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## ANTI-RATIONALISM IN POLITICAL ECONOMY

Geoff Dow

The classical traditions in political economy have contributed more to our understanding of contemporary human dilemmas than is usually thought. Even the towering figure of Adam Smith, only selectively appropriated by his proselytisers, was acutely aware of the negative effects of the capitalist division of labour:

The man whose whole life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgement concerning many even of the ordinary duties of private life.... But in every improved and civilized society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it. *An Enquiry into the Nature and Cause of the Wealth of Nations* vol.2, book 5, ch.1, 1776, p.366.

Here Smith is conceding the possibility of an anti-rationalist political economy. He is postulating that the logic of purely economic development as embodied in the division of labour (and specialisation and economies of scale and the extension of markets) will be disrupted,

and ought to be, by political constraints upon that logic. Earlier, in *The Theory of Moral Sentiments*, written before his encounters with the physiocrats which persuaded him of the virtues of *laissez faire*, he had admired the 'great systems of government' and 'institutions which tend to promote the public welfare'. Economic conditions are not determined by economic parameters alone.

Not only is political activity more contingent and open-ended than economic activity (and thereby less susceptible to formal or predictive analysis) but it is driven as much by anti-rationalist impulses, those which depend on varying ideational, learned and cultural motivations, as by those which provide economics and political economy alike with their claims to methodological distinctiveness. If government is to intervene, on the grounds Smith suggests are warranted, or on any other grounds, then the processes of wealth creation and capital accumulation and their concomitants (class conflict, crisis, evolution of the mode of production) will not adhere to any formal logic.

In fact, most traditions of heterodox political economy have endorsed one or more forms of social or political intervention into market economies; and it is these 'distortions' which render analyses and prescriptions based on the integrity and rationality of market processes methodologically inapplicable. Before Marx, but after Smith, Friedrich List in Germany had advocated 'infant industry' protection for nations wanting to catch up with more productive or more powerful ones. His *National System of Political Economy* (1841) was a tirade against English liberalism and the doctrines of free trade which List considered to be for export (from England), rather than policies which had actually caused economic development. Nations following the *laissez faire* doctrine were destined to lose their creative manufacturing capacities. Protection was therefore justified in all the countries pursuing 'late industrialisation' particularly when increasing returns to scale could be observed. National development needed to be prioritised, not cosmopolitanism.

Following List, the German Historical School (centred on Gustav Schmoller's *Verein für Sozialpolitik* from the 1870s) attempted to develop an empirical tradition in economic analysis, retaining an organic, society-centred conception of economic activity and human motivation

while policy would limit competition, defend national peculiarities and redress the influence of mis-informed liberal ideas. Eventually, this School, like its English counterpart, lost the intellectual battle (the infamous *Methodenstreit*) to the formalistic strictures that became economic orthodoxy, largely because its methodological disposition was more sociological, less abstract, with fewer claims to universal validity, than the emerging 'science of allocation' could accommodate.

Nonetheless, the distrust of rationalist method survived in the related discipline of economic sociology. Émile Durkheim, in the 1890s, initiated a critique of liberal economics based on an assertion that the understanding of market processes would lead to misunderstanding of economic processes. In other words, there could never be an autonomous economy (nor a methodologically constricted discipline to analyse it) because economies are inevitably 'embedded' in social conditions. Economies need social supports, some of which constitute constraints on individual and entrepreneurial freedoms; it is unreasonable for policy to try to remove many of the inflexibilities and rigidities that characterise actual economies, because the non-economic foundations may be important. External moral constraints on economic activity, perhaps monitored by such intermediary associations as guilds, trade unions and producer collectives, may be functionally necessary.

Max Weber's critique of market rationality went further. Though celebrating the distinctive rationality of the capitalist epoch, he nonetheless argued that formally rational modes of calculation could occasionally lead to substantively irrational and unwanted outcomes. Therefore, each modern polity needed to retain the capacity to override decisions dictated by 'bottom line' evaluations if deliberative processes were likely to produce more desirable outcomes, and if the costs could reasonably be borne. Weber's plea for public adjudicative competencies, able to influence economic outcomes in accordance with a political rather than market logic, has been re-awakened in industry policy debates in recent decades and also in the recent resurgent interest in anti-marxist conceptions of state capacity.

At the same time as economic sociology was claiming that apparently unimportant things, such as the general spiritual and cultural well-being of the populace, might be important, an approach to economic analysis

now labelled the 'social economy' tradition was consolidating. Originally known as catholic social thought, this anti-enlightenment strand of political economy contended that economies do not operate in the ways presumed by orthodox approaches. Social conditions precede individuals; people are often co-operative; their engagement in economic activity is often motivated by duty or justice or tradition or emulation; organisations are developed to bias production to certain pursuits and against others for political or cultural reasons; long-lived institutions such as unions are devised precisely to politicise the deployment and remuneration of labour; welfare measures exist to provide unearned income and other forms of protection or compensation for those disadvantaged by the market; the rich are sometimes persuaded to take responsibility for the poor; the costs of instability can be socialised; and public policy can impose anti-liberal criteria onto private individuals and firms. A key documentary example is Pope Leo XIII's encyclical *Rerum Novarum* (1891) which is more Marxist than Marx in its denunciation of 'labour markets' and in its enthusiasm for experiments in industrial democracy. Social rather than economic imperatives are seen as rightly determinant. (The social economy tradition, nonetheless, has defended the principle of private property and the right of inheritance as well as being generally distrustful of socialism and a strong state.)

The institutionalist tradition also de-emphasises the autonomy of individual economic agents, focussing instead on the interaction between them and their environment. Thorstein Veblen's essays from the late 1890s argued that economics needed to be an evolutionary science because the economy's constituent institutions change (mature and stagnate) over time and, therefore, the methods available to people to engage in purposive action are subject to improvement or depreciation. Institutional evolution is not necessarily developmental nor the amplification of 'worthy ends'; 'imbecile institutions' can persist and undermine human achievement. Nonetheless, humans are naturally curious and inventive, this proclivity being the catalyst for change, for novelty, for disruption to the 'relatively invariant' aspects of organisation. In fact, productivism or 'workmanship' or purposefulness or substantive competency may require changes to patterns of behaviour and appropriate institutional design. New productive (and other creative) possibilities constantly emerge from past institutional accomplishments,

these 'emergent possibilities' being scarcely predictable from their elements. Humanity is committed not just to income, but to 'work', which therefore can never be regarded as an unambiguous disutility.

Joseph Schumpeter, from the 1910s to the 1940s, extended the understanding of innovation, especially in its entrepreneurial form, into a theory of capitalism's 'creative destruction', a conception which opened up the never-settled question of societal responsibility for the destructive aspects of dynamic progress (uncoordinated structural change). His views differed from Smith's and the classicals' insofar as he never imagined tendencies towards harmony or equilibrium, but rather the competitive system's rough efficacy, its capacity to motivate and to get things done. He consequently anticipated that success would lead to bigness, to the 'trustification' of large productive organisations and, eventually, to the 'social form of society'. Restrictive practices and economies of scale were inevitable and not necessarily undesirable; there was even a suggestion that policy processes might be required to slow the rate of technological innovation if the costs to social order were too great.

At roughly the same time, John Maynard Keynes set out to show that a capitalist economy could be managed, its boom and slump cycle subjected to counter-cyclical policy interventions. The propensity to under-employment reflected a permanent weakness in a market co-ordinated economy, with production being chronically lower than potential unless public processes were developed to iron out the fluctuations. The most important policy recommendation of *The General Theory of Employment, Interest and Money* (1936) was that a 'somewhat comprehensive socialisation of investment' would be able to achieve full employment, that is, to ensure that economic outcomes were determined not by the logic of market but by deliberative political processes. Without really discussing the policy implications of his critique of orthodoxy (though the topic had been broached in many of his wireless broadcasts in the 1920s), Keynes was suggesting the need for new political institutions to take on tasks of macroeconomic management. Not unexpectedly, the extent to which his views were incorporated into official policy varied across nations in accordance with the extent to

which the polity as a whole could accommodate anti-liberal developments.

Karl Polanyi's *The Great Transformation: the Political and Economic Origins of our Time* (1944) also reflected depression era dissatisfaction with the intellectual preferences in policy-making towards commodification and market modes of regulation. From an anthropological viewpoint, 'market society' could not be seen as natural and policy conclusions centring on free trade or *laissez faire* would be mis-guided. People in fact were entitled to develop whatever protective arrangements they were prepared to pay for whenever risk or uncertainty or insecurity demanded. The cosmopolitan outlook that informed the classical English economists tended to undermine nations' ability to develop productive capacities and the commodification of labour in particular was seen as the most repugnant achievement of the liberal era.

Increasingly since 1945, the disjunction between a conventional body of theory urging disengagement of the state from processes of economic development in liberal polities and the emergence of a developmental state in other contexts, especially East Asia, has been difficult to ignore. Conservative academic commentary, rather than Marxism, has examined many of these statist experiments and provided a new critique of liberalism. The Asian 'late-industrialisers', as well as the protection-led development of Germany and the USA in the nineteenth century, have provided neo-Weberian statism since the 1980s with the empirical support for its argument that public policies and institutions can positively affect structural change. Much of this tradition of analysis highlights the effects of the 'infrastructural power' of the state, that is, the capacities that can be developed to mobilise private activity in publicly-sanctioned directions. Authority rather than market mechanisms, including policy bordering on authoritarian, has been able to sponsor domestic networks, manage the challenges of global pressures on domestic economies, and maintain politically-determined but ongoing capital accumulation.

Post-Keynesian theory, insisting that the 'Keynesian revolution' was aborted by the refusal of most Anglo-Saxon governments to commit to permanent full employment (due to the political objections), began with Joan Robinson's and Michal Kalecki's critiques of orthodoxy in the

1950s. This tradition also criticised the deflationary bias of the monetarist experiments of the 1970s and 1980s, calling instead for incomes policies to control inflationary conflicts over income distribution. In more recent versions, post-Keynesianism has argued that, in the mature economies, growth 'transforms' the economic structure away from one which can be comprehended by market analogies. New post-liberal institutions will be needed to reduce the independence of the finance sector and to re-integrate economic with social development.

In response to the policy failures and societal disaffection since the 1980s, mercantilist approaches to understanding and to policy formation have re-emerged. The neo-mercantilists, revealing affinities with List's and Veblen's confrontations with orthodoxy and partly impressed by the developmentalist approaches deployed by late developers, attempt to re-instate a production focus in political economy. The major contemporary claim is that different forms of economic activity have different macroeconomic effects; there is therefore a case for an activist-interventionist state to favour some, rather than other, industries. Whenever economic activity depends on knowledge-intensive 'capital', on 'human wit and will', rather than on simple resource inputs, there will be systemic effects from its deployment. Then there will be synergies and positive feedback or 'virtuous cycle effects' from production and it will be desirable to share fix costs and risks, to allow increasing returns and 'cumulative causation' to generate higher living standards, through higher wages and incomes rather than through cost cutting and lower prices. Competitiveness is an inappropriate criterion for national policy if the abnormal incomes (rent) generated by successful enterprises, but unavailable to the rest of the world, can be 'captured' for the whole society and productive capacities further enhanced.

Comparative political economy derived its major fillip from the post-1974 experience of unemployment and inflation throughout most of the OECD economies. It has made a major contribution to the critique of orthodox economic policy by highlighting the observation that all the low unemployment countries in the decades from 1974 had unusual political institutions, such as corporatist arrangements which allowed trade unions and employers – the 'actors' which cause problems like inflationary wage demands or under-investment – into the policy process.

Labour confederations and the political organizations of capital impose different criteria onto decision-making, especially when they are subject to negotiation and bargaining. If cross-national differences between policies and institutions are the ultimate determinants of differences between the economic performances of nations during a period of significant, globally-induced, economic restructuring, an important challenge to the integrity of the formalist approaches to economic analysis has been registered. In addition, insofar as the balance of policy influence shifts away from market prerogatives, microeconomic concerns and short-term calculation, not only does unemployment tend to fall but the balance of power shifts towards those who are normally disadvantaged. Comparative analysis has consequently confirmed many of the theoretical expectations of post-Keynesian political economy.

The 'regulation school', the 'social structure of accumulation' approach and the 'social system of production' or 'business systems' approaches comprise a series of unorthodox approaches to economic analysis, influenced by Marxism, that also have anti-rationalist implications. The regulation school derives its name from observations that different stages of capital accumulation require different forms or 'modes' of regulation. Similarly, different types or 'regimes' of accumulation develop distinctive regulatory arrangements (the regulation referred to here is more a 'regularization' of the accumulation process than strict regulation, and the term does not refer to state regulation, but to the processes by which normal activity is reproduced). The mode of regulation appropriate to a manufacturing-based economy, for example, will tend to downplay the autonomy of financial institutions and to include institutionalized relations between capital and labour (to minimize industrial disruption); in a more 'post-industrial' setting, banks may become more influential and less emphasis placed on the regular involvement of the organisations of labour in macro-management (decentralised arrangements and marginalisation of trade unions may constitute the preferred 'mode of regulation').

Labour relations, finance-industry relations and the way the domestic industry is integrated with the rest of the world are the most obvious ways in which regimes become regularised, and they are regime-specific (they allow the accumulation process to cohere, at least for finite periods,

such as through the long post-war boom). Patterns of accumulation will normally be guaranteed by 'settlements', 'compromises' or 'accords' between class groupings. The post-war settlement was an implicit agreement which conceded welfare state security, industrial relations standing and a measure of shared participation in the fruits of the long boom to labour; business received a stable environment, some surety that its 'right to manage' would not be challenged, and the legitimisation of state supports to education, training and subsidised research and development. Such rapprochement could not prevail indefinitely and was transformed during the course of restructuring or recession in the post-1974 period. The implied social institutions link the economy to its societal supports; they are said to comprise a 'social structure of accumulation', which stabilises challenges to market relations of production that are always latent in capitalist economies. The regime of accumulation, or social structure of accumulation, it has been said, is 'external to the decisions of individual capitalists', but 'internal to the macrodynamics of capitalist economies'.

These fourteen non-orthodox traditions in political economy together demonstrate that the actual behaviour of capitalist economies is in large measure not predictable from an understanding of pure capitalism. Economies do not necessarily subscribe to the logic of markets; their evolution is indeterminant. This finding has methodological implications for Marxist analysis as well as for liberal approaches. Marx's political economy did not contemplate social or political interventions which would disrupt the determinate analysis he wished to develop. Marx would probably have endorsed the progressive aspects of the developments in actual capitalism outlined above, and his analysis obviously allows the conclusion that market mechanisms (conceived as the 'social relations of capitalist production') would increasingly 'fetter' ongoing economic development. But it is non-Marxist political economy that has done most to elaborate the 'embeddedness' of markets in 'non-economic' conditions.

The high level of uncivilised private behaviour and corporate licentiousness that today characterise the liberalised corporate world provide cogent evidence that 'sweet commerce' needs sedulous

regulation. The political economy traditions outlined above indicate that we are not the first generation to have realised it.

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