

Hiroyuki Uni: Contemporary Meanings of John R. Commons's Institutional Economics: An Analysis Using a Newly Discovered Manuscript

Antoon Spithoven

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Book Review

Contemporary Meanings of John R. Commons's Institutional Economics: An Analysis Using a Newly Discovered Manuscript, edited by Hiroyuki Uni. Singapore: Springer Nature, 2017. Hardcover: ISBN 978-981-10-3201-1, \$129.00, 231 pages.

Contemporary Meanings of John R. Commons's Institutional Economics is volume five in the series "Evolutionary Economics and Social Complexity Science," which is published under the auspices of the Japanese Association for Evolutionary Economics (JAFEE). The seven authors of this book provide a reinterpretation of Commons's 1934 book *Institutional Economics* in the light of his 1927 manuscript *Reasonable Value*, which was discovered in 2012 (p. 165) or 2013 (p. 105). References are also made to other writings by Commons in order to indicate the development of Commons's theorizing. Chapter one and chapter eight of the 1927 manuscript are summarized in the appendix of the book, but there is no index to it.

The first chapter is authored by Hiroyuki Uni. He deals with the scope of Commons's criticism of the classical value theory. He discusses that Commons, in contrast to classical scholars, focused on the multiple causations of reasonable values and transactions as central unit of analysis (p. 4). Reasonable values are regulated by collective action (p. 8). Multiple causations comprise efficiency, scarcity, futurity, sovereignty, and custom (p. 10). In the 1927 manuscript, Commons focused on bargaining, managerial, and judicial transactions, whereas he changed the characterization of judicial transactions in his 1934 book by qualifying it as one of the rationing transactions. These transactions all employ different adaptation tools (p. 19).

The second chapter is written by Natsuko Tokumaru. She provides a chronological account of Carl Menger's influence on Commons. Commons gradually extended the ideas of Menger "to explain his original concept of reasonable value." According to Commons, reasonable value constitutes historical data. Therefore, although fascism might be qualified as being an unreasonable value, "it could also be understood as special cases of 'reasonable value' controlled by compulsory normative power in specific historical situations" (p. 49).

Shingo Takahashi is the third contributor. In the third chapter, he analyses the impact of the Great Depression on Commons. One of the big changes in Commons's thinking is that he replaced the idea of judicial transactions with rationing transactions (p. 55), and added a chapter on "Communism, Fascism, Capitalism" (pp. 64 and 66). Under the influence of the Great Depression, he also developed his definition of institutions as "collective action in control of individual action" (p. 59). Finally, Commons learned to protect the continuity of the firm of the nation by securing profit margins.

In chapter four, Kota Kitagawa distinguishes two ideas of Commons in the context of methods of institutional reform. On one hand, there is the method that a superior (the Supreme Court as a last resort) selects which competing institution (custom) prevails in solving a dispute (p. 76). The Supreme Court is assumed to serve a public purpose. The public purpose might change in historical time and might be changed by the Supreme Court itself (p. 77). The method is elaborated in the 1927 manuscript. On the other hand, there is the method of allocating sovereignty to private partners to solve conflicts. It makes private interest groups responsible for social governance. Commons elaborated the method of joint bargaining to solve disputes in his 1934 book (p. 84).

Nanako Fujita elaborates the mutual influence of Gunnar Myrdal and John R. Commons in the fifth chapter. Their methods of social reform were not the same, but they shared the same focus on harmony creation. At least, after he met with Myrdal in 1930, Commons stated that cooperation does not exist because of harmony of interests, but has to be created out of conflicts (p. 106).

In the sixth chapter, Takao Tsukamoto reconsiders and elucidates Commons's elaboration of the evolution of merchant capitalism through employer capitalism toward banker capitalism. The first resulted from market expansion, the second from technological progress, and the third from widespread credit systems. This chapter is a little bit of an outlier because it does not refer to the 1927 manuscript.

In the final, seventh chapter, Hiroyuki Uni and Takayuki Nakahara compare the characteristics of Commons's institutional economics, which is based on John Dewey's pragmatism, with regulation theory and convention theory. Commons's institutional economics is characterized by reasonable values that are based on multiple causations, transactions as unit of analysis, and interrelation of beliefs and collective action through psychological means and social mechanisms (pp. 142, 154-155). Commons's 1927 manuscript analyzes the multiple causations in the firm as going concern, while his 1934 book includes regulation of the macro-economy through rationing transactions – i.e., through income distribution (p. 147).

The appendix of the book comprises excerpts of the parts of chapter one and chapter eight of the 1927 manuscript that were not included in the 1934 book. Commons, for example, excluded his 1927 price theory from the later book. The authors suggest that he did it in the light of new developments in imperfect competition theory (p. 10). This, however, is just a speculation since Commons referred neither to Joan Robinson, nor to Edward Chamberlin.

Among the material that Commons excluded from his 1934 book was Commons's view on the history of economic thought. According to this view, people are able "to construct or reconstruct meanings that may be used in modern economic investigations and plans of action" (p. 166) by reviewing the development of economic thinking in relation to changes in economic conditions and advances in general knowledge. From this point of view, I believe, Commons would have applauded the present book. One might even consider publishing a variorum edition of Commons's *Institutional Economics*.

The chapters in the book could be better attuned to each other. For example, some issues are unnecessarily repeated in different chapters, and the scholars do not refer to each other's contributions. For example, both Fujita (p. 104) and Tsukamoto (p. 125) discuss, to different degrees, Keynes's notion of Commons's stage theory. In another example, Kitagawa (p. 81) mentions that Commons felt a need to defend American capitalism as a protection against fascism and communism, and this is also elaborated in Takahashi's chapter.

The comparison of Commons's 1927 manuscript with his 1934 book sheds some light on the processes through which he developed his theories. It is supposed to "derive new theoretical implications from Commons's institutional economics or find new ways in which it is significant to modern society" (p. vi). One of the insights is that Commons learned from the Great Depression that rationing transactions through the government may turn capitalism into "reasonable capitalism." As such, his institutional approach could contribute to saving capitalism from taking a "communist" or "fascist" turn (p. 71).

According to the volume's authors, Commons influenced John Maynard Keynes, Gunnar Myrdal, and Oliver Williamson (p. vi), among others. However, it is not made clear why Commons's influence on Myrdal, Keynes, and Williamson is relevant to the volume and how. The authors also mention Ronald Coase (pp. 25, 96), post-Keynesians (p. 56), Nicholas Kaldor (p. 150), and others. Additionally, with the exception of Myrdal, the volume only superfluously discusses the contributions of regulation scholars and convention theorists (p. 146) to do them justice. For example, while four authors refer to Oliver Williamson, they only base their comparisons on his 1975 book, *Markets and Hierarchy*. This limited comparison led Takahashi to state that "the idea of the rationing transaction has become a major difference between the transaction cost economics of Williamson and the institutional economics (transaction economics) of Commons" (pp. 69-70). However, in later publications, Williamson also dealt with public governance structures. Thus, Takahashi's statement misses Williamson's assumption that transactions provided by public governance structures, which concern rationing transactions, are efficient if they cannot be provided by other governance structures. This critique does not imply that there is no difference in Williamson and Commons's approaches. As the authors correctly state, Williamson approaches bargaining and managerial transactions as substitutes, whereas Commons approaches them as supplements (pp. ix, 26). Regardless of these criticisms, the book would be valuable to students and scholars interested in the

history of economic thought in general and in the contributions of John R. Commons in particular.

Antoon Spithoven
Utrecht University

Antoon Spithoven is a research fellow in the Tjalling C. Koopmans Institute of the School of Economics at Utrecht University (Netherlands).