

# 1 *Political Economy in Question*

## 1.1 Political Economy as a Contested Field

The contemporary revival of interest in political economy highlights the coexistence of different and seemingly opposed conceptions among scholars and policy makers when addressing the interface between the economy and the polity. One set of approaches focuses on individual actors in the marketplace or in the public sphere while another set of approaches shifts the emphasis to the state as a self-contained and internally undifferentiated collective actor. Both conceptions result from an oversimplification of the complex, multi-layered configuration that characterises the relationship between the economic and political domains. This chapter outlines a conception of political economy that moves beyond this dichotomy and develops the view of individuals, markets, and states as embedded in a relational field composed of multi-level social interdependencies and institutions.

The first set of approaches mentioned above rests on theories of rational choice driven by the deliberate pursuit of interests (e.g. Shepsle, 1989; McLean, 1991; Petracca, 1991; Green and Shapiro, 1994; Ainsworth, 1999; Persson and Tabellini, 2000, 2005; Weingast and Wittman, 2006; Magni-Berton, 2014; Amadae, 2015). These theories regard politics as a domain of economic decisions, which is itself underpinned by means-ends rationality. Such theories fail to sufficiently incorporate both the non-economic features of political arrangements and the strictly political features of the economy.

The second set of approaches are based upon macro-political theories (e.g. Skocpol, Evans, and Rueschemeyer, 1985; Deane, 1989; Bortis, 1996; Nakhimovsky, 2011; Blyth, 2013; Turchin, 2016; Tribe, 2017; O'Mahony, 2019 [2013]; Streeck, 2019). They conceptualise the state as a collective actor governing the economic system, without directly addressing the state's internal structure as well as its

relationship with the plural and interdependent parts of the economy existing at multiple levels of aggregation.

The aim of this chapter is to explore the ‘constitution’ of political economy, which we identify with the multi-layered and relatively persistent configuration of domains and sub-domains in which economic structures and political actions mutually reinforce or hinder one another, thereby determining the dynamics of social wealth – what we call ‘commonweal’. The chapter conceptualises political economy as a relational field resulting from overlapping spheres of social life. On the one hand, it refers to the social relationships that enable the material provision of human needs. On the other hand, it brings to the fore the political dimension of need satisfaction, which involves the balancing and coordination of differentiated interests in society. These dual origins of political economy highlight the interplay between the material and the political dimensions of sociability. Indeed, the meeting of human needs presupposes the existence of patterns of interdependence that are inherently political, in the sense that they require the systemic fitting of differentiated capabilities, interests, and activities. At the same time, political life is grounded in the web of interdependencies that provides material support to the economy. The polity and the economy are mutually intertwined and embedded in society.

This conception has its roots in intellectual traditions that have been either incorporated partially or overlooked altogether in contemporary political economy. It draws on eighteenth-century economic and political writings by figures such as Paolo Mattia Doria (1667–1746), Antonio Genovesi (1713–1769), Adam Smith (1723–1790), Adam Ferguson (1723–1816), Edmund Burke (1730–1797), and John Millar (1735–1801). Common to these thinkers is a focus on the embedding of both economy and polity in social structures and on interdependencies that combine the specialisation of economic activities (division of labour) with the integration of specialised activities in the social domain. Division of labour presupposes specialisation and the modularization of economic activities while at the same time requiring effective coordination. As Ernest Gellner noted,

[i]n one sense, the division of labour has now gone further in industrial society than ever before: there are more distinct and separate jobs. But in another sense, there is less of it and there is far more homogeneity: every

job is carried out in the same style and in much the same spirit [...] Also, specialisms are inter-locking, specialists are obliged to communicate with and understand other specialists, they have to “speak the same language”. (Gellner, 1994, pp. 75–76)

Our work builds on these ideas to address the increasing coordination requirements at a time when an ever-greater division of labour in the world economy raises fundamental questions about the material basis of the commonweal.

The origins of political economy lie in the early modern extensions of the classical *oikonomia* (the set of rules for the good governance of the household) to the sovereign rules for the material governance of the polity and, ultimately, to ‘the order on which a political body is principally founded’ (Richelet, 1785, who refers to the 1694 edition of the *French Academy Dictionary*). The plural character of political economy encompasses a variety of approaches already implicit in its formative stage. For sovereign actions, pursuing the material welfare of the polity involves addressing the relationship between intention and outcome, while the resulting arrangement of economic and political functions suitable to that purpose highlights a structure of interdependencies that can be understood *independently* of the sovereign decision that may be at its origin.

Indeed, that very structure of interdependencies underscores the plurality of spheres whose mutual consistence must be achieved for the economy to be a viable arrangement of activities. This in turn makes it possible to have actors, or constellations of actors, at multiple levels of aggregation capable of mutual adjustment and coordination independently of a single centre of political authority. The historical development of political economy from its origins to its current state encompasses analytical trajectories that have emphasised either the means-ends approach or the structural approach, and that have emphasised either the interdependencies between individual, self-interested actors or the state as the ultimate source of coordination and governance. A macro-micro dichotomy is implicit in either approach. Our argument is that this dichotomy does not reflect the differentiated and multi-layered configuration of political economy as the sphere of actions regarding the provision of material needs in the polity. We argue that a new theory of political economy is needed and that such a theory should overcome the dichotomy between means-ends actions

and structures of interdependence. In this light, the reciprocal influence between actions and structures is best investigated by considering the hierarchical arrangement of actions as we move across different levels of aggregation in the polity.

The outline of this chapter is as follows. Section 1.2 discusses the current state of political economy as a contested field in which micro and macro approaches dominate the debate without addressing intermediate levels of analysis and the interplay of actions and structures that takes place at those levels. Section 1.3 introduces the concept of relational embeddedness as a means to overcome the macro-micro duality in political economy. This section builds on John Hicks's distinction between the 'order of doing' and the 'order of being' to develop a framework that encompasses the two principal intellectual traditions in economic theory: one that is exchange-oriented and the other that is production-oriented. Such a framework conceptualises political economy at the interstice between purposive actions and multi-layered interdependencies among individual and collective actors. The section also considers the links between our approach to relational embeddedness and other relational approaches in social theory.

Section 1.4 theorises the 'constitution' of a political economy in terms of the constraints, opportunities, and affordances generated by the interdependence between individual and collective actions across the economic and the political sphere. This web of interdependencies gives rise to constellations of interests that, after compromises or conflicts, may find expression in relatively stable arrangements of the political economy. Section 1.5 contrasts contractualist approaches to political economy with what we call constitutionalist approaches. This section highlights the difference between the contractualist view of a direct relationship between individual actors and the sovereign state (or the transnational market) and the constitutionalist view of a *nested structure* of interdependencies that binds together economic and political relationships within a pre-existing social body. In this perspective, intermediate units of analysis are prior to both micro- and macro-actors, and the interplay of agency and structure that takes place at intermediate levels of aggregation provides a bridge between the means-ends provision of needs and the context-embeddedness of policy actions. Section 1.6 brings the chapter to a close by discussing ways in which the constitutionalist theory of political economy developed in

this book overcomes the duality between micro and macro approaches to policy-making through a focus on the existence of a ‘constitution’ of economic policy involving plural policy domains at multiple different levels of intervention.

## 1.2 Dichotomies in Economic and Political Theory

Most current research in political economy and public policy-making considers markets, states, and individuals as foundational categories that are more primary than the society they constitute. Such a partitioning of social reality into ‘primitive categories’ underpins the strict separation of academic disciplines and a process of ever-greater specialisation and the proliferation of new sub-fields. In a 1941 essay, John Hicks anticipated the limitations of an ever-more specialised discipline of economics:

[i]n the field of economics, over-specialisation is doubly disastrous. A man who is a mathematician may live a stunted life, but he does not do any harm. An economist who is nothing but an economist is a danger to his neighbours. Economics is not a thing in itself. It is a study of one aspect of the life of man in society [...]. The economist of tomorrow (sometimes of today) will also know what to advise, on economic grounds; but if, through increasing specialisation, his economics is divorced from any background of social philosophy, he will be in real danger of becoming a dodge merchant, full of ingenious devices for getting out of particular difficulties, but losing contact with the plain root-virtues, even the plain economic virtues, on which a healthy society must be based. Modern economics is subject to a real danger of Machiavellism – the treatment of social problems as matters of technique, not as facets of the general search for the Good Life. (Hicks, 1941, p. 6)

Dividing reality into separate spheres is encapsulated by the split between political philosophy and intellectual history, on the one hand, and the social sciences, on the other hand (Collini, Winch, and Burrow, 1983). A parallel separation has taken place between economic theory and the history of economic ideas (Roncaglia, 2005). In turn, the social sciences are further divided into specialised fields of inquiry according to an ever-greater division of labour. A case in point is the disciplinary divide between political science and pure economics, which deepened following the Marginalist Revolution of the 1870s insofar as both politics and economics were no longer seen as

branches of political economy but instead as new sciences in their own right (Collison Black et al., 1973; Dobb, 1973; Blaug, 1997).

Alfred Marshall's argument, which led him to drop the term 'political economy' and to propose 'economics' in its place, is presented in the *Economics of Industry*, which he co-authored with his wife Mary Paley Marshall:

[t]he nation used to be called 'the Body Politic'. So long as this phrase was in common use, men thought of the interests of the whole nation when they used the word 'Political'; and then 'Political Economy' served well enough as name for the science. But now 'political interests' generally mean the interests of only some part or parts of the nation; so that it seems best to drop the name 'political economy', and to speak simply of *Economic Science* or more shortly *Economics*. (Marshall and Paley Marshall, 1879, p. 2)

Henry Sidgwick largely agreed with the Marshalls, although with a significant qualification about the need for continual state enforcement of the division of labour:

[t]his vast system of relations, with all the minutely subdivided organisation of labour which it involves, has been in the main constructed without the direct action of government: though, no doubt, it could not be maintained without the enforcement, through government agency, of rights, of property, contracts, etc.; and though it has been importantly modified – to a varying extent in different ages and countries – by direct government interference. Accordingly, it has been possible for the followers of Adam Smith to separate the study of the industrial organisation of society – under the name of 'Political Economy' – almost entirely from the study of its political organisation: and this separation I should in the main adopt, though I think it is liable to be carried too far. (Sidgwick, 1891, p. 3)

Sidgwick also noted that 'the term "Political Economy" was originally used to denote an *art* rather than a *science* – the theory of right government management of national industry, and not the theory of the manner in which industry tends to organise itself independently of governmental intervention' (Sidgwick, 1891, p. 3*n*).

The private versus public (state) dichotomy, with the consequent split between economics and politics, resurfaced in recent work that builds upon Georg Wilhelm Friedrich Hegel's distinction between state and civil society (Hegel, 1991 [1821]). For example, Agnès Heller emphasises the constitutive role of that distinction, which she

considers as a formal guarantor for the existence of a democratic polity (Heller, 1988).<sup>1</sup> From a different but complementary perspective, John Keane has argued that the defence against despotism is the most significant feature of the eighteenth-century transformation of the earlier concept of *societas civilis* into the modern idea of a civil society independent of the state apparatus and protected from its encroachment (Keane, 1988; cf. Pabst, 2018a).

Both contemporary economics and political science continue to significantly differ on the respective role of markets and states or the relative importance of individuals and groups in the allocation and distribution of resources (Coyle, 2020). But this growing disciplinary divide has paradoxically led to the absorption of politics into economics (Lohmann, 2008; North, Wallis, and Weingast, 2010) or else to the absorption of economics into politics (Blyth, 2013).

Connected with this is a growing focus in economics on theories of rational ‘means-ends’ reasoning, instrumental rationality, and methodological individualism at the expense of the classical analysis of system-wide opportunities and constraints – including the shaping of individual agency by shared interests and norms reflected in institutions and the group affiliations that compose civil society (Scazzieri, 1999a, 2018a). Systemic opportunities and constraints are generally compatible with *different* institutional and organisational patterns that affect the division of labour and exchange arrangements (see also Costabile, 2020). As a result, each system of opportunities and constraints encompasses alternative *political economies*, defined as historically and institutionally specific organisations of the material life of the polity. Seen from this perspective, the rational-choice framework stemming from the Marginalist Revolution has reduced the range of possibilities to a *single* political economy that can accommodate a limited range of policy options (Pabst and Scazzieri, 2012).<sup>2</sup>

<sup>1</sup> She also notes that ‘the principle of representation ensures the legitimacy of government through the participation of all citizens – further, the right of the representative organs to control those that are not elected. But it reveals nothing of what precedes and what follows the election of the representative organs. As a result of all this, formal democracy leaves open and undecided the problem of the concrete structure of society’ (Heller, 1988, p. 130).

<sup>2</sup> Commenting on marginalism, Dobb makes the point that ‘[e]conomists, becoming increasingly obsessed with apologetics, had an increasing tendency to omit any treatment of basic social relations and to deal only with the superficial aspects of market phenomena, to confine their thoughts within the

The dichotomic approaches to the relationship between the economic and the political order are also unable to conceptualise how and why the respective objects of study (the economy and the polity) are increasingly intertwined with one another. One reason is that the separation of economics from politics prevents a proper conception of political institutions in defining the boundaries of the economic system itself. To quote the political theorist Lorenzo Ornaghi:

the integrating role of political institutions appears to increase with the degree of complexity and organization of economic action. The relation of political institutions with economic structure then becomes essential for two distinct reasons. First, it provides a better analytical-historical perspective on the links between political economy and ‘political order’ (the latter is not coincident with the type of ‘order’ that is associated with the existence of the State). Secondly, it contributes to a ‘dynamic’ interpretation of the contemporary relations between State institutions and economic order. In turn, this is the only route to an analysis emphasizing the link between order and transformation in a theory of the intersections between economic and political cycle. (Ornaghi, 1990, p. 25)

Thus, the modern separation of economics from political science coincides with a split between economic structures and political institutions, which has reduced the scope of political economy and separated the analysis of both markets and states from the social connections in which they are embedded.

Embeddedness can be understood in terms of the distinct nature of sociability in relation to political society or economic society, which is under-explored in much of contemporary political economy. Its foundations are often grounded in separate spheres that are linked to other domains by formal standards of law or economic contract – not partially overlapping social ties, civic affiliations, or associations in view of a common condition or purpose. In turn, this raises questions about the nature of the structures that shape social relations. Any given *political economy* presupposes a specific organisational structure insofar as it requires the arrangement of human actions in view of a particular objective or set of objectives. At the same

limits of the “fetishism of commodities” and to generalise about the nature of the “exchange economy”, until in the end these were made to determine, rather than be determined by, the system of production and production relations’ (Dobb, 1973, p. 44).

time, the arrangement of actions in a means-ends pattern generates a set of interdependencies between individual and collective actors quite independent of means-ends (instrumental) rationality. Max Weber's distinction between organisation and association is useful in clarifying this feature of a political economy: '[a]n "organization" (*Betrieb*) is a system of continuous purposive activity of a specified kind', whereas the 'association' (*Verein*) is 'a corporate group originating in a voluntary agreement and in which the established order claims authority over the members only by virtue of a personal act of adherence' (Weber, 1947 [1922], p. 28). A political economy is a specific organisation of purposive activity (*Betrieb*) embedded in a wider space of material and social connections (*Verein*). Max Weber's duality is close to Douglass North's distinction between 'organizations' and 'institutions'. In North's view, '[i]nstitutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction' (North, 1990, p. 3). On the other hand, '[o]rganizations are created with purposive intent in consequence of the opportunity set resulting from the existing set of constraints (institutional ones as well as the traditional ones of economic theory)' (North, 1990, p. 5). Michael Oakeshott outlined a different yet complementary perspective with his distinction between 'enterprise association' as a means-ends organisation of social activities and 'civil association' as a practice-oriented pattern of interdependence with no immediate instrumental character (Oakeshott, 1975; see also Section 2.3 below).

Here one can go further than Weber to suggest the idea that different political economies may be rooted in different forms of sociability, and that different forms of sociability give shape to the domains within which markets, states, and individuals interact. For example, and quite separately from the markets versus states dichotomy, we would expect different political economies depending on whether forms of sociability have a predominantly non-hierarchical or hierarchical character (Scazzieri, 1999a; Pabst and Scazzieri, 2012). Either way, it requires moving beyond the strict separation of economics from politics and from other binary opposites such as state versus market, national versus supranational level of analysis, or individual versus collective interest, in the direction of the underlying social relations.

Indeed, a political economy is not confined to the economic or the political sphere but belongs to the wider social domain in which

individual or collective actors interact through the material and social structures in which both cooperative and conflictual relationships are grounded (Pabst and Scazzieri, 2012, 2016). That domain encompasses the arranging of different positions and the ordering of different actions needed for the provision of material needs in the polity under consideration (Cardinale and Scazzieri, 2018a, 2018b). As Karl Polanyi (2001 [1944]) maintains, both modern states and modern markets abstract from context-dependent social interdependencies, thereby undermining the complex array of relationships that are at the root of political economies. For this reason, one can suggest that the abstract, formal nature of the modern social contract undermines the complex web of interpersonal ties that embeds the division of labour and the associated patterns of exchange.

Historical and anthropological research indicates that across different societies and cultures, social bonds and intermediary institutions have been more fundamental than formal and contractual ties (Strathern, 1988, 2004, 2020; Godbout and Caillé, 1992). The practices involved in autonomous and self-governing groups and associations often reflect social habits that are rooted in the need for mutual recognition and only indirectly serve private or collective interests (Goody, 2004; Godbout, 2007). As we shall argue below, for these reasons political economy rests on a constitutionalist rather than a formal and contractualist logic.

### 1.3 Relational Embeddedness and Intellectual Traditions

Michael Oakeshott's above-mentioned distinction between 'civil association' and 'enterprise association' is a useful starting point when addressing the *embeddedness* of purposive activities within the polity. In Oakeshott's view, a 'civil association' is the relationship 'between agents acknowledging themselves to be *cives* in virtue of being related to one another in the recognition of a practice composed of rules' (Oakeshott, 1975, p. 127). Subjects related in terms of a civil association 'are not partners or colleagues in an enterprise with a common purpose to pursue or a common interest to promote or protect. Nor are they individual enterprisers related to one another as bargainers for the satisfaction of their individual wants. They are related in terms of a practice' (Oakeshott, 1975, p. 122). On the other hand, an 'enterprise association' is defined as 'a relationship in terms of the pursuit

of some common purpose, some substantive condition of things to be jointly procured, or some common interest to be continuously satisfied' (Oakeshott, 1975, p. 114).

The distinction between 'civil association' and 'enterprise association' is relevant to political economy, seeing that it emphasises the coexistence of non-instrumental conditions determining social interdependencies with the instrumental arrangements guiding social coordination in the pursuit of a particular objective. Instrumental coordination is embedded in an objective order that is not a fixed, pre-determined organisation of formal arrangements but is instead a set of relational possibilities that provide the ultimate affordances for social congruence. In this view, most contemporary political economies can be theorised as domains embedding both markets and states and in which socio-economic interdependence reflects *both* an existing set of structural conditions and an arrangement of actions in the pursuit of specific objectives.

This approach is consistent with John Hicks's distinction between an 'order of being' and an 'order of doing' (following Pantaleoni, see Scazzieri and Zamagni, 2008, p. 6) whereby the former is defined as a set of interdependencies that precedes or follows specific goal-seeking practices, while the latter is conceived as a causal structure brought about by practices that aim at particular objectives (but do not necessarily attain their stated purpose). A question raised by this distinction is about intentions for acting versus dispositions to act, and about the complex interplay between actions and outcomes in shaping the unfolding of 'actual causes' in the social world (Pearl, 2000). Here it is instructive to draw on John Broome's emphasis on dispositions in disentangling the ambiguous status of 'acting for a reason' (Broome, 2009). Dispositions are a reminder of the interweaving of deliberate reasoning with habits of which agents may be unaware but which may be central in determining the outcome of actions in a given social context (Drolet and Suppes, 2008). In this connection, uncertainty is important in determining the actual working of interpersonal arrangements that take shape within political economies. Albert Hirschman addressed this point when he highlighted that the outcomes of certain activities 'are so uncertain' that they are 'strongly characterized by a certain fusion of (and confusion between) striving and attaining' (Hirschman, 1982, pp. 84–91, 1985, p. 13).

What these contributions to the literature on political economy suggest is the nature of the relationship between intended and unintended

outcomes of actions that are grounded in social interdependencies. The world of practice that characterises the social domain is a complex structure of overlaps between intended and unintended outcomes, and these overlaps capture the constitution of a social realm of subsidiary spheres in which interactions are not solely instrumental (seeing that actors are not only striving for a well-defined aim, such as utility maximization). Within any such domain, social activity is open to a plurality of possible results, and uncertainty is partly a product of the criss-crossing of multiple linkages (Pabst and Scazzieri, 2012). A political economy so configured suggests a fundamental rethinking of economic and political theory. Rather than being wedded to the dichotomy between the economic and the political sphere, which would be governed by the distinction between private and public interest, the approach to political economy focused on natural sociability, and a given ‘order of being’ views the social domain as the principal locus of the actors’ dispositions for cooperation or conflict (Pabst and Scazzieri, 2016).

Our conception of political economy draws upon two main intellectual traditions. First, the primacy of the relational field to which individual and collective actors belong is linked to notions of material interdependence, social mirroring, and cognitive framing as key triggers in establishing division of labour and patterns of exchange according to the tradition of the Scottish Enlightenment, and notably in the work of Adam Ferguson (1966 [1767]) and Adam Smith (1976 [1759], 1976 [1776], 1978 [1762–1762, 1766]). This tradition views both markets and states as *derived* institutional arrangements to be understood in terms of the embedding relational context.

Second, rather than founding political economy primarily on formal rules, rights, and contracts, our conception begins with the prior sociability and mutual dependencies between human beings. Key to this model is the principle of association and the centrality of intermediary agencies in determining the working of both markets and states. Elements of this conception can be found in the works of thinkers such as Montesquieu (1989 [1748]), Benjamin Constant (1818–1819), François Guizot (1839, 1851), and de Tocqueville (1969 [1835–1840], 1856) in France; Edmund Burke (2014 [1790]), Thomas Hill Green (1895), and Leonard Trelawny Hobhouse (1911a, 1911b, 1922) in England; or, before both these groups, the leading scholars of the Neapolitan Enlightenment – in particular, Paolo Mattia

Doria (1729, 1740) and Antonio Genovesi (2013 [1765–1767]) – and the recent reappraisal and extension of this tradition (Bruni and Zamagni, 2004, 2016; Zamagni, 2015; see also Scazzieri, 2012a; Pabst and Scazzieri, 2019). Linking these different thinkers is not just a renewal of ancient, medieval, and Renaissance notions of civic interdependence but also an emphasis on the intermediate spheres of sociability between individual and collective agency. This point of view suggests that association reflects the relational embedding of all actors within multi-level social interdependencies and institutions.

Our conception of the economy and the polity, and of the political economy at their intersection, is also akin to relational approaches in social science, which call attention to the complex nature of individuality within the social domain, and to relationality as an emergent property not reducible to the dispositions of actors involved in generating and maintaining specific relations. In this connection, Marilyn Strathern emphasises, with reference to Melanesian societies, the conception of the ‘singular person [...] as a microcosm’ which can be considered ‘as a derivative of multiple identities’ (Strathern, 1988, p. 15). At the same time, Strathern also highlights that such a plural image of personal identity can be overcome, in actual social life, either by ‘difference being encompassed or eclipsed’ or by ‘elimination [...] achieved through detachment’ (Strathern, 1988, p. 15). This point of view has far-reaching implications for understanding a system of global interdependencies and acting within it: ‘there might [...] be a place for appreciating what it is that divides us, that is, how we may relate to others not by denying difference but through our differences [...] [I]n expanding our horizons we are not limited to acknowledging people insofar as they seem the same as we are. Conversely, perceived difference is not an axiomatic barrier to sustaining relationships’ (Strathern, 2018, pp. 87–88).

In a complementary perspective, Margaret Archer emphasises the dynamic processes by which relational goods give rise to something ‘in excess of a degree of warmth and some regularity of contact’, namely to ‘emergent properties [...] that cannot be produced by aggregation and are *also* deemed highly worthwhile in themselves’ (Archer, 2012, p. 99; see also Archer, 2000, 2010). Recognition of relationality as emergent property entails ‘respect for the relational goods produced and a concern for the preservation and prolongation of this worth that

encourages a commitment to fostering the relationship itself' (Archer, 2012, p. 99). This means, as Pierpaolo Donati maintains, that even a simple relationship between A and B involves a *triadic structure*, not only from A to B and from B to A, but also 'the effect of their interaction', which 'can only be examined by taking the relation as the unit of analysis' (Donati, 2010, p. 98; see also Donati, 1991, 2006; Donati and Archer, 2015).

#### 1.4 Constitution versus Contract

Our conception of association is distinct from modern and contemporary accounts committed to a contractualist approach. Contractualism makes two claims. First, the primary units of society are rationally driven individuals who are bound together by formal arrangements as part of the social contract. Second, that all other 'units' are subordinate to the individual and the two institutions that reflect the social contract – the sovereign state and the transnational market. In political economy, this implies that both economics and politics subsume all social relationships under the formal functioning of markets and states (e.g. Buchanan, 1990). Patterns of social interaction at the national and the international levels are subordinate either to political relations within or between states, or to economic transactions in the marketplace. In this manner, the contractualist approach ignores social interdependencies existing at intermediate levels of aggregation as well as across them (Pabst, 2014, 2018a; Milbank and Pabst, 2016).

The alternative approach, which we call *constitutionalist*, focuses on association and the mutual formation of interests. This approach calls attention to the *social body* (the structure of social interdependencies) that underpins both conflict and cooperation (see also Scazzieri, 2020a). Such interdependencies *pre-exist* the emergence of conflict and cooperation and are characterised by 'hybrid' relationships different from the more homogeneous links between members of the same state (its citizens) or between traders in the same market sphere (Pabst, 2014, 2020). Different rules and institutions are grounded in diverse domains of social interdependence. One example is *civil society*, defined as 'the primary constitution of connectivity in which markets and states operate [and which] *embeds* the causal structures determining the relationship between intended and unintended outcomes in any

given social domain' (Pabst and Scazzieri, 2012, pp. 337–338). Social bonds straddle several apparent dualisms: first, between the individual and the collective level of agency; second, between instrumental and non-instrumental actions; third, between intended and unintended outcomes. This focus on complex social interdependencies seeks to eschew those dualisms in favour of greater emphasis on 'association' that reflects the multi-layered sociability constituting the domain of political economy (Pabst, 2018a).

In other words, different rules and institutions are grounded in different types of sociability that are variously more hierarchical or more 'egalitarian' and more conducive to cooperation or conflict. The interdependencies that constitute the political-economic domain are a given reality that economics and political science either ignore or subsume under the logic of exchange or the logic of state power.

One possible objection to our constitutionalist approach is that the internal structure of society is so diverse as to produce 'parallel societies' within a given territory and its people. Indeed, there has been much discussion about the growing plurality of late modern societies, including the pervasiveness of fundamental divides (political, economic, social, and ethical) and the inability to overcome such divides by means of rational argument (Hirschman, 1977; MacIntyre, 2000 [1981]). This has led thinkers such as Isaiah Berlin and John Rawls to argue that substantive values are incommensurable and that therefore it is only possible to agree on certain procedural mechanisms such as contractual arrangements backed by the rule of law and ground-rules of fairness (Berlin, 1969; Rawls, 1971).

The conception of association developed in this study seeks to overcome this opposition in the direction of a multi-layered social space in which there can be both disagreement on some substantive choices as well as agreement on others. Even an entrenched diversity of interests is not necessarily incompatible with a stable constitutional order, provided diversity allows for political economies arranged along a plurality of interdependent spheres, which are mutually compatible with a systemic condition for congruence, independently of whether social actors pursue the achievement of this condition or not. This approach rests on a view of political economy that emphasises the relative positions of individuals and groups and the mutual fitting of interdependent economic activities (Quesnay, 1972 [1759]; Romagnosi, 1827, 1835; Stein, 1878).

Classical political economy – both in its original formulations (Smith, 1976 [1776]); Ricardo, 1951 [1817]) and in its modern appraisals and systematizations (Leontief, 1991 [1928], 1941; Sraffa, 1960; Quadrio Curzio, 1967; Lowe, 1976; Pasinetti, 1977) – provides a vantage point from which to develop a theory of political economy based on the multi-layered arrangement of positions and interests. For classical political economy focuses on the formation and distribution of the social product through a system of interdependencies between productive sectors, while also presupposing a system of interdependencies between socio-economic groups (such as workers, capitalists, and rentiers). The former set of interdependencies emphasises complementarities between productive activities that lead to the distribution of the economy's net product between types of income (such as the profit share or the wage share), or to its distribution between investments in productive sectors (such as the agricultural sector or the manufacturing sector). Indeed, the net product shares accruing to certain groups may be inversely related to the shares of other groups, even if there may be a positive relation with the shares going to yet other groups (Quadrio Curzio, 1990; Quadrio Curzio and Pellizzari, 1999). This feature of distribution emphasises the distinction between the interdependencies across groups within the existing social structure and the 'viability conditions' for the persistence of the system (say, a particular polity) embedding those interdependencies. The viability conditions for the economic system to persist over time may be a proxy for the systemic congruence of activities in the economy under consideration, or its 'systemic interest' (see Cardinale, 2015, 2018a, 2019, 2020, 2022).

This perspective highlights the existence of distinct but interlocking conditions (respectively, in the technological and in the socio-institutional domains) that allow the formation of the social product and the persistence of the economic system's productive potential over time. In particular, the technological conditions ensuring the material viability of the productive system ought to be distinguished from the institutional conditions governing the distribution of the social product between groups. Indeed, the entitlements of groups taking part in the distribution of the social product may be incompatible with given technological conditions for viability, and/or with the conditions for persistence of a given socio-economic structure. In the former case, the distribution of the social product may be such as to generate relative

prices incompatible with the input requirements of each productive sector for commodities produced in other sectors of the economy.<sup>3</sup> In the latter case, the distribution of the social product may be associated with an accumulation process making the persistence of certain social classes dynamically unfeasible in the long run (Baranzini, 1991; Baranzini and Scazzieri, 1997).

Different representations of economic interdependencies are possible. A fundamental distinction is the one between horizontal representations, which highlight circular relationships between different economic sectors, and vertical representations, which underscore the 'linear' relationship between economic sectors arranged in a hierarchical sequence relative to one another (Pasinetti, 1973; Baranzini and Scazzieri, 1990). For this reason, there are multiple depictions of systemic coherence and therefore of systemic interest. This entails actors' mapping of interdependencies perhaps not being compatible with ongoing transformations of those interdependencies (say, as a result of technological or organisational change). In turn, this underpins the distinction between the space of feasible states within which any given economy may operate and the actual state brought about by the individual or collective actions carried out in that economy. Adolph Lowe addressed the latter issue by distinguishing between two different approaches to economic inquiry, which he calls, respectively, 'structure analysis' and 'force analysis' (Lowe, 1976). The former 'studies the configurations in which the elements of an economic system – inputs and outputs, employment and income, savings and investment, etc. – must be arranged if the transformation of the initial into the stipulated terminal state is to be achieved. These configurations have two aspects: one, physical or technical; the other, social' (Lowe, 1976, p. 17). The latter

raises economics above the level of a mere engineering science by studying the patterns of behaviour and motivation that initiate and sustain the motion of the system along the structurally determined path. These patterns themselves are closely related to the prevailing social structure that defines the institutional framework within which economic activity is to operate (Lowe, 1976, p. 17).

<sup>3</sup> A case in point is that of the Russian 'scissor crisis' of the mid-1920s, which may be seen as resulting from the failure of relative prices of agricultural versus industrial products to meet the material viability conditions associated with technology in use (see Seton, 1992, 2000).

More recently, Luigi Pasinetti has introduced a ‘separation theorem’, which makes the different but complementary distinction between a ‘natural’ and an ‘institutional’ level of investigation:

[t]he former type of investigation [...] are aimed at discovering basic relations, which the Classical economists called ‘natural’, i.e. in their view aimed at determining the economic magnitudes at a level which is so fundamental as to allow us to investigate them independently of the rules of individual and social behaviour to be chosen in order to achieve them [...] This is a stage kept free from specific geographical and historical circumstances. Then, one is able to proceed to a second stage of investigation, which concerns how the economic magnitudes are actually determined, within the bounds and constraints of the institutions characterizing the economy at the time it is investigated. (Pasinetti, 2007, p. 275)

Pasinetti’s argument highlights the distinct and specific task of a feasibility analysis considering the economy’s structural parameters (in his case, the parameters describing production technology and consumers’ average behaviour) relative to the behavioural and institutional conditions that directly influence human actions depending on context (see also Scazzieri, 2012b). Feasibility spaces reflect existing interdependencies between sectors but leave room for a variety of institutional arrangements and behavioural patterns. This, in turn, underscores the point that different patterns of agreement or conflict are inherent to existing structural constraints.

Ivano Cardinale and Michael Landesmann build on this dual character of feasibility spaces to investigate policy contexts in which interdependencies may be differently construed by different sets of actors, thus leading to alternative representations of conflicts of interest. In their contribution ‘the analysis of how “sectoral interests” articulate themselves in relation to particular economic variables [...] can lead to interesting insights into the political-economy dynamics [...] when adopting different sectoral decompositions of an economy’ (Cardinale and Landesmann, 2017, p. 285; see also Cardinale and Landesmann, 2022). Their approach explores the socio-political dimension of sectoral decomposition and interrelatedness and highlights the possibility of *alternative coalitions* within the same system of interdependencies. This is because potential interest groups are associated with different ways of representing interdependence, so that different policy trade-offs become relevant depending on which type of decomposition is adopted.

The consideration of interdependencies at multiple levels of aggregation brings to light conditions for social congruence within and across different levels of aggregation. This approach moves beyond the macro-micro dichotomy and highlights that the same set of structural parameters may be compatible with different mappings of sectoral interests and systemic interest. For instance, interdependencies between productive sectors can bring to the fore complementarities between activities that a macro approach cannot identify, while macro analysis may detect divisions and conflicts that exist in society beyond the connectivity provided by the material interdependencies of productive sectors. Analysis conducted at intermediate levels of aggregation calls attention to the conditions for potential conflict or potential agreement between different sectors and/or social groups considering the *relative positions* of sectors and/or groups. This approach also suggests a heuristic to assess the likelihood of different divisions and coalitions depending on which group affiliations are dominant in the political economy under consideration.

### 1.5 The ‘Three Bodies’ of Political Economy

The constitutionalist conception of political economy developed in this study emphasises the distinctive nature of political economy with respect to *both* economic and political theory. It is widely assumed that both fields are largely self-contained domains independent of a ‘thick description’ (Geertz, 1975) of the social space. This approach denies political economy an autonomous space of inquiry and leads either to the absorption of politics into economics (North, Wallis, and Weingast, 2010) or to its opposite (Blyth, 2013), as we have already argued above. On the contrary, our argument is that the two spheres are distinct but mutually embedded within a given configuration of social interdependencies. This is what we call the *social body*. Political economy, as a distinct field of investigation, derives from the constraints, opportunities, and dispositions generated by this interdependence between the economic and the political spheres, which – as we develop in the remainder of this section – can be conceptualised, respectively, as the *economic body* and the *political body*.<sup>4</sup>

<sup>4</sup> Our conception of the three bodies recalls Ernst Kantorowicz’s distinction in his classical work *The King’s Two Bodies* (Kantorowicz, 1957), but whereas

Second, we argue that the theory of political economy is primarily a theory about the arranging of different positions and the ordering of different actors' modes of activity, which involve both the economic and the political spheres. Here we draw on the work of John Hicks who clearly distinguishes between economics as a theory of rational market behaviour, which he calls 'catallactics' (following Richard Whately, 1831; Francis Edgeworth, 1881; and Ludwig Mises, 1949), and economics as a theory of the formation and distribution of the social product, for which he reserves the term 'plutology' (Hicks, 1982 [1976]). In the words of Hicks, analysts in the latter tradition 'looked at the economic system primarily from the production angle', whereas 'the catallactists looked at it primarily from the side of exchange' (Hicks, 1982 [1976], p. 10). Hicks's emphasis on the 'social product' as the characteristic field of 'plutology' points to the complex structures of social interdependencies that characterise both the economy and the polity as well as their mutual relationship.

Hicks's distinction between catallactics and plutology finds its roots in his distinction between 'order of being' and 'order of doing', which we discussed in Section 1.3 of this chapter. In fact, plutology brings attention to the objective relational structure that the formation of the social product presupposes at any given time, while catallactics considers the criteria followed (or to be followed) by actors involved in the formation of the social product under specific institutional arrangements. Plutology investigates the interdependencies that *all* human actions generate when involved in division of labour leading to social product formation, whereas catallactics explores which specific actions are generated by rational actors who are allowed some degree of independent choice in the allocation of resources. We maintain that political economy bridges the economic and the political spheres by exploring the *range of conditions* under which the material life of the polity is made possible by the interdependencies generated by human actions in the economic sphere. Hicks's distinction between catallactics and plutology points to a more comprehensive domain in which actions and structures are mutually dependent components of the

he explores the relationship between the king's natural body and the king's representation of the body politic, we study the embeddedness of both the economy and the polity within society as a relational domain.

system determining the material life of a politically organised society, which we may call the *economic body* of the polity.

Third, our conception of political economy presupposes a certain ‘constitution of interests’ – a structured space that is prior to decisions concerning the allocation of resources or the distribution of the social product between different individual or collective actors. Interests are not simply given but also derive from specific representations of the relative position of any group within society. Such representations presuppose vantage points that organise individual and collective perceptions and provide guidance for social action. Particular interests can only be defined and acted upon in relation to a distinct set of weights (*values*). Values as weights are ‘specificators’ of interest. This provides a critical device to identify and implement feasible constitutional arrangements. The process of circumscribing different interests requires the consideration of values because values (as weights) attach priority to certain interests over others. Circumscription enables actors to identify which interests are more relevant than other interests. Describing the relative positions and overlaps between interests is central to achieving social coordination, or at least a degree of social congruence, in a polity that encompasses a plurality of partially overlapping and partially diverging values and interests. Circumscribing the interests of different actors is therefore a way by which social interdependence may achieve a pattern of connectivity compatible with an expression of systemic interest, defined as a condition for the *political body* to exist (Cardinale, 2015, 2018a).

This point of view finds expression in several early modern authors, such as Johannes Althusius (1603) and James Harrington (1656), and is central to later contributions to the relationship between the economic and the political orders, such as those by Joseph von Sonnenfels (1765) and Giandomenico Romagnosi (1848). Romagnosi argues that the purpose of economic studies should be to investigate ‘the social order of riches’ by considering ‘the economic functions in their driving motives and in their complex outcomes’ (Romagnosi, 1827, pp. 24–27; see also Scazzieri, 2020a). This conception of political economy is different from accounts in both economics and politics that seek to re-embed social relationships in either the economy or the polity (Buchanan, 1990; Vanberg, 2005).

An example of the former is Hayek’s attempt to broaden the category of market exchange beyond pure commercial transactions to

include all horizontal social interactions – a comprehensive field which Hayek describes as *catallaxy* (Hayek, 1976; Matteucci, 1994). An example of the latter is Pierre Bourdieu's account of the state as not simply an instrumental apparatus for action in the public sphere but as a comprehensive field whose influence goes beyond purely political relations to encompass a wider range of social institutions and interactions (Bourdieu, 2012; Dubois, 2018).<sup>5</sup> Either way, both positions – by expanding the respective fields of economics and politics – end up subsuming the social domain under either the logic of market exchange or the logic of decision-making in the space of a polity identified with the modern nation state in its comprehensive sphere of sovereignty.

By contrast, our conception of political economy highlights the multi-layered space that encompasses the economic and political domains. This space, which can be conceptualised as an *economic-political body*, consists of multiple forms of association that have potential for *both* conflict and cooperation and are not reducible to any of the above dualisms or to the binary logic that underpins either of them.<sup>6</sup> In short, we theorise political economy as the embedding of the economic and the political body within the social body.<sup>7</sup> We view economic organisations and political institutions as part of the wider constitution underpinning the economy, the polity, and society.

## 1.6 Towards a Constitution of Economic Policy

This chapter has outlined a conception of political economy in which multi-layered interdependencies are central. One key implication is that economic-political actors interact, both directly and indirectly, at different levels, which overcomes the conventional distinction

<sup>5</sup> This point of view has suggested that, in the interaction between state and non-state actors, the expression of private interests 'cannot merely reflect these interests. It has to be organised following specific rules to translate interests and rationales into a policy that claims to serve the public interest' (Dubois, 2018, p. 47).

<sup>6</sup> Our conception of association draws on traditions stretching back to classical sources like Plato, Aristotle, and Cicero that were developed by medieval, Renaissance, and modern thinkers as diverse as Justus Lipsius, Ralph Cudworth, Giambattista Vico, and Alexis de Tocqueville. Some of the history of ideas that has shaped this account of association is explored in Chapter 5.

<sup>7</sup> Our conception of the 'three bodies' is markedly different from that of contemporary approaches such as Douglass North's who reduces the concept of 'body' to different actors of the organisational type within the institutional domain. In his words, '[o]rganisations include political bodies (political parties,

between micro- and macro-analysis. In fact, what is missing from most conceptions of political economy is a focus on intermediate levels between individual actors and the overall system (such as the state), including meso-level associations and institutions such as industrial sectors, universities, professional organisations, and trade unions. This perspective opens the prospect of policy domains that are located at any one of these levels where economic and political relationships intersect. In turn, the implication is that policy is not reducible to either microeconomic or macroeconomic actions but encompasses multiple spheres of intervention at different levels of aggregation. Either cooperation or conflict may occur depending on the policy domain and on the order of priority between different interests. The circumscription of interests within specialised spheres allows economic actors to focus on a given subset of objectives to the exclusion of others and thereby to identify a hierarchical ordering of priorities. Three policy areas illustrate our argument: first, industrial policy; second, liquidity and monetary policy; and third, international trade policy (see also Chapter 7).

The focus on intermediate levels of aggregation provides a vantage point to assess the effectiveness of industrial policy options dealing with the organisation of activities spanning a range of different production units from individual establishments to industrial networks and complex supply chains. Different aggregation criteria suggest alternative ways to decompose the economic system into subsets of interdependent activities, and each aggregation criterion may highlight different policy options. For example, *aggregation by industries* can identify 'loops' of intermediate product flows and draws attention to the 'horizontal' coordination requirements between those flows. On the other hand, *aggregation by vertically integrated sectors* highlights sequential dependencies between fabrication stages belonging to the same transformation line (say, from primary resources to finished consumption goods), and draws attention to the time synchronisation of

the senate, a city council, a regulatory agency), economic bodies (firms, trade unions, family farms, co-operatives), social bodies (churches, clubs, athletic associations) and educational bodies (schools, universities, vocational training centres). They are groups of individuals bound by some common purpose to achieve objectives [...]. Both what organisations come into existence and how they evolve are fundamentally influenced by the institutional framework' (North, 1990, p. 5).

fabrication stages along the same supply chain and/or to the macro-economic coordination across different supply chains.

Industrial policy measures may be significantly different in the two cases. For instance, the coordination of intermediate product flows may suggest policy actions aimed at facilitating the provision of product components needed across an extensive range of utilisers ('basic components'), while vertical integration may draw attention to actions promoting adequate capabilities or to actions reducing transaction costs between fabrication stages and therefore increasing the speed of productive transformation. This approach highlights the need for differentiated policy actions, which would target the technological and organisational needs of specific clusters of productive activity (Bianchi and Labory, 2018, 2019).

The question of liquidity is another case in point. Provision of liquidity to an economy of interdependent activities is subject to different conditions depending on whether we want that economy to allow full employment and full capacity utilization (a *scale condition*) or the delivery of liquidity at appropriate amounts and times at specific stages of production (a *proportionality condition*) (Cardinale and Scazzieri, 2016). Interdependent activities carried out within the same time period require a type of liquidity that is different from the liquidity needed to coordinate the input and output profiles of different activities over time (Scazzieri, 2017). There is no guarantee that meeting the scale condition would also satisfy the proportionality condition, which highlights a trade-off between the two objectives and a potential conflict of interest between sectors or social groups supporting one or the other option for liquidity policy.

Finally, and consistently with the two previous policy scenarios, the analysis of interdependence between activities at intermediate levels of aggregation highlights the coordination needs of processes related to one another through intra-industry trade networks across different countries. In this case too, policy actions cannot be evaluated independently of the fine structure of interdependencies between activities supplying intermediate inputs to one another in a reciprocal way or delivering inputs to one another along a 'linear' sequence of production stages. For example, an effective trade policy may or may not privilege unrestrained free trade depending on whether transaction costs *between* trading countries are lower than coordination costs *within* each country, or whether the need to maintain certain

production stages in a country suggests a degree of protection in lieu of free trade for those stages. This view overcomes the dichotomy between free trade and protection and suggests that interdependencies within and across trading actors lead to differentiated attitudes to trade arrangements depending on which specific goods or services are considered. In short, our approach to the constitution of policy-making, by overcoming the macro-micro duality, highlights not only the links between policy areas but also new targeted actions that focus on the needs and interests of sectors or groups that operate at intermediate levels of association.

To conclude: we argue that political economy cannot be reduced to a single domain or discipline but instead is a *relational field* based on the mutual intertwining of the economic and political bodies and their embeddedness within the social body. As the subsequent chapters will explore, some of the key organising concepts include interdependence, dispositions, and association. Since all social activity presupposes that actors are interdependent, this raises questions about how dispositions emerge from different patterns of interdependence, which in turn lead to multiple forms of association. Such an approach to political economy can make sense of the fundamental structures underpinning both cooperation and conflict in a world that is characterised by contrasting tendencies such as growing interdependencies through trade and international division of labour but also decoupling and a greater focus on systemic resilience at the different levels of world society.