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of Sovereignty in the Political Economy**

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Abstract:

This article distills the economic and current significance contained in the political economy of J.R. Commons. It compares descriptions of his three main works that discuss “sovereignty”: *A Sociological View of Sovereignty* (SVS), *Legal Foundations of Capitalism* (LFC), and *Institutional Economics* (IE). Through this comparison, we find that the role of sovereignty in his theory changed dramatically. First, in the period from SVS (1899–1900) to LFC (1924), the theory of sovereignty changes significantly from the standpoint of natural rights, which imply permanence of privileged customs, to “pragmatic philosophy” of the courts, in which laws are relevant to customs at certain times and places. Second, from the manuscripts of IE (1927–1928), sovereignty is defined as comprising part principles, which relate to each other and make up the whole principle, willingness. In other words, Commons views sovereignty as one perspective, which in turn has a high capability of explaining the socioeconomic system. Additional descriptions of IE (1934) derived from its original manuscripts repeatedly emphasize the “power” of economic concerns that are equal to or exceed the power of the state, as well as the importance of the “function” of sovereignty in pragmatic investigations of economic disputes. We distill the economic and current significance of IE. First, the value theory that constructs values institutionally and collectively starts from an analysis of sovereignty and joint evaluations. Second, sovereignty cannot be separated from an analysis of economic transactions. Third, this paper concretely shows elements of a “deliberate space” in which sovereignty and economic interests act in concert. J.R. Commons’s IE sets out specific knowledge on the interface between sovereignty and economic interests, and serves as a useful tool in reconsidering the organ of sovereignty.

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1. Introduction

In recent times, “sovereignty” has been regarded as an issue of political economics. Sovereignty means superiority or supremacy over each person or organization. Théret (1992) suggests that we cannot discard sovereignty or deal with it as an exogenous condition when we discuss markets and economic transactions. He has focused on John Rogers Commons (1862–1945) in order to arrive at a systematic economic theory relevant to sovereignty. Commons is said to be one of the founders of American Institutionalism. He intensively discussed sovereignty in three works which can be read as principles of economics: *A Sociological View of Sovereignty* (SVS, 1899–1900), *Legal Foundations of Capitalism* (LFC, 1924), and *Institutional Economics* (IE, 1934). The last is his chief work, in which he completed comprehensive analysis of the political economy.

Despite the works being complicated and difficult to understand, as recognized even by Commons himself (IE, p. 1), some researchers have more recently begun to reevaluate them. Dutraive and Théret (2013) point out the significance of SVS in a discussion of sovereignty as “process,” which changes as privilege and intermediate institutions control violence (see also Chavance, 2011, p. 34). Medema (1998, p. 99) points out the significance of LFC, which discusses the profound influence on economic activities of the change of evaluating reasonable value to “judicial sovereignty.” This means that sovereignty is the “central player” of economic systems (*Ibid*, p. 112). Bazzoli (1999, p. 119) is of the view that a significant contribution of IE is to locate decisions of arbitrators in collective actions on the central issue of evolutionary analysis.

We notice the following two points from this overview. First, a focal point for the research is the role of sovereignty in the discussion of institutional change (e.g., Biddle, 1990; Ramstad, 1990, 1993). However, the economic role of sovereignty in Commons’s political economy and the current economic significance thereof has not been examined sufficiently.

Second, it is generally known that a comparison of the three texts, SVS, LFC, and IE, “reveals a certain amount of continuity but also the evolution of this author’s theory” (Dutraive and Théret, 2013, p. 2; Chasse, 1986, p. 762). However, what has not yet been established is the point of the sovereignty discussion developed or the disconnection between these works. Rutherford (1983), Ramstad (1990; 1993), Théret (2001), and Kitagawa (2013, pp. 251–2) seek explanations in LFC that complement Commons’s discussions of sovereignty reaching a peak in IE. Dutraive and Théret (2013) review anew SVS in order to bring out the implications of IE. Chasse (1986, pp. 762–6) and Kitagawa (2013, pp. 263–6) roughly explain the change of Commons’s point of view from

SVS to LFC and IE using his experiences mainly between the end of the 1890s and the beginning of the 1910s. However, it has not been considered in detail how the code of conduct of sovereign organs changes or how sovereign organs treat customs and private concerns. In addition, it has not been clarified which points were developed between LFC (1924), the booklet (1925), the manuscripts of IE (1927, 1928), and IE (1934). The reason why the period between LFC and IE is so important to Commons's view of sovereignty is that the following events occurred: the rise of fascism, the Great Depression (1929), and government handling of these problems.

In order to fill these research gaps, this article deconstructs the path Commons takes in constructing his own political economy by focusing on the discussion of sovereignty. The main method is to draw out the differences between these works by comparing descriptions of SVS, LFC, IE, and the original manuscripts and then to distill the current economic significance of the discussion of sovereignty.

This article is set out as follows. Section 2 shows how the codes of conduct of sovereignty were shifted via a comparison of SVS with LFC. Section 3 compares IE and its manuscripts to reveal that the place of sovereignty as a principle in Commons's political economy has been defined. Above all, we can confirm his perspectives that are not clear in the manuscripts of 1927–1928 via descriptions deemed to be written thereafter. Section 4 provides concluding comments.

2. A Comparison of *A Sociological View of Sovereignty* and *Legal Foundations of Capitalism*

2.1. Issues of sovereignty

Before a discussion of this section, we first confirm Commons's definition of sovereignty, which seems to be highly polished throughout his works, in order to obtain important perspectives.

Sovereignty is the extraction of violence from private transactions and its monopolization by a concern we call the state². But sovereignty has been looked upon

² This article does not target *The Economics of Collective Action* (Commons, 1950) as an object of analysis. The reason is that we cannot judge whether the exceptional description was written by Commons or the editor, K. H. Persons (*Ibid.*, "Editor's Preface"). The exceptional description is inconsistent with the definition "sovereignty is monopolization of violence," that is "the state" (Commons, 1950, p. 74; IE, p. 684).

By pluralism is meant, not the American scheme of federal and state sovereignty, but **the sovereignty of occupational groups over their members**, such as labor

as an **entity** as well as a **process**. As an **entity**, it is personified as The State, and seems to exist apart from the people. As a **process**, it is the extraction of the sanction of violence from what had been considered a private affair, and the specialization of that sanction in the hands of a hierarchy of officials guided by working rules and habitual assumptions. Sovereignty, thus, is the changing process of authorizing, prohibiting, and regulating the use of physical force in human affairs. (IE, p. 684)³

Sovereignty “is the series of transactions going on between officials and the citizens, and between officials and other officials of the same or other state” (LFC, p. 150). It is the process, as well as the entity with control over violence. Sovereignty has an aspect of “entity” and an aspect of “process.”⁴

In this section, we compare discussions of sovereignty in Commons’s SVS (1899–1900) and LFC (1924).

SVS considers sovereignty from two perspectives: first, the extent to which an authority makes rules, and second, the extent of discretion in enforcing the rules.

In modern constitutions it [**sovereignty**] **exists primarily in the legislature**; but the

organizations, capitalistic organizations, or ecclesiastical organizations. They are, indeed, governments, since they are collective action in control of individual action through the use of sanctions. (...) Thus, we have a hierarchy of superior and subordinate governments, instead of a pluralism of equal governments (Commons, 1950, p. 75).

There are two possible reasons for the description, which recognizes these private concerns as sovereign. First, the alien content was introduced in Commons (1950) through the editing process. Compared to LFC and IE, which were completed by Commons’s own hand, Commons (1950) was edited by Persons and occasionally amended by Commons.

Second, Commons’s idea to recognize forces behind going concerns as sovereignty, without regard to which are state or private concerns, was not expressed in LFC and IE. In fact, Dewey (1894), referred to in SVS (p. 44), views sovereignty in the same way (Dutraive and Théret, 2013, p. 9). “All institutions, government included, are sovereignty, the moral or social force, *organized*” because “the ultimate basis of order (...) is moral” (Dewey, 1894, p. 43). This may be an appealing idea because it overlaps considerably with M. Foucault’s micro-power (Foucault, 1975; Rorty, 1982, pp. 203–11). While the idea is permissible as an analogy, it lacks precision as an idea of economic theory because it mixes the discussion of sovereignty and power (*cf.*, Dugger, 1996, p. 428).

³ *Italic* font indicates a direct quotation, whereas **bold** font indicates emphasis by the author of this article. [] is added by the author. The same rules apply hereafter.

⁴ There are two conflicting aspects in the discussion about how to see the state. This article does not discuss the issue because its purpose is to reveal the constructing process of Commons’s political economy.

executive, who ordinarily has no will or purpose of his own and is but the instrument of the legislative will, has also limited discretion in the ordinance power, and is to that extent sovereign. (...) And **the courts**, whose work is mainly interpretative, **do actually create law, and are to that extent sovereign. The people are not sovereign** except where they directly enact the laws, as in the initiative and referendum. Popular election of officials is only an administrative and not a legislative act (...). (SVS, pp. 38–9)

With regard to issues of sovereignty, the following three points are made in SVS. First, sovereignty exists mainly in the legislature. Second, sovereignty of the courts is limited. Third, the people have no sovereign except in the case of a few isolated examples.

On the other hand, LFC emphasizes supremacy of the courts, that is, “judicial sovereignty.”

The US Federal Constitution encoded the following point with regard to the relationship between officials and citizens via amendments in 1791 and 1868. No official can take away the freedom and property of citizens except in following “due process of law.” In other words, it refers to “whatever process seems due to the demands of the times, as understood by the judges of the time being” (LFC, p. 342). Under this rule, the Supreme Court obtained authority to reverse decisions of federal and state legislatures and executive bodies.

(...) that court occupies the unique position of the first authoritative faculty of political economy in the world’s history, we shall begin with the court’s theory of property, liberty and value. (LFC, p. 7)

Thus, LFC clarified that the courts as the supreme organ should be placed at the center of any analysis. In addition, the due process of law is applied not only in the relationships between officials and citizens but also in the relationships between officials and officials. Under this framework, the citizens have positive power.

Officials have reciprocal powers, liberties, disabilities and immunities in their relations to each other, and, most important, **the will of the citizen can take advantage of these reciprocal relations in order to assert for himself a share in sovereignty and thus be able to bring the collective power to the support of what he deems to be his own rights and liberties and the corresponding duties and exposures of others.** (...) Citizens obtain not only a negative immunity from the acts of officials,

as contemplated in Magna Carta, but also **a positive power** in their own hands to require officials to assist in executing their private will. (...) In this way **the citizens themselves become sovereigns and lawgivers to a limited extent**, and a reciprocal relation is set up between them and officials, partly their own subjection to officials, partly the responsibility of officials to them (LFC, pp. 105–6).

Thus, we reveal that Commons's opinion about the existence of sovereignty of government instruments and sovereignty of citizens had changed. With regard to government instruments, his view changed from stressing "legislative sovereignty" in SVS to "judicial sovereignty" in LFC. With regard to citizens, whereas SVS denied the existence of sovereignty for citizens, LFC, in complete contrast, showed that citizens received sovereign power.

The reason for changing his opinion is that from 1899–1924, he obtained a better understanding of the due process of law, the courts' interpretation thereof, and precedents set by the courts. His inquiry into the principles of courts is the main reason he developed his discussion of sovereignty (IE, p. 3).

2.2. Relationships between sovereignty and customs

In each of Commons's works, order and customs are subjects of analysis from the perspectives of their relationships with sovereignty and evolution of institutions.⁵ For example, an evolution from the agricultural stage to the commercial and then industrial stage was summed up as follows.

Each stage proceeded **by the evolution of customs and the formulation of customs into working rules by a government.** (LFC, p. 313)

In this section, we compare Commons's opinions in SVS and LFC in respect of the relationship between sovereignty and customs. In this way, we review the following two points. First, SVS argues that sovereignty and customs are exclusively related to the role of maintaining order; however, LFC argues that they are complementarily related to the process of recreating order. Second, LFC shows that sovereignty plays the role of "arbitrator," that is, an entity that is in the process of "artificial selection."

On the one hand, SVS discusses the exclusive relationship between sovereignty and

⁵ A definition of institution in IE (p. 73) is "collective action in restraint, liberation, and expansion of individual action." Organized forms of institution are sovereignty and other going concerns. Unorganized forms are customs.

customs.

Custom is the only guaranty of order. Where it does not hold, there caprice governs. But **in the constitutional form of government**, upon which Austin's theory is tacitly based, **order is in some way incorporated in the very exercise of coercion itself.** (...) We are now to inquire into the process whereby **custom has disappeared as the maintainer of order, and coercion itself has become orderly.** (SVS, pp. 40–1)

SVS focuses on “the complete breakdown of custom” and “the subsequent injection of order into sovereignty” as the creation process of constitutional government based on J. Austin.

On the other hand, in LFC (pp. 298–9) Commons's own view is derived from the contraposition of Austin's view that “law is *made* by the command of a superior to an inferior” with J.C. Carter's view that “law is *found* in the customs of the people.” In short, LFC agrees with Carter's view except that Carter does not mention how to distinguish good from bad customs, a defect of his argument. A unique opinion in LFC that compensates for this shortcoming is that good and bad judgments and choices of customs depend on the discretion of officials, including judges. LFC shows that sovereignty and customs are in complementary relation for the purpose of securing expectations; that is, order and sovereignty play decisive roles in selecting or approving certain customs.

The binding power of custom is its security of expectations (...) And customs are not fixed from time immemorial but are continually changing and continually being formulated in assemblies or groups while dealing with violations and deciding disputes as they arise. Not until a government is erected above these loose assemblies, and an official class of judges, executives, law givers, or business managers, set to work to deal with violations and decide disputes, do the customs emerge as common law (...) Then it is that approved customs, found in one place, begin to be extended to similar situations found in other places. This indicates conflict, choice and survival of customs, according to the changing political, economic and cultural conditions and governments. (LFC, pp. 301–2)

Judicial sovereignty approves certain customs and screens other competing customs. Judicial sovereignty as “arbitrator,” that is, an “entity,” is a “central player” of “artificial selection” (LFC, p. 376; Medema, 1998, p. 112; *cf.* Ramstad, 1993, p. 110).

Compared with LFC, which discusses clearly the role of sovereignty as the aspect of an entity, for SVS, “sovereignty is a “process” of genesis and transformation of social institutions, and of their modalities of control by a sovereignty whose expression varies along this process” (Dutraive and Théret, 2013, p. 2). This does not mean that SVS cuts off the aspect of an entity, but rather that these works take different stands on aspects or have different focal points.

Based on the abovementioned comparisons, we know that Commons’s standpoint and arguments on the relationship between sovereignty and customs changed, clearly because of his focus on courts being the arbitrators of conflict about customs. In addition, it is an important reason for formulating evolution theory that he obtained the idea “law is *found* in the customs of the people” by learning intensively a history of common law. According to Commons’s autobiography (Commons 1934b, pp. 127–8), he gave a joint lecture with M.S. Dudgeon, who had profound knowledge of common law history, at Wisconsin University in 1907, and this had a significant impact on Commons’s thinking. Thus, we can presume his knowledge of common law was informed by the joint lecture.

2.3. A source of rights

SVS discusses the genesis of sovereignty from the perspective of “coercion,” “order,” and “rights.” Coercion related to private property becomes an order and right when property becomes an organizational form of sovereignty. From the perspective of the three “sanctions” of “physical power,” “economic power,” and “moral power,” LFC (ch. III) discusses the historical evolution of sovereignty in which these sanctions were divided. Although their perspectives are different, SVS and LFC have common characteristics to the extent of finding that coercion is an attribute of “rights” or “justice” (SVS, p. 109; LFC, p. 345). Yet, in respect of the authority over rights, the writings are completely different. This subsection elucidates these differences and investigates the codes of conduct and processes of thinking about sovereignty that changed from SVS to LFC.

In SVS, the authority over rights is natural right or divine right. When struggles for survival and over property are overcome by the state’s monopolization and coercion of ethical decisions, the “victor,” that is the state, “can listen to the still small voice of right” (SVS, p. 59).

If the state, in redistributing coercion among its members, has done so, not merely in the narrow spirit of class dominion, but also in accordance with what may be called **those principles of natural or divine right** existing in the very make-up of society and the universe, then **that society will survive in competition with other societies, as**

being the best fitted to the plan of the world. (SVS, pp. 103–4)

In LFC, justice as the authority of public purpose is the court, which is represented at the top by the Supreme Court of the United States, because “due process of law” means “whatever process seems due to the demands of the times, as understood by the judges of the time being” (LFC, p. 342).

(...) the concept of due process of thinking, to be derived from the reasoning of the courts because they deal with actual cases as they arise and at the same time **seek to explain and justify their opinions in the public interest**, is **neither a concept of caprice nor of universal reason**. It is **the truly pragmatic process** of inclusion and exclusion of facts as they themselves and other judges have classified them, of investigating and valuing all of the facts through listening to arguments of interested parties. In short, due process of law is the *collective* reasoning of the past and the present (LFC, p. 352).

Thus, justice of the courts does not rest on “a concept of universal reason,” that is, natural right or divine right, but on process itself, which reasons pragmatically defining “the public interest” and valuing of facts.

From this comparison, we find that Commons’s codes of conduct of sovereignty changed. In SVS, sovereignty is decided according to natural or divine right. In LFC, the “pragmatic philosophy of public policy” (*cf.* IE, p. 83), represents the codes of conduct of judicial sovereignty, that is, the principles of investigation of the courts, their valuation of facts, and their choices and decisions. A right is assumed by being based on this process.

Incidentally, in Commons’s later writing, (IE, 1934), he states that J. Lock’s notion of natural right is merely an “idea” in his mind given by the specific customs of his era (IE, pp. 44–5). This criticism stresses the variability of customs and the role of the courts in selecting which customs to uphold.

Hence, the sovereignty codes of conduct deciding ethics, as discussed by Commons, take a leap from the standpoint of natural rights, which imply permanence of privileged customs (SVS), to pragmatic philosophy of the courts, which find laws in customs at certain times and places (LFC). This change is expected when we consider that Commons’s research background changed from one involving church and social gospel to one involving trade unions and courts (Gonce, 1996).

Thus, by comparing SVS and LFC, we show that a transformation or disconnection of the codes of conduct of sovereignty occurred between 1899 and 1924. A fundamental

reason is Commons's notion that the supremacy of government institutions had changed from the legislature to the courts.

3. A Comparison of *Institutional Economics* and its manuscripts

3.1. A place of sovereignty as a principle in *Institutional Economics*

While LFC focuses on the legal foundations of economic transactions, subsequent works of Commons clarify perspectives that have the capacity to explain and analyze modern capitalism. His works are the **booklet**,⁶ **manuscript**,⁷ and **IE**.

We should not see LFC, the booklet, and the manuscripts as separate research. In 1922, Commons deemed the works to be one production (Dorfman, 1958, p. 406; Rutherford, Samuels, and Whalen, 2008, pp. 223–4). Yet, his points of view in descriptions of the works from 1925 to 1934 changed slightly because of the situation at the time of writing and development of his thought. We will discuss this in the third and fourth subsections.

From the booklet, the five perspectives chosen for analysis by Commons are scarcity, efficiency, custom, sovereignty, and futurity. An important point is that an attempt at analysis based on any one perspective would necessarily be influenced by the dominant principles of the other four perspectives. For clarity, we explore these works from the point of view that principles confirmed in one aspect of sovereignty influence others when analyzing capitalism.

The dominant principle of the five perspectives, according to the booklet, is “willingness.” Thus, to be precise, the principles indicate willingness as “part principle” and willingness as “whole principle.” The latter, “their characteristic motions, distinct from the motions measured in other sciences, are the negotiations and transactions which make up a process of persuasion, coercion, command, obedience, and the accompanying exercise of human energy for purposes extending into the future” (Booklet, p. 241; see also Figure 1 below). These are in “the changing interdependence of all its limiting and complementary principles” (IE, p. 738).

[Insert Figure 1]

The viewpoints which Commons uses for analyzing capitalism intertwine with each

⁶ Commons (1925). For a brief overview and provenance of this booklet, see Rutherford, Samuels, and Whalen (2008).

⁷ Commons (1927, 1928). For a brief overview and provenance of the manuscript of 1927, see Uni (2013).

other on three analytical levels, “concepts,” “social relations,” and “principles.” In this section, we confirm the complex relation unraveled in IE and provide concrete discussions.

[Insert Table 1]

When we consider social relations (2 in Table 1), sovereignty as a principle (3.d, one of the working rules) relates as a limiting or complementary factor to transactions (2.a, b, and c). For sovereignty as social relations (2.e), the principles (3.a, b, c, and d) relate as the factors. We may translate sovereignty as social relations from a perspective of sovereignty that analyzes capitalism, decision structures of legal control, or the codes of conduct of sovereignty. First, we consider sovereignty as a principle and confirm its influence on each social relation in the following sub-headings.

(1) Sovereignty as a principle in bargaining transactions

The bargaining transaction (2.a) is an economic transaction over scarcity (3.a) when considering four people who are equal in law.⁸ An implication of the manuscripts of 1927–8 is that these works concretely clarify the following two points in which sovereignty is involved.

The first point concerns non-payment or non-delivery dealt with in a contract and court-enforced payment or performance if there is unreasonable compensation for the services of either party (Manuscript of 1928, r. 13, s. 32; Commons, 1932, p. 456). Sovereignty, therefore, lurks in all bargaining transactions as a “fifth party” that has physical force (Manuscript of 1927, ch. VI, p. 28; IE, p. 242).

Sovereignty eliminates the “duration” of violence from private transactions through the use of specialist physical force in the hands of the state. In the era of legislative or judicial sovereignty, whether physical force is exercised is based not on whim but on certain rules. This is “due process of law” and gives participants in transactions security of expectation.

The second point relates to the working rules resolving three economic disputes, that is, “competition,” “opportunity,” and “bargaining power” (Manuscript of 1927, ch. I p. 26; IE, pp. 62–3). These rules have been constructed gradually by courts’ decisions of

⁸ Commons’s scarcity means “proprietary scarcity.” It includes not only corporeal property but also incorporeal property (credit) and intangible property. This intangible value derives mainly from artificially withholding, selling, or buying properties. It also includes “goodwill,” known as “goodwill of a business, or good credit, or good reputation” and “industrial goodwill.” Proprietary scarcity is a collective and objective value created by a joint evaluation. It is different from “psychological scarcity” of the utility value theory. See IE (p. 77, “Liberty and Exposure,” p. 158 “V. Adam Smith”).

disputes as they arise. The focal points are shown clearly in Figure 2.

[Insert Figure 2]

[Insert Figure 3]

“Competition” is rivalry between and among buyers (B, B¹) and sellers (S, S¹). “Opportunity” is the set of available alternatives seen by the other side. For example, for B, the opportunity is to pay between \$110 and \$120. “Limit of Coercion” is the upper price limit asked by sellers (\$120) and the lower price limit of goods by buyers (\$90) (Manuscript of 1928, r. 13 s. 110; IE, p. 331; see Figure 3 above). From this limit is derived the area of injustice. The limit has been changed in successive periods because it depends on decisions over disputes.

In a “period of stabilization” beginning in the latter part of the 19th century (Manuscript of 1928, r. 13 s. 169; IE, pp. 773–88), two sovereign rules were followed that were different to the doctrine of so-called “free competition.” The first involved traditional regulation of unfair high prices of sellers (regulation of S, S¹ in Figure 2) and regulation of cut prices by buyers (regulation of B, B¹). The second involved a reasonable degree of regulation of “concerted action” by which competition was enforced in cases of destructive competition and monopoly. These regulations depended on not free, but “**fair** competition,” and “equal opportunity.”

An additional important matter for Commons is “bargaining power.” Conclusions of transactions are not equilibrium but “joint evaluations” which begin in “conflict” and go through “negotiation.” In Figure 2, on the one hand, S chooses B, and, on the other hand, B chooses S. An element in deciding price is the relative power of economic coercion (bargaining power) and persuasion (moral power). Bargaining power is raised by cooperation. Sovereignty permits this collective action or regulates it in order to reach “equality of bargaining power.” If a transaction is concluded only by “persuasion,” the conclusion is in the range of reasonableness (Figure 3). However, Commons thought that it is impossible to attain equality of bargaining power completely. It is not until this due process of law and fair competition, equality of opportunity and bargaining power are secured by sovereignty that economic theory reaches a level of willing buyers and willing sellers (IE, p. 324).

From this discussion of bargaining transactions, we draw the implication that if these legal foundations are not kept up, so-called market transactions cannot be performed. Legal foundations include various coercive methods to ensure the performance of

participants and to eliminate physical force from private transactions and unreasonable differences in economic power.

(2) Sovereignty as a principle in managerial transactions

Managerial transactions (see 2.b in Table 1) relate to efficiency (3.b), which is the ratio between inputs and outputs. We can infer from the following quotation of the manuscript of 1927 that the point at which legal control relates is the extent of authority that may be exercised by the legal superior of the transaction.

(...) while all disputes arising from managerial and judicial transactions may be brought under the head of the extent of authority which the superior as executive or judge has over the inferior (Manuscript of 1927, ch. I, p. 26)

(3) Sovereignty as a principle in rationing transactions

Rationing transactions (2.c) are settings of working rules (3.d). After his manuscript of 1928, Commons clarified that “justification” of private rationing transactions is done by sovereignty (IE, p. 761). As we will see later when discussing “deliberative space” and “enabling act,” sovereignty is the foundation of transactions.

(4) Scarcity and efficiency in sovereignty as social relations

Sovereignty (2.e) attempts to control scarcity (bargaining, 3.a) or scarcity-value (price, 1.b.) as externalized consequences. The same goes for efficiency (managing, 3.b) or use-value (1.a). For sovereignty, the amount of use-values is commonwealth (Manuscript of 1928, r. 13 s. 76); therefore, efficiency is referenced when government justifies its policy.

(...) in England and America, the courts represent the same social standpoint of the economists’ theories which we have examined. It is the standpoint which, economically since Ricardo, raises the question whether the shares of the social output going to individuals or classes as the social cost of inducing individuals to contribute, are proportionate to those contributions which those individuals or classes make towards the total output; in other words, **whether private wealth is proportionate to the private contributions to the commonwealth.** (Manuscript of 1928, r. 13, s. 119. This text corresponds approximately to IE, p. 339)

Thus, legal control for scarcity is justified based on efficiency (*cf.* Uni, 2013).

(5) Custom in sovereignty as social relations

As we saw in section 2.2, sovereignty (2.e) finds laws from the customs (3.d) of the

moment (LFC, p. 41). In addition, customs are internalized as “habit” (LFC, p. 349) or “habitual assumptions” (IE, p. 687) in the arbitrator’s mind. Thus, custom is both a point of reference and an assumption.

(6) Futurity seen in sovereignty as social relations

Sovereignty (2.e) has influence on the futurity (3.c) of participants. Futurity, that is, their stable expectations, is brought about from the exercise of physical force in line with the due process of law, with the force lurking in all transactions in the present expected to be exercised in the future, and dependent on whether participants conform to the rules of economic transactions.

Futurity is also a principle included in the codes of conduct of sovereignty. The term “ethical ideal type” indicates not only a “method of inquiry” of economic science but also a “method of investigation” of sovereignty. It means what the future “*ought to be*,” that is, an “ethical goal,” which is found in existing practices by investigations and is agreed collectively to be workable (Manuscript of 1928, r. 13, s. 32; IE, p. 743). The ethical ideal type gives members certain futurity, which is the expectation of a gain or loss imagined in the future. Thus, establishing an ethical ideal type by sovereignty is an active and deliberate attempt to create workable consensus.

In addition, the expressions “ethical ideal types” or courts’ “pragmatic philosophy” imply that setting public purposes and valuing of facts by sovereignty do not detract from specific assumptions of an economic theory (Commons, 1934b, pp. 155–6). If the goal is to deduce from the assumptions of the theory, real economic sense and historical process are discarded. LFC and IE are negative to external goals that are not based in reality (IE, p. 102). This attitude is completely different from SVS setting *a priori* goals, such as, “natural right” and “divine right.”

Thus, sovereignty as social relations, which is as an aspect of “legal control” of principles, also relates to other aspects of social relations. Furthermore, sovereignty (principle) as a component of the whole principle, willingness, is in “limiting or complementary interdependence” with other part principles. Because this totality is “multiple causations” of part principles, “purposeful” acts of sovereignty are necessarily accompanied by “unintended consequences” unmatched or unrelated to the purpose (IE, p. 7; Biddle, 1990, p. 30). For example, when sovereignty attempts to control scarcity, sovereignty experiences the consequences of the multiple causations of principles (Ramstad, 1990, pp. 77–82). As Figure 1 shows, relations of principles are not one-way traffic but multiple and bidirectional. Changes within each principle bring changes to other principles and the whole-principle; therefore, these changes are endless (IE, p. 739). Hence, the control of principles by sovereignty also continues endlessly.

It should be noted that willingness is integral to the myriad transactions. Every transaction, regardless whether it is bargaining, managerial, or a rationing transaction, is a joint evaluation that starts in conflict then goes through persuasion and coercion, command and obedience, and argument and pleading (IE, p. 681).⁹ It is the “joint device” of a choice of a will with another choice of will (IE, p. 672). Sovereignty has direct effects on rational transactions as a party to the transactions and, as we have seen, indirect effects on the myriad of transactions as a physical force in line with its rules. In addition, reasonable value is integral to joint evaluation. In the next subsection, we confirm the place of sovereignty in the formation process of reasonable value.

3.2. Sovereignty and reasonable value

In the manuscript of 1927, reasonable value is defined as follows.

Reasonable value, as formed in the practices of courts, juries, commissions, arbitration arrangements, and so on, is a concept of collective action in terms of money, arrived at by consensus of opinion of reasonable men, **in that they are men who conform to the dominant practices of the time** (Manuscript of 1927, ch. V, p. 57).

Thus, we understand that sovereignty and custom play important roles when constructing reasonable value. However, in the definition, Commons focuses on the possibility of controlling a formulation process of the value; hence, in fact, the value is constructed as integral to the interdependence of all its limiting and complementary principles, scarcity, efficiency, custom, sovereignty, and futurity (Booklet, p. 302, Figure 3). While sovereignty attempts to control the principles, being limiting factors at the time, it is impossible to control completely because reasonable value is the outcome of “multiple causations.” This article emphasizes the role played by sovereignty in formulating the process of the value but recognizes it is just one of the principles. It adopts this approach because previous research focuses on the decisive role of sovereignty in the evolution of institutions (e.g. Biddle, 1990; Ramstad, 1990, 1993).

When we focus on sovereignty, reasonable value is integral to the myriad joint evaluations—whether bargaining, managerial, or rationing transactions—that rest on legal foundations; for instance, regulations and permission of sovereignty (see Figure 4 below). In other words, from the viewpoint of collective actions, “reasonableness” means

⁹ Even managerial transactions with no bargaining between a “legal superior” and “legal inferior,” such as employer and employee, are outcomes of choices of both participants. Imagine the employee’s alternatives “such as strikes, boycotts, labor turnover, sabotage” (IE, p. 672).

the process itself in which collective actions, including sovereignty, construct working rules, and reconstruct them according to the consequences (Commons, 1934b, p. 160). Therefore, the contents of reasonableness or consequences as reasonable value depend on institutions at the specific time and place.

[Insert Figure 4]

Commons's main reference for this value theory is judicial precedence. There are two significant features of the theory.

First, it results in a theory of social reform that is different to the exploitation theory of Veblen and Marx. While this is shown in IE (ch. X "(I) Veblen" and "(V) Habitual Assumptions") in an easily understood manner, the essential features are shown in the 1925 booklet and 1927–8 manuscripts.

Veblen bundles intangible property as "exploitation" or "hold-up" value from communities by capitalists (IE, p. 650). This results in Veblen's theory that business exploits industry and, therefore, creates "an even greater antagonism than did Marx himself, between the labor process of increasing the nation's material goods and the capitalistic process of withholding, holding back and putting the laborers out of employment" (IE, p. 658).

While Veblen quotes from "the testimony of industrial and financial magnates" and reaches exploitation theory, Commons quotes from judicial precedent. Thus, Commons starts to construct his theory from the very point at which conflict disappears or, is deterred temporarily, and order is brought. Then, a focal point of his analysis is how to divide intangible property into "goodwill" (bargaining and moral power) and "privilege" (exploitation). A canon of this division is whether it is "reasonable," according to public purposes. Therefore, a subject matter of institutional economics is, at the level of institutions, how the "reasonableness" of social reform should be secured institutionally by sovereignty and other collective actions.

At the level of individual will, the focal point of conflict is organizing for bargaining power. Commons stresses that each laborer and capitalist has both "workmanship instinct" and "pecuniary instinct" (IE, p. 661, pp. 672–3).¹⁰ Hence, the laborer is a

¹⁰ The reason that Veblen obtains his dichotomy of business and industry and his exploitation theory is that he appropriates "the instinct of workmanship" to the personality of the laborer and "pecuniary instinct" to the personality of the capitalist and, in addition, does not refer to precedents of the courts. Commons adopts "habitual assumptions," which consist of many aspects, including the "instinct" of Veblen and the "consciousness" of Marx as a foundation of the human mind in order to get rid of the

subject not only of managerial transactions but also of bargaining transactions, such as wage bargaining.

Conflicts over bargaining power are also those over distribution of efficiency gains that are surpluses of the production process. Widely known in Marx's *Das Kapital* (1867–94), in which the surplus value of the production process is inevitably exploited by the capitalist (*cf.* IE, pp. 614–8). However, in the reasonable value theory of Commons, collective action is a volitional variable in the distribution of the surplus value. Hence, the reasonable value theory, again, does not result in exploitation theory. Its focal points are the historical change of “the evolutionary collective determination of what is reasonable,” the way of shaping institutions to bring about distributional consequences that agree well with public purposes, and voluntary associations to obtain bargaining power.

The second significant feature of Commons's value theory is that he constructs a theory in which values are generated collectively. The labor value theory or utility value theory starts from an intrinsic value contained in labor or individual psychology. In contrast, the reasonable value theory starts from transactions that are joint devices of the voluntary choices of two wills. A value is created as a joint evaluation in the very momentum in which participants agree. Reasonable value is the integral value generated when joint evaluations are undertaken based on the legal foundation. This means that institutional coordination by sovereignty and other collective actions is an indispensable element of reasonable value. Thus, reasonable value theory is different from value theories, in which the value is given *a priori* as it focuses on the historical process in which values are generated institutionally and collectively on the legal foundation.

3.3. The aspect of process

Sovereignty as a decision structure of legal control or as one of the principles is defined in relation to other principles or aspects of other structures in the booklet (1925) and manuscripts (1927–1928). This subsection checks texts deemed to be written after the booklet and manuscripts to elucidate current issues of importance.

As we saw in Section 1, IE views sovereignty as having two aspects, that is, the “entity” and “process.” From the booklet to the manuscript of 1928, Commons discusses in detail the role of sovereignty as the entity in the political economy. This is the role of the arbitrator or sovereign concern controlling legal economic transactions as the “fifth party” or “physical force.” On the contrary, in texts deemed to be written after the

dichotomy (IE, pp. 672, 699).

manuscript of 1928, such as Commons (1932) and IE (ch. X “(VII) 1. Politics,” ch. XI “Communism, Fascism, Capitalism”), the aspect of process is easily discernible.¹¹

Yet, in the manuscript of 1928 (ch. XIII “II. Bargaining Power”), overtaken by IE (pp. 347–8), a change of description that touches on the aspect of the process is observed.

Concerted bargaining power [of companies, banks, farmers’ cooperatives, trade unions], with its sanctions of economic coercion, rises to preeminence even more comprehensive and world-wide than the formerly dreaded political power with its physical duress, because it actually controls the state. The state, indeed, becomes one of the instruments of bargaining power, either by its own direct act or by its permission of concerted action. Through the use of this political instrument the struggle for bargaining power reaches its preeminence (Manuscript of 1928, r. 13, s. 20, with underlines showing parts added to IE, pp. 347–8).

The consequences of the struggle embody working rules that have an effect on the bargaining power of economic concerns. This struggle, “internal actions,” is the conflict over the rules that are “politics” and was discussed in IE (pp. 749–63).

A characteristic in the discussion of the aspect of process is that economic concerns obtain power equal to or exceeding that of the power of the state (e.g., IE, p. 751, 882, 895). As we have seen in section 2.1, LFC (p. 7) focuses on supremacy of the courts. Its focal points of analysis are the codes of conduct of judicial sovereignty, that is, the system of decision-making by the “entity.” On the contrary, IE (ch. XI) emphasizes Bonbright and Means (1932, p. 339): “these holding companies became the culmination of banker capitalism, by quoting ‘now becoming more powerful than the government itself’” (IE, p. 882; *cf.* Commons, 1950, p. 58).

Reasons for Commons’s emphasis on sovereignty are suggested in his repeated stress on the powerfulness of economic concerns in texts written after the manuscript of 1928. It may be that he reflected on economic trends, such as the emergence of large industrial unions, the rise of holding companies, and the preeminence of the economic and credit power of banks “reached in November 1929” (Commons, 1950, p. 69). In particular, his thoughts were influenced by the discussions of Barle and Means (1932) on the separation of ownership from management and of Bonbright and Means (1932)

¹¹ Manuscript of 1928 (ch. XIII “IX. Rationing” and “X. Jurisdictions”). These correspond to the titles of IE (ch. X (VII) (1) Politics (2) Rationing and (3) Jurisdictions) but are confirmed only in the table of contents and the body text had not yet been written (r. 13, s. 55, s. 146). In the table of contents of the manuscript of March 1929, we cannot confirm these titles.

on the rise of holding companies (IE, p. 882; *cf.* Commons, 1950, pp. 58–9, 297–335).

The significance drawn from his discussion of the aspect of the process is summarized in the following two points. First is a detailed discussion about how scarcity (bargaining) is related to sovereignty. Until the manuscript of 1928, it is stressed mainly that sovereignty as a principle approaches scarcity with social relations (bargaining transactions), in which the futurity of participants of transactions relates passively to sovereignty. On the contrary, later discussions of the aspect of process focus on economic concerns in which participants not only “struggle for wealth” in present bargaining transactions but also “struggle for power,” which is the process of rationing transactions of sovereignty in order to obtain more desirable “economic consequences” of bargaining transactions in the future (IE, pp. 760–2). In this case, participants approach sovereignty actively in order to construct more desirable future outcomes. Thus, in the whole principle that is willingness, sovereignty is the “entity” which attempts to control economic transactions reasonably (Ramstad, 1993); running in parallel is the “process” of struggle and compromise of participants that is itself a bundle of rationing transactions.

The second significant point is an indication that sovereignty is inherent in the socioeconomic system. Physical force that controls economic (bargaining) power and moral power may depend on the powers of interest groups. Therefore, a structure of powers that is separated for analytical convenience is in fact a nested loop in the aspect of the process. Hence, we cannot see sovereignty as an external physical force that exists outside of the socioeconomic system. In other words, physical force is a consequence of struggles and compromises of political parties and economic concerns, as well as prior conditions of economic transactions. Hence, sovereignty and its “politics” cannot be understood as “extrapolating” to the economic system (Théret, 1992). Rather, legal foundations to establish economic transactions or “markets” are part of the complex totality and consist of three types of transactions—bargaining, managing, and rationing.

3.4. The viewpoint of the function of investigations

Viewpoints that we cannot see clearly in texts before the manuscript of 1928 include critical evaluations of judicial sovereignty and the “function” of sovereignty. When we compare IE (pp. 773–88, “Scarcity, Abundance, Stabilization—the Economic Stages”) with the corresponding part of the manuscript of 1928 (r. 13, s. 193–5), we confirm the following additional descriptions, underlined for emphasis. Here, Commons evaluates the courts’ recognition of injustice leading to “unequal opportunity,” not only because of

high prices proposed by sellers but also because of reduced prices of buyers.

Thus, the Supreme Court lagged about fifteen years behind the popular and legislative change in the meaning of discrimination, and this may be figured on generally as its customary lag.

The foregoing account of the lag of the common law respecting the meaning of discrimination does not apply solely to what were known as common carriers (...)

Thus, the process of making law by deciding disputes fits laggingly the changing economic conditions and the changing ethical opinions of justice and injustice (...) The concept of goodwill, as constructed by the courts, is grounded on the principle of scarcity, for its assumption is that opportunities are limited and margins are close, and therefore, each competitor should endeavor to retain his present customers and his present proportion of the trade. This has become a part of modern “business ethics,” which holds that cut prices are not good for customers, and it is converted more or less into “unwritten” law by the common-law method of making law by deciding disputes (Manuscript of 1928, r. 13, s. 193–5; IE, p. 787).

These descriptions imply the following two points. First, Commons stresses that the courts lag a long way behind business customs. Second, he attempts to see private concerns configuring working rules that contribute to stabilizing socioeconomic systems (*cf.* IE, pp. 902–3). While phrases for preventing cut prices, such as business ethics and “live-and-let-live” policy, were seen in the 1925 booklet and the manuscript of 1927, we cannot confirm descriptions that emphasize the lag of sovereignty behind business customs.

The reason Commons aggressively evaluated the stabilization of the economy by private concerns may be because he fervently hoped that the economy of the United States would be a golden mean between *laissez-faire* and “monopolistic competition” (IE, Ch. XI; Commons, 1950, p. 163). The period between the 1928 manuscript and the 1934 IE involved much global turbulence. For example, fascism became conspicuous; in American society, there was a sudden transformation from the “Roaring Twenties” to the Great Depression (1929); and there was an increase in power of communists and consolidation of state intervention. In the midst of this, Commons’s urgent issue was to present a theory serving as a basis for “fair competition,” which does not transcend into monopolistic competition, fascism, or communism, where sovereign and private concerns, both of which set out to stabilize various transactions, concert each other (*Ibid.*). Thus, this turbulent period necessitates the additional descriptions.

In summary, we see how Commons's discussion of sovereignty shifts from the "authority" of the legislature to make cohesive rules in SVS, to the "supremacy" of the Supreme Court of the United States as the last interpreter of constitutional law in LFC, to the "function" of sovereignty.

(...) **American courts are not so constituted, or do not have the agencies for making such extensive investigations as would be required.** Hence, some of the American legislatures and the Federal Congress have attempted to provide exactly this investigation by the creation of "commissions." (...) They are sometimes described as quasi-judicial, or quasi-legislative bodies, but **their function is that of investigation** (Commons, 1932, pp. 24–5; IE, pp. 717–8).

(...) far more important than other reasons for improving and retaining the legislatures is **the protection they may give to voluntary associations** (IE, p. 901).

Thus, the legislative law is partly an **enabling act**, setting up an administrative system of collective bargaining, along with certain minimum and maximum limits. The system cannot be understood as a mere statute administered by a bureaucratic commission with appeals to the courts. It is as nearly a voluntary system of collective bargaining as the nature of our constitutional government will permit, and **it can be understood only in so far as the concerted action of voluntary private associations is understood** (IE, p. 852).

Following the shift in Commons's viewpoint, what becomes an issue is the interface of sovereignty and voluntary private associations. The interface, known as commission, has three significant features.

First, commission can deal promptly and flexibly with economic issues derived from the development of collective actions.

Second, it enables deliberations between economic groups independent of party politics. It is a deliberative space of collective bargaining between groups and, in addition, is a "conciliator" (IE, p. 849). On the contrary, an "arbitrator" is a third party who decides authoritatively, such as a dictator, legislative, or court. The constitution of working rules by the deliberation between the interest groups and conciliation of the commission is "constitutional government in industry." This "democracy" is not majority voting or a system of proportional representation but a "representation of organized voluntary but conflicting economic interests" (Commons, 1934b, p. 73).

Third, the commission may shape an “attainable ethical goal” through investigations and deliberations of interest. It has a higher function than the courts, both for the investigation of facts and for collective testing by deliberation and agreement (*Ibid*, p. 160).

The reason why Commons brings the commission to the fore of his political economy may be that the passage of the Wisconsin Unemployment Compensation Law of 1932 hardened Commons’s convictions to the manner of coordination, such as commission and deliberation (IE p. 861; Commons, 1950, p. 24).¹² While Commons and his pupils took timely actions, a fundamental factor to gain approval of the law was the deterioration in the Wisconsin economy (Glad, 1990, Ch. 9).¹³ Thus, the descriptions of the closing stages of IE reflect the sluggish economies of Wisconsin that the state needed to handle.

IE evaluates the commission as an instrument that accords with the ultimate purpose of traditional economics.

It was indeed also the theory of Adam Smith, but Smith held that individual self-interest promoted the common wealth, or wealth of nations, as a result of guidance by divine Providence and natural law. **The theory embodied in the Wisconsin law gives to approved voluntary agreements a sovereign power to promote the commonwealth by collective action in control of individual action.** This joint collective action *is* the law (IE, p. 860).

This law gives “a sovereign power” the means for the “enabling act” of collective bargaining. The significance today of discussing the sovereignty of IE lies in showing elements of “deliberative space” for the representation of economic interests (Kitagawa, 2013). In addition to sovereignty as “investigator” and “conciliator” (Commons, 1934b, p. 73) and “deliberation,” its other important feature lies in ex-post judgment by the courts.

Commons stresses the “due process of law” as the means of achieving justice through reasonable value. The process involves the working rules of the Supreme Court at each moment, and the due process of thinking in which the courts justify their decisions according to the customs of the moment (IE, p. 63; *cf.* LFC, p. 342). While due process

¹² Of course, he appreciated the way of coordination in the commission before then, and pointed out its role in developing the processes of values and institutions (Commons, 1911; LFC pp. 357–8; Kemp, 2002).

¹³ It is clear because all of unemployment compensation bills with which Commons was involved in the 1920s were dead (*cf.*, Nelson, 1969; Bernstein, 1983).

occupies an important place in Commons's theory, when he worked on commissions, his attempts to understand judgments of the courts actually accords with due process. Commons reads the substance of the state's laws in order to be clear about the ex-post judgment of the courts (IE, p. 861; Commons, 1934b, pp. 155–6) and have a public hearing (Commons, 1950, p. 24).

However, commissions in today's political economy do not fill enough of the elements of these commissions. For example, with regard to Japan's council, ministries arrange the framework of discussion and handouts, and a certain level of consensus between members of the council is necessary at the stage of collecting a report; hence, there is concern that conclusions may be biased (Nishikawa, 2007). This implies that executive branches are not "conciliators" but "arbitrators" or "leaders." With regard to reflections on legislative law, the binding force of reports of councils or commissions is very weak in general. Thus, they do not fulfill the element of giving "sovereign power" to the voluntary deliberation and agreement of representation of economic interests.

4. Conclusion

This article examined the writing process of IE from the perspective of a discussion of sovereignty. In so doing, the following three points were clarified.

First, Commons's discussion of sovereignty was transformed from the time of publishing SVS in 1899–1900 to that of LFC in 1924. The economic significance therein is that ideals separated from the real economy, such as "natural law," which is privileged custom, and "free competition," which is deduced from certain theoretic assumptions, were transformed as part of a process in which agreement was reached through the redress of justice.

Second, through the booklet (1925) and the manuscripts (1927–1928), sovereignty was defined as a part principle and component of the whole principle, that is, willingness, of the political economy. In both SVS and LFC, sovereignty was the center of analysis. After these works, Commons viewed sovereignty as one of the perspectives with high capacity to explain the socioeconomic system and he displayed a sharp awareness of the relationships between sovereignty and other perspectives.

Third, two viewpoints were confirmed clearly after the manuscript of 1928. Commons stressed repeatedly that the power of economic concerns had reached a point equal to or exceeding the power of the state. He also shifted his viewpoint to evaluating sovereignty from its "supremacy" to its "function," which involved pragmatic investigations.

This article elucidated the current economic significance of IE. First, the value theory in which values are constructed institutionally and collectively differs from the labor

value theory and the utility value theory. This reasonable value theory does not result in such exploitation theories expounded by Veblen and Marx but leads to a positive discussion of social reform in which the subject matter is how to secure institutional “reasonableness” through sovereignty and other collective actions.

Second, sovereignty cannot be separated from the analysis of “market.” An economics or a value theory of economics cannot discard sovereignty and cannot treat sovereignty as an “extrapolation state.” Sovereignty is the consequence of joint evaluations that are constructed through the “politics” of economic and political concerns as well as the legal foundations of joint evaluations.

Third, “deliberative space” in which sovereignty and economic interests act in concert was explained as “commission.” However, in today’s reality, the elements of commission are not sufficiently fulfilled, for instance, as seen by the “council” in Japan. Thus, in IE as in modern reality, it remains to be determined the references for the interface between sovereignty and economic interests.

[Insert References]

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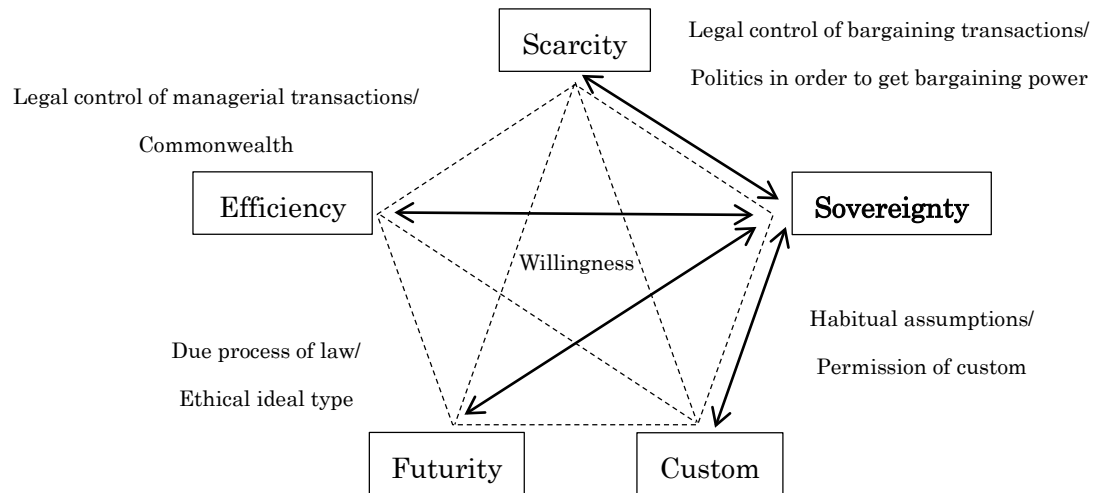
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Figure 1

Interdependence of sovereignty as a principle and other principles constituting willingness



(Source: Compiled by the author)

Figure 2

Formula of bargaining transaction

Economic Relations					
Buyers (bid)	\$ 100	B	Competition (Opportunity)	B ¹	\$ 90
Bargaining Power (Economic Power) · Moral Power	Power				
Sellers (asked)	\$ 110	S	Competition (Opportunity)	S ¹	\$ 120

(Source: Compiled by the author based on the manuscript of 1927, ch. I, p. 15 and the manuscript of 1928, r. 12, s. 762.)

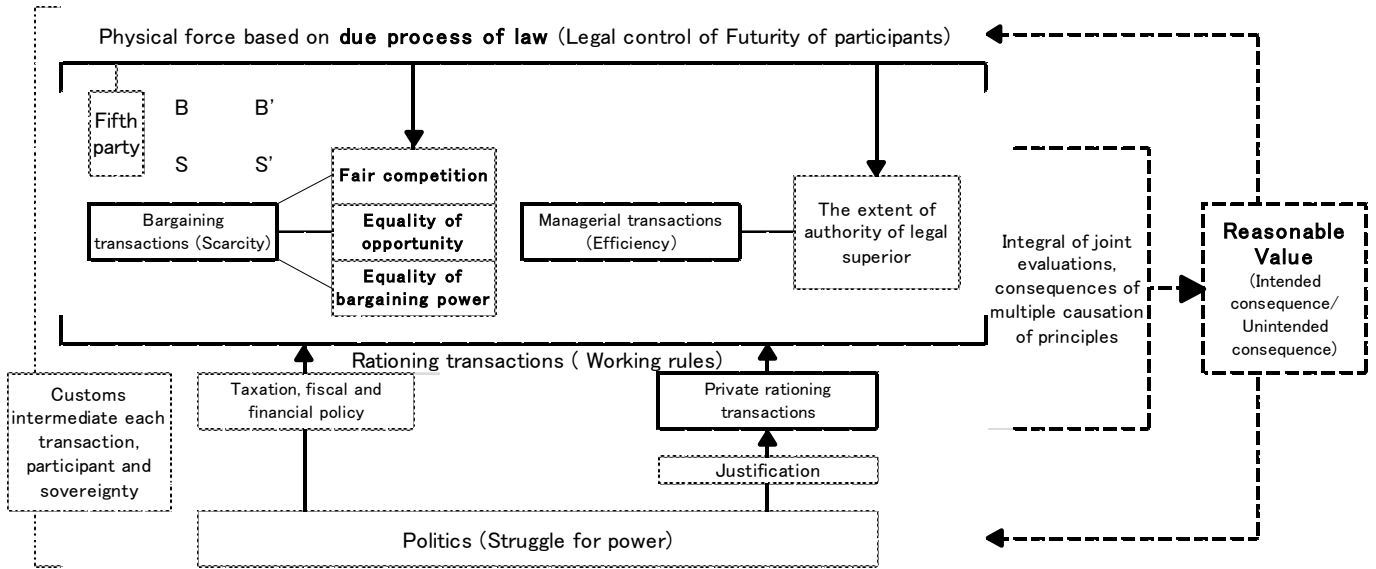
Figure 3 Limit of coercion and range of reasonableness

Limit of Coercion	}	Extortion	• • • \$120	Reasonable	}	\$103
		Unreasonable	• • • \$102			\$107
		Unreasonable	• • • \$108			
		Confiscation	• • • \$90			

(Source: Compiled by the author based on LFC p. 357. Prices are set to fit with Figure 2 above by the author)

Figure 4

A process of creating reasonable value from the perspective of sovereignty



(Source: Compiled by the author)

Table 1

Classification of Ideas

1. According to the Similarity of *Objective Attributes* (concepts)
 - a. Use-values (civilization values)
 - b. Scarcity-values (demand and supply)
 - c. Future values (present discount values)
 - d. Human values (virtues and vices)
2. According to the Similarity of *Social Relations* (concepts)
 - a. Bargaining transactions
 - b. Managerial transactions
 - c. Rationing transactions
 - d. Custom (extra-legal control)
 - e. Sovereignty (legal control)
3. According to the Similarity of *Cause, Effect, or Purpose* (principles)
 - a. Scarcity (bargaining)
 - b. Efficiency (managing)
 - c. Futurity (forecasting, waiting, risking, and planning)
 - d. Working rules (rationing, going concerns, custom, and sovereignty)
 - e. Strategic and routine transactions (volitional control)

(Source: IE, p. 104. Note: Only numbering is amended by the author)