

Economic rationality in American institutionalism

Javier de Arribas CámaraDepartamento Economía Aplicada, Pública y Política, Universidad Complutense de Madrid  <https://dx.doi.org/10.5209/ijhe.103310>

Recibido: 16/3/2025 • Revisado: 30/4/2025 • Aceptado: 18/5/2025

EN Abstract. This article examines how American institutionalism conceives economic rationality as a historically and socially conditioned process. It analyses the contributions of Thorstein Veblen, John R. Commons, Wesley C. Mitchell, and Richard T. Ely who, influenced by evolutionary perspectives and social psychology propose that habits, customs, and institutions shape individual decisions. Instead of reducing behaviour to a utilitarian calculus, they highlight the relevance of emulation, imitation, the search for prestige and the pressure exerted by the cultural and technological environment when it comes to the subject's own recognition of the ends of his or her actions or omissions. In addition, collective mediation, through legal norms, policies, and customary practices redirects the ends and means of each subject, generating tensions between individual rationality and collective adaptation. This interdisciplinary vision, which integrates history, sociology, and psychology allows us to understand the complexity of human motivations, the limited vision implied by the standardised definition of rationality, and the constant evolution of economic institutions.

Keywords. American institutionalism, rationality, social evolution.

JEL Code: B5.

ES La racionalidad económica en el institucionalismo americano

ES Resumen. Este artículo examina cómo el institucionalismo estadounidense concibe la racionalidad económica como un proceso histórico y socialmente condicionado. Se analizan las contribuciones de Thorstein Veblen, John R. Commons, Wesley C. Mitchell y Richard T. Ely quienes, influidos por perspectivas evolucionistas y la psicología social, proponen que los hábitos, las costumbres y las instituciones moldean las decisiones individuales. En lugar de reducir el comportamiento a un cálculo utilitario, resaltan la relevancia de la emulación, la imitación, la búsqueda de prestigio y la presión que ejerce el entorno cultural y tecnológico a la hora de poder ser reconocidos por el propio sujeto los fines de sus acciones u omisiones. Además, la mediación colectiva, a través de normas legales, políticas y prácticas consuetudinarias, reconduce los fines y medios de cada sujeto, generando tensiones entre la racionalidad individual y la adaptación colectiva. Esta visión interdisciplinaria que integra la historia, la sociología y la psicología, permite comprender la complejidad de las motivaciones humanas, la limitada visión que supone la definición estandarizada de racionalidad y la constante evolución de las instituciones económicas.

Palabras clave. Institucionalismo americano, racionalidad, evolución social.

Códigos JEL: B5.

PT Racionalidade econômica no institucionalismo americano

PT Resumo. Este artigo examina a forma como o institucionalismo americano concebe a racionalidade econômica como um processo histórica e socialmente condicionado. Analisa os contributos de Thorstein Veblen, John R. Commons, Wesley C. Mitchell e Richard T. Ely. Ely, que, influenciado pelas perspectivas evolucionistas e pela psicologia social, propõe que os hábitos, os costumes e as instituições moldam as decisões individuais. Em vez de reduzirem o comportamento a um cálculo utilitário, sublinham a importância da emulação, da imitação, da procura de prestígio e da pressão exercida pelo ambiente cultural e tecnológico para poderem ser reconhecidos pelo próprio sujeito como os fins das suas acções ou omissões. Além disso, a mediação colectiva, através de normas jurídicas, políticas e práticas consuetudinárias, reorienta os fins e os meios de cada sujeito, gerando tensões entre a racionalidade individual e a adaptação colectiva. Esta visão interdisciplinar, que integra a história, a sociologia e a psicologia, permite-nos compreender a complexidade das motivações humanas, a visão limitada que a definição estandardizada de racionalidade implica e a evolução constante das instituições económicas.

Palavras-chave: institucionalismo americano, racionalidade, evolução social.

JEL classificação: B5.

Acknowledgements: for the funding received for the project PID2022-136664OA-I00, Knowledge Generation Projects 2022, from the Ministry of Science and Innovation.

Sumario: 1. Introduction; 2. Institutional Economics; 3. The father of institutionalism: Veblen and his influences; 4. Rationality in Veblen; 5. Rationality in institutionalism; 6. Conclusions.

Cómo citar: De Arribas Cámara, J. (2025): Economic rationality in American institutionalism. *Iberian Journal of the History of Economic Thought*, 12(1), 41-49. <https://dx.doi.org/10.5209/ijhe.103310>

1. Introduction

Edwin G. Boring portrays Wilhelm Wundt as the founder of psychology as a science, as he succeeded in making it independent from philosophy by asserting its scientific nature. Wundt defended this view in works such as *Contributions to the Theory of Sensory Perception* (Wundt, 1862) or *Lectures on the Human and Animal Mind* (Wundt, 1863). The idea of “unconscious inference” was used to explain how sensory impressions connect with conscious perceptions, in such a way that underlying sensations are ultimately transformed into basic mental (sensory) perceptions, forming the more complex processes of consciousness that our mind could then access.

The foundation of *Völkerpsychologie* (folk psychology or the psychology of peoples) is attributed to Lazarus (1824–1903) and Steinthal (1823–1899). Lazarus was heavily influenced by Johann Friedrich Herbart and his association between socio-cultural nature and humanity. Steinthal met Lazarus in Berlin, where he was also strongly influenced by Herbart’s ideas and together, they began to emphasize the importance of language and speech in both individual and collective human thought.

In 1860, the chair of *Völkerpsychologie* was established at the University of Bern, where it was asserted that the spirit of the people (*Volksgeist*) and the spirit of the individual developed in a feedback loop, as society strongly influences the development of the individual. Two interrelated manifestations of the *Volksgeist* were identified: on the one hand, it was intrapsychic, structured through thoughts, volitional dispositions, and feelings; on the other hand, it had a material representation through cultural products (ranging from works of art to social codes and rules), structured by customs, religion, or mythology. For these authors, customs were tied to will and the combination of will with practical action, both in active form and in omission.

Initially, Wundt did not consider the proposals of Lazarus and Steinthal sufficient, as he argued that the individual mind and its laws were primary and developed before social phenomena. However, he later revised this stance and came to accept and substantially expand upon the principles of classical *Völkerpsychologie*. Wundt demonstrated great sensitivity to intersubjective processes, focusing on how human beings co-constructed and mutually shaped their shared habits and ideas through everyday activities and practices. He was particularly interested in the cumulative effects of these interactions over time, viewing them as part of a continuous evolutionary process progressing from the elementary to the heterogeneous (Danziger, 1982).

Wundt acknowledged that it was possible to assess the clear impact of external living conditions, as proposed by Darwinism. However, from his proactive conception of the mind, he emphasized the creative capacity of human beings. Utilitarian and Darwinist perspectives often regarded magic, myths, and primitive animism as naive attempts to explain natural phenomena. But Wundt argued that these phenomena revealed a connection between sensory perception and subjective affective and imaginative states, even if in civilized humans, critical or instrumental rationality tended to dominate them.

The Wundtian project of *Völkerpsychologie* did not continue directly after Wundt’s death, for several reasons, among them, the fact that he never showed a genuine interest in mentoring or training other researchers in this field (Kusch, 1995). However, his work did have a major influence on later thinkers, notably on the sociologist Émile Durkheim, who helped popularize the school within the French academic context (Espagne, 1998). Nonetheless, for the purpose of this article, it is important to briefly note that *Völkerpsychologie* became a fundamental precursor to the later Vygotskian project (Valsier, J. and Van Der Ver, R., 1987). This project gave rise to the socio-historical school that developed in Russia (in parallel to classical institutionalism) and spread throughout the USSR, influenced by both Pavlovian and Marxist frameworks. It posited that consciousness is formed through meanings, with the community providing everyone with the tools needed to interact with their environment. In this way, various social references become mediators that give meaning to actions, actions that may have instinctual or natural roots, but which, through mediation, allow for thought, action, and self-understanding. This mediation has a social origin and is inevitably shaped by culture (Vygotsky, 1991). Due to various obstacles, such as Vygotsky’s illness and premature death, as well as his marginalization under Stalinism beginning in the 1930s (a consequence of his studies in the 1920s in the Central Asian regions of the USSR) his work was largely ignored in the West. As a result, the potential impact his ideas might have had on American institutionalist thought was lost. It was not until the 1960s that Vygotsky’s work was rediscovered in the United States in various fields such as psychology and neuroscience but, by then, institutionalist economics was already in decline and the neoclassical approach had taken firm hold (Cole, 2003).

During the final decade of the 19th century, a distinctly American movement emerged, contrasting with German-inspired schools that had minor impact in the U.S. due to their unfamiliar worldview and

approach to reality. This movement reached a pivotal moment in 1890 marking the beginning of functionalism. The elements that shaped functionalism, along with the work of some of its key figures, shared influences with Thorstein Veblen who is broadly considered the father of classical American institutionalism.

Addressing functionalism takes us back to Aristotle, who defined living beings by what they do rather than by the structures that compose them (Loy, Sánchez & Fernández Rodríguez, 1992). This idea continued through Kant and culminated in Darwinism all of which emphasized the adaptive value of consciousness, thoughts, and decisions which, in turn, were seen as the result of the subject's ongoing adaptation to their environment. Secondly, social thought is highlighted, a period marked by immense economic change and significant social imbalances, during which personal identity was no longer defined by family ties but, rather, by one's status as a citizen. This shift required the management of imagined communities and the provision of appropriate identification symbols, transmitted through education or the media, to maintain social cohesion and manage conflicts. In the United States during the 19th century, the image of the pioneer took shape, and by the end of that century, Frederick Jackson Turner's idea of the "frontier myth" emerged, forging the American sense of individuality, initiative, and liberal democracy. The pioneer was alone, adapting to a hostile environment and striving to transform it to meet his own needs and those of his family. Meanwhile, Transcendentalism, which flourished in the U.S. during the 1830s–1860s, advocated for the construction of both individual and communal subjectivity. This model did not position the individual in opposition to the world but instead sought harmony between the two. Both elements emphasized the importance of the immediate community (neighbourhood, town, etc.) as a crucial network of mutual support. Finally, pragmatism (as a distinctly American philosophy) placed the validity of knowledge in action. In this view, the contents of consciousness are formed through activity. Truth is not fixed; rather, it evolves by adapting to the environment through the subject's trial-and-error processes, as they test their habits and adopt those that prove most beneficial for living.

Also, toward the end of the 19th century, several European theorists began formulating explanations for individuals' social behaviour. Among them, Gabriel Tarde (a French sociologist and criminologist, who would later be criticized by Veblen) stood out. In his work *Les lois de l'imitation* (Tarde, 2011), he proposed that collective behaviour is based on the imitation of patterns and interactions between individuals. At the same time, Gustave Le Bon (1895) published *La psychologie des foules*, reflecting on crowd behaviour and collective suggestion. Meanwhile, in the United States, a transition toward a more experimental approach was beginning. The American context, shaped by philosophical pragmatism (James, Dewey) and the rise of experimental psychology (Wundt, Hall), laid the groundwork for the first empirical studies on social influence.

A decisive step in the consolidation of American social psychology, which would go on to influence institutionalist thought, occurred in 1908 with the

emphasis placed by Edward Alsworth Ross and William McDougall on group dynamics and the influence of society on the individual. However, McDougall focused more on impulses and innate tendencies expressed through social behaviour. The definitive consolidation came with Floyd Henry Allport, who, in his book *Social Psychology* (1924), proposed a strictly experimental and methodological approach. His work influenced institutionalists like Wesley C. Mitchell who, since the early 1900s, had advocated for a less abstract approach to studying the processes mediating social interaction. Allport is thus considered the true founder of modern social psychology in the United States. Additionally, the Chicago School of sociology and American pragmatism provided philosophical and sociological foundations for the emerging discipline. In 1934, *Mind, Self, and Society* was published posthumously based on previous lectures by George Herbert Mead. In this work, Mead proposed an analysis of the formation of the "self" through symbolic interaction, opening theoretical pathways that would later influence social psychology. These ideas viewed the individual as immersed in a world of signs, norms, and customs in which social reality is constantly constructed and reconstructed (Mead, 1934).

2. Institutional Economics

Starting in the second decade of the 20th century, the term *institutional economics* has been used to describe an economic approach focused on the study and evolution of institutions. For classical institutionalists, the economic subject is not only the individual, but also groups or institutions, conceived as a web of habits, traditions, and customs that shape both individual and collective behaviour.

Although institutionalist studies rarely mention David Hume, the idea of habit as a guide for behaviour is closely tied to his perspective. For Hume, habit is the great guide of human nature, and aside from categorical fields of knowledge (e.g., mathematics), custom and imagination form the foundation of our beliefs which, in turn, determine our actions. Following this logic, an institution is a set of beliefs (in the Humean sense), and the acts derived from them form the norm that governs the institution (Veblen, 2004).

Hodgson (2007: 29) defines institutions as "established, extended systems of social rules that structure social interactions." These range from language and money to complex organizations. According to Veblen and sociocultural approaches (Gómez & Jaime, 2025), these rules stem not only from rational agreements, but also from processes of habituation and cultural transmission. The creation of an institution, therefore, occurs through multiple interactions, not always planned, in which individuals adopt norms and customs that eventually become consolidated and exert a decisive influence on how people think and act (Hodgson, 2006). However, institutions are "selected" based on their fitness for certain purposes (e.g., conspicuous consumption) without implying necessarily linear or teleological progress; change can arise from conflicts of interest, power struggles, and cultural transformations (Veblen, 2004).

Hodgson (2006) reinforces the idea that institutions influence people's habits and preferences, reshaping them (reconstitutive downward causation) and actors, in turn, can reform institutions by gradually introducing changes in the rules. Herrera and Jaime (2006) distinguish between *morphostatic processes* (whereby institutions reproduce themselves in a stable manner) and *morphogenetic processes* (whereby institutions are reconfigured through technological, political, or cultural changes).

Institutions are useful for several reasons, 1) Coordination and uncertainty reduction, as they facilitate cooperation and stabilize expectations, for example, traffic rules help increase safety (Hodgson, 2007). 2) Shaping preferences and behaviours, as institutions not only constrain action, but also enable it by providing shared contexts and rules (Herrera & Jaime, 2006). 3) Generation of individual freedom, through stable and fertile environments, avoiding the need to invent behaviour in every new situation (Hodgson, 2006).

As described in the biography of Veblen (1857-1929), he promoted a "genuinely American" current (*institutionalism*) that stood apart from the marginalism and neoclassical orthodoxy of his time. He argued that economics and social life should be understood as evolutionary processes, influenced by cultural context, social structures, and institutions themselves. In contrast to the rational, utility-maximizing individual, Veblen emphasized the importance of emulation, habits, and the influence of social structure on economic behaviour. This approach, due to its interdisciplinary nature, goes beyond economics in the strict sense, incorporating history, psychology, anthropology, and sociology (Ramos Gorostiza, 2013).

After Veblen, other authors such as John R. Commons, Wesley C. Mitchell, and Richard T. Ely continued and expanded institutional analysis. Over the course of the 20th century, classical American institutionalism evolved, giving rise to empirical studies (Mitchell), legal analysis (Commons), and later developments that would lead to so-called "neo-institutionalism," which, although it revisits some of Veblen's ideas, diverges significantly from the original vision (Ramos Gorostiza, 2013).

3. The father of institutionalism: Veblen and his influences

Edgell and Tilman (1989) point out that, in studying the intellectual origins of Veblen, there has been a prevailing tendency to identify particular influences, ranging from German philosophy (such as Kant or historicism) to Karl Marx or the American pragmatism of Peirce and Dewey, but what was lacking was a comprehensive analysis clearly highlighting the foundational elements that shaped his perspective. In their article "*The Intellectual Antecedents of Thorstein Veblen: A Reappraisal*" (ibid.), they argue that two major nineteenth-century currents stand out above all others in Veblen's thought: evolutionism and socialism. On the one hand, Veblen positively incorporated Charles Darwin's theory of evolution (although he also adopted some Lamarckian ideas regarding the transmission of habits and values) while, at the same time, rejecting the evolutionism of Herbert Spencer, whom he considered largely "pre-Darwinian."

On the other hand, within the realm of socialism, Veblen was strongly influenced by Edward Bellamy but responded critically to Karl Marx, especially regarding his labour theory of value and his singular vision of class conflict as the path toward a socialist society (ibid.). Veblen did not see history as guaranteeing an outcome but, rather, as a process of selective adaptation devoid of any ultimate equilibrium, unfolding over time without a predetermined end.

According to Hodgson (1998), Veblen developed these ideas at a time when evolutionary theories were widely disseminated, although marked by controversies regarding inheritance and adaptation. Since the publication of *On the Origin of Species* (Darwin, 1859) the tendency to apply biological concepts to society had grown significantly. However, between 1870 and 1900, the influence of Herbert Spencer rivalled that of Darwin and helped consolidate a "Lamarckian" view of inheritance (Hodgson, 1998). In Hodgson's words, Spencer promoted a "synthesis" that reduced social evolution to a mere extension of biological evolution, assuming the rapid modification of the organic characteristics of the human species (p. 417). Veblen, who first read Spencer in the 1870s, began criticizing his "anti-socialist" implications as early as 1892 and distanced himself from Spencer's idea of the "natural" unfeasibility of socialism (Hodgson, 1998).

Upon arriving at the University of Chicago, Veblen established a relationship with biologist Jacques Loeb, who advocated for explaining all vital phenomena in physiological-chemical terms. For Veblen, this approach reinforced his conviction that economics should be built on post-Darwinian premises, rejecting teleology and emphasizing causality. He also became closely acquainted with William James and Charles Sanders Peirce, who also opposed Spencerian determinism and emphasized spontaneity, habit, and Darwinian variation (Hodgson, 1998). James had a strong influence upon Veblen by conceiving human action as guided by instincts and habits, not merely by rational utilitarian calculation.

Veblen edited the *Journal of Political Economy* between 1892 and 1897 and delved into various readings on socialism and Marxism. In 1897, he reviewed Max Lorenz's work *Die Marxistische Socialdemokratie*, which criticized the lack of a clear "operative force" in Marxism (Hodgson, 1998). Veblen agreed that the materialist interpretation of history described change but failed to clearly explain the internal causality of human action, that is, the individual appeared merely as a creature of circumstance. From this critique, he outlined four main points: 1) to reject structural determinism; 2) to clarify the causality of action; 3) to challenge utilitarianism; and 4) to recognize that humans are both biological and social beings, without reducing cultural dynamics to genetics (Hodgson, 1998).

Last, the visit of zoologist and philosopher C. Lloyd Morgan to Chicago in 1896 had a decisive influence on Veblen. Morgan argued that, if human genetic evolution was very slow, then the rapid changes in society could be explained by the idea that evolution had shifted to being stored in the social environment. This gave rise to a level of reality with its own

laws, not reducible to biology. Morgan did not define all the mechanisms of selection in this realm but he left open the possibility that institutions themselves could be subject to selective processes. Starting in 1897, Veblen adopted the idea of a struggle for existence focused on the natural selection of institutions, suggesting that the socio-economic structure is not merely a passive environment but a system in continuous variation and transformation. In fact, Veblen emphasized that patterns of behaviour and reasoning are transmitted and transformed over time within a process of cumulative causation (Veblen, 1898). Crucially, this evolutionary process implies that rationality is neither universal nor immutable; rather, it is constructed and reoriented according to prevailing customs, institutions, and technology. Consequently, rational action must always be understood in the light of the historical experience of the community.

4. Rationality in Veblen

In his work *The Theory of the Leisure Class* (Veblen, 2004), one can observe an implicit critique of the notion of instrumental rationality or the notion that individuals consistently align the means they use with the ends they seek to achieve.

Veblen examines behaviours in modern societies, emphasizing that individuals act driven by 1) cultural habits, 2) the pursuit of social distinction, and 3) the pressure of pecuniary emulation (Veblen, 2004). Veblen rejects the hedonistic image of the calculating agent who compares utilities and disutilities, pleasures, and punishments, and always moves toward the former while trying to avoid the latter. For Veblen, human action is teleological in a specific sense: each person or group acts with a purpose (“end”), and that purpose is determined by the habits of thought and the values historically shaped by the community (Eslava Gómez, 2012). Therefore, the actor’s “rationality” consists of continuous adaptation to both material and cultural circumstances. In the text *“Review of Psychologie économique by Gabriel Tarde”* (Camic & Hodgson, 2011), in his analysis of Tarde’s system (with its categories: repetition, opposition, and adaptation), Veblen notes that the French psychologist places emphasis on the spread of ideas and competition (whether economic or psychological). Tarde’s approach, however, does not reach the true “causality” of behaviour (Veblen criticizes Tarde for maintaining a “somewhat outdated” psychology and for falling into “mechanical schematizations”) (Veblen, 2009). He argues that modern psychology must move toward the view that “the idea” is active, in contrast to mechanistic and reactive conceptions.

For Veblen, human nature transforms over time, so that the cultural historical fact is change. Consequently, the basis of rationality also changes thus making the former inseparable from the habits of thought established by the institutions and material conditions of the time (Monereo, 2008).

Individuals’ decisions are not based on a logical process of optimizing personal utility, but rather on:

1. The need to display “good repute” through “conspicuous consumption” (Veblen, 2004).

2. The impulse to “surpass” others in a social hierarchy which reduces behaviour to imitation and rivalry rather than reflective planning (Veblen, 2004).
3. There exists a kind of “social inertia” but the leisure class, protected from immediate economic pressures, tends to be more conservative. Social change (and adaptation to it) does not occur through pure individual logic; it happens when economic pressures force the adoption of new customs. In the case of the leisure class, these pressures are weaker, so it tends to cling to archaic patterns. It is the selective pressure of the environment and traditional habits that shape institutions and the leisure class resists adopting new patterns because it sees no practical need to change (Veblen, 2004) (Monereo, 2008).
4. In modern societies, heirs of the “barbaric” tradition, there is a prevailing need to display wealth or lack of productive labour to gain reputation. This behaviour is consistent with cultural imperatives of decorum and honour. Veblen analyses how the norm of “conspicuous waste and leisure” shapes clothing, with the aim of prestige rather than comfort or physical benefit. Individuals take the necessary steps to achieve this goal and, although there are various paths to attain prestige, the ones mentioned above are those transmitted by the social cognitive framework to the individual. Thus, they unconsciously understand not only that it is a goal to be achieved, but also the path they must follow to reach it (Monereo, 2008).
5. There is a tendency among people to live according to the pecuniary level of life to which they have become accustomed. The basis of this action is social competition: each class and everyone seek to match or surpass the consumption and lifestyle of the class immediately above them (Eslava Gómez, 2012). Behaviour cannot be solely explained by simply reducing it to a rational cost-benefit calculation. Rather, people act for social reasons, due to the pressure of custom and forces such as emulation. In other words, emulation (the drive to stand out, to equal or surpass others) leads individuals to make conspicuous expenditures, seek recognition, and orient their economic decisions based on prestige or reputation (Veblen, 2004).
6. A warlike and competitive mentality persists in individuals, inherited from customs and habits that today can still be observed in duels or sports, among others. However, the modern organization of production requires less predatory inclinations and a mindset more oriented toward coordination and objective control, which favours increased productivity. From this perspective, the imposition of a specific rationality promotes such growth. Likewise, the sense of rationality adapts to the “discipline of the mechanical process,” as the development of machinery and modern industrial methods tends to standardize behaviour and knowledge in terms of “quantitative precision.” Accord-

ding to Veblen, this standardization involves a “training” or “discipline” that transforms people’s ways of acting and judging, leading them to value efficiency, systematic work organization, and result-oriented thinking (e.g., mechanical effectiveness or productivity). This “practical” bias confronts archaic norms, “natural rights,” and warlike habits, gradually replacing them with views more aligned with the goals of industry and enterprise. Thus, for Veblen, it is incorrect to assume that individual rationality stems from a simple and eternal “calculation of pleasures and pains” (Monereo, 2008). Such a conception would create a fiction of easily quantifiable goals, with an apparent alignment of means to ends, while concealing a deeper examination of real motivations. This machine discipline (founded on measurement, accuracy, and efficiency) also involves a materialist metaphysics and a causal sequence that acts as an explanatory horizon. In this way, actions are evaluated and judged based on their effectiveness and their contribution to production or, more broadly, to the resolution of technical problems. Veblen concludes that the expansion of modern technology fosters increasingly sceptical, practical, and material thinking (Monereo, 2008). This does not mean, however, that motivations such as solidarity, charity, or companionship, those not driven by competitive calculation, do not persist (these are linked to the gradual decline of competitive hostility) in favour of a communal life that requires a degree of objective and cooperative understanding (Veblen, 2004).

7. Idle curiosity constitutes the genesis of creative intelligence, as opposed to limited pragmatism, which only offers convenient behavioural maxims. While pragmatism may approach the idea of instrumental rationality (doing what is appropriate to obtain a result), idle curiosity goes beyond what is immediately useful. It drives innovation, selective adaptation, and social change (Veblen, 2005). Therefore, individuals and societies adjust habits and propensities not only out of convenience but also due to restlessness, exploration, and invention (Eslava Gómez, 2012).
8. Human life in society “is a struggle for existence” (as mentioned in the exposition of *The Theory of the Leisure Class*), meaning that social evolution involves a natural selection of institutions. Institutions and the habits associated with them change, always lagging material conditions (Veblen, 2009) (Monereo, 2008).

5. Rationality in institutionalism

John Rogers Commons (1862–1945), a professor at the University of Wisconsin–Madison, developed a line of thought that integrated economics, law, and social institutions, emphasizing the importance of norms, customs, and organizations in economic life. He was instrumental in the development of labour and social security policies in the U.S.

In *Progressive Individualism* (Rutherford & Samuels, 2002), Commons states that “progressive individualism” is based both on considerations of social justice and Christian cooperation (his convictions from 1892), and on a careful evaluation of “effects” (his analysis from 1895). Rationality is assessed from the outside, it is not a self-evaluation of the appropriateness of means to ends, but rather an external judgment of suitability, related to the actual effect produced. Commons insists that not all actions are desirable and that they must be judged by their known consequences.

In the essay *Natural Selection, Social Selection, and Heredity* (ibid.), the idea emerges that true human selection involves a conscious and deliberate act and, hence, requires intention. Selection, in the strict sense, is a process that transcends the biological realm and is rooted in the capacity of individuals to act intentionally and self-reflectively. He notes that self-consciousness is the central feature that separates purely natural (physical, unconscious) evolution from social evolution, where education, deliberation, and the construction of institutions come into play. This awareness of oneself and others not only drives the emergence of private property, the family, the State, or industry, but also establishes rational action since intention and conscious purpose lie at the core of this kind of selection.

Rationality has less to do with mere “logic” or “moral intuition” and more with how agreements and social organization are established to protect common interests and limit the use of private coercion. This coordination depends on both persuasion and coercion. According to Commons, the political order prioritizes the use of coercion only to the minimum necessary and resorts to persuasion, whenever possible, for society to evolve and adapt. The State emerges as an expression of collective rationality: it directs coercion to prevent “private coercion” (driven by the interests of individuals or classes) from completely breaking the social fabric. In this conception, social agreements, and norms (essentially a distribution of coercion) emerge from historical experience and the conflict between classes and groups, in search of greater stability and continuity in social order. This implies that human motivation is guided by a mix of desires and beliefs (ethical, economic, religious goals, but also by resource constraints and competition). In this sense, rationality is heavily conditioned by the structure of coercion and incentives surrounding the individual, which means that the goal being pursued is constantly altered through adaptation (sometimes involuntary) due to the coercive structure (*A Social View of Sovereignty and Is Class Conflict Growing and Is It Inevitable?*, ibid.).

In *Law and Economics*, social norms evolve by accepting certain social practices and rejecting others; courts decide what is considered legitimate, understood as that which does not go against the will of society, and what is not (artificial selection) based on uses, habits, and consolidated customs among different groups (ibid.). Public action (legislative or through commissions) guides practices toward efficiency and equity, considering the customary basis of exchanges (*How Wisconsin Regulates Her Public Utilities*, ibid.). Commons emphasizes that this process is essentially social, not individual; there-

fore, rationality does not stem from an isolated individual (as Bentham proposed), but rather from the alignment of means with ends, and the evaluation of such alignment depends on shared collective practices. For Commons, reasonable value is based on efficiency (i.e., ability to produce a good or service), scarcity, expectations, prevailing common practices and customs, and normative regulation. For all these reasons, the value of aligning means to ends is subject to a structure of elements dependent on both the individual and society.

For Wesley Clair Mitchell (1874–1948), known for his pioneering work in the empirical study of business cycles, human behaviour was shaped by historical factors, cultural habits, and monetary institutions. Ginzberg notes that Mitchell avoided making definitive judgments about individual rationality, preferring a detailed description of what people do in practice rather than a theoretical formulation of how they *should* act. These texts reflect Mitchell's distrust of economic theories built on overly abstract logical assumptions. Schumpeter notes that Mitchell "did not listen to the argument that rational schemes describe the logic of certain forms of behaviour" and tended to group classical theorists into a tradition of postulates which lacked sufficient empirical support (Schumpeter, 1950).

In the 1934 volume *Economic Essays in Honor of Wesley Clair Mitchell: Presented to Him by His Former Students on the Occasion of His Sixtieth Birthday*, the behaviour of a builder is described who, following the paradox of thrift, acts based on his own economic self-interest by undertaking projects even though he anticipates a future market collapse. In doing so, he aligns all means toward achieving his goal (economic profit). This builder, in his individual calculation, acts rationally (individual rationality), as he completes his operations profitably if he secures financing and sells in time, even though his behaviour is irrational from the collective point of view since it leads to a real estate market crash. This idea had already been raised by Veblen, as mentioned earlier, highlighting the role that technology and science play in production, since the organization of machinery and technical knowledge can support efficiency-oriented thinking as long as the goal pursued is not exclusively profit-seeking (Monereo, 2008; Achinstein & Brissenden, 2012).

This suggests that the rationality of behaviour may differ at the individual and group levels; the elements defining the behaviour of the social body evolve over time, as actions beneficial to the collective are selected over less beneficial ones. This, in turn, creates tension with pure individual rationality. Thus, individuals may face limits on their actions, even when more efficient means exist to achieve their goals, since those means are altered and redesigned by the social group within a dynamic of tension. Mitchell insisted that the economist's primary task should be to observe and measure economic behaviour "as it is" rather than starting from an axiom of perfect rationality.

Finally, Richard T. Ely (1854–1943), founder of the *American Economic Association* (AEA), professor at the University of Wisconsin, and a strong advocate of social reform, viewed individuality and freedom as social provisions, resources for personal deve-

lopment and moral improvement. Bradizza (2013) notes that Ely's notion of rationality was not atomistic but contextual, social, and aimed at the ethical betterment of the individual within the community. Thus, an action would not be rational, even if the intended goal is achieved and the means are properly aligned, if the outcome involves the ethical degradation of the individual within the community, as this would lead the person into a chain of events where they lose sight of their own goals, becoming controlled by their environment. This ethical degradation, in turn, would negatively affect society (e.g., corruption). Moreover, Ely held that all property relations are fundamentally political arrangements, implying that institutional rationality creates a framework which, alongside the aforementioned ethics, makes it necessary to evaluate institutions and policies in terms of their contribution to general welfare.

6. Conclusions: What does rationality entail in American institutionalism?

American institutionalism has helped to reveal that the roots of our actions or omissions do not always align with what is immediately perceived. Beyond the capacity to choose the "vehicle" of action, multiple factors influence and channel our decisions. However, instrumental rationality (understood as the alignment of means to ends) reappears repeatedly as the element that concentrates the individual's true intentionality when acting or refraining from action.

However, determining what constitutes a subject's authentic intentionality is controversial, especially if we consider, in the Vygotskian sense, that the manifestation of intention is mediated by consciousness. Even so, American institutionalism delved into the idea that many of our decisions are made routinely, guided by habits and customs. From this perspective, original rationality would belong to those who, in earlier times, established the patterns that have come down to us through history *via* custom.

Both human beings and society can select courses of action thanks to self-awareness and the recognition of others (mediated by education, deliberation, and institutions). Still, rational action must be evaluated externally, since self-assessment of the relationship between means and ends tends to overlook the effects produced by one's own actions or omissions. That external evaluation of ends, and the acceptance of necessary adjustments, depends on shared collective practices, that is, the interdependence between the individual and society. Furthermore, the means chosen are conditioned by the structure of coercion and incentives in which the individual operates, which may involuntarily alter the goals being pursued.

The elements that define the actions of the social body transform over time, such that certain practices considered beneficial for the collective replace others that are less favourable. This process may conflict with "pure" individual rationality, limiting the subject's options, even when there appear to be more efficient means available for their goals. In fact, the individual may be forced to alter those means within a context of ongoing tension with social expectations.

On the other hand, individuals' initial inclinations to act are not entirely valid today and, therefore, the means that would originally be used to achieve ends are reshaped by society in such a way that redirects action toward increasing productivity. This applies to both competitive and collaborative motivations, which ultimately aim to sustain the social whole, reshaping the former for increased production and the latter for maintaining objective understanding and community cohesion.

In this way, rationality does not always coincide with the individual's effective motivations. It even happens that neither the pursued ends are truly desired by the subject, nor do the chosen means properly align. Often, the "real" end does not match the one declared, and the person is not even aware that, at various levels, other goals are at work. These

"hidden" ends, which run in parallel, are not merely secondary; in fact, they often represent the true objective. Because we are unaware of this, we choose means that do not correspond to the goal, which is shaped by habits and institutions.

Individual freedom is tied to personal development which requires that the social context promotes the ethical advancement of the subject, and that individual action does not move in the opposite direction. From the individual perspective, only when the end and the means employed contribute to ethical development, can a person maintain control over his future goals. To achieve this, collectively, institutions must be oriented toward the general well-being both in the definition of ends and in the choice of means.

Bibliographical references

- Achinstein, A. and Brissenden, P.F. eds., (2012). *Economic essays in honor of Wesley Clair Mitchell: Presented to him by his former students on the occasion of his sixtieth birthday*. Whitefish: Literary Licensing, LLC.
- Allport, F. H. (1924). *Social psychology*. Boston: Houghton Mifflin.
- Berle, A. A. (1953). A Scholar in Action: Edwin F. Gay. By Herbert Heaton and Wesley Clair Mitchell, The Economic Scientist. Edited by Arthur F. Burns. [Publications of the National Bureau of Economic Research, No. 53.] (New York: National Bureau of Economic Research. 1952. Pp. viii, 387). *The American Historical Review*, 48(262). doi:<https://doi.org/10.1086/ahr/58.2.398>.
- Bradizza, L. (2013). *Richard T. Ely's Critique of Capitalism*. Springer.
- Camic, C. and Hodgson, G.M. (2011). *The essential writings of Thorstein Veblen*. London: Routledge.
- Cole (2003). *The essential Vygotsky (pp. VII-XII)*. New York: Kluwer Academic/ Plenum Press.
- Danziger, K. (1982). Origins and basic principles of Wundt's Völkerpsychologie. *Journal of Social Psychology*, 22, pp.303–313.
- Darwin, C. (2019). *El Origen de Las Especies: (Spanish Edition) (Annotated) (Worldwide Classics)*. Independently Published.
- Edgell, S. and Tilman, R. (1989). The intellectual antecedents of Thorstein Veblen: a reappraisal. *Journal of Economic Issues*, 23(4), pp.1003–1026.
- Eslava Gómez, A. (2012). Racionalidades en el institucionalismo: ideas desde Thorstein Veblen y Pierre Bourdieu. *Sociedad y Economía*, 22, pp. 289–302. doi:<https://doi.org/10.25100/sye.v0i22.870>.
- Espagne, M. (1998). Wilhelm Wundt. La 'psychologie des peuples' et l'histoire culturelle. *Revue Germanique Internationale*, 10, pp. 73–91.
- Gómez, M. H. and Jaime, A. M. (2025). Generación y transformación de las instituciones sociales: los procesos morfoestáticos y los procesos morfogenéticos. *Reis. Revista Española de Investigaciones Sociológicas*, [online] (107), pp. 49–87. Available at: <https://www.redalyc.org/articulo.oa?id=99717665004> [Accessed 15 Apr. 2025].
- Hodgson, G. (2007). What Are Institutions? *Journal of Economic Issues*, XL(8), pp.28–48. doi:<https://doi.org/10.32609/0042-8736-2007-8-28-48>.
- Hodgson, G. M. (1989). On the evolution of Thorstein Veblen's evolutionary economics. *Cambridge Journal of Economics*, 22(4), pp.415–431.
- Hodgson, G. M. (2006). Institutions and individuals: interaction and evolution. *Organization Studies*, 28(1), pp.95–116.
- Kusch, M. (1995). Recluse, interlocutor, interrogator: Natural and social order in turn-of-the-century research schools. *Isis*, 86, pp.419–139.
- Le Bon, G. (1895). *La Psychologie des foules. Essai de sociologie*. Madrid: Morata.
- Loy, I., Sánchez, C. and Fernández Rodríguez, T. R. (1992). El Funcionalismo en perspectiva. *Revista de Historia de la Psicología*, [online] 13(2), pp.197–206. Available at: <https://dialnet.unirioja.es/servlet/articulo?codigo=68336> [Accessed 15 Apr. 2025].
- McDougall, W. (2015). *An Introduction to Social Psychology*. Psychology Press. doi:<https://doi.org/10.4324/9781315724256>.
- Mead, G.H. (1934). *Mind, Self, and Society*. Barcelona: Paidós.
- Monereo, L. (2008). *La teoría crítica social de Thorstein Veblen: sociedad opulenta y empresa de negocios*. Granada: Comares.
- Ramos Gorostiza, J. L. (2013). Thorstein Veblen, El Inclasificable. *Revista de Economía Crítica*, 16, pp.323–332.
- Ross, E. A. (1908). The Nature and Scope of Social Psychology. *American Journal of Sociology*, 13(5), pp.577–583.
- Rutherford, M. and Samuels, W. (2002). *John R. Commons: Selected Essays*. Routledge.

- Schumpeter, J. A. (1950). Wesley Clair Mitchell (1874–1948). *The Quarterly Journal of Economics*, 64(1), pp.139–155. doi: <https://doi.org/10.2307/1881963>.
- Tarde (2011). *Las leyes de la imitación y la sociología*. Madrid: Centro de Investigaciones sociológicas.
- Triplett, N. (1897). The dynamogenic factors in pacemaking and competition. *American Journal of Psychology*, 9(4), pp.507–533.
- Valsier, J. and Van Der Ver, R. (1987). On the social nature of human cognition: An analysis of the shared intellectual roots of G.H. Mead and L. Vygotski. *Journal for the Theory of Social Behavior*, 18, pp. 117–136.
- Veblen, T. (1898). Why is economics not an evolutionary science? *Quarterly Journal of Economics*, 12(4), pp.373–397.
- Veblen, T. (2004). *Teoría de la clase ociosa*. Madrid: Alianza editorial.
- Veblen, T. (2009). *Teoría de la empresa de negocios*. Translated by C.A. Tripodi. Granada: Comares.
- Vygotski, L.S. (1991). *La conciencia como problema de la psicología del comportamiento*. Madrid: Aprendizaje Vlwir, pp. 39–60.
- Wundt, W. (1862). *Beiträge zur Theorie der Sinneswahrnehmung*. Leipzig: Winter.
- Wundt, W. (1863). *Vorlesungen über die Menschen-und Thierseele*. Leipzig: Voss.