The demands placed on organized scholarship in political economy for applicable economic analysis and policy formation are increasingly heavy and complex. The significance of generating credible responses can scarcely be exaggerated. Economists are being called upon to analyze inadequate provisioning processes and to recommend institutional changes in a myriad of convulsive and conflictual settings. Technologically advanced economies are confronting instability, widening inequality, and unemployment. Transitional economies are having profound difficulties following Western advice to change from socialist models to capitalist market-oriented systems. Underdeveloped economies are finding the route to development impeded by continuing shortfalls in internal and external resources, talent, and funding. Ethnic divisions and conflict in all three categories drastically complicate economic problem solving per se.
The crisis in scholarship concerns relevance. Does the received doctrine of Western neoclassical theory and policy adequately equip scholars to recommend structural change in any one of the three categories of countries? Increasingly, in our view, the answer is negative. Finding traditional orthodox approaches grossly inadequate, scholars across a broad international spectrum have become formally or informally heterodox. A wide range of what may collectively be called evolutionary approaches to analysis and policy are now becoming increasingly prominent, especially in Western Europe and North America. The spread of this evolutionary scholarship encompasses, among other approaches, neo-Schumpeterian models, Polyanian analyses, biological analogs, neoclassical institutionalism, transaction cost economics, social economics, feminist economics, Neo-Austrian perspectives, Post Keynesian approaches, and neoinstitutional economics. As authors working in the neoinstitutionalist tradition, we concur in the need for heterodoxy and herein suggest an alternative analytical perspective.

Beginning with the works of Thorstein B. Veblen, American institutionalist thought has rendered an encompassing critique of orthodox economics, which is often taken as its only contribution to the literature. Contrary to such misconceptions, neoinstitutionalists have produced a robust literature that systematically probes such areas as the philosophical foundations of economic thought, the formulation and application of evolutionary principles of economic analysis, and the development of a normative frame of reference for policy formation. It is the neoinstitutionalist contributions to evolutionary analysis and policy formation, not its critique of orthodoxy, that will concern us here. The purpose of this chapter, then, is to identify and explain the evolutionary principles of neoinstitutional thought. Although the literature of American institutional thought extends back more than a century, emphasis will be placed on the constructs and analyses developed in recent decades.

The chapter consists of three sections: Section I presents the philosophical foundations of neoinstitutionalist methodology primarily through an examination of the pragmatic-instrumentalist philosophy of John Dewey. Section II addresses the evolutionary principles of neoinstitutional economics with special reference to its theory of institutional change. Section III explores the policy implications of neoinstitutional economics by focusing on the principles reflected in a democratic determination of instrumentally warranted institutional adjustments. Section IV provides a concluding comment.