The dissenters from conventional economic theory have devoted the main part of their scholarly endeavours to analysing specific problems in regard to which they found this theory insufficient and faulty. But enough of us have from time to time taken up the general problem of why, how, and in what respects this conventional theory goes wrong and how an institutional theory, free from these systematic defects, should be shaped. As yet there are, however, no comprehensive treatises written by institutional economists where our thoughts on the whole range of economic problems have been systematised. But the concord among us in basic philosophy and approaches to theoretical and political questions is so great that even the task of writing institutional textbooks ought now to tempt some of our younger colleagues. The most fundamental thought that binds us together is our understanding that, in regard to practically every economic problem, scientific study must concern the entire social system, including, besides the so-called economic factors, everything else of importance for what comes to happen in the economic field. The reason why this is a methodological imperative is the fact that, among all conditions in that system, there is circular causation. This implies interdependence. A change in one condition will cause changes in other conditions which, in turn, will cause new

*The paper was originally prepared as an essay for a volume in honour of Professor K. William Kapp.*
changes all around, and so forth. So the whole social system will be moving in one direction or another, and it may even then be turning around its axis. There is no basic cause, but everything causes everything else.

If, as an abstract supposition, the system were assumed to be at rest in an initial moment, then after a change there would be no equilibrium in sight. This is more particularly so because we know from empirical study that changes which are reactions to a more primary change often, though not always, tend to go in the same direction. Thus a rise in income for a group of people in a poor country will permit higher nutritional levels which, in turn, may increase labour productivity and incomes.

This is why circular causation normally will have cumulative effects. Through feedbacks causing more primary changes to have repercussions in the same direction, the reactions for good or ill may after some time be quite out of proportion to an initial impulse changing one or several conditions.

As the system is moving, the coefficients of interrelations among various conditions in circular causation are ordinarily not known with any precision. Elements of inertia, time lags, and in extreme cases the total non-responsiveness of one or several conditions to changes in some set of other conditions are problems of great complexity. This is largely true even in developed countries with their more complete analysis of all social conditions and their more perfected statistical services. But it is particularly true in under-developed countries. Consequently, our analysis of their development problems must often end in broad generalisations and merely plausible hypotheses, built upon limited observation, discernment and conjectural judgements. Even in developed countries a widening of perspective will regularly destroy the neat simplicity of both analyses and conclusions.

The above remarks are offered as hints toward the master model of the institutional approach, which in principle is holistic. It is founded upon logic. But to us institutional economists it is validated as a research methodology by the results we have been reaching when trying to follow it out.

In calling the holistic approach the fundamental principle of institutional economics, I imply that our main accusation against conventional economists is that they work with ‘closed models’ with too few variables. These are chosen from conditions called ‘economic factors’ which regularly are more susceptible to quantification, although even this quality is often opportunistically exaggerated, and not only in regard to under-developed countries.