turn are reduced to sense data. These laws, known as “covering laws”, contain constant conjunctions such as “when an event A occurs, event B occurs.” The real world consists of open systems and empirical regularities cannot be obtained in these systems. If the scientific explanation includes fixed correlations and regularities such as “when an event A occurs, event B happens”, it is clear that reality is in closed state.

Lawson (1997, p. 98) stated two conditions for a closed system to obtain empirical regularities, intrinsic condition and extrinsic condition. According to the intrinsic condition, the nature of the elements in the system are fixed and these elements can also be reduced to their constituent parts. The intrinsic condition ensures that the relationships within the system are known and predictable. The extrinsic condition ensures that the variables that may affect the system are excluded. This extrinsic condition is called isolation. In other words, “extrinsic condition is that potential influences on the dependent variable other than those explicitly taken into account (omitted variables) must be uncorrelated with the variables focused on” (Chick & Dow, 2005, p. 372). In economic analysis, this intrinsic condition is provided by considering individuals as atomistic. The extrinsic closure condition, on the other hand, is obtained by excluding many factors that affect economic reality. But the real world consists neither of atomistic individuals nor it is a static order, so, these closure conditions cannot be met, and hence, empirical regularities cannot be achieved. The focus of mainstream economics is the regularities of events resulting from the “closing of the causal sequence” (Chick & Dow: 2005). Therefore, theory in mainstream economics is designed to represent causal connections that predict or explain event regularities; the atomism assumption is necessary for these theories or models. For this reason, Lawson (2003) prioritizes a study of what the real world is, namely an ontology. He argued that the closed system approach of mainstream economics can only be justified by a closure at the ontological domain.

Influenced by the critical realism approach and applying it to economics, Lawson characterizes open systems, like Bhaskar, by the absence of empirical

regularities. The rejection of the atomistic individual approach, the impossibility of empirical regularities as causal laws, and the unsuitability of the deductive method for economics are the basic elements of Lawson's open systems approach.

Post Keynesians Victoria Chick and Sheila Dow argue that there are differences of opinion regarding the open system approach. These disagreements stem not only from the different use of the term, but also from confusion about the domain of openness or closure, namely the level of reality and level of theory. They investigate what the approach corresponds to both at the theoretical and the real-world systems (Chick & Dow, 2005, p. 363). When trying to define an open system, they start with a system description. Based on the various definitions of the system, they state that what defines the system is the interconnection within a collection of things or ideas that can be considered to have a recognizable consistency or unity (Chick & Dow: 2005, p. 364). They derive an approximate system definition and meaning for social systems and clarify the definition as follows: "A system is a network, a structure with connections, within which agents act, mostly in ways which reproduce and reinforce the system, but sometimes in ways which lead the system to evolve" (Chick 2004, p. 5). What they specifically draw attention to is to the fact that the connections that make up the system do not have to be fixed. These links/connections are often variable as institutions and behaviours evolve: ideas change in response to changes in the real world, to discourse, and to imagination, and new ideas can lead to new connections (Chick & Dow, 2005, p. 365). After defining systems, they discussed open and closed systems. They define the conditions that ensure the openness of systems for both theoretical and real-world systems.

They specify four conditions in their open system definitions for real-world systems. According to the first condition, open systems are not atomistic, since the agents and their interactions in the system are variable, not fixed; and because of this variability, the consequences of the actions of the agents cannot be deduced from individual actions. The second condition is the interdependence of structure and agent in open systems. The third condition is that the boundaries around and within the social or economic system are changeable. This inference includes the idea that social structures can evolve, the connections between structures can change, and finally, the relationship between structure and agency can change. The last condition for open systems is that identifiable social structures are embedded in larger structures. These structures can interact with each other because the boundaries of a social system are generally partial or semi-permeable (Chick & Dow, 2005 p. 366).

For theoretical systems, the conditions for openness are as follows. According to the first condition, when establishing a theoretical system, there may be important variables or relationships that were missed, and/or their effects on the system may be uncertain. The second condition, the classification into exogenous and endogenous variables may be neither fixed nor exhaustive. In other words, the variables in the theory cannot fully grasp and reflect reality. According to the third condition, the connections and/or boundaries between the structures may not be fully known and/or may change. Finally, there is imperfect information about the

relationships between variables in a theoretical system; relations may not be stable (Chick & Dow, 2005).

The first set of conditions applies to properties of perceived reality, and the second to theories about reality. For both reality and theoretical systems, the realization of any of these conditions is sufficient for the systems and reality to be considered open whereas the closure would require that all these conditions are to be met. (Chick & Dow, 2005, p. 366) For this reason, mainstream economics is exposed to serious criticism.

Chick and Dow's emphasis is on the system and the ambiguity of its boundaries. Real world system's openness is dependent on the interrelationship between agent and structure (anti-atomism) and the transformation and change created by the dynamic character of this relationship. Theoretical systems openness is dependent on the fact that variables are not able to encapsulate reality and capture the constantly changing relationships.

Andrew Mearman (2002) investigated open system approaches in economic literature and suggested that they can be gathered under three main groups. The first group is based upon the concept of emergence. The concept of emergence includes stratification and complexity of human agency, the interaction between structure and human agency, evolution, and the unintended consequences of the agent's actions. The second group emphasizes the importance of underlying causal mechanisms and the importance of specific local conditions. A third group emphasizes "systemic effects" such as interrelated subsystems, drawing attention to the effects of spaces and spatial locations, and relational factors. Mearman also touched upon what theorists would be dealing with when working with open systems. Open systems theorists explore the underlying reality of the apparent and look for boundaries, interacting mechanisms, change and emergence.

They examine systemic effects, focus on agents and structures and their interactions and focus on new developments and new variables. Since every system has a boundary, a focus of research is therefore on its existence, location, and nature. In doing so, they would use a variety of methods and work in historical time, for instance, via case histories. Significantly, because of the nature of the system, strict event regularities are unlikely to exist and thus research would abandon predictivism and engage only in explanation, while being skeptical of truth (Mearman, 2002, p. 575).

The following section will trace the open system approach in Veblen's economic analysis. Considering the main common points and differences in the open system approaches discussed above, the conditions of an open economic reality can be grouped under a few basic headings; atomistic rejection of the individual, the structure-agency relationship, the rejection of the positivist perception of causality, the understanding of underlying mechanisms, and the rejection of equilibrium. So, Veblen is an open system theorist.

3. VEBLEN AS PIONEER OF OPEN SYSTEMS

Veblen classified the sciences as pre-modern and modern and marked the beginning of modern science with Charles Darwin. He was the first to conclude that it was imperative for economics to consider Darwin's theory of evolution and therefore he was the founder of evolutionary economics². According to Veblen, "Any evolutionary science, on the other hand, is a close-knit body of theory. It is a theory of process, of an unfolding sequence" (Veblen, 1898, p. 375). Veblen classifies neoclassical³ economic analysis as a discipline confined to pre-modern times.

Veblen criticizes the very basic presuppositions on which neoclassical economics is founded and questions its approach on handling of social reality. How the social reality investigated in economic analysis is handled determines the success of any outcome and policy derived from the analysis. For this reason, the assumptions and presuppositions made during the analysis should be in accordance with the reality itself. The more these presuppositions are deficient in representing reality, the more unsuccessful the theory and the policy produced from theory would become. Veblen started his analysis on these neoclassical presuppositions.

The first proof of an open economic reality is seen in the incorporation of the evolutionary approach into the analysis. In Veblen's analysis, society is considered as a highly complex organism that develops or regresses, succeeds, or fails to adapt to new situations (Hunt, 2005, p. 398). Veblen related the reason for this complexity to the evolutionary quality of human history. Claiming that the history of humanity is the history of the evolution of social institutions, he argued that these institutions are habits of thought. The basic elements behind institutional change are instincts, habits, and technological change. He considers institutions to be conditioned by both the material environment and the innate and permanent dispositions of human nature.

Veblen has argued that instincts have certain distinguishable patterns that are common to human behaviour throughout history (Hunt, 2005, p. 398). Veblen (1914) saw instinct as "an innate tendency or predisposition" (p. ii) and stated that humanity had three basic instincts: workmanship, idle curiosity, and parenting instincts. In his analysis, instincts are seen as being influenced by the historical and institutional frameworks. According to Veblen (1914), all instinctive behaviours are subject to development and therefore habitually change. This idea has been accepted as evidence that Veblen does not mean fixed and hereditary tendencies when using the concept of instinct (Camic & Hodgson, 2011, p. 9). He used both instinct and habit, that is, both nature and nurture, in his explanations of human

² Hodgson (1999, pp. 127-28) mentions six different schools of evolutionary economics. The first is Veblen's post-Darwinian economics. The second is the approach that includes the capitalist development approach, which Schumpeter defines as an evolutionary process. The third school is the Austrian School of Economics, which includes the work of Menger and Hayek. Fourth, some of Karl Marx's works are characterized as evolutionist. The fifth is the evolutionist game theory. Finally, chaos theorists frequently use this evolution metaphor.

³ Veblen coined the term 'neoclassical' to classify all forms of economics that do not adopt an evolutionary historical approach and are considered taxonomic (Lawson 2013, p. 980).

behaviour. Human thought and habits of thought are shaped by social culture. Instincts help to stimulate the emotions that guide many of our actions and thoughts. According to Veblen, "Inherited nature is necessary for nurture to function. Nature and nurture are not rivals but complements" (Camic & Hodgson, 2011, p. 19).

According to Veblen, while technology forms the structure of society, it also shapes its habits of thought. The historical interaction between technology, instincts, habits, and institutions is examined by Veblen (1914) with reference to four evolutionary stages: the peaceable (savage) era, the barbarian era, the handicraft era, and the machine age. According to Veblen, technological change determines the course of evolution (Veblen, 1914). Veblen (1909) argues that material civilization is a scheme of institutions-institutional fabric and institutional growth. On the other hand, institutions are products of people's habits. The phenomenon called culture is formed by a cumulative sequence of human habits. The ways and means used by culture are formed by the habitual responses of human nature to the constantly occurring changes. These responses are both incontinently and cumulative and, at the same time, consistent. In short, Veblen argued that human history is the evolutionary history of instincts, habits, and technological and institutional order and that there is constant change and dynamism.

...incontinently, because each new move creates a new situation which induces a further new variation in the habitual manner of response; cumulatively, because each new situation is a variation of what has gone before it and embodies as causal factors all that has been effected by what went before; consistently, because the underlying traits of human nature (propensities, aptitudes, and what not) by force of which the response takes place, and on the ground of which the habituation takes effect, remain substantially unchanged" (Veblen 1909, p. 628).

Veblen argued that neoclassical economics could only achieve static results assuming consistent, elemental human nature under given, stable institutional conditions (Veblen, 1909, p. 629). When the assumption is made that people, people's habits and the institutional structure formed by these habits remain constant and never change, the dynamism of real life is left out of the analysis. In Veblen's analysis, both people and their habits, and therefore institutions, change, and everything that changes also transforms people. When this reciprocal relationship between human and social structure is neglected, the analysis remains in a static framework. However, economic analysis should be a dynamic process theory. Without considering all this institutional change, economic analyses will be incomplete.

Rejection of the atomistic treatment of the individual and the interrelationship between structure and agency are further indications of an open economic reality. In open systems, structures and agents are interconnected, and this dependency relationship is dynamic. This dynamic relationship between structures and agents is an obstacle to the closure of social systems. Veblen considers it insufficient to conduct economic analysis solely on the individual and on the behaviour of the individual isolated from everything else. Criticizing the utilitarian approach of the neoclassicals, Veblen argues that the reaction that creates

human behaviour occurs under institutional norms and under the pressure of stimuli with institutional effects. In other words, it is the institutional structure that fuels or inhibits human behaviour. According to Veblen, human life always gains meaning in a group or community. A person acts in accordance with the habitual behaviour patterns of the community he/she is in. As their behaviour is limited by this institutional order and as the institutional order changes, human relations and actions are also transformed: "The wants and desires, the end and aim, the ways and means, the amplitude and drift of the individual's conduct are functions of an institutional variable that is of a highly complex and wholly unstable character" (Veblen, 1909, p. 628).

Many authors argue that Veblen has a methodological holism, but Veblen argued that social wholes cannot completely determine its individual parts. Institutions are a product of individuals in a group, and they cannot exist without them. According to Veblen (1897, p. 137), the individual cannot be perceived only as the bearer/enforcer of social laws. An individual's actions are not determined solely by socioeconomic conditions. Veblen opposes these kinds of rigid social determinations. He argues that the individual also lives his or her own life. In other words, a person is able to affect their conditions as much as they are affected by the conditions they are in. Therefore, if economics tries to explain socioeconomic evolution, it should include individuals as well as institutions and structures.

The rejection of the atomistic understanding of the individual as a determinant of open economic reality is present in Veblen's analysis. He rejects the passive and hedonistic individual of neoclassical economics. Veblen's critique of the hedonistic individual begins with his critique of animism in economic analysis. Veblen criticizes the animistic character of classical economic thought starting with Adam Smith. The animistic character of classical economics is seen in its understanding of "natural order". Adam Smith's invisible hand acts as a benevolent guide (Veblen, 1899, p. 397). The Creator has established the mechanism to reach the highest domain of human welfare; the individual's motives and purposes within this mechanism are also adjusted to achieve this goal. In this spontaneous order, the task of the individual is determined hedonistically as the pursuit of their own self-interest. In other words, the hedonistic nature of the individual is only a means to maximize social welfare. Human beings, who are striving to maintain the natural order with hedonistic motives, are nothing but mechanical intermediaries. If one considers human behaviour as hedonistic, it turns people into passive entities that calculates pain and pleasure and only reacts when external conditions force them to. This leads to exclusion of social relations (Kızılkaya, 2002, p. 79). The hedonist person has neither a before nor an after, he/she is in a stable equilibrium, except for the existence of forces that will affect them. When these forces are present, people become pain-pleasure accountants and when these forces disappear, they become inactive (Hunt, 2005, p. 402). Veblen criticizes the analysis by arguing that this representative individual of neoclassical economics does not reflect the real individuals. He envisions an individual who can both act within the institutional structure and can also transform the structure they are in. Economics should have

a newer conception, and “a characteristic feature of the newer conception is the recognition of a selectively self-directing life process in the agent... On this account, the categories employed are, in a gradually increasing degree, categories of process, – ‘dynamic’ categories” (Veblen, 1900).

The open economic reality assumed in Veblen’s analysis can also be read through his criticisms of animism and teleological bias in neoclassical economics. Animism and teleological bias mean that the method of economics is limited to deduction therefore the information obtained can only be taxonomic. Veblen puts forward the cumulative causality approach to these criticisms. In an analysis that examines a constantly transforming, changing, and evolving social reality, the correct method should be a cumulative causality research. The cumulative causality approach excludes positivism and calls for going beyond observable reality. Cumulative causation is the key element undermining a teleological economic analysis.

Veblen (1899) drew attention to the inconsistencies of the idea of spontaneous order in classical economists: “The discrepancy between the actual, causally determined situation and the divinely intended consummation is the metaphysical ground of all that inculcation of morality and enlightened policy that makes up so large a part of Adam Smith’s work” (Veblen, 1899). That is, in the economic analysis of classical economics, a natural order is an order where everything is in harmony. If the actual or current order is not harmonious and if it contains instabilities, imbalances, or deficiencies, then it has deviated from natural order. However, this constitutes a big contradiction. According to Veblen (1899), the order, called the natural or divine order, should actually involve deviations from the order (Veblen, 1899, p. 398). In other words, if an order is to be characterized as “natural” or “divine”, it should even consider instability and deviation. The classical’s understanding of order imagines a calm, stable and equilibrium-oriented state in which everything tends to the “normal”. However, there is no guarantee that a system will return to its original state, that is, to the optimum state, when things deviate from this natural order.

In relation to this natural order, another aspect of classical economics Veblen criticizes, is its teleological bias. Veblen (1899) argues, Adam Smith’s natural price-market price distinction is evidence of his teleological bias. There is a belief here that market forces, that is, human motives and interests that ensure the functioning of the spontaneous order, will always lead to positive and benevolent results.

The values which practically attach to goods in men’s handling of them are conceived to be determined without regard to the real value which Adam Smith imputes to the goods; but, for all that, the substantial fact with respect to these market values is their presumed approximation to the real values teleologically imputed to the goods under the guidance of inviolate natural laws (Veblen, 1899, p. 405).

Another argument of teleological bias is the normalization of data. It means that the phenomena are handled in terms of an apparently causal sequence, but the ascribed causal sequence continues to be included in the line of teleological legitimacy (Veblen, 1899, p. 404). In other words, phenomena are explained in

such a way as to serve the benevolent purpose of the natural order. For example, the emergence of money in classical economic analysis is not explained in terms of various motives and necessities that have emerged in the historical process. The legitimacy of money is expressed in terms of the purpose it should serve that is, it acts as a wonderful cog in the circulation wheel (p. 405).

Veblen stated that the desire for normalization of classical economic analysis, which he argued to be animistic and teleological, brought with it the necessity for the method of analysis to be deductive. In other words, this frictionless and certain natural order can only be analysed by deduction. According to Veblen, neoclassical economics' use this deductive method for the research of the "normal state" or "equilibrium". The economic theory is about the formulation of the conditions for this assumed equilibrium. This formula cannot interpret deviations from the normal. In this type of analysis, the agents that are causally at work in the process of economic life are carefully avoided (Veblen, 1898, p. 384).

While explaining the economic phenomenon, structure and change, instead of a logical normal state study based on various presuppositions Veblen (1898) proposes a cumulative causality approach influenced by the Darwinian theory of evolution.

The active material in which the economic process goes on is the human material of the industrial community. For the purpose of economic science the process of cumulative change that is to be accounted for is the sequence of change in the methods of doing things, - the methods of dealing with the material means of life (p. 387).

In an analysis that tries to explain economic reality through deduction through universal laws, cumulative causality or causal succession is pushed aside. This big mistake shows that the information obtained from this research can only be taxonomic information (Veblen, 1899, p. 426). Taxonomic science and knowledge are based on the assumption that the social sphere is stable and unchanging, and that the world is governed by regularities that are subject to classification in terms of "normal" or "neutral" states. But for Veblen the social world is evolutionary and historical because it is constantly transforming. An evolutionary historical approach to science excludes what Veblen calls taxonomic (Davis, 2005).

Veblen's emphasis on causality and metaphysical principles has been ignored in social sciences since they have been seduced by positivism. Veblen openly opposed the positivist rejection of metaphysical (ontological) assumptions and argued for the importance of causal explanation and the inevitability of metaphysics. Veblen (1900, p. 241) argued that the ultimate term or basis of knowledge will always have a metaphysical character and rejected the view that science can only be founded on experience or experimentation. According to Veblen (1900, pp. 247-250), having a point of view is inevitable while doing science, and the effort to avoid all metaphysical premises fails here as elsewhere. For Veblen, unlike the positivists, metaphysics is not an abuse, and he argued that some metaphysical assumptions are necessary and inevitable for science (Camic & Hodgson, 2011, p. 12).

Unlike positivists, Veblen drew attention to the existence of hidden causes behind observable events. There may be some causal mechanisms behind observable phenomena, but these mechanisms are not always obvious or in operation. Veblen (1899, p. 399), based on the relationship Adam Smith established between the division of labour and social welfare, argues that Smith treats people's tendency to barter as a natural law. The willingness and action to barter is a trait bestowed on humans by nature. Veblen criticizes Smith for failing to provide a causal explanation for how people gain this willingness to barter. According to Veblen, natural laws should be understood only as tendencies. With this idea, he became the pioneer of the recently emerging views in the modern philosophy of science that emphasize the impossibility of attaining universal laws. It is Veblen's approach to causality that pioneered the open systems approaches of Bhaskar (1975), Harré & Madden (1975), and Popper's (1990). At the heart of many approaches in modern realist philosophy, there is a distinction between "potential" and "actual", between "dispositions" and "effects", and in any case the former is more fundamental than the latter. Science is concerned with the discovery of causal laws or principles. "Causes are not events; they are mechanisms that can, under specific conditions, give rise to specific events. Causes relate to potentialities; they are not necessarily realized in outcomes." (Camic & Hodgson, 2011, p. 16).

Veblen's use of the word metaphysics has almost the same meaning as the word ontology. According to Veblen, mainstream economics is built on an incomplete social ontology. The social reality assumed by economic analysis dominated by positivism and deduction implies a closed system. Veblen's emphasis on cumulative causality and metaphysics indicates that this social reality cannot be considered as a closed system. Reality is a constantly transforming, complex and open system, and it is not possible to reach a complete picture of it based on observation and experimentation alone. A closed system is a system that does not change and consists of repetitive events and relationships. At the same time, scientific analysis in closed systems operates only at the empirical domain, and regularities at this domain are accepted as laws. The understanding of causality in these systems is mechanical. However, in dynamic and organic open systems, causality cannot be mechanized. The mechanisms and trends behind the apparent are needed to be explored. It is not possible to obtain empirical regularities. The transition from a closed system to an open system of understanding, replaces the concept of "nature as machine" to a concept of "nature as organism".

Cumulative causation shows that the operation of causality in the world through positive feedback processes creates constant feedback and transforms the conditions under which causality operates, so that cause-effect relationships must constantly evolve and are never be fixed, even if they appear to us the same over time. Thus, since the entities or beings occupying the world are subject to causal processes - just as cause-effect relationships are constantly being transformed -, these entities or beings occupying the world must be in constant transformation. Atomistic treatment of individual is clearly inconsistent with this, and Veblen's

insight should therefore be seen as a fundamental contribution to anti-atomist reasoning in the social field (Davis, 2005).

Veblen's understanding of an evolutionary historical world requires that the social world be viewed as open. In Veblen's analysis, social reality emerges from human interactions. Social reality is a highly ephemeral process, produced and reproduced by human practice and action, and is essentially a process of cumulative causation. In summary, social reality consists of emergent phenomena that constitute highly correlated causal processes (Lawson, 2013, p. 954).

4. INSTITUTIONALISM AND OPEN SYSTEMS: TOWARDS A MODERN SYNTHESIS

Geoffrey Hodgson is one of the current veterans of institutional economics and an important name following Veblen's approach. According to Hodgson (2000), the open system approach in institutional economics did not enjoy widespread acceptance initially. Neither Veblen was expressing his ideas using the open system approach nor the concept of the open system was used when Walton Hamilton introduced the institutional economics in 1919. It was institutional economists such as K. William Kapp (1968, p. 8) and Shigeto Tsuru (1993, p. 73) who made the idea of the economy as an open system one of the defining features of institutionalism (Hodgson, 2000, p. 318).

One of the first economists to argue that the institutional economics approach is consistent with the open system ontology was William Kapp. He argued that the common point of view that unites institutional economists and separates them from traditional theory is the understanding that economic systems are open and dynamic systems (Kapp, 1968, p. 6). According to him, for a long time the economy was considered as a system of production and distribution. He maintains that economists' models are conceptual representations of economic systems that include certain relationships between certain variables. However, it should be noted that in these economic models, which are considered as a system, there is a multiplicity of variables that are either fixed or given data. Technology, consumers' tastes, preferences and behaviours, the behaviour of entrepreneurs, the distribution of power among different social groups, all of these and more are taken as data or kept deliberately fixed. "Indeed, it is no exaggeration to say that the entire social and institutional system is simply taken as fixed; in other words, for analytical purposes the economy is seen as a closed system" (Kapp, 1968, p. 6).

From an institutional economist point of view, treating the economic system in isolation from the social system means ignoring many factors that can have a determinable effect on the results of economic processes. Isolation from these limiting assumptions and social variables is necessary in order to use the quantitative mathematical method and to investigate certain domains of stable equilibrium. Institutionalists think that this approach will lead to a tendency to view economics as a technique rather than a social science. For institutionalists, the

economic system is part of a larger social system in which the economic processes are interrelated through numerous channels. While mainstream economics uses the concept of stable equilibrium in analysis, institutionalists use the cumulative causality approach. Cumulative causation is a more appropriate method for economic reality - which is a complex and dynamic system -, in other words, it is more appropriate for institutionalists, who see economic processes as a complex of interacting elements (Kapp, 1968, pp. 7-8).

Hodgson's ideas on the open system approach can be followed through the article (Hodgson, 2000) in which he discusses the five features of institutional economics: 1) Institutionalism itself is not defined in terms of any policy proposals, although institutional economists are keen to give their theories practical relevance. 2) Institutionalism makes extensive use of ideas and data from other disciplines such as psychology, sociology, and anthropology, to develop a richer analysis of institutions and human behaviour. 3) Institutions are key elements of any economy, and therefore, an important task for economists is to study institutions and processes of innovation and change. 4) The economy is an open and evolving system located in a natural environment, affected by technological changes, and embedded in a wide array of social, cultural, political, and power relations. 5) It is quite wrong to treat individuals only as utility maximizing agents. Institutionalism does not take the individual for granted. Individuals are affected by their institutional and cultural situations. Thus, individuals do not simply (intentionally or unintentionally) create institutions; institutions also affect individuals in many ways.

The first four features of institutionalism are important, but they are not sufficient to define institutionalism. Hodgson (2000) argues that it is the fifth feature that is important and distinguishes institutional economics from other schools. This feature is the idea that the individual is socially and institutionally constituted. All institutionalists, from Veblen to Galbraight, agree on this idea. Hodgson does not see the open systems approach as one of the dominant features of institutional economics or, more importantly, as a distinguishing feature from other schools. The reason for this is the difficulty of revealing exactly what an open system is. What the system is should be defined in detail and the open and closed conditions should be clearly stated. The idea of a system is an important but difficult concept. It evokes the idea of a structured close interaction between interconnected components. However, the boundary of the system can be uncertain and difficult to determine. For example, if an open system is defined as a system that is open to the flow of matter, energy, or information from outside its borders, that is, in an actual and potential interaction with its environment, is a national economy that trades with other countries an open system? If so, according to Hodgson, standard neoclassical macroeconomics also embraced open systems. It can be said that neoclassical economics deals with an open system while dealing with the environmental impact of economic activity. A narrow version of the open system doctrine may exclude a significant portion of institutionalist literature, while a broader version would accept much of neoclassical theory. In summary,

Hodgson states that the open system approach is not a definitive indicator of the historical limits of institutionalism.

There are two themes that Hodgson deems lacking in Veblen's analysis. One of the themes that is missing is stratification, and the other is the concept of emergence (Hodgson, 2001 p. 409)⁴. Stratification means that any natural or social reality has multiple domains of organization. Emergence means a qualitative innovation. A feature is considered an emerging feature if its existence and nature are dependent on lower-domain entities but cannot be reduced to the nature of lower-domain entities and cannot be predicted from the properties of lower-domain entities (Chavance 2019, p. 123).

Hodgson thought that if Veblen adopted these approaches, he could have gotten rid of the biological reductionism that he himself has rejected. It should also be noted that concept of emergence did not get widely discussed until the end of Veblen's life, and Veblen's deficiency can be met with understanding (Yılmaz, 2007, p. 122). However, it can be argued that traces of emergence can be found even though it is not explicitly appearing in Veblen's analysis. It can be said that his rejection of the teleological analyzes of the Classics and Neoclassicals and his approach to the cyclical and cumulative determination of causality pointed to the emerging processes.

5. CONCLUSION

The open economic reality approach, which emerged in the twentieth century both in the philosophy of science and economic analysis, can be seen in Veblen's pioneering and ground-breaking works towards the beginning of the century. Veblen's relationship between material civilization, institutions and human beings implies that he envisions economic reality as an open, dynamic, transforming, multi-layered structure that allows for multiple causality.

Considering the developments in economic analysis in recent years, criticisms of the limitations of economic analysis dominated by neoclassical economics and reform movements aimed at eliminating these deficiencies are striking. The idea that economic analyses should adopt a methodology suitable for social reality has resonated even within the mainstream. The failure of mainstream economic analysis is that it considers social reality as a closed system and uses methods that can only be applied in closed systems. Social reality is a highly transient process that is dynamic, transforming, evolving, produced, and reproduced by human practice and action. If economists prioritize the ontological problem of what reality is like, the method of economic analysis will have to change.

⁴ The concept of emergence was originally developed in the 1890s by the British philosopher of biology, Conwy Lloyd Morgan. Morgan's idea of emergent properties did not get widely discussed until 1920s. When Veblen died in 1929 the idea was still controversial (Hodgson, 2001, p. 410).

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Orcid: <https://orcid.org/0000-0002-3183-1179>**VEBLER: PIONIR STVARNOSTI OTVORENE
EKONOMIJE*****Sažetak***

U ovome radu ističe se da je osnovni neuspjeh mainstream ekonomije njezina nesposobnost uspostavljanja društvene ontologije, a Thorstein Veblen, utemeljitelj Škole institucionalne ekonomije, ima značajnu ulogu u njezinu uspostavljanju. Razmatranje društvene i ekonomske stvarnosti kao zatvorenog sustava, što mainstream ekonomija pretpostavlja u svojoj analizi, osnovni je razlog njezina neuspjeha u pronalaženju rješenja za stvarne probleme u svijetu. Potreba za ontologijom otvorenog sustava čest je problem heterodoksnih škola ekonomije, što je u suprotnosti s mainstreamom. U radu se navodi da Veblenova analiza ima ideje koje čine temelj ovoga koncepta. Prije svega, raspravlja se o osnovnim elementima pristupa otvorenog sustava. Nadalje, u radu se tvrdi da su elementi evolucionističkog pristupa, odnos između strukture i agenta, odbacivanje pozitivizma i kumulativne kauzalnosti u Veblenovoj analizi konzistentni s pristupom otvorenog sustava.

Ključne riječi: Thorstein Veblen, otvoreni sustav, institucijska ekonomija, ontologija, metodologija.

JEL klasifikacija: A11, A12, B15, B25, B52, B41.

