

## ***Introduction (Svetlana Kirdina)***

Why are institutionalism and evolutionism, as separate areas in economics, considered to be so close together?<sup>1</sup> Why do evolutionists and institutionalists understand each other and discuss their problems together and carry out general research activities in economics? Why are their research results represented under one cover in this book? First, it happened historically. T. Veblen, who was a founder of institutional approach in economics, handled the study of institutions as a necessary formative element of economic science as an evolutionary discipline.” In 1898 he wrote that “evolutionary economics must be the theory of cultural growth as a process determined by economic interest, the theory of a cumulative sequence of economic institutions stated in terms of the process.”<sup>2</sup> More importantly, he wrote about it in his other work “The Theory of the Leisure Class”: “Evolution of social organization is a process of natural selection of social institutions. ... Social institutions have not only the result of selection and adaptation process, shaping the prevailing and dominant types of relationships and spiritual position, at the same time they are special modes of society existence, which form a special system of social relations and, hence, in turn, are an effective selective factor. “<sup>3</sup> Indeed, one of the first known authors of evolutionary ideas was a British philosopher Herbert Spencer, who understood evolution as “a change from indeterminate, incoherent homogeneity to determined, coherent heterogeneity through continuous differentiation” as a movement toward balance and harmony. According to Spencer, there is a necessary coherence achieved by creating institutions in society, that reinforce the rule of a higher order than competition and natural selection alone, this was what F.A. von Hayek called the “mechanisms of social development of the second order”, which are said to complement ‘natural selection’ and allow the shared members of a society to maintain public social order<sup>4</sup>.

Therefore, Veblen’s institutional theory is also known as ‘evolutionary’, and for him, as for John Commons, the term “evolutionary” was synonymous

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<sup>1</sup> Since 2006, the publishing house “Delo” in Russia has been publishing a series on the “Modern institutional theory of evolution”, which includes translations into Russian of interesting papers in both evolutionary and institutional economics.

<sup>2</sup> *Veblen T. The Theory of the Leisure Class. M: Progress, 1984, p. 200.*

<sup>3</sup> *Spencer H. Essays Scientific, Political and Speculative (1852). NY: D. Appleton and Company, 1982. p. 10.*

<sup>4</sup> *Hayek F. A. Law, Legislation and Liberty. L.: Routledge. 1982. Vol. 1. P. 9*

with the term “institutional.”<sup>5</sup> Undoubtedly, since that time both approaches have been enriched by new independent ideas and results, but they still retain their historical relationship.

Second, evolutionary and institutional approaches in economics are united by their opposition to the mainstream, that is, to neo-classical models. Although in some cases, there is continuity between and intersections among these three areas (we talk primarily about neo-institutionalism, which is essentially new sector of the neo-classic approach today), however, institutional and evolutionary perspectives seem to be more widespread, appropriate and dynamic reality of social oriented than mainstream media. According to some scholars, it is already possible to talk about a victory for a combined evolutionary and institutional tendency over mainstream of modern economic theory, while for other scholars, such a victory is premature and the future is indeed still open<sup>6</sup>.

Third, this is already a feature of Russian economic thought, wherein evolutionary and institutional researches jointly form the basis for a Renaissance in the systemic paradigm of economic research, with a dynamic, self-organizational vision. The combined evolutionary and institutional approach is often examined as necessary, since it relates learning tools of self-organization to economic systems, which makes the two approaches similar to each other. Theoretical meditations on the subject, as well as the application of systematic (or self-organizational) approaches to the analysis of economic processes, are also represented in the monograph.

The monograph’s authors were gathered for collaboration at the 2nd All-Russian school of young scientists in evolutionary and institutional economics, which was held in Rostov-on-Don, September 2010. Scientists participated in the capacity of lecturers at the School from Moscow and from cities in the Southern Federal District. Their works, made as editorial selections, form the basis of the book. Primarily it is a compilation of conference papers; in the course of work, deep inner connections emerged between the authors’ articles, which made it possible to prepare a unified and coherent, in our view, monographic work. Most of the authors meet regularly at various scientific meetings, where they discuss the results of their researches. They publish their works in the same economic journals and are part of a mutually ongoing acceptable scientific discourse, which is reflected with cross-

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<sup>5</sup> *Kvashnitsky V.* Origins of Evolutionary Economics (1996). In: *Origins. From the experience of studying economics as a framework and process.* M: Pub. House HSE, 2006, p. 9.

<sup>6</sup> *Roland G.* Transition and Economics: Politics, Markets, and Firms. Cambridge, MA; London: The MIT Press. 2000.

referencing each other's works and showing mutual respect for colleagues.

At the same time, chapters of the monograph reflect discussion between the authors on a number of questions of evolutionary and institutional theory. Various attempts are used to approach the analysis of specific economic phenomena and processes, and this will present the reader, in our opinion, with particular interests. Finally, the relationship among works arises not only in thematically and logically correlated studies, but also in the fact that together they can be used to describe the current level of theoretical and applied (in the broad sense of the word) research by Russian economists, who are promoting institutional and evolutionary ideas.

The monograph is constructed in such a way that at each of these levels – theoretical, methodological and applied – it is possible to discover controversial and complementary points of view. Not addressing the content of individual chapters – we have a detailed content of the book, a final synthesis and summary, which pay attention to the themes under discussion. Moreover we would like to attract readers' attention also because some of the discussions are implicit, thus with latent contributions.

In the first part, called "Controversial questions of institutional and evolutionary economic theory," three basic counterpoints or conflicting story lines of the monograph are taken up. The first is connected with assessing institutional trends in economic theory and questioning whether one can speak about establishing an institutional paradigm or only a specialized area of research that has as its object 'institutions.' Thus, in the first chapter of the monograph, the author G.B. Kleiner definitively indicates the existence of an institutional paradigm, along with the neo-classical and systems paradigms (the latter he develops in his new theory of economic systems) in economic theory. However, in the second chapter, S.G. Kirdina suggests that long-term research by institutional economists has not led to the creation of a special paradigm, which is independent and sovereign from the neo-classical or systems approaches. The author puts forward an argument that institutions can be and in fact already are studied in many different ways by representatives of the major schools of economic thought and adherents of different general scientific paradigms.

The second counterpoint is associated with discussion of how evolution is applicable for analysing socio-economic reality. Can human-social sciences, in which the Russian tradition refers economics, any longer be called 'evolutionary?' Arguing with the authors of the first two chapters about the 'actual' value of evolutionary ideas being transferred from biology to economic theory, a researcher from Canada Mr. Sandstrom presents an alternative to their position. In the fourth chapter, he notes the inadequacies and limitations of the evolutionary approach in economic theory and suggests

In addition to the arguments presented in the fourth chapter, we consider as relevant an epistemological system proposed by the psychologist Gregg Henriques at James Madison University (USA, Virginia). He offers a so-called Tree of Knowledge System, which, firstly, relates types of objects, secondly, studies their science and, thirdly, suggests main research strategies. Henriques differentiates four types of objects:

- 1) material and physical (stones, stars, etc.);
- 2) organic (plants and shells);
- 3) having mentality (animals);
- 4) cultural (people and groups of people).

Of course, each successive group of objects contains attributes of the previous group, but not necessarily vice versa. Studying these groups of objects of knowledge develop new methods of investigation. Thus, material objects are studied by physical sciences, based on methods of (quantum) mechanics and relativity. Organic objects are a subject of life sciences based nowadays mainly on evolutionary theories. The study of objects that have mentality is the proper domain of psychology, on the basis of behavioral and other psycho-social theories. Finally, the study of persons as representatives of culture and their human-made artifacts is the domain of the social sciences, including economics. What is the main difference between these groups of objects? According to Henriques, the difference is to be found in the emergence in each subsequent group of a new information processing system. Thus, information transfer systems are genetic in organisms, neural in the mental sphere, and symbolic in the culture. The methods for studying these groups of objects are therefore necessarily different.

Though Henriques' works may be supported by some authors, others argue that evolutionary theory is clearly an inadequate tool for understanding socio-economic processes of change and development. Nevertheless, the authors of the monograph suggest that the potential of evolutionary methodology, even if it is not sufficient, is far from being exhausted in economics. Indeed, some of its capabilities are well represented in the sixth chapter. The author of the chapter, E.M. Martishin, examines the prevailing biological evolutionary theory's terminology and tools and shows how to possibility use it for describing economic phenomena. The chapter highlights the Universalistic nature of the biological evolutionary metaphor, and contends that it significantly extends the capabilities of economic research. In the ninth chapter, E.M. Martishin and his co-author O.E. Martishin show how the evolutionary metaphor, borrowed directly from biological research, can be transferred and applied to the analysis of world business cycles. As for the other chapters in this part of the monograph, the authors implicitly

the term ‘tension,’ in addition to struggle and equilibrium. This approach is unusual and challenging for Russian readers because it has sometimes been assumed that the evolutionary approach with its view of economic processes and more complex models of economic behavior in comparison with orthodox neo-classical science is a “step forward”. Is the evolutionary approach recently adopted by Russian economists actually no longer current on the world stage and a new post-neo-classical approach possible? Readers can form their own opinion, after reading this chapter of the monograph.

The third counterpoint, which we find in the first part of the monograph, concerns the development strategies for economic sciences in Russia. One of them is characterized by the author of the fifth chapter, V.M. Polterovich, as a “gradualism strategy” of integrating Russian into world science. He sees the main task of the current step as adapting western achievements and gradually forming /Russia’s own school of Economics, based on these achievements. Such a strategy implements a view consistent with the author of the third chapter, B.A. Erznkyan, who develops a notion of individual preferences, including the consideration of public perception and personal preferences regarding certain socio-economic actions. To this end, he proposes a fuzzy version of Coase’s Theorem, using mathematical tools of fuzzy sets. Another strategy for developing economic science in Russia can be called a “breakthrough strategy”, which requires a shift in focus from development and adaptation to creating an alternative contemporary mainstream using alternative theoretical concepts. This would allow more scholars to research and investigate features of contemporary economics and society in Russia and to develop the existence of a Russian economic school, based on holism and social character. Therefore, we can recognize the appeal to our fourth chapter, with a strategy that tries to implement views of the authors in the first two chapters. The controversial positions, while acknowledged, do not constitute, in our view, a mutually exclusive pattern. Rather they can be seen to complement each other, as witnessed in the first, and in various other parts of the monograph.

The second part of the monograph, called “Evolutionary and institutional approaches as methodology of socio-economic research,” has an epistemological character and presents an analysis of evolutionary and institutional methods. The authors reveal these methods as formal content and show their heuristic possibilities. Chapters of the second part of the monograph bring us back to one of the moments already discussed, in particular, regarding applicable limits of evolutionary methodology in socio-economic research. This question has a right to exist on the discussion table.

argue their thesis based on the supposed universality of the biological evolutionary metaphor. They believe that analysing socio-economic phenomena using only a single evolutionary methodology is not enough. The general laws of evolution only determine the individual features of economic behavior, as A.Y. Arkhipov and T.A. Zotova write in the seventh chapter. Researchers V.V. Volchik and I.V. Berezchnoy develop the theme of institutional evolution in the eighth chapter, emphasizing the social role of special interest groups in this process. In the tenth chapter, concluding the second part of the monograph, the authors N.P. Ketova, V.N. Ovchinnikov and A.V. Schavinsky write about the importance of socio-genetics, where emphasis is placed on the existence of economic subjects in an “artificial world created by them,” which is different from the animal world, where there are only laws of biological evolution, but not laws of ‘cultural’ change.

Summing up the contents of the second section, we note that epistemological problems of advantage and sometimes hegemony in economics methods (e.g. neo-classical or Keynesian economics, now institutional and/or evolutionary economics) raise a ‘problem of truths’ which can hardly be said to have reached a final decision. In evolutionary and institutional research are a number of methodological approaches or knowledge models of social and economic reality, which have been proposed by the authors of the monograph, sometimes complementary to each other and other times seeking new creative solutions.

The third part of the monograph contains “Application of evolutionary and systematic (self-organizational) approaches to the analysis of economics and markets.” Anticipating the analysis in this section, we present a lengthy quote from Joseph Stiglitz, which in this case seems quite appropriate. Even in 1994, Stiglitz wrote: “Of course, if evolutionary forces” naturally “always lead to desired results, then the task of economists is quite simple: to observe the process and comment on it. However, being economists, we are called upon to analyze various proposed measures to change economic policies and institutions. Now we have more sophisticated analysis tools, and so we are better prepared, in respect of any proposed changes to ask: “What are the consequences?” Using the terminology of evolution, we can ask: “What is the probability of surviving these changes?” We are even able to do social engineering, and ask whether we can establish such institutions or develop reforms that are likely to provide welfare or, again to resort to the terminology of evolution, to have good rates of survival.”

Chapters of the final section of the monograph are largely devoted to proposing answers to such questions. In some cases, the responses are quite

specific. Thus, in the eleventh chapter third part, the authors V.I. Mayevsky and K.A. Zorin offer a number of macroeconomic indicators of monetary policy to include an examined ratio index, which study the growth rate of money supply and GDP. Past studies by the authors have empirically shown on what basis the stability of the economy; in particular, stock markets can be assessed and predicted. Another application of an evolutionary approach is presented in the next chapter. The twelfth chapter involves the modernization plans and actions in specific sectors of the Russian economy. Based on the analysis of institutional changes in the agricultural sector in the country, O.S. Belokrylova and A.A. Bochkov evaluate various “survival” standards for the proposed activities.

As mentioned above, the elaboration of evolutionary and institutional approaches expressed by Russian researchers in developing a systematic (self-organizational) paradigm stands out as a natural extension. If the first two chapters of the monograph present theoretical arguments for the relevance of a systematic (self-organizational) paradigm in studying economies, then the final two chapters are devoted to the practical application and possibilities of actualizing relevant approaches.

In the thirteenth chapter, A.V. Plyakin represents a model of the economic system built upon the idea of applying a systematic (self-organizational) approach. An agricultural economic sub-system is highlighted in its structure. This includes a set of organizational and economic relations and institutions and serves as a generator for the entire economic system on the basis of self-organization.

In conclusion, in the fourteenth chapter, R.M. Kachalov explores the category of risk for Russian enterprises. He bases the tools for his research on the system-integration theory of enterprise. This work develops within the bounds of a systemic paradigm in economics and draws on work by the author of the first chapter of this monograph, G.B. Kleiner.

In concluding this introduction to the monograph for readers, we note our striving for harmony and logical connectivity represented in the “colorful chapters.” We believe that the monograph’s debated points, as well lines of research, with theoretical, methodological and applied aspects of institutional and evolutionary approaches presented, are worthy of a polyphony of contemporary Russian scientists working in this field.

And finally, last but not least, the authors dedicate their work to Vladimir Ivanovich Mayevsky, one of the monograph’s contributors, who has more than many others promoted the development of evolutionary and institutional research in Russia, in celebration of his jubilee this year.