The Old Institutional School and Labour Market Functions and Policies

Drakopoulos, Stavros A. and Katselidis, Ioannis

National and Kapodistrian University of Athens

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Stavros Drakopoulos and Ioannis Katselidis

Dept. of Philosophy and History of Science

National and Kapodistrian University of Athens

Athens, Greece

Abstract*

The significant role of institutional and non-market factors in the functioning of an economic system was a core theme of the old institutional economists. They also criticised the narrow conception of economic welfare only in terms of efficiency and satisfaction of consumer interests. Instead, they focused on issues related to justice, human self-development and labourers' welfare. Their conception of the labour market functions is an indicative example of the uniqueness of their approach. In contrast to the standard approach, labour market functioning does not depend only on the price mechanism, but is also affected by other key factors and parameters such as the social norms, several psychological factors and various labour institutions. This chapter seeks to examine and highlight the contribution of the old institutional economics towards labour market functions and policies. After presenting the origins and method of the School, it briefly compares old Institutionalism and early Neoclassical economics focusing on labour market issues. It also discusses the old institutional approach with respect to the collective action and labour market policy. The chapter concludes with Ross-Dunlop debate on labour unions and the case of minimum wages policy in order to emphasize the relevance of early institutional ideas in analysing contemporary labour market issues.

Keywords: Institutional School, Economic Policy, Labour Policy, Labour Market Institutions

JEL codes: B15, B25, J08

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I. Introduction

Many historians of economic thought recognize the separate existence of the Old Institutional School (e.g. Rutherford, 1996; Dequech 2002). A unique theoretical and methodological approach of the school is the main reason for this classification. More specifically, early institutional economists conceived of economy as a nexus of institutions, highlighting the important role of non-market factors such as proprietary rights, professional and trade associations, traditions, customs, etc. in the economies' functioning. In addition, they expressed the belief that the economic concept of welfare, in addition to the criterion of effectiveness and satisfaction of consumer desires, should include issues concerning e.g. the human "self-development", justice and workers' well-being. Further, the rejection of the model of homo economicus is a key characteristic of their economic methodology (Veblen is the main figure in this respect). Some of the above features may be also regarded as reasons/factors of the differentiation of the school from the subsequent New Institutional Economics (Hodgson, 1989; Rutherford, 1996; Dequech, 2002).[1]

Their conception of the labour market functions is another example of the uniqueness of their approach. In their framework, the nature of labour markets has numerous peculiarities compared to other markets. In contrast to the standard approach, labour market functioning does not depend only on the price mechanism, but is also affected by other key factors and parameters such as social norms, several psychological factors and various labour institutions. Old Institutional Economics has long attached great significance to the above-mentioned factors, and that was one of the main reasons for its intellectual dominance in the economic analysis of labour markets during the first decades of the 20th century.

This chapter seeks to examine and highlight the contribution of the old institutional economics towards labour market functions and policies. Its structure is the following: Section 2 succinctly presents the origins and method of the School, while section 3 briefly compares old Institutionalism and early Neoclassical economics focusing on labour market issues. The next section presents the main theses and

[1] For a recent discussion about the similarities and dissimilarities between Original and New Institutional Economics, see Spithoven (2019).

approaches of institutional labour economics. After this discussion, section 5 looks at the old institutional approach with respect to the collective action and labour market policy. Through the Ross-Dunlop debate on labour unions, section 6 provides an example of the impact and the gradual decline of the Old Institutionalism's influence. Section 7 briefly discusses the case of minimum wages policy in order to emphasize the relevance of early institutional ideas in analysing contemporary labour market issues. Finally, there is a summary of the key points of the chapter.

II. Origins and Method of the Old Institutional School of Economics

It is generally accepted that Institutional school of economics emerged in the United States by the end of the 19th century and flourished in the first decades of the 20th century. The three major figures of early institutional economics were Thorstein Veblen (1857-1929), Wesley Clair Mitchell (1874-1948) and John Rogers Commons (1862-1945). The first explicit (at least prominent) reference to the term "institutional economics" seems to have appeared in an article written by Walton Hamilton in 1919, entitled "The Institutional Approach to Economic Theory", which was published in the American Economic Review. The old institutional school of economics reached its peak in the 1920s, while in the 1930s gradually began to decline, and until the end of World War II had lost much of its previous influence on economic thought (Kaufman, 2000; Rutherford 2003; Hermann, 2018; Mayhew, 2018).

The philosophical background (Weltanschauung) of old institutional economics was shaped by both European (e.g. Hegel, Darwin and Spencer) and American (e.g. Peirce, James and Dewey) intellectual influences. In contrast to the mechanistic and static perception of classical and neoclassical economic tradition, institutional economists regarded the economic system as a dynamic and evolutionary process (Papageorgiou et al, 2013). Within such a system, the individual is considered a social being whose behaviour is affected by the force of habit and formed by the individual's interaction with the other members of the community. The institutional methodological approach has been characterized as holistic since institutional economists were interested in the functioning of the economy as a whole, as opposed to the methodological individualism of the neoclassical paradigm (Biddle and Samuels, 1998).

Institutionalists argued that the understanding of the institutional structure of an economy is also a basic prerequisite for finding solutions to problems of economic and labour policy. Nevertheless, institutions, should not be regarded as given, since they are human constructs and are subject to perpetual change (Witte, 1954). Furthermore, the (direct) observation of the real world – and not the construction of (abstract) models – was a main component of institutional economics, whose members did not regard economics as an exercise of logic, but as an endeavour to explain the behaviour of the real economies.

One of the fundamental institutionalist theses was that an economy should not be conceived only in terms of the market mechanism, but should also include all those institutions that operate through the market and interact with it (Samuels, 1987). In this context, the institutional structure and arrangements of the economy – and not the market mechanism – were the crucial factors for the good economic performance and the effective allocation of the productive resources; the market is nothing more than a mere, though very important, institution. Furthermore, institutions, as human constructs, are subject to continuing modification. In institutionalists' view, institutions play a significant role not only in the shaping of human behavior, but also in the evolution of capitalism. However, this role is in fact quite intricate given that institutions are part of the contradictory powers that form instincts, conducts, and habits of thought (see e.g. Veblen, 1909).

The old Institutional school of economics composed many studies concerning the conditions of work and employment, playing also a substantial role in the formation of the US labour legislation during the first decades of the 20th century (Katselidis, 2011). Furthermore, these reform-minded academic economists founded in 1906 the American Association for Labour Legislation (AALL), "launching a national movement for compulsory social insurance and protective labour legislation" (Moss, 1996, p. 2). Thus, they had a significant impact on the formation of the US welfare state and highly affected the making of the New Deal policy of President Roosevelt in the 1930s. Finally, institutionalists, by adopting an interdisciplinary approach in their works, extended as well their contributions to non-economic fields such as sociology, psychology and labour history (Hermann, 2018).

Labour institutionalism had several intellectual roots, such as the "German Historical School" of economics, the progressive reform movement in America and some dissenting British economists, including Sidney and Beatrice Webb and William Beveridge (Kaufman, 2004). In addition, some late nineteenth-century American economists, such as Richard Ely and Henry Carter Adams, who both had studied in Germany and were influenced by the historical school of economics, were the main origins of the Institutionalists' emphasis on legal institutions (Rutherford, 2003). Finally, both the interest of institutional economists for social reform and their belief that the state can significantly contribute to this end had also their roots in "historical economics" (Tribe, 2003).

All the above-mentioned sources of influence led many "institutional economists to adopt an empiricist approach to theorizing, namely they first collect the data and the observations, involving themselves in the facts (Richard Ely's "look and see" method), and then adduce from the facts and other grounded empirical work the major premises for theorizing, so as to draw conclusions about reality. This approach was opposed to the deductive, a priori method of mainstream economics" (Katselidis, 2011, pp. 988-989; see also Chasse, 2017). However, it should be explicitly noted that the afore-mentioned empiricist approach mainly characterizes the institutionalist tradition of Commons and Mitchell and not the Veblenian approach. Veblen's main contribution to labour issues, as we will see in the next section, is related to his rejection of the (neoclassical) pleasure-pain approach to labour theorizing. Though this rejection might be relied upon observation, it was not based on the kind of "go and see" approach that Commons and his fellows used.[2]

III. Labour Market: Old Institutionalism vs. Early Neoclassical Economics

From the beginnings of economic science both the concept of the market and that of labour had a central role in economic thought. However, labour market analysis and the examination of industrial problems had been limited for a very long time. Accordingly, the early economic literature on labour institutions and their objectives

[2] Many thanks to Anne Mayhew for this argument.

was rather short and incomplete. In particular, "classical economic thought advocated free labour markets and considered the relationship between labour and capital to be non-competitive" (Drakopoulos and Katselidis, 2014, p. 1135). In addition, classical economists were more interested in long-term economic processes under the assumption of perfectly competitive markets, and less about the actual conditions of the (imperfect) job market. On the other hand, marginalists and early neoclassical analysts, such as Stanley Jevons and Francis Edgeworth, asserted that the existence of labour institutions, like trade unions, renders the labour market problem mathematically indeterminate (Edgeworth, 1881; Jevons, 1882). Therefore, practical issues concerning labour did not pertain to economic science (e.g. Jevons, 1882, pp. 154-155; see also Kaufman, 2004).

Consequently, early neoclassical economics under the hypothesis of perfectly competitive markets, could not shed light on fundamental labour market issues, including the role of collective bargaining, the interplay between labour unions and employers' associations, or labour legislation matters. Thus, the goal of the institutional economists was twofold: "On the one hand, they attempted to make labour problems more widely known, emphasizing the crucial role of labour issues both in the economy and the society. On the other hand, they tried to 'prove' that the neoclassical analysis could not contribute to any solution of this kind of problems; therefore, a different scientific approach was needed" (Katselidis, 2011, p. 988).

Early Neoclassical theorists conceived labour as a pure commodity or a factor of production. Hence, the payment of labour in the neoclassical system is determined by the marginal productivity theory, according to which wages are equal to the value of marginal product of labour, under the hypothesis of perfect competition both between workers and between employers (see e.g. Clark, 1899, pp. 166 and 179). Moreover, the marginal productivity condition determines also the level of the demand for labour. Nevertheless, the final magnitude of wages and employment is also influenced by the supply of labour (Marshall [1920/1890]1949). The neoclassical supply of labour relied upon the utilitarian hedonic principle, according to which, labour provides negative utility to the worker (for a neoclassical definition of labour, see Jevons [1879/1871] 1965, pp. 168-169).

The neoclassical conception of labour was in full contrast to the institutional viewpoint; for instance, the institutional-Veblenian notion of the "instinct of workmanship" was diametrically opposed to the hedonistic interpretation of human behaviour and the aversion to work (Veblen, 1898; 1914). In addition, the neoclassical hypothesis of the negative utility of labor is incompatible with human biological evolution, since if humans were systematically avoided useful labor, then the human species would not have survived (Hodgson, 2004).

Furthermore, during at least the first third of the 20th century, Arthur Pigou may be regarded as the most prominent early neoclassical author on the labour market analysis. Specifically, Pigou was one of the first neoclassical economists who found a strong positive correlation between real wages rate and unemployment level, attributing more and more importance to wage rigidities as the main cause of the unemployment problem. Additionally, in contrast to the institutional economists, he considered particular institutional factors like the trade unions' power or the minimum wages to be mainly responsible for labour market malfunctioning (Pigou, 1913; 1927; see below section 7).

On the other hand, the majority of the institutional economists underlined the importance of social and institutional parameters in determining the level of wages and strongly expressed their reservations as regards the connection of the principle of marginal productivity with the real firms' conduct (see e.g. Lescohier, 1935). Moreover, institutionalists argued that the nature of labour supply is totally different from the supply of other input factors or commodities. For instance, Wisconsin institutionalism emphasized the significant role of human will in economic life and tried to construct a human theory of labour as an alternative to a mechanical/physics type theory of mainstream/neoclassical economics (Lescohier, 1919a; Commons, 1964 [1913]; Commons, 1950).

In spite of the afore-mentioned differences - both in theory and methods - between early neoclassical and institutional economists, it is worth noting that there were also some convergent points of view. For instance, Arthur Pigou, in his work *Unemployment* (1913), endorsed some policies and labour market institutions proposed by institutional economists, such as insurance against unemployment or a net of labour exchanges (Katselidis, 2011). Moreover, it is also noteworthy that Alfred Marshall did not piously adopt the abstract - deductive approach with respect to labour issues. Although Marshall's labour market approach was not differentiated from the competitive market reasoning, he developed some arguments which seem to bear close resemblance to the institutional analysis. For instance, Marshall's view that "there is no such thing in modern civilization as a general rate of wages" may have a strong institutional bend (see Marshall, [1920/1890]1949, p. 442).

IV. Labour Market: The Institutional Approach

As already noted, the first systematic and special studies on the labour markets and their problems emerged in the last decades of the 19th century and the first decades of the 20th century. During that period, the large Western economies were gradually driven to full industrialization and production concentrated in big factories where, in many cases, mainly in the US, a scientific organization of the work process (Taylorism) was adopted. At the same time, labour was taking the form of "regular employment", and a large part of the workforce consisted of salaried employees (Wisman and Pacitti, 2004). Then, the trade union movement in Europe and America was significantly strengthened, and the first powerful factory unions, which enumerated thousand members, were created. Within this historical context, the first generation of institutional economists provided their analyses on numerous labour issues.

The labour market, as an imperfect human-made institution, may break down due to various reasons, causing thus a host of problems. Institutional labour economists tried to resolve these "labour questions" primarily through three means/methods: a) unions, b) labour law and c) (personnel) management. Firstly, mainly during the period from 1885-86 to 1905-06, there were a considerable number of labour studies and books focusing on the problems of organized-unionized labour. Accordingly, that trend in the labour studies placed emphasis on the various evils connected to the use of labour in an industrial system, on trade unionism and collective bargaining (McNulty, 1980). For example, a popular work in American literature related to a great degree to the study of organized labour was the Thomas S. Adams and Helen L. Sumner's textbook *Labour Problems* (1905). However, it is here noteworthy that the analysis of all these works published during the first phase of labour institutionalism concerned more the impact of labour problems on individuals than on the economy.

In the first decade of the 20th century, there was a shift as regards the ways to address the various labour issues, instigating thus the second "phase" in the study of labour problems and solutions. In particular, labour specialists and policy makers attributed more and more importance to labour law and specifically to social insurance and protective labour legislation (Kaufman, 2003). “That shift played also a role to the gradual emphasis given to the labour market as an institution and how the employment relationship is embedded and operates within a web of institutions” (Katselidis, 2011, p. 993). In addition, as has been mentioned, the “American Association for the Labour Legislation” was founded in 1906, encouraging this kind of research, and Commons and Andrews’s book entitled *Principles of Labour Legislation* (1916) was regarded as the leading work in this area down to about the mid-1930s. Labour institutionalists, by underlying the peculiar nature of the labour contract, conceived of labour and the “free access to a labour market” as an intangible property right: “It is intangible because it is merely the act of offering and yet withholding services or commodities. It is property and becomes labour in the sense that it is the power of getting value in exchange” (Commons and Andrews, 1916, p. 8). For that reason, the government should intervene both in the economy and the labour market in order to protect the afore-mentioned property right.

The third “phase” of labour institutionalism emerged around WWI with appearance of the field of industrial relations/personnel management. In general, early labour institutionalists, such as John Commons, Don Lescohier, William Leiserson and Sumner Slichter, made a substantial contribution towards the examination, development and promotion of this new approach to labour management, stressing its positive impact both on employee relations as well as on firms’ profits. For instance, Commons’ book *Industrial Goodwill* (1919), strongly criticized the old personnel methods such as the so-called “drive” methods of management and the scientific management, known as Taylorism. On the other hand, he highlighted the positive consequences of more participative and collaborative practices like his “goodwill” approach (see Commons, 1919, p. 19).

It is worth pointing out here that all the above-mentioned research approaches and programs were influenced both by the scientific progress in the labour studies field and by the real-life phenomena such as the disorganized nature of the American labour market or the pervasive dissatisfaction displayed by workers. “Thus, the serious economic and political pressures generated by the WWI, in conjunction with the development of the institutional program of labour studies, help explain why institutional economists gave emphasis to certain subjects such as labour turnover, labour management or the organization of the labour market through an extensive system of labour Exchanges" (Katselidis, 2011, p. 993).

In general, labour institutionalists strongly criticized both the unreal character of the various neoclassical assumptions and the overreliance on abstract mathematical analysis. Institutionalists' work was focused on the "rejection of the three then-prevalent orthodox doctrines: the commodity conception of labour, a laissez-faire approach to market/employment regulation, and the monarchial or 'employer autocracy' model of work force governance" (Kaufman, 2003, p. 4).

V. Collective Action and Labour Policy

A fundamental theme of American institutionalism was that the employee-employer relationship, as embedded in the employment contracts, is not regarded only as a kind of market transaction, but it is also formed through the interaction of legal, economic, social and political factors. For that reason, institutional economists contended that the study of labour issues requires the adoption of a multidisciplinary approach (Kaufman, 2006). In addition, they recognized that labour, even conceived as a commodity, displays at least two important peculiarities: (a) in a free labour market, the "labour commodity" is sold for a specified time period, preserving thus the worker's personal freedom, and (b) it is a commodity that cannot be separated from its owner. Therefore, institutionalists argued that the labourer is not just an input in the productive process or a tool of production. On the contrary, most emphasized the human and social aspects of work, regarding the worker as a citizen and a social being who has family, personal life, etc. (see e.g. Commons and Andrews, 1916; Lescohier, 1919b). They also considered that the monolithic perception of labour as a market commodity and a supplement to the other factors of production impedes the implementation of these policies which promote labourers' welfare, a better education system, health protection, improvement of living conditions of the working class etc. (Commons, 1964 [1913]; Commons and Andrews, 1916).

Furthermore, institutional economists, by stressing the importance of collective action, rejected the neoclassical conception of society as a simple sum of individuals

(Commons, 1934). Therefore, an additional essential characteristic that differentiates labour from the other factors of production is the collective behaviour of individuals that induce them to form groups and unions based on common interests and goals (Wolman, 1924; Perlman, 1928). Besides the economic purpose of unions, that is the improvement of working conditions and laborers' living standard or the redistribution of wealth, John R. Commons and other early institutional economists also attached great significance to "the more general function of unionism — responsibility for representative democracy in industry" (Perlman 1960, 341; see also Kaufman 2000). Furthermore, the first generation of institutional economists — Robert Hoxie, Selig Perlman, and George Barnett — did not try to formalize their ideas on trade unions, but instead adopted a more sociological-historical approach which clearly demonstrates the interdisciplinary character of their studies. This viewpoint was also part of their holistic methodological approach emphasizing the social nature of man, collective decision-making, and particular institutional histories (for a discussion, see Rutherford 1989; 2009). In general, they conceived of unions as politico-economic organizations whose members were motivated by relative comparisons and were concerned with issues of equity and justice (Drakopoulos 2011, 8). They also sought to place unions into different categories according to their structure, specific purpose, or social function (e.g. Hoxie, 1914). Finally, they described in detail the various duties and responsibilities of unions, and explained the factors that influenced the development of unionism.

Institutional labour economists were at that time in front of a host of labour issues and questions that required investigation and resolution: first, workers were exposed to many risks, facing a variety of problems such as low wages, poor and unhealthy working conditions, frequent labour accidents, gruelling working hours, unemployment etc. Therefore, the creation of those institutions, like for example minimum wages and accident prevention statutes, that would protect employees and restrict their suffering was indispensable (Commons and Andrews, 1916). Second, cyclical as well as seasonal fluctuations were permanent in the US economy, making both product and labour markets highly volatile. Thus, the stabilization of these markets and the reduction of casual and unstable employment were also two crucial issues (Lescohier, 1919a). Third, the relationship between workers and employers was to some degree confrontational; institutionalists were in favour of the alleviation of this struggle through institutional measures and labour laws. In a similar vein, they also supported the equality of bargaining power of employers and workers (Commons, 1919). Finally, a fourth important issue, with adverse effects both in employees and employers, was related to the workers' behaviour and attitude. Specifically, workers were often indifferent to their work and their duties; for that reason, institutionalists proposed ways of improving work climate and employee involvement in the operation and management of the companies (Slichter, 1926).

The main pillars of the institutional school's agenda with respect to labour market policy and the creation of appropriate institutions were the following: first of all, the American institutional economists strongly supported the systematic organization of the labour market through the institution of manpower employment agencies that would contribute, inter alia, to the increase of market efficiency (Leiserson, 1914; 1917; Lescohier, 1919a). Second, they suggested strengthening regular and stable employment and reducing the very high rate of labour turnover, i.e. the workers' movement rate from one job to another, which was considered to be one of the most serious evils of the industrial life. Besides their attempt to find the causes and remedies of the problem, institutionalists tried to statistically analyse it so as to determine, if possible, the optimal-normal turnover rate (Slichter, 1919; Brissenden and Frankel, 1922). Thirdly, influenced by the so-called industrial education/vocational guidance movement developed in the United States in the period under consideration, they underlined the importance of the systematic policy of vocational education and training with a view to further developing employee skills (Lescohier, 1919a). Fourthly, institutional economists were the founders of the personnel management and industrial relations, developing progressive ideas about how to manage employees in enterprises (Commons, 1919; Leiserson, 1959). Moreover, a fifth pillar of the early institutional labour market policy agenda is related to the institutionalists' aim to improve working conditions with an emphasis on healthy workplaces (Lescohier, 1919a). Sixth, they proposed a counter-cyclical macroeconomic policy aimed at smoothing both cyclical economic fluctuations and the destructive, as proved, rapid rises and falls in the size of the production activity and employment (Commons, 1934; for a discussion see Kaufman, 2006). Finally, institutionalists were pioneers in the issue of social security, proposing, for example, insurance against unemployment and medical insurance (Altmeyer, 1937; 1950; Witte, 1935).

VI. Old Institutionalists' Legacy: The Ross-Dunlop Debate on Labor Unions

During the 1940s, there was a controversy among labour economists concerning the underlying incentives of the behavior of unions. This controversy is an indicative example of the Institutionalists' legacy but also of the gradual decline of their impact. The leading figures of this debate were Arthur Ross and John Dunlop. The former was closer to the institutional-political approach, while the latter adopted a more neoclassical point of view. The "Ross-Dunlop debate" (see, for instance, Kaufman and Martinez-Vazquez 1987), reflected the rising current of the expansion of the method of mainstream economics to the study of unions (Mitchell 1972).

Dunlop discarded the idea that wage determination under collective bargaining is a political process. Thus, he asserted that the institutional methodological approach to the study of labour unions should be rejected. More specifically, Dunlop (1944), by conceiving unions as analogous to business firms, developed a formal analytical model of trade union behavior based on the microeconomic theory of the firm. He held that a union is a "decision-making unit" which attempts to maximize some objective, considering "wage bill for the total membership" to be the most appropriate union's goal, subject to various constraints such as the firm's labour demand curve (Dunlop 1944, 4-5, 44; see also Kaufman 2002). However, besides wage-bill maximization, Dunlop also referred to other union objectives, such as the guarantee of the largest possible union employment or the maximization of the "collective wage 'rents' of those employed" (Dunlop 1944, 41). Moreover, he maintained that wages and employment level are also influenced by the different positions of the membership function (Kaufman 2002).

On the other hand, mainly through his works *The Trade Union as a Wage-Fixing Institution* (1947) and *Trade Union Wage Policy* (1948), Ross strongly criticized Dunlop's "economic" union model, placing emphasis on the nature of the union as a political agency (see e.g. Ross 1947, 587). In particular, Ross rebutted Dunlop's contention that wages are determined by impersonal market forces, since the "union is not a seller of labour and is not mechanically concerned with the quantity sold" (Ross 1948, 4). Furthermore, Ross conceived of trade unions as a "collectivity," which implies that the influence of group behavior is stronger than individual behavior. Thus, in order to understand unions' behavior, one should not limit the analysis to a narrow economic context by using a mechanical application of the maximization principle, but should place it in a broader framework, taking into consideration psychological, sociological, and (mainly) political aspects. Moreover, he contended that union, as a political entity, not only strengthens democracy, but also plays a significant role in issues like social justice and equity. By contrast, Dunlop's microeconomic framework could not deal with such themes, thus expelling from trade union analysis some important non-economic parameters that have a strong influence on unions' behavior.

It should also be noted, however, that Ross recognized that trade unions and business firms do have some particular aspects in common. Nevertheless, not only did he reject the existence of the close analogy between the firm and the union, (a necessary assumption in order to implicate the mathematical framework of microeconomics), but he also turned against Dunlop's thesis of a well-defined microeconomic-based union objective function. First of all, although both institutions have a formal purpose or rationale, he asserted that unions aim to maximize a non-measurable variable, viz. the economic welfare (wages, hours, and conditions of work, etc.) of their members, in contrast to firms' goal of maximizing their stockholders' profits. In addition, trade unions' feature of the heterogeneity of their members implies that individual union members often have conflicting preferences and interests due to differences in age, seniority, wages, and other related factors. These features render the aggregation of the individual preferences of union members an extremely difficult task. Significant differences also exist between union leaders and the rank and file as long as the former behave according to their personal ambitions, having also as a main purpose the survival and growth of the organization. Hence, the trade union wage policy is not actually formed through the rank and file decisions, but it is a function of leadership (for the above points, see Ross 1947, 569-573, 582, and 584).

Despite the fact that the approaches of Dunlop and Ross emphasized different aspects of union behavior, there were also some converging points of view. First, both writers advocated, though to a different degree, an "interdisciplinary 'industrial relations' approach to studying unions" (Kaufman 2002, 118). Even Dunlop, who was engaged in theory-building and strongly criticizes institutional and historical methodological approaches, rebutted the neoclassical contention that economic theory can explain all aspects of human behavior related to markets. It is very interesting that Dunlop's concerns about the methodological "imperialism" of economics were preceding the literature on the issue which grew in the 1960s, stimulated mainly by Gary Becker's works (see Fine 2000; Rothschild 2008).

In the following decades, however, Dunlop's reservations concerning the complete abandonment of the political aspects of union behavior and of the excessive reliance on the equilibrium techniques were downplayed. The differences between Dunlop and Ross's perspectives became more and more profound, thus establishing the dichotomy between analytical labor economics and institutional labor economics, as these two approaches are often called (see also Rees 1976). In spite of this however, Ross's impact on the analysis of unions is still discernible: the conception of unions also in terms of power and collective entity can also be found in parts of modern standard labor economics. For example, current managerial or political models of trade unions acknowledge their debt to Ross's arguments (e.g. Pemberton, 1988; see also Mitchell 1972, Kaufman, 2002)

VII. Old Institutional Economics and Current Labour Issues: The Case of Minimum Wages

For most early neoclassical economics, the enforcement of a minimum wage was considered to be foreign to the laws of political economy given that it diminishes the size of employment – especially the employment of low-wages workers – and discourages capital and firms to expand. For instance, A. C. Pigou, though accepted a broad Minimum Conditions program with respect to several aspects of life (*e.g.* education, consumption, medical care and housing), he argued that a minimum wage was a deficient measure due to its possible negative impact on employment level and its failure to take into account individual variations (Pigou, 1913; see also Katselidis, 2016).

Nowadays, although there is no consensus among economists on the effect of minimum wages on the unemployment level, it is argued that the imposition of minimum wages mainly has an adverse impact on the employment of young people and low-skilled workers (see e.g. Nickell and Layard, 1999; Neumark and Wascher, 2008; Ehrenberg and Smith, 2017). The opponents of minimum wages hold that though those workers who remain in the labor market have higher wages, this is in fact at the expense of both lower firms' profits and lower employment. However, this analysis assumes that firms operate in competitive markets with little or no economic rent that can be extracted in the form of higher wages. Once the assumption of competitive markets is dropped, the effect of minimum wages becomes much less clear. After the publication of Card and Krueger's influential book *Myth and Measurement* (1995), there have been many mainstream economists who argue that imposing a minimum wage may have a positive effect on employment (increase in employment) (only) when the business firm has some form of monopsony power in the labour market due to e.g. labour immobility (Card and Krueger, 1995). In this case, a monopsonistic firm pays a wage significantly lower than both the competitive one and the marginal product of labour, employing also fewer workers than it would if it were in a competitive labour market. The introduction here of a minimum wage will be expected to increase employment up to the point where the minimum wage level is equal to the competitive equilibrium wage (Polachek and Siebert, 1993). Even then, nevertheless, neoclassical practitioners are likely to contend that monopsony conditions do not characterize the real markets where minimum wages apply.

For institutionalists however, this is the wrong way to conceive of markets. As Kaufman (2010) points out, institutional theory tells a more convincing story and presents a more positive case for minimum wages, broadening also the relevant theory and policy debate. Specifically, in early institutional economics' viewpoint, the implementation of a statutory minimum wage may affect positively both workers and employers, promoting also long-term economic efficiency and productivity. For instance, "high road" employers, who face an increased production cost due to the existence of a minimum wage, will be forced to improve their production methods, investing in new technologies, R&D and human capital (Kaufman, 2010). In addition, the enforcement of a minimum wage higher than the competitive one will lead to a revision of firms' hiring policy; firms will mainly turn into hiring permanent and capable employees, reducing thus the number of low-quality casual workers. This may also have a positive impact on workers, provided that they will try to improve their technical dexterities and qualitative characteristics with a view to become more competitive (Commons, 1921). Consequently, in the long-run, the most effective and advanced enterprises survive in the markets, since they gradually displace those firms which follow old and obsolete management and production methods.

Early institutional economists also held that minimum wages legislation is one of the instruments against the exacerbation of labour standards caused by adverse economic circumstances like unemployment, which gives employers the power to exploit the labourers' need to work, leading also to more elastic employment conditions (lower wages, worse working conditions, illegal labour with close to zero salaries, etc.). Additionally, workers have no power to react since they are easily replaceable and have a strong need to work at any labour price. In other words, this power structure violates any equality in the negotiations between employers and workers, giving the comparative advantage to the stronger part. Therefore, the minimum wages measure can also contribute towards the reduction of inequality of bargaining power (Commons and Andrews, 1916). Finally, early institutionalists, in a "proto-Keynesians" vein, connected minimum wages to macroeconomic stability and aggregate demand's boost (Kaufman, 2010).

VIII. Concluding Remarks

As was seen from the discussion on the origins and method of old institutionalist economics, it exhibits certain theoretical and methodological characteristics which distinguish it as a separate school of economic thought. Their conception of the labour market functioning and of labour market policies are indicative examples of the uniqueness of their approach as a non-mainstream school of economics. Classical and early neoclassical economists did not pay much attention to the economic analysis of labour market institutions since they contend that such an issue was outside the standard domain of economic analysis (e.g. Jevons, 1882), and that the institutional presence hampers the application of formalism to economics (e.g. Edgeworth, 1881). By contrast, early institutionalists had paid considerable attention to the examination of the institutional framework of the labour market, of labour market policies and also of the phenomenon of collective action.

In particular, the first generation of institutional economists highlighted the importance of institutions and other non-market factors in determining the level of wages and employment (e.g. the role of the bargaining power of workers and employers). Furthermore, they made substantial contributions towards the field of labour policy, and they were pioneers in the formulation of economic and social policy in the US during the first decades of the 20th century. Their aim was the improvement of working conditions and the rise in the labourers' standard of living. The Ross-Dunlop debate on labour unions and the case of minimum wages policy were also presented as case studies in order to highlight the influence of early institutional ideas in subsequent labour market analysis in economic literature. In this respect, their ideas can be useful in contemporary debates concerning the functioning of modern labour markets and of workers' economic issues.

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