

Extrait du Revue du Mauss permanente

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Towards an Institutional Political Economy

- Gazette - Débats -

Date de mise en ligne : Tuesday 9 September 2008

Revue du Mauss permanente

Ce quasi-manifeste “Vers une économie politique institutionnaliste” a été initié et rédigé par Alain Caillé à l'occasion d'une série de conférences données en 2005 en Indonésie par les principaux représentants des écoles économiques hétérodoxes françaises : Robert Boyer - École de la régulation -, Eric Brousseau - École néo-institutionnaliste -, Olivier Favereau - économie des conventions-, Alain Caillé - MAUSS. Ils étaient invités pour présenter leurs vues à des universitaires et des hommes et des femmes politiques indonésiens fortement soucieux de desserrer l'emprise du paradigme économique standard sur les universités indonésiennes et de prendre leurs distances avec les préconisations néolibérales qui ont purement et simplement ruiné leurs pays en 1997. Au fil des conférences, il apparut à Alain Caillé que ces différents courants s'accordaient sur l'essentiel. Il s'efforça alors d'explicitier leurs points de convergence, ce qui donna ce “quasi-manifeste”, d'abord écrit en anglais. Une version française a été publiée dans le numéro 30 de *La Revue du MAUSS semestrielle* - [“Vers une autre science économique \(et donc un autre monde\) ?”](#) -, où l'on peut lire plus de détails sur les circonstances de sa rédaction. [Une version espagnole](#) sera disponible dans *La revue du MAUSS permanente latinoaméricaine* (www.jornaldumauss.org).

Le mensuel *Alternatives économiques* s'est fait le relais de cette initiative et propose de rejoindre les premiers signataires dans sa revue théorique *L'économie politique*. Pour signer le manifeste, cliquer ici : [“Vers une économie politique institutionnaliste”](#);

Premiers signataires : Robert Boyer, Olivier Favereau, Jose Luis Corragio, Peter Hall, Geoffrey Hodgson, Marc Humbert, Ahmet Insel, Michael Piore, Ronen Palan, Paul Singer. Et, depuis les rangs de la sociologie économique : Bob Jessop, Jean-Louis Laville, Michel Lallement, Philippe Steiner, François Vatin.

“Towards an institutionalist political economy” is a sort of manifesto which was conceived and written by Alain Caillé on the occasion of a series of lectures given in Indonesia during 2005 by the leading representatives of the heterodox schools of economic thought in France: Robert Boyer (the 'regulation' school), Eric Brousseau (the 'neo-institutionalist' school), Olivier Favereau (the 'conventions' school) and Alain Caillé (the 'anti-utilitarian' school or MAUSS). They had been invited to introduce their perspectives to an Indonesian audience of academics and politicians who were keen to loosen the grip of mainstream economics on their universities and to distance themselves from the neoliberal policies that had quite simply ruined their country in 1997. In the course of these lectures, it occurred to Alain Caillé that these different approaches were basically in agreement. So he endeavoured to clarify their points of convergence. This 'manifesto', first written in English, was the result. A French version was published in issue number 30 of the half-yearly edition of *La Revue du MAUSS*, [“Towards another economic science \(and thus another world\) ?”](#); Where readers will find further details of how it was compiled. A Spanish version will soon be available in the online Latin American edition of *La Revue du MAUSS* (www.jornaldumauss.org). The monthly, *Alternatives économiques*, is one outcome of this initiative; its theoretical journal, *L'économie politique*, will bring the first signatories (below) together again in a future issue. To sign the manifesto, click here: [“Towards an institutionalist political economy”](#);

Signed: Robert Boyer, Olivier Favereau, Jose Luis Corragio, Peter Hall, Geoffrey Hodgson, Marc Humbert, Ahmet Insel, Michael Piore, Ronen Palan, Paul Singer; and from the ranks of economic

sociology: Bob Jessop, Jean-Louis Laville, Michel Lallement, Philippe Steiner, François Vatin.
(trad. Keith Hart)

INTRODUCTION

When it comes to exposing the foundations of non-standard, non-orthodox, economic approaches, and to drawing from them a few conclusions related to economic policy, it becomes apparent very quickly that the differences between schools are much less important than their commonalities. Here we attempt to clarify, explicate and fix the principal lines of convergence [1] of non-standard economic approaches, while keeping in mind the remaining theoretical and conceptual problems which will need to be faced and explored next. The underlying hypothesis which is also a research program - is that it is only under the banner of an *institutionalist political economy* that the diverse non-standard schools in economic science have a chance to reach and to clearly understand their potential unity. We must add that we don't intend this non-standard statement to mount a frontal attack on standard economics many orthodox economists might in fact agree with much of what we will say here. We aim rather to sketch out the general perspective within which much of the analytical progress made by standard economics can be correctly understood.

GENERAL PRINCIPLES

1. Economics vs. Political Economy

Historically, economic analysis has been practiced in two definitive traditions: within its political context, as *political economy* and without, as *economics* or *economic science*. We believe that the first must be recognized as having principled superiority over the second. That is, we consider economic science, not as a mechanical or mathematical science (even though mathematics certainly has a critical role to play), but as linked tightly to general social science and to political and moral philosophy. In this sense, political economy forms a branch of political philosophy, and political philosophy, the context for each of the social sciences. Economics (or economic science) is thus correctly interpreted only as the analytical moment of political economy.

2. Political Institutionalism

Almost all of the various brands of unorthodox schools in economics can be said to be institutionalist, if institutionalism is understood in the broad, indeterminate sense (and includes what is now known as the neoinstitutionalist school). What remains to-day of the great tradition of classical political economy is most generally expressed through institutionalist propositions. So the alliance between political economy and institutionalism is a natural one.

The central proposition of institutionalism is that an economy can function only within an adequate institutional framework. The conditions necessary for a working economy lay as much within a clearly defined general institutional system as within the dynamics of civil society. **Succinctly put, institutions matter, and institutionalism directs them toward the service of a general social creativity and liveliness. Differences between the diverse types of institutionalism lay in the differences between conceptualizations of this institutional context (as culture, law, state etc.) and of its origin (synchronic, diachronic, individual or collective etc.). An institutionalist political economy is thus

incapable of separating the analysis of economic markets from reflection on their political and ethical backgrounds. ** It regards as deceit, the preliminary, isolated, analysis of the market or economy and secondary analysis of the institutions necessary to its implementation. **Analytic integrity is restored with the understanding that economic institutions are tightly intertwined with political, juridical, social and ethical norms, and with their concurrent analysis. The political, as opposed simply to politics or policy matters, is the place/moment where this intertwining is given shape.

3. Situated Institutionalism

For this reason the general theoretical concepts of an Institutional Political Economy, and the pragmatic conclusions that can be drawn from it, are never purely speculative. They cannot be applied anywhere, at any time, in the absence of the historical and social context within which an economy is embedded. Its concepts are necessarily abstract, like all concepts, but never hypostasised.

B) THEORETICAL PRINCIPLES, THESESE AND RESULTS

Critical Statements

4. Beyond the standard and extended standard paradigms

All institutionalist schools are critical both of the standard assumptions about homo Sconomicus (full information, maximizing parametric self-interested rationality) and of the classical general equilibrium theory which contends that free-market coordination between such agents automatically produces an economic optimum. No need to insist here. What can be called the *extended standard paradigm*, relying heavily upon game theory and introducing the idea of strategic rationality (the economic agent calculating not so much the utility he can get out of the consumption of goods and services as the one he can obtain either from his defection or cooperation with other economic agents) demonstrates that only local coordination and second-best optima can normally be achieved. But models built upon contract and incentive theory are, to date, intrinsically partial-equilibrium, as those of the 1930 s, just before the Keynesian revolution. According to IPE, no viable, lasting, global coordination can be obtained (or structured) through purely instrumental individual rationality, either parametric or strategic. Any effective macro-coordination implies, to some extent, shared values and political regulation.

5. Beyond the Market/State dichotomy

All forms of institutionalism show up the incompleteness and the inevitable failures of pure market regulation. But no one advocates the substitution of a state-led economy for market regulation: all recognize that both State (more or less broadly conceived) and Market have roles to play. The important thing is to escape the zero-sum conception of the desirable relationship between the two: the State as the only genuine remedy to market failure and the Market as the only genuine remedy to failures of the State. IPE holds, above the importance of Market-State coordination and regulation, that of society itself. As well as State and Market, then, IPE also takes into account Society, however it is defined: Civil and Associative Society or, more generally, any bundle of local, national, subnational or supranational social relationships.

Results

6. Not one but three instituted modes of circulation

As shown by Karl Polanyi and others, goods and services do not circulate only through the market system (and *a fortiori* not only through the self-regulated market). They also circulate through systems of Redistribution, implemented by some form of Summit (to-day, the State) according to the Centricity Principle; and of Reciprocity, according to the Symmetry Principle. Reciprocity is what gives the impulse to what Marcel Mauss, in his *Essai sur le don (The Gift)*, calls the triple obligation to give, take and return. Since none of these three modes of circulation can exist apart from the others, and since each necessarily borrows resources from the other two (and yields its own to them), the articulation between them (market, redistribution and reciprocity) - always different according to various historical, cultural and political contexts - cannot be naturally or spontaneously given. ** It must be *instituted*, or developed in specific instances within specific institutions.

7. No synchronic, institutional One Best Way : the problem of path-dependency

One of the primary conclusions of IPE is therefore that one economic *best way* does not and cannot exist. There is no unique set of ** [should be recipes] receipts or technical devices to be applied anywhere, at any time, in the absence of a detailed study of the historical, social and geographical context, or the path-dependency, of a specific economic system. And that puts IPE sharply at odds with the dominant paradigm exacerbated by the so-called Washington Consensus which holds that the Market can and must be implemented anywhere, at any time as though institutions were *the analog of machines*, i.e. material things buyable and transferable, ready to use, independent of historical background. The IPE sees these, rather, as *the analog of cultures*, i.e. interpretive frameworks of collective functioning.

8. No diachronic, institutional One Best Way : the impossibility of a steady state

For the same reasons, no institutional setting, however well it may have served a certain historical period, can last forever. The trade-off between market exchange, redistribution and reciprocity must change as the equilibrium between the diverse social classes and groups, between the private, common and public spheres, and between the national, infranational and supranational spheres, themselves change.

9. A theory of institutional change; path autonomy; continuity and discontinuity

** [review whole section] It is dangerous to indulge in the functionalist fantasy that existing institutions are well fitted to the societies which they both express and shape, for the singular reason that they exist. It is equally dangerous to embrace the fanaticism of the opposite: unlimited voluntarism. One of the most urgent of IPE's research tasks will be to determine the criteria for institutional change, i.e., for identifying those components which must absolutely be safeguarded, and those which must be absolutely changed.

Research Program

10. A multilevel analysis

IPE must develop an analysis relevant to all levels of action (micro, macro and meso etc.), ranging from bilateral contracts to the most overarching political compromises, traversing the range of associations, from the most private to the most public, from the individual sphere to the collective.

11. A renewed Theory of Action

As unsatisfied with the classical fiction of homo Sconomicus linked to a concept of parametric rationality as with the extended standard one linked to a concept of strategic rationality - IPE must develop a specific theory of social and economic action. It is here that the differences between the various institutionalist schools are likely to be the greatest. But the very fact that all advocate some sort of multilevel analysis implies that IPE must eschew reliance on either pole: the standard and simple methodological individualism and holism. It must build models of the subject able to act not only as a separated self-regarding individual, but also as a member of a family (and in the interest of the family), of a peer-group, of an organization or institution, of one or several social, political, cultural and religious communities (and for the sake of them) etc. More generally, even mere economic actors cannot be held to be singular maximizing calculators. **Their attempts to make sense of what they are doing must also be credited, at least to the extent that concepts of individual rationality make possible.

C) NORMATIVE PROPOSITIONS.

12. Building a political community first

The most general conclusion we can draw is that we cannot have lasting economic efficiency outside a lasting, strong and lively, political and ethical, community. In this sense, the political and the ethical dimensions of community are prior to the economic, *even in the solution of economic problems*. And there cannot exist a lasting and lively political community that is not, in practice, a working social community, *i.e.* that does not share some core values and a similar sense of justice: briefly, that is not *also* a moral community.

15. Building a democratic community

No modern political community can be built without reference to a democratic ideal. **The problem of course is that there exist many conflicting democratic ideals, most of which are largely rhetorical and ideological (an homage of vice to virtue, as it were). The primary problem we address here is: what is the priority where democracy does not really exist? Ought a political community to be built first, democratic or not, and the fight for its democratization deferred? Or ought an attempt be made to build a democratic political community immediately in the hope that the sharing of a democratic ideal will in itself be the best political cement? It is impossible to enter into such a vast and complex debate here. From an IPE point of view, and just to begin, it may be enough to assert that a democratic society or regime genuinely cares about the empowerment of the largest possible per cent of its population, and that it can prove itself by giving them real capabilities.

16. Building a moral and just community

No political community can be built and maintained if it does not share some core values, and it cannot be lively if the great majority of its members do not believe through some common knowledge - that the great majority (especially the political and cultural leaders) abides by these values. This more or less important sharing of common values makes for a more or less important sense of justice which is the ultimate cement of political legitimacy.

17. Generalizing and radicalizing Rawls

If the existence and the sustainability of the political community are not taken for granted but considered as something to be produced and reproduced, it immediately becomes necessary to extend John Rawls Theory of Justice. For it is not enough to say that inequalities are permissible just as far as they allow the poorest to be better off (however important this may be). We must add that inequalities are bearable only if they do not become so

great as to disrupt and ultimately tear to pieces the political and moral community. Justice must not be considered looking only at the economic downside but also at its upside. In other words, building a political community implies fighting as much against extreme and illegitimate private wealth as against extreme poverty.

18. Generalizing and radicalizing Montesquieu

If democracy is not only a characteristic of the political and constitutional system of a society; if it is related, more generally, to the dynamics of the empowerment of a population; then it is not enough to imagine a system of checks and balances within a political system (however important that is): between the executive, the legislative and the judiciary powers (to which one should add the power of the medias). It is also necessary to imagine a set of checks and balances between State, Market and Society, and, on the strictly economic dimension, between redistribution, exchange and reciprocity.

CONCLUSION :

19. A comparative, normative, approach to institutions

One of the primary aims of IPE is to determine the best institutional setting for a given society at a given time. Since no system of institutional organization or delivery can, in principle, offer a universal best way, IPE is hostile to the abstract universal theoretical propositions and norms of policy delivered by the standard (or extended standard) economic paradigm. But IPE does not hypothesise the reverse, that (all) existing institutions are *a priori* best suited to the needs of their host societies. That is, it is also hostile to the relativism that treats cultures and societies as though they were homogeneous, eternal essences, alien to other cultures and societies and unlikely to change. The problem, as has already been stated, is to determine the criteria permitting escape from both abstract universalism and universal relativism. Only a normative non-universalist and non-relativist comparative approach of institutions can do the job.

20. Towards a gradualistic Reformist-Revolutionary Theory of Evolution

One of the primary conclusions of IPE is that those who plan to reshape existing institutions must be both modest and cautious. Owing to the compound, entangled effects of any institutional change, one can never be sure of its final result. If a reform is imposed for purely ideological or rhetorical reasons ** (and, *a fortiori*, if it is imposed by a foreign power), the most probable results will be opposed to those expected. Very gradual reforms are thus safer than harsh ones. This seems to be a plea for some sort of shy reformism. Such is not the case. A good reform is a reform which no one (not even opponents who win the next election) dares think of abolishing once it has been adopted. This is the criterion: the measure of the gap between existing and desirable institutions. A good reform is one that should have been undertaken long ago and which nobody can contest when it begins to be realized. Such reforms which we might call shifting - can seem very modest and yet generate huge effects. Such shy reforms can be revolutionary. But a political situation may be such that only a revolution, a brutal and violent change of political regime, permits the launch of shifting reforms&

Robert Boyer, Alain Caillé, Olivier Favereau

[1] e.g. the Regulation, the Conventions, the Neo-Institutionalist and the anti-utilitarian schools.