

# **American Institutionalism and its British Connections**

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The research for this paper made use of the Passfield (Webb), R. H. Tawney, William Beveridge, and Graham Wallas papers, and the Archives of the London and Cambridge Economic Service, all at the British Library of Economics and Political Science; The Henry Clay papers at Nuffield College, Oxford, and at the Bank of England Archives; The Walter Stewart Folder at the Bank of England Archives; the Walton Hamilton papers at the Tarlton Law Library, University of Texas; the Wesley Mitchell papers at the Butler Library, Columbia University; the J. R. Commons and E. E. Witte papers at the State Historical Society of Wisconsin; the Isador Lubin papers at the Roosevelt Library; the Brookings Institution Archives; and the Archives of the Laura Spelman Rockefeller Memorial and the Rockefeller Foundation at the Rockefeller Archive Center. This work was supported by a Social Science Research Council of Canada Research Grant.

## 1. Introduction

It is now recognized that institutional economics was a significant movement within American economics during the interwar period. Institutional economics in this period was *not* a marginalized heterodoxy to a dominant neoclassical orthodoxy, but a very substantial part of what was the relatively pluralistic mainstream of American economics (Morgan and Rutherford 1998; Rutherford 2000). Well known members of the institutionalist movement were established at major universities such as Chicago (at least until 1926), Columbia, and Wisconsin, at the New School for Social Research, and, for its brief life between 1923 and 1928, at the Robert Brookings Graduate School. Several of those closely associated with institutionalism became presidents of the American Economics Association, the American Statistical Association, and, on occasion, both. Institutionalists were heavily represented at the two major independent economic research institutions in America, the National Bureau of Economic Research and the Institute of Economics (later part of the Brookings Institution). Given their interests in empirical investigation and applied policy analysis, institutionalists had excellent access to research funding from foundations such as Rockefeller and others. Moreover, the institutional approach to economics linked closely to other intellectual movements in America of the time, notably to John Dewey's pragmatism in philosophy and to the legal realist movement in law.<sup>1</sup>

The roots of the institutionalist movement, of course, go back to before the interwar period. Institutionalism developed in part from the impact of the German Historical School in America in the 1880s and 90s, and of the progressive reform movement that flourished in the same time period. Economists such as R. T. Ely and H. C. Adams were closely associated with these historical and progressive trends. Another key source was the work of Thorstein Veblen,

particularly his attacks on neoclassical theory, its hedonistic psychology and theorizing in terms of “normal” equilibrium states, and his highly critical analysis of the “pecuniary” or business institutions of his time (Veblen 1898; 1904). Nevertheless, the term “institutional economics” was not introduced into the professional literature until 1918 at an American Economics Association conference session.

This 1918 conference session was deliberately set up to introduce and promote the concept of a distinguishable “institutional approach” to economics. The major figures involved were Walton H. Hamilton, Walter Stewart (then both teaching at Amherst College, Hamilton would later move to Brookings Grad School, Stewart to the Federal Reserve), J. M. Clark (then at Chicago, later at Columbia), and William Ogburn (a sociologist then at the University of Washington, and soon to move to Columbia), but the session had also been discussed with others, including Thorstein Veblen (at the New School from 1919), Wesley Mitchell (Columbia and the NBER, and briefly at the New School), and Harold Moulton (Chicago, and later the Institute of Economics). Stewart chaired the session and Hamilton, Clark, and Ogburn gave the papers. Hamilton’s lead paper, titled “The Institutional Approach to Economic Theory,” presented the core argument that neoclassical “value theory” failed to recognize “the complexity of the relations which bind human welfare to industry,” and could not, therefore, be regarded as an adequate approach to “economic theory,” in the sense of a “theory of the economic order.” The institutional approach to economics, by contrast, sought to develop such a theory:

Its quest must go beyond sale and purchase to the peculiarities of the economic system that allow these things to take place on particular terms and not upon

others. It cannot stop short of a study of the conventions, customs, habits of thinking, and modes of doing which make up the scheme of arrangements which we call "the economic order." It must set forth in their relations one to another the institutions which together comprise the organization of modern industrial society (Hamilton 1919a: 311)

This institutional approach was also seen by Hamilton as capable of giving unity to economic investigations in many different specific fields; relevant to the "modern" problem of control, or of application to significant current policy issues; relating to institutions as both the "changeable elements of economic life and the agencies through which they are to be directed;" concerned with "process" in the form of institutional change and development; and utilizing a treatment of human behavior based on the "conclusions of modern social psychology." Clark in his paper, and Stewart in his remarks from the chair, also linked the institutional approach to a demand that economics become more "scientific" by conducting more empirical research (quantitative and otherwise) and by paying more attention to the latest findings in related fields such as psychology and law (Rutherford 2000). In Dorothy Ross's words "what fuelled the institutionalist ambition was an overflow of realism and new liberal idealism that could not be contained by neoclassical practice" (Ross 1991, 411).

For present purposes one of the most interesting aspects of Hamilton's paper is the work he associates with the institutional approach. Early in the paper he gives some examples from "modern economics" that demonstrate a concern with the institutional arrangements "which determine the nature of our economic system." These examples consist of "Cannan's account of

the functions of property in economic organization, Veblen's discussion of the dependence of wealth upon machine technique, and Hobson's analysis of the relations under modern technical conditions of work to welfare" (Hamilton 1919a: 310). In the conclusion of the paper he goes further in identifying work that could contribute to a "theory of the institutional organization of industrial society." He states:

In recent years the English "welfare school," particularly Webb, Hobson, Cannan, Tawney, and Clay—if writers with problems and approached so differently may be grouped together because of a common departure from neo-classical analysis—have made substantial contributions and given the beginnings of a formal statement of a theory of economic order. American thought has lagged behind because efforts which in England have taken a constructive bent here have been spent in criticism of neo-classical doctrine. Yet H. C. Adams, Cooley, Veblen, and Mitchell—to mention only the leaders—have made substantial contributions to an understanding of our system. Nor must we forget the lay economist. In a rapidly developing society such as ours the learning of the schools tends to become formal and scholastic. It requires fertilization from thought which grows out of a fresh attack upon the problem. The contribution of Graham Wallas may be mentioned as a single example of what the non-professional economist has to offer (Hamilton 1919a: 318).

What this makes clear is Hamilton's close familiarity with the work of English non-

Marshallian economists, many of whom had connections with the London School of Economics, and his view that they were making important positive contributions to institutional economics. But despite Hamilton's explicit linking of institutionalism with this group of English economists (and political scientists) in the very first paper that attempted to define institutional economics, the secondary literature rarely mentions any significant links or connections between them.<sup>2</sup> In fact there was an interesting and quite complex network of contacts and connections involving all of those mentioned by Hamilton, and also including William Beveridge. This included a significant amount of direct person contact, and this, in turn, appears to have been based not only on similarities in overall economic and methodological viewpoint, but also on a number of specific common policy concerns, common interests in the development of educational and research institutions in economics, and a series of links running through the funding activities of the Laura Spelman Rockefeller Memorial and, later, the Rockefeller Foundation.

## 2. Personal Contacts

It is useful to begin with a list of some of the more relevant points of direct contact between (and in some cases within) these two groups:

- Between 1902 and 1905 Hobson makes several visits to the US and meets Thorstein Veblen. They correspond and display a significant interest in each other's work.
- R. T. Ely lectures at the University of London in 1913. Ely is also in correspondence with both the Webbs and Graham Wallas.
- Graham Wallas visits the US in 1914, meets many people at Harvard, and becomes closely involved with Herbert Croly and Walter Lippman, the founders of *The New Republic*. Frank Taussig asks him to review Veblen's *Imperial Germany*. He also meets Wesley Mitchell and many others in New York.

- In 1919 Carter Goodrich, a Walton Hamilton student, goes to London to work with Henry Clay, then at the Ministry of Labour. This work becomes his Chicago PhD dissertation. The published version, *The Frontier of Control: A Study of British Workshop Politics* (1920), has an introduction by Tawney.
- In 1919 Graham Wallas teaches during the first term of the newly founded New School of Social Research in New York, at Croly's invitation. The New School at that time includes Wesley Mitchell, Thorstein Veblen, and Leo Wolman (an institutionalist labor economist) on faculty. Wallas also has much contact with Harold Laski, then teaching at Harvard and at the New School.
- R. H. Tawney visits the US during 1920, spending time at Amherst College and co-teaching a senior undergraduate course on "The Control of Social Development" with Walton Hamilton and Walter Stewart. He also visits Harvard, the New School, and Chicago.
- In 1920 the National Bureau of Economic Research is founded. Wesley Mitchell is the first Director of Research. Edwin Gay and Allyn Young of Harvard are also involved in the effort to establish the Bureau. Both Gay and Young have strong empirical interests.
- In 1920 Edwin Gay, then involved with the New York Evening Post, recruits Henry Clay to write a regular feature for the paper. Gay also solicits contributions from Tawney and Wallas. Gay wants to "knit together as much as possible the best thought from both sides of the ocean."
- In 1920 Harold Laski leaves Harvard and the New School to join the faculty at the LSE.
- In 1921 Henry Clay first visits the US. He visits Amherst and other universities and is particularly impressed with the work of institutionalists such as Walton Hamilton, Walter Stewart, Wesley Mitchell, and Leo Wolman, and he remains on close terms with them. Hamilton visits Clay in England in 1922, and Clay makes several subsequent visits to the US.
- In 1922 Robert Brookings establishes the Institute of Economics in Washington DC. Harold Moulton is hired as Director, and he hires Isador Lubin, a former Veblen student who had also worked for Mitchell, and several others with institutionalist leanings. The focus is on policy issues involving post-war international finance, agriculture, labor, the coal industry, and tariffs.
- In 1923 and 1925 Beardsly Ruml of the Laura Spelman Rockefeller Memorial visits the UK and meets with Beveridge.

- In the 1924/25 academic year J. A. Hobson teaches at the newly established Robert Brookings Graduate School of Economics and Government in Washington headed by Walton Hamilton. He also interacts with Institute of Economics staff and meets Wesley Mitchell in New York. The Brookings Graduate School produces many graduates who later hold government positions in the New Deal.
- In late 1924 and early 1925 Harold Moulton and Walton Hamilton try to persuade Clay to come to the Institute of Economics for a period of years to conduct studies on issues in labor economics. Clay declines the offer.
- Beveridge visits the US in 1926, 1928, and 1929. These visits are largely connected with meetings with Ruml and later Rockefeller staff. He also meets many American economists including Allyn Young, Wesley Mitchell, J. R. Commons, and Leo Wolman, Joseph Willits and many others.
- In 1926 Isador Lubin of the Institute of Economics and Brookings Graduate School visits the UK for research on the British coal industry. He meets with Clay, Tawney, and Beveridge.
- In 1926 Bronislaw Malinowski visits the Brookings Graduate School.
- In 1926 John Nef goes to the Brookings Graduate School as a student to finish his work on the early history of the coal industry in Britain. He had lived in London and Paris for several years previously and knew Clay, Laski, and Tawney well.
- In 1926 Eveline and Arthur R. Burns (former LSE students) travel in the US on Rockefeller Fellowships. Eveline Burns visits Brookings, Columbia, Harvard, and Chicago and becomes interested in American institutionalism. They later both obtain appointments at Columbia. Eveline Burns becomes a specialist in Social Security.
- In 1927 Graham Wallas teaches for a semester at the Brookings Graduate School where he meets Walton Hamilton and others.
- In 1927 Allyn Young of Harvard is recruited to the LSE to replace Edwin Cannan. Cannan himself had written to both Henry Clay and Allyn Young to urge them to stand for the position.
- Between 1928 and 1930 Walter Stewart is employed as a Special Advisor to the Governors of the Bank of England and becomes close friends with Henry Clay. Clay is also involved in Bank of England work in various capacities from 1930 until 1944.

- In 1929 Allyn Young dies. Clay's application for the Chair is solicited by Beveridge, but Clay declines.
- In 1929 Carter Goodrich tries to interest Clay in joining the faculty at Michigan
- In 1930 Gay and Beveridge embark on an ambitious project on the history of prices, funded by Rockefeller through the parent organization of the NBER.
- In 1931/32 Wesley Mitchell visits Oxford University to help promote research in economics. Clay visits Mitchell at Oxford, and Beveridge invites Mitchell to stay with him over Christmas 1931.
- Walter Stewart is a member of the Rockefeller Board from 1931 to 1950, and becomes Chairman in 1940.
- In 1932 Joseph Willits visits the UK and meets with Beveridge. Willits becomes Executive Director of the NBER in 1936 and Director of the Social Science Division of Rockefeller between 1939 and 1954.
- In 1933 Clay visits the US with Montagu Norman, Governor of the Bank of England. Meets with Walter Stewart and others.
- In 1933 Beveridge visits the US and meets those at Rockefeller, many people involved in the New Deal administration, and Gay, Lubin, the New School group, Moulton, Wolman, Stewart, Willits and Robert Brookings, among others.
- In 1937 Beveridge resigns as Director of the LSE and takes the position of Master of University College, Oxford. Beveridge becomes involved with the Oxford Institute of Statistics and in the founding of Nuffield College.
- In 1937 the National Institute for Economic and Social Research is established. Clay and Beveridge are closely involved with this endeavor.
- In 1939 Tawney visits Chicago at Nef's invitation.
- In 1941/42 Tawney is in the US attached to the British Embassy in Washington. He lectures widely on current affairs.
- In 1943 Beveridge visits the US and Canada in response to an invitation from Willits at Rockefeller. He meets many Federal officials and economists to discuss social security issues, including Stewart, Mitchell, Eveline Burns, A. F. Burns, J. M. Clark, Wolman, E. E. Witte, Sumner Slichter, and many others.

- In 1944 Clay becomes the second Warden of Nuffield College. He has a close personal friendship with Willits who often writes to him for his opinion on individuals and projects under consideration at Rockefeller.

### 3. Approaches to Economics

All of these personal contacts reflect a certain degree of commonality in the views that each group held on the proper nature and content of economics. This is not to say that they held identical views, only that there was a sufficient common ground to provide a basis for mutual interest and contact. Both groups clearly expressed similar dissatisfactions with the state of “orthodox” economic theory and wished to see economics become more truly “scientific.” The Webbs, in the founding of the London School of Economics, clearly expressed a desire to “mold economic history and applied economics into an alternative economics to Marshall’s more theoretical vision of the subject then being rooted at Cambridge” (Koot 1982, quoted in Ebenstein 1997: 61): “The special aim of the School will be, from the first, the study and investigation of the concrete facts of industrial life and the actual workings of economic and political relations as they exist, or have existed, in the United Kingdom and in foreign countries” (Dahrendorf 1995: 20). Beveridge, who became Director of the School in 1919, thought of himself as pursuing the goals of the Founders which he expressed in highly positivistic terms: “The Founders of the School had definite ideas also as to the methods by which Social Science should be pursued. They wanted to base economics, politics, and all the other social sciences on collection and examination of facts rather than on the analysis of concepts; they wanted, in effect, to see applied to the study of human society the methods by which natural scientists had won their many triumphs in discovering the secrets of nature” (Beveridge 1960: 83). “They wanted to

break up economics, to make it something utterly different from before, to advance knowledge by collection and examination of facts” (Beveridge 1960: 50). Henry Clay, too, was very sceptical concerning the power and applicability of the “abstract analytical approach to economic problems.” Throughout his career Clay always emphasised the role of “the discipline of realistic quantitative study” in “reducing the area in which questions cannot be settled by reference to external evidence,” and its vital importance in forming a sound judgment on economic questions (Clay to Willits 28 May 1952 and 21 March 1953, Henry Clay Papers, Nuffield College, box 72). This empirical view of science and approach to problem solving was also strongly held by those in the American institutionalist tradition (see Rutherford 1999), not only by Wesley Mitchell and those of quantitative bent, but also by those who pursued approaches based more on industry case studies or the study of such things as trade union constitutions or sequences of court decisions (such as Ely, Commons, and Hamilton), and by those who sought to bring their theorizing into closer connection with empirical work (such as J. M. Clark). This same range of approaches can be seen in the work of the Webbs, Beveridge, Hobson, Cannan, and Clay.

This empirical attitude toward economic research might be the strongest single intellectual link between the two groups, but there are others. As indicated above, one of the concerns of institutionalists was to place economics on a sounder psychological basis. In this connection institutionalist writers paid a considerable amount of attention to Graham Wallas’s work combining social psychology and politics, especially his *Human Nature in Politics* (1908) and *The Great Society* (1914). Wallas’s visit to the US in 1914 came shortly after the publication of the latter book which had created significant interest, and it was on this trip that Wallas made contact with Croly, Lippman, Felix Frankfurter, and the *New Republic* and New School groups.

Taussig asked Wallas to review Veblen's *Imperial Germany* and also asked Wesley Mitchell to review *The Great Society*, both for the *Quarterly Journal of Economics*. Mitchell produced a review of several works, including Wallas's, published as "Human Behavior and Economics: A Survey of Recent Literature" (Mitchell 1914). Wallas's social psychology was broadly in line with the type of instinct/habit psychology that was widely adopted by institutionalists through to the mid 1920s, and was a relatively sophisticated version which provided much space for the operation of intelligence. Mitchell wrote to Wallas that "everyone who is trying to make one of the social sciences more significant by making it take account of man as he actually is owes much to your leading" (Mitchell to Wallas 23 September 1914, Wallas papers, 1/57). However, by the mid 1920s instinct/habit psychology began to be overtaken by more behavioristic approaches.

There are further points of connection relating particularly to Hobson's welfare economics and criterion of social welfare. Among institutionalists there was considerable interest in attempts to find some basis for making judgments of "social value." This was, for example, a major focus of J. M. Clark's work. For the most part institutionalists after Veblen adopted some version of John Dewey's instrumental approach to social value, but there was interest in alternatives, and Hobson's work on social welfare was a considerable amount of attention. Walton Hamilton discussed Hobson's approach to social welfare at some length in the *Journal of Political Economy* (Hamilton 1918), and Hobson's work was consistently presented to Hamilton's students at Brookings, several of whom wrote graduating essays on Hobson. Wesley Mitchell in his lectures on Types of Economic Theory also spent considerable time discussing Hobson's value theory. This course was the basic "theory" course taken by all graduate students

at Columbia for many years, and it ended with discussions of Hobson's welfare economics and Veblen's institutional economics, with a section on J. R. Commons added later (Rutherford 2004). Hobson's welfare economics was thus given much more exposure to graduate economics students in the US than in Britain. As will be discussed below, Hobson's underconsumptionism was also to have a significant impact on American thinking during the New Deal.

In terms of providing an institutional analysis of the "economic order," to use Hamilton's term, the closest ties are again those between Veblen and J. A. Hobson. Hobson utilized ideas taken from Veblen's *Theory of the Leisure Class* (1899), and *Theory of Business Enterprise* (1904). Veblen's work on emulation and consumption is cited in Hobson's *Work and Wealth* (1914), and his work on business capitalization, intangible assets, and the role of financiers is cited extensively in Hobson's revised 1906 edition of his *Evolution of Modern Capitalism*. Hobson saw in the US as a "model of advanced capitalism" and always paid attention to the latest American work. He also did much to develop a English audience for Veblen, writing an article, and obituary, and a book on Veblen (Hobson 1926, 1936, 1937). Hobson was not entirely uncritical of Veblen, thinking his work on consumption was too one sided, but he admired his analysis of "money power" and of the conflict between the pecuniary and the technological, and considered him possessed of one of the most "brilliant, independent and penetrating minds of our age" (Hobson 1936: 22: see also Edgell and Tilman 1994). On the other side, Veblen reviewed Hobson's *Imperialism* (Veblen 1903), and made many references to Hobson's underconsumptionist ideas in his treatment of business depressions (Rutherford 1994).

While it cannot be said that any of the other English writers discussed here produced a body of institutional analysis that compares in scope to Veblen's, Hobson's, or Commons's, it is

perfectly true that writers such as Tawney, Cannan, and Clay placed significant and explicit emphasis on the role of institutions in economic life. Tawney's work, in particular, was historical and institutional in nature. At the time as he was visiting Amherst and teaching with Hamilton and Stewart, Tawney was soon to publish his well known book *The Acquisitive Society* (1921). This book consists of a critical examination of capitalist society and the incentives provided by its system of property rights. Tawney attempts to discriminate between legitimate and illegitimate types of private property. Institutionalists, especially those such as Commons, Clark, and Hamilton, also paid a great deal of attention to the property rights system and its evolution. Selections from Tawney's book soon appeared in Hamilton's teaching materials, and J. M. Clark refers to Tawney in his *Social Control of Business* (1926).

The issue of the effect of property rights on individual incentives and on the distribution of income was also a major theme in the work of Cannan and Clay. T. E. Gregory (1935) argues at length that one of the key aspects of Cannan's economics was his emphasis on the importance of institutions in providing the set of incentives and constraints that guide individual action. Institutions may fail to guide individual action in ways that serve the social interest, but if that is the case society will come to abandon or modify them (Gregory 1935: 376). Cannan, of course, was especially interested in those institutions bearing on the distribution of wealth (Cannan 1905). Hamilton used selections from Cannan's textbook *Wealth* (1914) in his own book of readings *Current Economic Problems* (Hamilton 1919b), and urged Cannan to produce an American edition of his book (Hamilton to Cannan, 21 February 1916, Cannan Papers, folder 1023). He continued: "You have succeeded in freeing the subject of many vestiges of past controversies which at present have little value for beginners, and in introducing many valuable

topics which other books omit.” Stewart also wrote to Cannan from Missouri in 1915, where he was studying with Veblen, to indicate that he was using *Wealth* as an introductory text and had prepared sets of questions to go with each chapter (Stewart to Cannan 10 March 1915, Cannan Papers, folder 1023). Henry Clay came to the attention of Americans with the publication of his text *Economics: An Introduction for the General Reader* (1916). The book was known for its clarity and real world examples. The book expresses a concern for greater equality in the distribution of income, disapproval of the laws of inheritance, and support for state enterprise. Thus “where individual values and social values coincide, the supply of services can be left to the private sector: where, as in so many cases, they do not coincide, the state, or some other public body must act” (Clay 1916). The book enjoyed considerable popularity in the US, Hamilton was an enthusiastic admirer, and it soon appeared in an American edition. Moulton wrote to Clay that his book was very popular among the younger economists in the US, and that it was used at Chicago in elementary courses (Moulton to Clay 13 Nov 1917, Henry Clay papers, Nuffield College, Box 74).

#### **4. Policy Concerns**

Apart from these broad issues of methodology and approach to economics, the two groups shared a set of more specific policy concerns that often brought them into contact with each other. The issues providing for most contact were the particular problems facing certain industries in the post WWI period, particularly the coal industry, and various aspects of the problem of unemployment, including business cycles and depressions, and the related issues of unemployment insurance and of social security systems more generally.

The extent of the contacts relating to work on the coal industries in Britain and America is rather remarkable. In the UK there were various Commissions investigating the coal industry, one in 1919 on the principle of nationalization and involving Henry Clay, and a Royal Commission in 1925/26 headed by William Beveridge. Cannan and Tawney also did work on the coal industry, Tawney on the history of the coal industry in Britain (as did John Nef, who completed his work at Brookings), while Cannan gave testimony to the 1919 commission. A Coal Commission was also set up in the US in 1922, and requested the loan of investigators from the Institute of Economics, one of whom was Lubin. The Institute of Economics and the staff of the Brookings Graduate School produced several books on the coal industry in the US and in Britain. In 1924 Lubin published *Miners' Wages and the Cost of Coal*, and this was followed by Lubin and Helen Everett's book on the British coal industry, *The British Coal Dilemma* (1927). This work took Lubin to the UK and to meetings with Beveridge, Tawney, and Clay. The book was reviewed by Hobson in *The Nation* and by Tawney in *The New Republic*. At the same time, Walton Hamilton and Helen Wright wrote two books on the US bituminous coal industry, *The Case of Bituminous Coal* (1925), and *A Way of Order for Bituminous Coal* (1928). The latter of these books made significant use of the proposals for the coal industry in Britain made by Clay in 1919. Also from the Institute of Economics came Arthur Suffer's *The Coal Miner's Struggle for Industrial Status* (1926); and apart from Institute work Carter Goodrich wrote probably his best known book on the subject of the coal industry: *The Miner's Freedom: A Study of the Working Life in a Changing Industry* (1925). During the writing of this book Goodrich corresponded with Clay concerning his observations of the terrible state of industrial relations in the industry, and his attempts to follow up on the "technology-discipline lead" begun in his previous book, and on

which he requested Clay's comments. Taken overall, these books represented an indictment of the coal industry—its excess capacity, inefficiency, low wages, poor working conditions, and industrial relations often marked by intimidation and violence—and served the argument that private property and “free” markets did not always lead to economic efficiency or the maximum of social welfare. Similar forms of nationalization of the coal industry were suggested by Clay and Hamilton.

Concern with the structural deficiencies of certain industries in Britain was not confined to the coal industry. In the period after WWI there was a great deal of discussion of the need to update and “rationalize” many of Britain's traditional manufacturing industries. While holding the Chair of Political Economics (later Social Economy) at Manchester between 1922 and 1930, Clay conducted a great deal of work on the cotton industry in Lancashire, and became regarded as an expert on industrial economics more generally. In this capacity he was recruited in 1930 to the Bank of England's Securities Management Trust which was intended to aid in providing the finance for such industrial rationalizations. Walter Stewart had been an economic advisor at the Bank of England from 1928, and had also become involved in these issues of reconstruction. In June of 1929 he wrote to Clay to urge him to consider the Bank of England appointment:

Sooner or later, from one source or another, British finance and industry is going to be rationalized. It may get under way faster than we think and some definite organization of personnel may be attempted after the holidays. You belong somewhere in that scheme and I'd certainly like to see you at least open to consider anything that may come along (Stewart to Clay 20 June 1929, Clay

Papers, Nuffield College, Box 76).

Issues relating to unemployment were also of common concern. There were a number of aspects to this. First, discussion of theories of the causes of depressions and cyclical unemployment; second, a related discussion of government stabilization policies; and third a discussion of other policy tools to alleviate both unemployment and the distress caused by unemployment, including such things as labor exchanges, unemployment insurance schemes, and social security. Issues relating to the measurement of unemployment also arose.

Before the Great Depression American institutionalist discussion of cycles had been dominated by Wesley Mitchell's 1913 treatment of the four-phase cycle as the result of the interaction of business profit seeking, the pro-cyclical behavior of banks, and the leads and lags in the movement of prices and wages. Hobson's underconsumptionist theory of depressions, as expressed in *The Physiology of Industry* in 1889 (Mummery and Hobson 1889) and *The Problem of the Unemployed* (Hobson 1896), had also gained attention in the US, particularly from Veblen, but Mitchell had been critical of Hobson's theory, arguing that the observed sequence of events did not correspond with that implied in Hobson's work (Rutherford 1994: 196). After the Depression set in, however, there was a renewed interest in Hobson's ideas. This often took the form of an argument that technological change over the 1920s combined with a growing price inflexibility in manufacturing industry had led to a increase in the share of profits and to increases in corporate saving and overinvestment, an argument that combined Hobson's ideas with empirical findings concerning the growth of price inflexibility produced by F. C. Mills in his work for the NBER (Mills 1929). This line of argument was pursued by Rexford Tugwell,

one of the foremost institutionalist advocates of “planning” within the New Deal administration (Tugwell 1931), and can also be found in the series of books, *America’s Capacity to Produce*, *America’s Capacity to Consume*, *The Formation of Capital*, and *Income and Economic Progress* produced by the Moulton, Edwin Nourse, and others of the Brookings Institution in 1934 and 1935. Nourse and H B. Drury also wrote a related book *Industrial Price Policies and Economic Progress* (see Rutherford 1994). Nourse is reported to have said that Hobson was “the intellectual daddy of what we did at Brookings on the Price and Income books” (Knapp 1979: 470-1), while Tugwell has reported a 1932 conversation with Roosevelt in which he “explained that what I had said. . . was only an extended version of what economists knew as the ‘over-saving theory’ . . . usually attributed to the English economist J. A. Hobson” (Tugwell 1968: 42-3). It should be noted that this line of influence was not all one way. Mills’ NBER work on price inflexibility was explicitly referred to by Hobson and incorporated into his 1930 book on *Rationalisation and Unemployment*. Here the impact of “rationalisation” is seen to lead to lower costs but also to less competition and a regulation of output to maintain selling prices, leading to a worsening of the mal-distribution of income (Hobson 1930: 68, 85-6).

On other aspects of the unemployment problem Beveridge had written his well known book *Unemployment: A Problem of Industry* in 1909 and in the same year become Director of Labour Exchanges (in the Board of Trade), and much involved in the discussion and design of unemployment insurance schemes in the UK. In these areas of policy Britain was well ahead of the United States and there was much interest in the US in British policy developments. Hamilton included selections from Beveridge’s 1909 book on unemployment in his *Current Economic Problems* (Hamilton 1919b). In 1928 the Institute of Economics planned a major

study of unemployment. Initially they attempted to recruit Henry Clay to lead this work, but Clay declined. Lubin was put in charge once he had completed his work on coal, and he immediately set about work on the measurement of unemployment, the reabsorption of workers displaced by new technology, unemployment exchanges, and issues of unemployment insurance. In this period, before the Great Depression, there was a significant emphasis on the question of how much unemployment was due to technological change, and a view that, as far as possible, individual firms (or possibly industries) should be made responsible for their own employees. This view was shared in Beveridge's earlier work and also in the approach to unemployment insurance being pioneered by Commons and others in Wisconsin. Lubin later became Commissioner of Labor Statistics in the New Deal administration and did much to improve the Bureau of Labor Statistics data collection.

Another American organization pursuing such issues was the American Association for Labor Legislation, an organization that had numerous institutionalists in its ranks, including Mitchell, Hamilton, Wolman, Commons, and many of Commons's students from Wisconsin, including John B. Andrews, the Executive Secretary. Wolman and Commons had been involved in the setting up and administration of one of the first trade union based unemployment insurance schemes in the US, and, as noted above, Wisconsin was a state that pioneered such things as workman's compensation and unemployment insurance in the US. In the New Deal, Students of Commons's such as John B. Andrews, E. E. Witte, Arthur Altmeyer and Wilbur Cohen were important people in the development of the American Social Security system and its administration. For a time Walton Hamilton was Director of the Research and Statistics Division of the Social Security Board and he commissioned Eveline Burns to produce her book explaining

the social security system that had been put in place (Burns 1936). The Beveridge papers contain correspondence with Andrews, Witte, and Cohen about the problems of unemployment insurance schemes and issues of “pooling” of unemployment insurance funds. Wolman, Sumner Slichter, Willits, Cohen and others met with Beveridge in England to discuss unemployment and unemployment insurance problems, and during his 1933 visit to the US Beveridge met with Lubin to obtain BLS data, and also with many of those involved in the Department of Labor and the Social Security Administration.

## **5. Institutions for Education and Research**

A further area of common interest is to be found in the efforts of both groups to develop new institutions for education and research in economics and politics. In all of these efforts the goal was to develop institutions that would embody the empirical and applied approach to the social sciences outlined above, and there was a good deal of American interest in the LSE and British interest in American institutions for economic research.

In terms of educational institutions it was the London School of Economics that provided the important model. The LSE was founded by the Sidney Webb with the intent that it should be an institution catering to his ideal of economics as an empirical and applied discipline.

Beveridge became its second director in 1919 and strove to develop the School along the lines of Webb’s original vision. One of the interesting developments at the LSE was the hiring of Allyn Young in 1927 to replace Cannan on his retirement. Although Cannan had also tried to persuade Henry Clay to stand (without success), Young was an interesting choice. While he was more respectful of Marshallian economics than American institutionalists such as Hamilton or

Mitchell, he was quite closely connected to them through his interest in empirical research. He had a friendship with Wesley Mitchell and was involved in the effort to establish the NBER. He also had a reputation as an exceptional teacher. Hamilton wrote to Clay in rather scathing terms about the appointment (Hamilton to Clay, 13 August 1926, Clay papers, Nuffield College, Box 77), but Cannan was enthusiastic as was Beveridge. Beveridge wrote that “this appointment is welcome, not only as securing for London and for the School a man of world wide reputation as a teacher of economics, but as bringing into yet closer union the study of our science in America and Britain” (Director’s Report 1926/27, Beveridge papers V 6). Young’s unfortunate death in 1929, followed by Robbins’ and Hayek’s later appointments to Chairs at the School led, in the early 1930s, to a significant shift in the character of LSE economics. This, combined with other problems, including opposition to his experiment of combining social science with biology (social biology), led Beveridge to leave the LSE for Oxford in 1937.

Nevertheless, in the period up to 1930, the LSE and its association with an approach to economics close to that propounded by institutionalists was well known to Americans. When disputes over freedom of expression (concerning American participation in WWI) erupted at Columbia, several faculty left and joined with others to found the New School of Social Research in New York. As mentioned above Wallas lectured at the New School during its first term of operation. According to letters from Croly to Graham Wallas, those involved with the New School were closely interested in the LSE as a model. Croly wrote that “this school of ours . . . is an attempt to do something, in a more elaborate way, similar to what you started to do in England many years ago when you started the Fabian Society, and which is now being carried on, in a somewhat different way, by the London School of Economics.” The New School’s object is

“to work out a technique of social progress and to turn out people who are capable of carrying on a work of that kind in a scientific spirit and from a psychological point of view” (Croly to Wallas, 29 March 1919, Wallas papers, 1/62). Croly also hoped to draw directly on Wallas’s experience:

I may add that I was particularly pleased by the generous way in which you propose to give the school the benefit of your own experience at the London School of Economics. I think the administrators of the school particularly need assistance of this kind. At one time we were hoping to send somebody to London in order to study the curriculum and method of instruction employed in that school. This, I hope, we can still do but your assistance will be even better (Croly to Wallas, 16 May 1919, Wallas papers 1/62).

It is also hard to imagine that the Robert Brookings Graduate School was not also to some extent modelled on the LSE. Hamilton would have been very familiar with the LSE due to his contacts with Tawney and others. Under Hamilton, the Brookings Graduate School experimented with a problem centered, highly informal, and interdisciplinary approach: its aim was to “teach the art of handling problems rather than to impart accumulated knowledge; and its end is to turn out craftsmen who can make contributions to the intelligent direction of social change” (Hamilton 1926). He regularly sent RBGS prospectuses to Beveridge, and there was some flow of students between the two institutions. Wallas also taught at Brookings for a term, describing it to Beveridge as “a sort of well endowed attempt to build up a ‘School of

Economics' here" (Wallas to Beveridge, 21 March 1927, Beveridge papers, Box 26), and writing to his wife that "the people at his place seem to me to be entirely on the right lines and I think I shall really both learn and teach" (Graham Wallas to Ada Wallas, 1 March 1927, Wallas papers, 9/19). The School was also visited by Bronislaw Malinowski who wrote "its size, system and personal quality make it one of the best sociological workshops I know of—if not *the* best" (extract from letter from Malinowski to Outhwaite, 1 June 1926, Laura Spelman Rockefeller Memorial Archives, Series 3.6, Box 49).

In terms of institutions of research it was the American side that took the lead. The NBER was founded in 1920 and the Institute of Economics in 1922. Between 1919 and 1935 the Harvard Committee on Economic Research also operated. This organization was headed by Charles Bullock, with Warren M. Persons as the chief statistician. The main focus was on business cycles and time series data and the Committee produced a weekly letter on business conditions and also published the *Review of Economic Statistics*. Furthermore the Federal Reserve Board hired Walter Stewart in 1923 to undertake a significant upgrading of the Research and Statistics Division of the Federal Reserve.

The Harvard Committee was quite explicitly the model on which Beveridge, A L Bowley, H. D. Henderson, and J. M. Keynes set up the London and Cambridge Economic Service in 1922 (Minutes of the first meeting of the executive committee Wed July 5, 1922, Archives of the London and Cambridge Economic Service, File 1). This service undertook to publish regular "memoranda" on current economic conditions and economic statistics and had formal connections with the Harvard Committee. It later developed connections with the NBER and with European research organizations. Another American model that was explicitly adopted in

the UK was the Research and Statistics Division of the Federal Reserve Bank. In 1923 Walter Stewart was appointed from Amherst (on Wesley Mitchell's recommendation) to head up this division. Stewart did a great deal to upgrade the Division and to improve its statistical work. In 1927 Montague Norman of the Bank of England wrote to Benjamin Strong of the Federal Reserve to ask about the possibility of hiring Stewart to help set up a similar division in the Bank of England: "We have long admired your methods for the collection and preparation of statistics and such like information" (Norman to Strong 15 March 1927, W. W. Stewart Personal File, Bank of England Archives). Stewart was at the Bank of England between 1928 and 1930, appointed as a Special Advisor, with the primary job of developing the Economics and Statistics Section. Henry Clay (who became the third Economic Advisor to the Bank of England after Stewart and O. M. W. Sprague of Harvard in 1933), justified the Section's work as follows:

The Economics and Statistics Section was formed in 1921 and reorganised in 1928 under Dr. Stewart's guidance. . . . Dr. Stewart wanted a well organised Statistics Section because it was his habit of mind to try to measure up the measurable factors in a problem before he tried to find a solution. This is an acquired habit: but more people who take part in financial and political decisions are acquiring it, and the Bank needs to be equipped both to assist those of its staff who have this habit, and—perhaps equally important—to understand and argue with those of its critics who have it. The growing use of statistics in economic discussions involves a danger because so few people yet understand the limits or possibilities of statistics; but the only safeguard against this danger is a critical

study of the statistics that come into discussions in which the Bank takes part (Clay to Clegg, 6 July 1933, Henry Clay papers, Bank of England Archives, ADM 22/27).

The Institute of Statistics at Oxford also had some input from American sources. In 1931/32 Wesley Mitchell visited Oxford as Eastman Visiting Professor. Mitchell did much to bring the younger Oxford faculty in economics into a cohesive group, to focus them on their research interests, and to persuade them of the need for some type of institute or center for economic research, and on the need for empirical inquiry and verification of theory (Harrod 1949; Young and Lee 1993). One of the likely consequences of this was the founding in 1935 of the Oxford Institute of Statistics. As Harrod has put it:

It is idle to indulge in the historical hypothetical; this development might have occurred had Mitchell never come. The fact remains that regular meetings to discuss some single theme dated from his visit, were organised by him and continued to be a characteristic feature of Oxford economics until 1939. This organisation of the economists made their own sense of the need for a central institution more urgent, and enabled them to press this upon the University and the Rockefeller Foundation. The whole group took an active interest in the inception of the Institute of Statistics, some working in it, all watching its growth closely (Harrod 1949: 459-60).

Beveridge interested himself in the Institute of Statistics after his arrival at Oxford, writing to those at Rockefeller that it was the best horse to back, and was also involved in the establishment of Nuffield College. For Beveridge Oxford offered another chance to establish the type of empirical approach to economics that he had attempted to develop at the LSE. He wrote to Mrs. Webb “I hope that Nuffield is going to work out as what the Webbs originally planned the School to be—that is to say a combination of research institutes, probably in the main two research institutes (for politics and economics respectively). The Institute of Statistics was incorporated into Nuffield College, and particularly under the Wardenship of Henry Clay (from 1944), Nuffield established itself as a center for applied work in economics and politics. In making his decision to move from the Bank of England to Nuffield, Clay wrote: “Lord Nuffield’s endowment, for the purpose of assisting economic and political studies in the University in close connection with practice and experience, embodies an idea which I believe to be important and offers a chance of influencing academic studies in a direction which is badly needed” (Clay to Deputy Governor of the Bank of England, 20 April 1944, Clay papers, Bank of England Archives).

Clay, and later Beveridge, also became involved in the establishment of the National Institute for Economic and Social Research. Here again it appears that the model of American research institutions was important. A memorandum entitled “A National Institute for Economic and Social Research” dated March 1937 states “There is nothing in Britain to parallel the National Bureau of Economic Research in the United States of America” and argues that “The institute should concern itself with the realistic study of the facts and problems of contemporary human society” (Beveridge papers, V 4).

## 6. Rockefeller Funding

Developing new institutions of education and research in the social sciences, and the pursuit of empirical types of work takes funding. In the years between the Wars the major sources for the funding of economics were the large American foundations and most especially the Laura Spelman Rockefeller Memorial, which was absorbed into the Rockefeller Foundation in 1928. The program developed by Beardsley Ruml and his staff at the Laura Spelman Rockefeller Memorial Foundation was quite remarkable (Bulmer and Bulmer 1981). In 1922 Ruml set out his views in a “Memorandum” that emphasised the importance of the development of the social sciences, and, in particular, the “production of a body of substantiated and widely accepted generalizations as to human capacities and motives and as to the behavior of human beings as individuals and groups.” The underlying purpose was the generation of social scientific knowledge that could be used for social improvement. Ruml argued that “all who work toward the general end of social welfare are embarrassed by the lack of that knowledge which the social sciences must provide,” the situation being as if “physicians were practising in the absence of the medical sciences” (Ruml, General Memorandum by the Director, October 1922, RAC-LSRM, Series 2, Box 2, Folder 31, pp. 9-10).

In 1923 Ruml commissioned Lawrence K. Frank to carry out a review of social science research in universities and independent research organizations. Frank was an economist of institutionalist persuasion who had trained at Columbia. He was then working as the business manager at the New School for Social Research, and in the process of developing a treatment of business cycles that drew heavily on the ideas of Thorstein Veblen and Wesley Mitchell. Frank’s report deplored the lack of funding for properly scientific social science research, by which he

meant work that was “investigational” or “experimental.” These scientific methods he contrasted with those of speculative theorizing and library based research, the dominance of which had resulted in both the “inertia” of the social sciences and its failure to separate itself from political partisanship (Frank, *The Status of Social Sciences in the United States*, 1923, RAC-LSRM, Series 3.6, Box 63, Folder 679, pp. 20-21). After completing his report Frank joined Rumel on the staff of the Memorial.

Given the philosophy of supporting empirical and applied work as expressed by Rumel and Frank it is not surprising that LSRM funds should have gone to support the such centers of social science research as the University of Chicago, The Robert Brookings Graduate School (for research undertaken in the Institute for Government Research), the Social Science Research Council, Columbia University, Harvard University, and the National Bureau of Economic Research (Bulmer and Bulmer 1981, p. 368). The National Bureau, and (after its consolidation in 1928) the Brookings Institution, were to be generously supported by Rockefeller for many years (on the NBER see Rutherford 2002). Rumel, however, was also interested in supporting social science research in the UK, and the London School of Economics was a major recipient of LSRM funding. Beveridge’s views of the way in which the LSE should develop went down well with Rumel. In September of 1923 Rumel visited London, and by December the LSE had received a grant of \$90,000 as a research fund and \$25,000 towards buildings. Further large grants were received in 1925 and 1927, and the LSE was called “Rockefeller’s baby” by the School’s secretary, Jessy Mair—later Lady Beveridge (Dahrendorf 1995: 162). The 1925 application included a request to cover a variety of “prior needs” including \$100,000 for buildings, \$40,000 for the library, and \$5,000 a year for five years for a full time Chair in Political Economy (this

would be Allyn Young's Chair). Beveridge also requested additional funds for a program on "The Natural Bases of Economics and Politics" which would include an appointment in "social biology." Rockefeller funded the prior needs. In 1927 Rockefeller provided \$700,000 for teaching and research and \$175,000 for buildings. Due to this Rockefeller support, Beveridge was able to transform the LSE from essentially an institution of part time students and faculty into an institution with a strong full time staff and students.

In 1929 the LRSM was consolidated into the Rockefeller Foundation and Edmund Day took over as the Director of the Social Science Division of Rockefeller. Day shared Ruml's emphasis on empirical and applied work, and, if anything, was even more interested in funding European work in economics and social science than Ruml. According to Craver, the "studies conducted at the National Bureau of Economic Research in the 1920s and 1930s formed the model for the kind of empirical research Day sought to encourage in Europe" (Craver 1986: 214). Initially, Day expressed a great deal of satisfaction with the LSE, stating that "there is nothing comparable in the field of social sciences to the London School, either in England or the Continent" (quoted by Dahrendorf 1995: 167), and Rockefeller funding continued. Day also directed funds at Oxford University, particularly to the Institute of Statistics which received \$130,000 in 1934. The London and Cambridge Economic Service also received Rockefeller support from 1937, and a significant amount of money was given to the comparative study of the history of prices headed by Gay and Beveridge (Craver 1986). The National Institute for Economic and Social Research also received Rockefeller support in 1937.

However, in the mid 1930s the LSE began to fall out of favor with those at Rockefeller. Beveridge's "social biology" program was opposed by a number of faculty, there were

complaints concerning Beveridge's administration of the School, and concerns about the overt political activities of some of the staff. In addition, Beveridge applied to Rockefeller in 1934 for a project that involved his leaving the Directorship and being provided with a research Chair. This had not been widely discussed at the School and those at Rockefeller were concerned. Rockefeller declined Beveridge's proposal and also decided to terminate funding for "social biology" (Dahrendorf 1995: 262-324), precipitating Beveridge's move to Oxford. In addition, from about 1937 onwards the Rockefeller Foundation began to draw back from institutional grants and from its European activities more generally (Craver 1986). Craver attributes this to Ruml and Day overselling what might be achieved in the Social Sciences, together with growing concerns over the political situation in Europe. Nevertheless, the high level of Rockefeller support from 1923 to 1937 was clearly a vital factor in the development of empirical economics in the UK. Furthermore, the Rockefeller link brought American and English economists with similar views as to the desirable nature of economic research into contact with each other. Rockefeller provided the basis for the contacts between Beveridge and Clay in England, Rockefeller staff such as Ruml, Day and Willits, and those American social scientists whose institutions were also receiving Rockefeller funding. Even after 1937 the relationship between the Rockefeller Foundation and empirical economics in England did not entirely disappear. Day's successor as Director of the Social Science Division of Rockefeller was Joseph Willits, a man with long time connections with the NBER, a strong supporter of empirical research, and a close friend of Henry Clay's.

## **7. Conclusion**

American economics in the interwar period was not dominated by Marshallian economics, but neither, it seems, was English economics. American institutionalism was a significant element within American economics, and in England there was also a substantial group of non-Marshallians based primarily at the London School of Economics, but also elsewhere. These groups were not identical. The American institutionalists were affected by the work of Thorstein Veblen and by American pragmatic philosophy, influences that had little impact in England, and the English group had associations with the Fabians and with Labour Party politics that had no direct equivalent in the US. Nevertheless, the argument in this paper is that there were sufficient commonalities—in the desire to make economics more empirical, in specific areas of policy, in the development of institutions of education and research, and in sources of funding—to generate a significant amount of contact and intellectual interaction between the two groups.

Traditionally, institutionalism has been presented as a uniquely American phenomenon. Institutional economics and the work of English economists such as J. A. Hobson and various members of the Fabian group are sometimes discussed in close proximity in history of economics text books, but these treatments never suggest that there was very much in the way of connections between them. It seems that these movements in economics arose out of similar types of dissatisfaction with “orthodox” economics, the shared desire to reformulate economics along more properly “scientific” lines, and their common interest in the promotion those institutional changes connected with what has since become known as the “welfare state.” In retrospect, it is not surprising that they should have had so much contact with each other. The fact that their view of economics was also adopted by funding agencies such as Rockefeller

served to enhance their impact on the shape of economics in both the US and in Britain in the interwar period.

**Notes**

1. Some of what follows draws on forthcoming work on institutionalism at Columbia University and on the programs developed by Walton Hamilton at Amherst College and at the Robert Brookings Graduate School. See Rutherford 2003 and 2004.
2. There is some literature on the links between John A. Hobson and institutionalism (Rutherford 1994; Edgell and Tilman 1994; and Neale and Mayhew 1994) and a paper on “Cannan and Veblen as Institutionalists” (Ellis 19??). The last does not delve into any direct contacts or influence between Cannan and institutionalists. Kenneth Boulding’s “A New Look at Institutionalism” (Boulding 1957) talks of a dissenting tradition in Britain rising “to a crescendo” with the Webbs, the Fabian Group, and what he calls the “London School Institutionalists” consisting of Tawney, Wallas, and Laski. John Hobson he argues might “almost be placed in the London School group.” He also mentions the “academic institutionalists” in the provincial universities such as H. A. Marquand and Sargent Florence. Again, he does not discuss any explicit links or contacts between those in this British dissenting tradition and American institutionalists.

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