

ECONOMIC IDEAS AND FOUNDERS OF THE INSTITUTIONALISM SCHOOL

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Abstract

This article examines the theoretical advantages of the institutional approach over neoclassical economic theory and analyzes the methodological differences among the institutional perspectives of Thorstein Veblen, John R. Commons, and Wesley C. Mitchell. The study demonstrates that neoclassical economics, with its emphasis on rational and abstract economic agents, is limited in explaining real economic processes shaped by social, legal, and cultural factors. In contrast, the institutional approach provides a more comprehensive framework by incorporating the role of economic institutions, norms, and legal arrangements in shaping economic behavior. The paper comparatively analyzes Veblen's evolutionary and socio-psychological approach, Commons's legal and transaction-based framework, and Mitchell's empirical and statistical methodology. The findings indicate that the methodological diversity within institutionalism strengthens its analytical capacity and enhances its relevance for contemporary economic analysis and policy formulation.

Keywords

institutional approach, neoclassical economics, economic institutions, methodological differences, evolutionary economics, transaction theory, empirical analysis, economic behavior.

Introduction. The increasing complexity of modern economic processes, the instability of market mechanisms, and the growing influence of social and institutional factors necessitate a reconsideration of economic theory. Traditional neoclassical economic theory primarily attempts to explain economic systems through rational choice, market equilibrium, and the price mechanism. However, practical experience demonstrates that economic decisions are shaped not only by economic interests but also by legal norms, social institutions, historical conditions, and



cultural factors. This reality reveals the limitations of the neoclassical approach in explaining real economic processes.

The economic crises that emerged at the beginning of the twentieth century, the growing power of large corporations, and the expansion of the state's role in the economy raised serious doubts about the idea that market mechanisms are capable of fully regulating themselves. As a result, an institutional approach emerged that analyzes economic processes within a broader social context. This approach proposes that economic relations should not be viewed merely as the aggregate of decisions made by individual economic agents, but rather as processes closely connected with the system of institutions existing within society.

At the same time, institutionalism is not a single unified theoretical school, but rather a scientific direction that incorporates various methodological approaches. Although the ideas of Thorstein Veblen, John R. Commons, and Wesley Clair Mitchell developed within the framework of institutionalism, their methods of explaining economic processes, their objects of analysis, and their research methodologies differ significantly from one another. This methodological diversity both expands the theoretical potential of the institutional approach and highlights the need for its deeper scientific analysis.

The purpose of this article is to identify the advantages of the institutional approach in comparison with neoclassical economic theory and to systematically analyze the methodological differences between the approaches of Veblen, Commons, and Mitchell. The results of this research contribute to a clearer understanding of the role and practical significance of institutionalism in contemporary economic analysis.

Main Part. For a long period, neoclassical economic theory developed as the dominant paradigm of economic analysis, explaining economic processes primarily through the concepts of rational choice, market equilibrium, and the price mechanism. Within this framework, economic agents are interpreted as individuals possessing complete information, clearly understanding their own interests, and striving to maximize utility or profit. However, real economic practice demonstrates that such a simplified model cannot fully reflect the complex nature of economic behavior.

One of the key advantages of the institutional approach over neoclassical theory lies in its analysis of economic decisions within the broader social and legal environment. Economic activity is carried out within the framework of property rights, contracts, legal regulations, state policies, and informal institutions such as traditions and social norms. According to this perspective, these factors play a decisive role in shaping economic outcomes, whereas the neoclassical approach often treats them as secondary elements.

Furthermore, institutionalism explains human behavior under conditions of bounded rationality. Economic decisions are frequently influenced by psychological factors, habits, and social stereotypes. This perspective demonstrates the explanatory strength of the institutional



approach in analyzing economic crises, market failures, and institutional dysfunctions. In contrast, neoclassical theory often interprets such phenomena as external or exceptional factors.

In addition, the institutional approach views economic development as an evolutionary and dynamic process. Economic systems evolve over time through the transformation of institutions, technological progress, and changes in social relations. From this perspective, institutionalism provides broader opportunities for analyzing economic growth and structural transformation.

Thorstein Veblen, regarded as the founder of institutional economics, analyzed economic processes from socio-psychological and evolutionary perspectives. He interpreted the economic system not as a static equilibrium, but as a constantly evolving process. In Veblen's theory, economic behavior is formed through the interaction of human instincts, social habits, and technological development.

An important methodological feature of Veblen's approach is that he did not view individuals as perfectly rational agents, but rather as actors whose behavior is shaped by social status and cultural traditions. His theory of conspicuous consumption vividly illustrates this perspective, demonstrating that economic decisions are often motivated by the desire to display social status rather than by purely economic considerations.

According to the author, Veblen's approach is considerably more effective in explaining real economic behavior than the abstract models of neoclassical theory. In particular, the growing influence of advertising, branding, and social status factors in modern consumer society confirms the continued relevance of Veblen's ideas.

The legal-transactional approach developed by John R. Commons introduced an important methodological shift within institutionalism in explaining economic processes. Commons placed transactions arising between economic agents at the center of economic analysis rather than the process of production itself. In his view, economic relations are primarily formed through the distribution and exchange of property rights, and these processes are regulated by legal norms.

The main advantage of Commons's approach lies in the fact that it analyzes economic processes without separating them from the real legal environment. In neoclassical theory, agreements between market participants are generally explained through the price mechanism, whereas Commons demonstrated that the efficiency and stability of transactions largely depend on the quality of legal institutions. This perspective is particularly relevant for explaining issues related to contracts, labor relations, and property rights in the modern economy.

Commons interpreted economic relations as a process of conflicts of interest and their coordination through legal institutions. From this standpoint, the state is not viewed as an external force that restricts the market, but rather as an important institution that balances economic interests and ensures social stability. According to the author's analysis, this view has



significant theoretical importance in explaining the role of the state in the labor market, social protection systems, and contractual relations in contemporary economies.

Moreover, Commons's approach strengthens the normative character of institutionalism. He did not limit his analysis to merely describing economic processes but also raised the question of how these processes could be organized more efficiently through appropriate legal mechanisms. According to the author, this aspect distinguishes Commons's approach from Veblen's largely critical-descriptive methodology and Mitchell's empirical-statistical approach.

Commons's legal-transactional approach reinforces the practical orientation of institutionalism and provides an important theoretical foundation for developing economic policy based on legal principles. This clearly demonstrates the advantages of the institutional approach compared with neoclassical economic theory.

Wesley Clair Mitchell stands out within the institutionalist tradition as a scholar who gave priority to empirical and statistical analysis. His methodology is based on the idea that the scientific value of economic theory must be confirmed by facts and statistical data that reflect real economic practice. In explaining economic processes, Mitchell placed greater emphasis on direct observation and empirical analysis rather than on abstract and generalized theoretical models.

According to the author, the most important aspect of Mitchell's approach is that it enables a closer connection between economic theory and real economic life. While neoclassical theory often relies on equilibrium models, Mitchell revealed instability, fluctuations, and recurring cyclical processes in the economic system through statistical data. This approach demonstrates that economic cycles are not random phenomena but rather systematic processes closely connected with the functioning of economic institutions.

In Mitchell's research, the problem of economic cycles occupies a central place. He analyzed the phases of economic expansion and decline not as isolated events but as the result of interactions among the banking system, financial institutions, corporate structures, and government policies. According to the author's analysis, such an approach clearly reveals the limited capacity of neoclassical theory to adequately explain economic crises.

Moreover, Mitchell's methodology significantly increases the practical relevance of institutionalism. He emphasized that economic policymaking should rely not merely on theoretical models but on real statistical indicators. In the author's view, this approach strengthens the scientific basis of economic decisions adopted by the state and contributes to improving the effectiveness of economic policy.

Although the views of Thorstein Veblen, John R. Commons, and Wesley Clair Mitchell—developed within the framework of institutionalism—share a common intellectual foundation, their methodologies for analyzing economic processes differ substantially. Identifying these differences makes it possible to better understand the internal structure of the institutional approach and its broader theoretical potential.



Veblen's methodology is based on the analysis of economic processes from socio-psychological and evolutionary perspectives. He interpreted the economic system as a set of institutions and social habits that are constantly evolving over time. For Veblen, the primary object of analysis is human behavior, as economic decisions are often shaped by social status, traditions, and instincts. According to the author, Veblen's approach holds particular scientific significance in explaining the problems of consumer society and social inequality.

Commons's methodology analyzes economic relations through transactions regulated by legal institutions. He placed property rights and contractual relations at the center of the economic system. For Commons, economic stability emerges as a result of coordinating conflicts of interest through legal institutions. According to the author's analysis, this approach provides strong methodological tools for explaining the functioning of the labor market, social protection systems, and the role of the state in the economy.

Mitchell's methodology, in contrast, is distinguished by its reliance on empirical and statistical analysis. He emphasized the necessity of testing the scientific validity of economic theory through real facts and observations. Mitchell viewed economic cycles as systematic processes closely connected with the functioning of economic institutions. According to the author, Mitchell's approach demonstrates the practical potential of institutionalism in explaining economic instability and crises.

Research Methodology. This study analyzes the advantages of the institutional approach in comparison with neoclassical economic theory, as well as the methodological differences among the views of Thorstein Veblen, John R. Commons, and Wesley Clair Mitchell. In the research process, systemic, historical, and comparative-analytical approaches were employed to examine economic phenomena.

First, the method of systemic analysis was applied to examine the main theoretical ideas developed within the framework of institutionalism in their interrelated context. This method made it possible to identify the internal structure of the institutional approach, as well as its key concepts and analytical categories.

Through the historical approach, the formation of institutionalism, the socio-economic conditions that influenced its emergence, and its theoretical opposition to neoclassical economics were analyzed. This method enabled the evaluation of economic ideas in relation to the specific historical periods and conditions in which they developed.

In addition, a comparative-analytical method was applied to compare the approaches of Veblen, Commons, and Mitchell in terms of their objects of analysis, methodological foundations, and ways of explaining economic processes. This method helped to identify the methodological diversity within institutionalism and to assess its role and significance in economic analysis.

Analysis and results. Within the framework of this study, the advantages of the institutional approach compared with neoclassical economic theory, as well as the



methodological differences in the institutional perspectives proposed by Thorstein Veblen, John R. Commons, and Wesley Clair Mitchell, were systematically analyzed. The results of the theoretical and comparative analysis made it possible to formulate several important scientific conclusions.

First, the analysis indicates that neoclassical economic theory primarily attempts to explain economic processes through rational choice and market equilibrium. However, in real economic practice, economic decisions are shaped by social, legal, and institutional factors. By placing these factors at the center of analysis, the institutional approach provides a deeper and more comprehensive explanation of economic processes. This finding confirms the superiority of institutionalism in explaining market failures and economic instability.

Second, Veblen's methodology reveals the socio-psychological and evolutionary nature of economic behavior and provides important theoretical insights into the processes of consumption and social inequality. According to the research findings, the concept of conspicuous consumption proposed by Veblen continues to maintain its relevance in the context of modern consumer society.

Third, the legal–transactional approach developed by Commons demonstrates that the stability and efficiency of economic relations depend directly on the level of development of legal institutions. The analysis shows that clearly defined property rights and contractual relations play a crucial role in reducing conflicts of interest within the economic system and in maintaining social balance.

Fourth, Mitchell's empirical–statistical approach makes it possible to explain economic cycles and instability not through purely theoretical models but through real statistical data. The results of the study indicate that the emergence of economic cycles is closely connected with the functioning of the banking system, financial institutions, and government policy. This confirms the importance of empirical analysis in the formulation and implementation of effective economic policy.

Conclusion. This study was aimed at systematically analyzing the advantages of the institutional approach compared with neoclassical economic theory, as well as the methodological differences among the perspectives of Thorstein Veblen, John R. Commons, and Wesley Clair Mitchell. The conducted analysis made it possible to formulate several important scientific conclusions.

The institutional approach enables the analysis of economic processes not only through the market mechanism and rational choice but also in close connection with social, legal, and cultural institutions. This perspective helps to overcome the limitations of neoclassical theory in explaining real economic practice.

Veblen's evolutionary and socio-psychological approach reveals the socially conditioned nature of economic behavior and demonstrates its significant theoretical importance in



explaining consumption processes and social inequality. His ideas continue to remain relevant in the context of modern consumer society.

The legal–transactional approach developed by Commons demonstrates that the stability and efficiency of economic relations depend directly on the level of development of legal institutions. This perspective provides a solid theoretical foundation for evaluating the role of the state as a coordinating institution within the economy.

Mitchell’s empirical–statistical methodology highlights the necessity of analyzing economic cycles and instability on the basis of real statistical data, thereby expanding the possibilities for scientifically grounded economic policymaking.

Overall, the results of this study confirm that the methodological diversity of institutionalism is not a weakness but rather a strength that enhances its ability to explain complex economic processes. The institutional approach continues to hold significant theoretical and methodological importance for contemporary economic analysis and the formulation of economic policy.

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