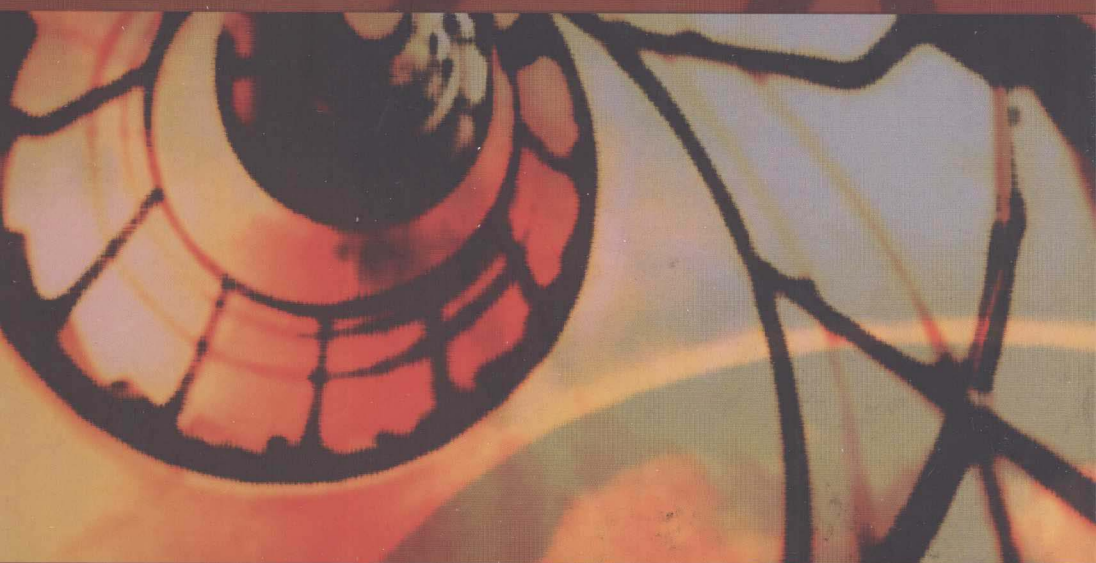


# The Foundations of Institutional Economics

**K. William Kapp**

**Edited by Sebastian Berger  
and Rolf Steppacher**



ROUTLEDGE

First published 2011  
by Routledge  
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

Simultaneously published in the USA and Canada  
by Routledge  
711 Third Avenue, New York, NY 10017

*Routledge is an imprint of the Taylor & Francis Group, an informa business*

© 2011 K. William Kapp; selection and editorial matter, Sebastian Berger  
and Rolf Steppacher

The right of Sebastian Berger and Rolf Steppacher to be identified as  
editors of this work has been asserted by them in accordance with sections  
77 and 78 of the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this book may be reprinted or  
reproduced or utilized in any form or by any electronic,  
mechanical, or other means, now known or hereafter  
invented, including photocopying and recording, or in any  
information storage or retrieval system, without permission in  
writing from the publishers.

*Trademark notice:* Product or corporate names may be trademarks or  
registered trademarks, and are used only for identification and  
explanation without intent to infringe.

*British Library Cataloguing in Publication Data*

A catalogue record for this book is available from the British Library

*Library of Congress Cataloging in Publication Data*

Kapp, K. William (Karl William), 1910–1976.

The foundations of institutional economics / by K. William Kapp ;  
edited by Sebastian Berger and Rolf Steppacher.

p. cm.

Includes bibliographical references and index.

I. Institutional economics. I. Berger, Sebastian. II. Steppacher, Rolf.  
III. Title.

HB99.5.K36 2010

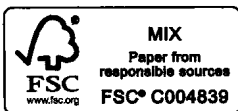
330—dc22

2010040448

ISBN: 978-0-415-58655-9 (hbk)

ISBN: 978-0-203-82786-4 (ebk)

Typeset in Times New Roman  
by RefineCatch Limited, Bungay, Suffolk



Printed and bound in Great Britain by the MPG Books Group

# Foreword

The editors of this volume are to be congratulated for helping to bring Kapp's ideas to a wider audience. Although Kapp died more than three decades ago, his writings remain enormously topical and relevant. There are several themes to his thought that are of immediate importance for economics today.

First, Kapp addressed the behavioral foundations of economics at length and argued that the discipline suffered from an overly simplistic conception of human agency. Rejecting the utilitarian behavioral and welfare foundations of mainstream economics, Kapp developed an analysis of economic behavior that stressed enculturation, human interaction and moral values. Instead of utility-based welfare criteria, he developed a conception of human need. Although his recommendations would still represent a radical shift for economics today, more and more economists are becoming aware of the limitations of the assumption of utility maximization and there is a renewed search for alternative welfare criteria.

Second, Kapp argued that the social sciences as a whole were suffering from excessive specialization and compartmentalization. This issue is even more relevant now, as even mainstream economists have begun to challenge the Lionel Robbins doctrine concerning the scope and boundaries of the subject, and sociology has lost all sense of a common terrain of enquiry or of a shared set of methods. Yet while the justifications for several disciplinary boundaries have disappeared, each subject remains entrenched in its own academic niche, largely ignoring the insights provided by sister disciplines. Kapp's words on the need for cross-fertilization remain extremely apposite.

Third, Kapp's recognition of the open character of economic systems was combined with an emphasis on cumulative causation rather than equilibrium outcomes. He saw the principle of cumulative causation as a central and binding motif of institutional economics from Thorstein Veblen to Gunnar Myrdal. Like Veblen, he advanced an evolutionary understanding of economic change, long before evolutionary ideas enjoyed a renewed vitality, as they do today.

Last, but not least, Kapp was a major pioneer of ecological economics. He stressed the grounding of the human in the natural world and recognized the human threats to the natural environment, decades before such concerns became fashionable. He called for a style of economic development that harmonized with the natural world. Accordingly, he identified two major problems facing modern

humankind: the deterioration of the ecological and social environment and the underdevelopment of the Third World. These deeply entwined issues are at the top of the policy agenda today, and Kapp's insights retain their vitality.

If mainstream economics manages to weed out its rooted obsession with mathematical technique over economic substance, then Kapp's works, including the present volume, will blossom widely as highly relevant and enduring classics of twentieth-century economic thought.

Geoffrey M. Hodgson  
University of Hertfordshire, UK

# **Acknowledgements**

The editors of the book are thankful for the financial support from the Kapp Foundation. This book has greatly benefited from James Shell's work on the language of the manuscript and from Nathan Castellano's support in retrieving and formatting Kapp's papers for the Appendices.

# Contents

<i>Foreword</i>	xi
<i>Acknowledgements</i>	xiii
<b>Editorial introduction</b>	1
<i>Kapp's biographical background</i>	1
<i>The history of the manuscript and Kapp's intellectual project</i>	2
<i>A final note on changes to the manuscript</i>	10
<i>Notes</i>	11
<b>1 Introduction: the lasting and increasing relevance of institutional economics</b>	14
<b>2 Institutional economics and conventional economic theory</b>	17
<i>Introduction</i>	17
<i>The fallacies of the utilitarian foundations: the teleological bias</i>	21
<i>Logical fallacies of the "consumer sovereignty" doctrine</i>	23
<i>The fallacies of the means–ends dichotomy</i>	27
<i>Conclusion</i>	28
<i>Notes</i>	30
<b>3 Intellectual antecedents of institutional economics</b>	33
<i>Introduction</i>	33
<i>The classical foundations of institutional economics</i>	34
<i>The influence of John Stuart Mill</i>	38
<i>The Marxist elements</i>	41
<i>Max Weber</i>	44
<i>Conclusion</i>	46
<i>Notes</i>	47

<b>4 The nature and meaning of institutions: towards a theory of institutional change</b>	49
<i>Introduction</i>	49
<i>The meaning of institutions</i>	49
<i>The origin and function of institutional behavior</i>	50
<i>Towards a theory of institutional change</i>	55
<i>Notes</i>	63
<b>5 The institutional theory of human conduct and economic behavior</b>	65
<i>Introduction</i>	65
<i>The role of emulation</i>	68
<i>Reason, deliberation, and forethought in institutional economics and its relation to utilitarianism and the means–ends dichotomy</i>	74
<i>Notes</i>	80
<b>6 Towards a theory of human needs and social minima</b>	85
<i>Introduction</i>	85
<i>The substantive concept of human needs</i>	87
<i>Social minima and the substantive concept of human needs</i>	89
<i>The objectification of human needs</i>	92
<i>Conclusion</i>	96
<i>Notes</i>	99
<b>7 The institutional concept of capital and the process of capital formation</b>	102
<i>Introduction</i>	102
<i>Classical antecedents</i>	103
<i>The concept of capital</i>	104
<i>Capital formation</i>	110
<i>Conclusion</i>	116
<i>Notes</i>	117
<b>8 The interaction between technology and business enterprise</b>	119
<i>Introduction</i>	119
<i>Technology viewed as an institution</i>	119
<i>The imperatives of modern industrial techniques</i>	123
<i>Early conflicts and contradictions</i>	127
<i>Notes</i>	131

<b>9 Technology II</b>	<b>133</b>
<i>Introduction</i>	133
<i>The exigencies of technology and the corporation</i>	133
<i>The corporation and the inflation of all         monetary values</i>	135
<i>The remedies</i>	137
<i>Conclusion</i>	142
<i>Notes</i>	143
<b>10 The multi-sector economy and the theory of economic domination</b>	<b>146</b>
<i>Introduction</i>	146
<i>The compound or multi-sector economy</i>	146
<i>Dominating economic units and the domination effect</i>	150
<i>Survey of the development of the institutional theory         of dominating economic units</i>	152
<i>The meaning and significance of dominating units</i>	154
<i>Notes</i>	158
<i>Appendix A: Substantive vs. formal rationality: environmental indicators as indicators of social use values</i>	<b>159</b>
<i>Origins and functions of social indicators</i>	159
<i>Environmental indicators and environmental standards</i>	161
<i>Environmental standards and social use values</i>	164
<i>Notes</i>	168
<i>Appendix B: The central hypothesis of institutional economics: circular and cumulative causation</i>	<b>170</b>
<i>Some practical implications of the principle of         circular interdependencies</i>	175
<i>Conclusion</i>	177
<i>Notes</i>	178
<i>Appendix C: Institutionalism and the price system: the problem of social costs</i>	<b>180</b>
<i>Notes</i>	188
<i>Appendix D: Environment and technology: new frontiers for the social and natural sciences</i>	<b>191</b>
<i>The substantive nature of the problem</i>	192
<i>The market mechanism as a causal factor</i>	195
<i>Environmental policies and control</i>	196



x Contents

Conclusion 199

Notes 201

*Appendix E: Science and technology in the light of institutional analysis: governmental furtherance of environmentally sound technologies as a focus of research and environmental policies* 203

*Summary of the results of the foregoing investigation* 203

*Problems of research planning* 205

*Goal formulation* 206

*Problems in coordinating research* 223

*Financing the research and promoting the diffusion of environmentally sound technologies* 227

*From the causation principle to the objective principle: technology as a dependent variable* 235

*Summary* 237

*Notes* 240

*Appendix F: Social economics and social welfare minima* 245

*Rational action versus human behavior* 247

*Equilibrium analysis versus cumulative causation* 249

*Social welfare minima versus formal optima* 250

*Notes* 253

*Appendix G: In defense of institutional economics* 255

*Toward a definition of institutional economics* 255

*The critique of institutional economics* 257

*Main preoccupations and major contributions of institutional economics* 258

*Institutional economics and the development process in underdeveloped areas* 263

*Summary and conclusions* 268

*Notes* 269

*Appendix H: Alternative introductions* 272

*"Version 2"* 272

*"Last version"* 274

*Note* 276

*Appendix I: Project outline: American Institutionalism: The System of Economic Analysis of Veblen and His Followers* 277

*Note* 282

*Index* 283

# Editorial introduction

The year 2010 marked the 100th anniversary of Karl William Kapp's birth and provides this publication of his *Foundations of Institutional Economics* with a special occasion. Yet, as will be explained below, this book does not merely serve a commemorative purpose. This Introduction leaves to future research the task of a more comprehensive evaluation of Kapp's contribution to economics, and of his potential significance to modern pluralist and heterodox economics. It focuses instead on understanding Kapp's book within the context of his intellectual project and his personal biography. In this, the Introduction answers questions that have arisen from the manuscript's history: for instance, why was the author unable to complete this work for 16 years? And why should this material be published at this point in time after being stored largely unnoticed in the Kapp Archive for well over 30 years?<sup>1</sup> Thus, the Introduction is a continuation of the "rational reconstruction" of (European) institutionalism<sup>2</sup> and supports the theory that Kapp's book was part of a largely unexplored project in twentieth-century institutionalism. The goals of this project were to "institutionalize" institutional economics internationally via *organizations of importance*; to move the development discourse in the direction of democratic planning of social welfare minima, technology and the environment; and to prevent the global rise of "formal" economics. While more research is certainly needed, the following investigation indicates that the standard narrative about the demise of institutional economics after World War II should be amended,<sup>3</sup> and it stimulates interesting questions as to what can be learned for the future of institutional economics.

## Kapp's biographical background

K. William Kapp was a leading twentieth-century economist who is best known for his book *The Social Costs of Private Enterprise* (1950), which significantly influenced the discourse on institutional reforms to prevent environmental disruption. Today, such international organizations of economists as the European Association for Evolutionary Political Economy and the European Society for Ecological Economics associate themselves with Kapp, and his ideas are again part of the discourse on social costs and economic crises.<sup>4</sup> Born on October 27, 1910, in Königsberg, Karl William Kapp grew up during the epoch of Imperial

## 2 Editorial introduction

Germany and the Weimar Republic. His father, August Wilhelm Kapp, worked as a philosophy teacher, held a doctoral degree in physics, and was portrayed as a distinguished humanist socialist by Ernst Wiechert, who was a prominent humanist poet and also Karl William's teacher at the "Hufgymnasium." Karl William, or "Ted" as close friends called him, studied "Staatswissenschaft" (consisting of law and economics) at the universities of Berlin and Königsberg. As early as 1933, he and Lili Lore Masur (who would become his wife and co-author) left Nazi Germany for Geneva, where William completed his doctoral degree in economics at the Geneva Postgraduate Institute of International Studies and became acquainted with the exiled "Frankfurt School." The Frankfurt School eventually formed the Institute for Social Research at Columbia University and provided the Kapps with a scholarship in 1937, allowing their emigration to the United States of America, where Kapp held appointments at Columbia University, New York University, the City University of New York, and Wesleyan University in Connecticut. Between 1958 and 1963, the Kapps undertook three Fulbright Research visits to India and the Philippines before receiving an appointment at the University of Basel (Switzerland) in 1965. Kapp retired in 1975 and died on April 26, 1976.

Kapp started the current project at the age of 50 after his first research visit to India, where he had directly experienced the significance of its Hindu culture and institutions to its economic development.<sup>5</sup> He had just finished a long-standing research project that tied together the insights of the emerging fields of cultural anthropology and social psychology in his framework to integrate social knowledge (*Theory of Man in Society* (1961)), emphasizing the crucial role played by culture and institutions in adequately satisfying bio-cultural human needs. This cultural-institutional orientation can be traced back to Kapp's position as co-editor of the *Introduction to Western Civilization* project at Columbia (1946), and was being solidified at the beginning of the 1960s with increasing reliance on Veblen's institutional economics, e.g. the enlarged and revised second edition of *The Social Cost of Business Enterprise* (1963), in honor of Veblen's *Theory of Business Enterprise* (1904).

### **The history of the manuscript and Kapp's intellectual project**

Kapp began working on the manuscript in 1960 while teaching graduate courses in institutional economics at Brooklyn College.<sup>6</sup> The first document referring to the project outline is a letter to Karl Polanyi in 1960.<sup>7</sup> Addressing Polanyi's efforts to develop a "teaching program in institutionalism and its theoretical implications," Kapp noted:

Dear Karl: . . . as you will have seen from my outline I am trying to do precisely that for the so-called American "School" that goes back to Veblen. This does not mean that I am not fully aware of the fact that your group has done work along similar lines. I have always felt that our work converges in all important respects . . . [Your work] is much more in the tradition of

Veblen's institutionalism than is usually realized . . . In short, my study is not going to stop with the older institutionalists and I hope I have made this clear in my outline. I have always felt that one of the reasons why institutionalists did not make greater headway in the past was due to the absence of any systematic-theoretical treatment of our thought and the absence of suitable first-rate reading materials. In short, you are right, a "Reader" is necessary.<sup>8</sup>

The project outline mentioned in this letter had originally been submitted to the administration of Brooklyn College<sup>9</sup> with the title "American Institutionalism: The System of Economic Analysis of Veblen and His Followers." In answering his critics who accused institutional economics of being "at best an impressionistic description of an ever changing economic environment," Kapp admitted the problem that institutional economics "is not fully recognized as a distinct approach to the formulation of questions and the ordering of ideas," and that it had failed to systematize its approach. Consequently, Kapp derived the goal of systematizing institutional analysis to demonstrate the "common view of the economic process" and to bring together "those ideas and theories which can be shown to be logically interconnected." Other goals were

to . . . [improve] institutionalist thought . . . [by making] explicit the systematic character and logical connections between the various parts of American institutionalist thought would perfect this branch of our knowledge by giving it greater clarity, greater accuracy and greater comprehensiveness . . . in those fields of analysis which are still open theoretical issues in our discipline such as the question of external (social) costs and external (social) economics, private wants and public purposes, public investment criteria.

Clearly, his hope was that "insofar as we succeed in systematizing American institutionalist thought, our study may carry conviction to other members of the profession and represent a challenge to rejuvenate and broaden the scope of modern economic analysis." Kapp applied for a "release for one year from teaching and administrative duties" to "advance the actual writing of the manuscript" that he optimistically anticipated to finish within a "period of three years." These two documents show that Kapp deemed his book the "systematic-theoretical reading material" necessary for a mid-twentieth-century project to advance institutional economics while "not stopping with older institutionalism."

In a letter to Edgar Salin dated January 12, 1963, Kapp referred to his project as "Foundations of Social Economics" with which he hoped to develop a system of modern social economics based on an empirical-institutional methodology. Obviously, Kapp found it useful to make "social" synonymous with "institutional" economics. This terminological move can be understood in the light of John Maurice Clark's *Preface to Social Economics*, which inspired Kapp to distinguish his approach from formal neoclassical economics and to define his agenda, leading to the publication of his article "Social Economics and Social Welfare Minima" (1965; see Appendix F). In *Social Costs of Business Enterprise* (1963), Kapp also

#### 4 *Editorial introduction*

increasingly referred to Clark's arguments to stress the social value dimension of the problem of social costs. According to Kapp, both social and institutional economists perceive the economy as:

[an] open system . . . Social economics has a greater impact on practical affairs than is usually realized. It can be shown that the economic policies of the New Deal, contemporary labor legislation, social security schemes, public utility, anti-trust and security-exchange regulations, and policies designed to mitigate economic fluctuations have all been strongly influenced by social economics. Therefore, social economics may prove equally fruitful in the analysis and ultimate solution of persistent contemporary economic problems, such as social inefficiencies and social costs reflected in unused capacity and unemployment, the neglect of public benefits and the starving of the public sector, the increasing disparities between rich and poor countries, and the changing nature of international economic relations.<sup>10</sup>

Just as in the initial project outline, this quote shows that Kapp explicitly placed his project in the tradition of the American institutional economists who designed the seminal programs of New Deal and security-exchange regulation. Kapp's goal was to renew this legacy in relation to such newly emerging issues as social costs, poverty, and economic development. One of the ways in which Kapp sought to further his project was to participate in the early attempts of U.S. institutional economists to form an association:

Dear Professor Gambs: Returning from a one year's stay at the University of the Philippines I find several communications of the Wardman Group . . . I am delighted about the establishment of this group of dissenting economists and I am glad to see that you included my name in the list of original members. I think that we have long needed such an organization in the U.S. May I suggest that we devote ourselves . . . to two things which seem to me of great importance at the present time. First, the preparation and publication of a selected bibliography of works, annotated and classified by subject matter which were written in the tradition of social or institutional economics during the last two years. Second, I think that we could render no greater service to the propagation of social economics than to encourage the preparation of teaching materials such as readings and textbooks . . . As far as the ultimate name of the society is concerned I am inclined to agree with Myrdal that "Veblen Society" may be too narrow despite the overwhelming influence which Veblen has indeed exercised and continues to exercise at least in America. I feel that the name "Association to Study the Reconstruction of Economics," although pointing to what is needed and is actually on the agenda, may have a methodological ring which may not appeal to a sufficiently large group of members of the profession. If "Institutional Economics" is not satisfactory, why not use "Social Economics" in contradistinction or juxtaposition to "Pure" or "Positive" Economics which deliberately abstracts

precisely those socio-cultural factors and influences which make economic processes what they are: dynamic, evolutionary, structured and embedded in a broader framework of society and culture. I have begun to use the term "Social Economics" in the new edition of "History of Economic Thought – A Book of Readings" [Barnes and Noble 1963] . . . Incidentally, Social Economics also comes close to "Sozialökonomik" – a term which Max Weber used on the Continent . . . I hope to stay in close touch with the Wardman Group.<sup>11</sup>

The correspondence with leading American economists reveals not only that he suggested "social economics" as an appropriate name for the organization,<sup>12</sup> but that Kapp increasingly perceived this project as being directed against the rise of "formal economics." In this context, he considered Max Weber's notions of substantive rationality and social economics<sup>13</sup> useful because they can be used to emphasize the importance of higher norms, e.g. social minima or the social (value) dimension of developmental and environmental problems (see Appendix F).<sup>14</sup> Kapp also furthered his project by promoting it to one of the leading European economists, Gunnar Myrdal:

Dear Professor Myrdal: . . . My own research plans center around an admittedly ambitious undertaking which carries the tentative title "Foundations of Social Economics." It is concerned partly with the demonstration of the strength and validity of the principle of circular causation as a main hypothesis for the study of socio-economic processes and partly with a further elaboration of my previous studies dealing with social costs, social benefits and economic planning. I intend to show that there is an alternative to model-building and reasoning in terms of hypothetical constructs and that the principle of cumulative causation together perhaps with an empirical typology constitute a realistic approach to scientific discovery and explanation of institutional regularities and sequences of occurrences. I am enclosing a tentative outline of my project in order to indicate the trend of my current thought.<sup>15</sup>

The emphasis on circular cumulative causation (CCC) underlines the fact that Kapp considered Myrdal's analytical framework<sup>16</sup> to be of strategic importance for his intellectual project as *the* antithesis to formal economics' equilibrium concept. CCC accentuates growing socio-economic disparities and environmental disruption, providing a rationale for improved social controls and institutional reforms.<sup>17</sup> Kapp's letter also points out the similarities between their research agendas on "institutional problems" arising from international trade between unequal systems:

What impresses me in particular is the realistic framework in which you place the contemporary problem of international trade and financial relations. On a more limited scale, indeed within the different context of the Thirties, I once tried to answer some of the institutional problems which arise in

## 6 Editorial introduction

international trade relations between countries with foreign trade monopolies and business enterprise economies. In fact, my dissertation (1936) at the Geneva Postgraduate Institute of International Studies was concerned with problems of this kind.

The context of this and the following correspondence is that by the early 1960s Myrdal and Kapp were considered leading developmental economists who had undertaken research projects in developing countries and participated in the ensuing development debates. On the one hand, both economists understood that the “development era” posed the threat of formal economics spreading to developing countries and they warned students there not to become “conformists to the inherited doctrines of the West.”<sup>18</sup> On the other hand, they recognized the unique opportunity to “institutionalize” institutional economics internationally by forming a broad international organization:

Dear Professor Kapp: I have long felt that we are kindred souls and I am quoting you in a big book on South Asia [*Asian Drama*] . . . This is just to thank you for your most interesting and inspiring article “Social Economics and Social Welfare Minima”, which you kindly sent me . . . the time would be right for an international association of institutional economists parallel to the Econometric Society. One difficulty is that most American institutionalists are so provincial and believe that everything started with Veblen – and almost finished with him.<sup>19</sup>

This letter marked the beginning of the active collaboration between Kapp and Myrdal’s research group at the Institute for International Economic Studies with the aim of organizing institutional economics on an international level with special emphasis on development planning. Most likely, Kapp’s programmatic article on social economics inspired Myrdal to further cooperate with his “kindred soul.” Kapp’s proposal of “social welfare minima” to guarantee the satisfaction of existential human needs overlapped with Myrdal’s life-long work on development planning for poverty relief. Consequently, Kapp placed at the center of the present manuscript his argument for deriving and using the concept of minimum adequate living conditions as the central development criteria (instead of monetary indicators) (see Chapters 4 and 5).<sup>20</sup> Yet, Myrdal’s attitude towards the American institutionalists foreshadowed some of the problems of forming an international organization.<sup>21</sup> A similar attitude surfaced in a letter by Erich Jacoby (Myrdal’s colleague at the institute in Stockholm). Their skepticism towards the early American association is indicative of some of the problems of organizing institutional economics on a broad international basis. Jacoby was especially concerned about the term “evolutionary” and the “way of thinking” of the early AFE economists:

Dear Professor Kapp: . . . We feel also that we should take the initiative for the creation of an Association of Institutional Economists which could make

a contribution to the reinterpretation of the ideas of Thorstein Veblen, Cummings and Wiksell in the light of the problems which we have to face today, particularly in the underdeveloped countries. Your suggestions, therefore, are very welcome and Gunnar Myrdal and I are prepared to work closely together with you. During our conversations in Rome and Basel we have also mentioned the newly established Association for Evolutionary Economics which is moved by the same dissatisfaction with the present trend of contemporary economics though I do not believe, after short study of the first volume of the *Journal of Economic Issues*, that their way of thinking in all relevant aspects is identical with ours. Personally I feel that the emphasis placed on “evolutionary” instead of “institutional” is to some extent misleading and might weaken the possibilities which an association of institutional economists might also have in Eastern European countries. There is, however, no doubt that we have to take into consideration the new American association when we wish to build up an association of institutional economists . . . we should take the first steps to establish an organization of institutional economists on a broad international basis . . . At a somewhat later stage we will also have to talk with our American friends. I wish to assure you that it will be a great pleasure for Gunnar Myrdal and myself to work closely together with you in this venture.<sup>22</sup>

Likewise, Kapp rejected biological metaphors and did not apply the “evolutionary” adjective. Together with Myrdal, he preferred the accentuation of “institutional” forces in circular and cumulative dynamics and deemed the term “institutional” as universal enough for an organization that could integrate economists from different regions of the world and from a diversity of ideological backgrounds, particularly during the Cold War and the development era.<sup>23</sup> Interestingly, Kapp did not incorporate theories that were quite popular in mid-twentieth-century American institutional economics, such as Clarence Ayres’ “Veblenian dichotomy” or the Texas institutionalist argument on resources and technology.<sup>24</sup> Instead, Kapp’s *Foundations* became a unique synthesis of Veblenian and mid-twentieth-century European economic theories, most of which were linked to or grew out of the development discourse. The important conclusion seems to be that Kapp and his European collaborators aimed at establishing a broad international organization, with a focus on economic development issues that seemed to be at odds with parts of the early American association.

The importance that Jacoby’s letters assigned to winning the support of the Deputy Chairman of the Planning Commission of the Government of India is another indication for the project’s focus on economic development issues:

My dear Kapp: . . . In the meantime I have written to Professor D.R. Gadgil, the Deputy Chairman of the Planning Commission of the Government of India, who is today probably Asia’s most outstanding economist. As you know, Gunnar and I have talked with him about the possibility of establishing such an association and we would like to have his close cooperation before



## 8 Editorial introduction

we take a public initiative. Gunnar Myrdal is greatly interested in this whole matter and feels very strongly that it is the right moment to act and that the initiative should emanate from Stockholm, of course in very close cooperation with you.<sup>25</sup>

In seeking Gadgil's cooperation, this group of economists showed an understanding of the importance of political-institutional support. Upon returning from conference travel to the Netherlands and Cambridge, Jacoby reported back to Kapp not only that many economists were very enthusiastic about an organization of institutional economists that will "comprise the east and the west," but also that "Professor Gadgil . . . seems to be very happy to be associated with the project" which gives "the green signal to start the work." In order to include the US institutional economists, Jacoby asked Kapp for a copy of "Gamb's speech and other material about the evolutionary economists in the USA. I need particularly the character of this organization. The periodical has not impressed me very much."<sup>26</sup> In response, Kapp once again mentioned his book: "My dear Jacoby: . . . I applied for and was granted a leave of absence for the coming academic (winter) semester . . . I shall use this time to give some thought to the problems of institutional economics – particularly to my old idea of a systematization of institutional theories."<sup>27</sup> And: "Dear Professor Myrdal: . . . I have taken a leave of absence for the coming winter semester 68/69 in order to do some writing on institutionalism."<sup>28</sup> It is evident that Kapp continued to view his book as part of their common project, which was well underway by 1968 when Kapp wrote to the American institutionalist Louis Junker that "nothing is more important than to work out the theoretical Foundations of institutionalism."<sup>29</sup> Following Myrdal's invitation, Kapp delivered a preliminary overview of these foundations in his "In Defense of Institutional Economics" lecture in Stockholm (see Appendix G), for which Myrdal organized the speedy publication in the *Swedish Journal of Economics*. Shortly after Kapp's lecture, however, Jacoby reported that their project was suddenly facing a problem that would prove to be insurmountable:

I have today to tell you that Statens Rad för Samhällsforskning has informed us that they have no possibility to support Gunnar Myrdal's and my proposition for the preparatory work required for the formation of an international association of institutional economists. Gunnar Myrdal and I are very sad about this decision, which makes it impossible for us at this time to take the initiative for the formation of such an association. This, of course, does not affect our sincere belief that the setting up of such an association is urgently needed and that we will support to all possible extent any movement in this direction.<sup>30</sup>

Kapp replied by expressing the hope "that this is only a postponement and not a decision against the project altogether . . . I understand that a project of this kind should not be treated as a part-time matter, and I also realize that it requires some financing."<sup>31</sup> Despite this failure, Kapp still expressed confidence about his book