No charge is leveled more consistently at institutionalism (when it is referred to at all) than that it has nothing positive to offer—it is "mere dissent."

We shall examine this charge in the following section from the perspective of the founders of institutionalism and later through a reconsidered characterization of the institutionalist perspective and an assessment of the contributions of some recent institutionalist scholars. It is true that institutionalists customarily dissent from the assumptions, the methodology, and the conclusions of neoclassical economics. But they go on to offer a variety of their own positive contributions.

We present in the pages to follow the institutionalists' paradigm: their approach to economic theory and methodology. Frequent comparison of neoclassicism with institutional analysis will sharpen and clarify both the differences between the two and the extent and character of the institutionalist contribution. There are institutionalist applications to a number of the conventional fields in economics—from development economics (which has in a sense always been ineluctably institutionalist), through business cycles, to industrial organization and public sector economics.
The Roots of Institutional Economics

It has been fashionable for some time to assert that what held the work of the founders of institutionalism together—indeed, what justified calling institutionalism a movement—was that Veblen, Mitchell, and Commons were all hostile to neoclassical theory, particularly micro theory. It is perfectly true that in one way or another all three had reservations about the adequacy of neoclassical micro theory. It is also true that common negative reactions have historically been a profoundly effective bonding device in the creation of political and social movements as well as schools of thought. (One could say that the American Colonies were “mainly hostile” to King George III. It could be argued that early classical economists were “mainly hostile” to mercantilism, that Marxists were “mainly hostile” to capitalism, and so on)

So while institutionalists had significant reservations about the prevailing neoclassical theory of their day, this was in fact never the primary preoccupation of the group that founded institutionalism. The first use of the term appears to have been in a paper entitled “The Institutional Approach to Economic Theory” delivered by Walton H. Hamilton, in December 1918 to the annual meeting of the American Economic Association. Hamilton saw this paper as part of a “reconstruction of economics” which he felt was necessary in order for economics to cope more effectively with the economic challenges of the day. This interpretation of Hamilton’s purpose comes from Joseph Dorfman, a close student of the early days of institutionalism. According to Dorfman, Irving Fisher (scarcely an institutionalist), while president of the American Economic Association, appointed a Committee on Cooperation (of Economists) in Economic Research, chaired by Allyn Young. This committee was to increase available information to make economic research more germane to (then current) economic problems. In connection with the formation of this committee, both Veblen and Mitchell were consulted on their views concerning “the prospects of a serious shift by the profession, especially by the American Economic Association.” Veblen is reported to have been interested in the idea. (Dorfman reports that Veblen called Hamilton “a disturber of otherwise untroubled water.”) Mitchell was also interested in the idea, though he was less optimistic. Both, in short, were aware of the need for a shift in the perspective of their colleagues, but neither made the formation of a new school of economic thought a prime focus, however intransigent they may have considered the American Economic Association to be. Rather, they concentrated on developing their own views, and in the process contributed to a new way of thinking about economic problems.