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ARTICLE

INTRODUCTION: THE CONSTITUTION OF POLITICAL ECONOMY

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Abstract

This article is the introduction to the Special Issue on The Constitution of Political Economy. It provides an overview of six articles which in distinctive yet overlapping ways explore three key issues. First, how the economy and the polity are embedded in society. Second, how interdependence shapes institutional arrangements. Third, how different levels of aggregation determine levels of policy-making, notably the importance of intermediate institutions.

Keywords: political economy; constitution; embeddedness; interdependence; levels of aggregation

JEL Codes: P00; P48; D71; D74

This Special Issue arises from the workshop ‘The Constitution of Political Economy: conceptual frameworks and policy implications’, held at the National Institute of Economic and Social Research on 15 March 2024. The articles in the Special Issue are expanded and revised drafts of papers presented at the workshop. The aim of the workshop was to explore ways ahead from our book *The Constitution of Political Economy: Polity, Society, and the Common Weal* (Cambridge University Press, 2023). In that book, we sought to outline a new conceptual framework for studying the relationship between the economy and the polity, with an emphasis on the need to move beyond common conceptions of the relationship between economics and politics. In view of the above objective, *The Constitution of Political Economy* does not move from disciplinary subjects to explore their relationship and mutual influences. Rather, the book starts with a tentative identification of two domains of inquiry, namely the economy and the polity, and outlines a heuristic for exploring their relationship and mutual influences. In that perspective, the economy is considered as the sphere in which the material conditions for a society’s persistence over time are achieved and maintained. The polity is defined as the sphere in which systemic actions are taken, that is to say, actions are taken that directly affect the condition of society at a given time and its trajectory over time.

At the core of the book is a structural framework of inquiry, which entails the representation of the economy and the polity as systems of components identified at different levels of aggregation and related to one another by patterns of interdependence and connectivity. In certain cases, the most important level of aggregation is that of the micro-units; in other cases, it is that of the systemic unit. We argue that, in most cases, it is that of units belonging to intermediate levels of aggregation. In the latter case, the identity of both the economy and the polity derives from the way in which the relevant intermediate units

(be they productive sectors, territories or associations) relate to one another in the economic and political spheres.

A fundamental aim of the book is to open the 'black box' of the economy and the polity by emphasising the relational character of both. This approach leads to a relational and multi-layered view of the political economy. Actors at different levels of aggregation can be the most significant stakeholders in the economy (the sphere in which the material conditions for a society's persistence over time are provided) and in the polity (the sphere in which the systemic decisions for society are taken). Our approach entails an open-ended view of political economy conceptualised as the domain in which the systemic decisions concerning the material persistence of society are taken.

The concept of 'constitution' is central to the above perspective. The constitution of political economy discussed in the book is the set of relatively persistent relational arrangements between relevant stakeholders across the economic and political spheres. This conception of constitution includes productive and social arrangements and cultural beliefs but is not bound to any specific constellation of formal rules. Beyond the constraints and opportunities provided by formal rules, the constitution of political economy makes policy implementation feasible or unfeasible depending on the degree to which they fit the existing constitution in the above sense.

The papers in this Special Issue draw upon contributions presented at the above-mentioned workshop and discuss manifold routes along which the theory of political economy outlined in *The Constitution of Political Economy* could be developed in the conceptual and policymaking domains. The first paper by John Milbank on 'The Economic and the Political: Rethinking Their Relationship' calls attention to the way in which different institutional settings may influence the relationships and mutual negotiations between social groups. In that connection, Milbank emphasises the need to distinguish between commercial society and division of labour, on the one hand, and capitalism, on the other hand. In his view, the division of labour in a setting of market transactions is an instrument of coordination distinct from capitalism as a mode of ownership. This approach suggests the view of capitalists as rentiers, since the origin of capitalist incomes from property makes them closer to rents rather than to profits considered as reward for entrepreneurship.

Milbank's paper emphasises the need for overcoming both the separation and the naïve combination between economics and politics. This would allow for a better understanding of the types of actors who are rooted in the cross-over between the economic and political spheres (such as large corporations). It would also draw attention to the transformations of both the economy and the polity made possible by the introduction of a separation between economic arrangements (such as the division of labour in commercial society) and the arrangements involving the assignment of rights in the polity (such as the assignment of one or another mode of ownership to individuals or groups). One institutional and policy conclusion that emerges from Milbank's paper is the importance of intermediate levels of aggregation and the concomitant role of intermediate institutions in pluralising spheres of policymaking.

The following paper by Ivano Cardinale ('Conflicts, Compromises, and the Economy') examines how the constitution of political economies provides a heuristic of the relationship between conflict and compromise between different groups of stakeholders in a polity. This paper argues that, in a dynamic constitution, neither the affiliations of stakeholders into groups nor their objectives or their relative positions with respect to one another can be taken for granted. This means that political economy must explicitly ask the question of what aggregations are dominant in each setting. This approach sheds new light on the relationship between particular and systemic (i.e., 'political') objectives: objectives that are particular under a given pattern of aggregation (e.g., for corporations within a nation state) may become systemic under a different pattern of aggregation (e.g., for corporations interacting with one another at the level of the world economy). Accordingly, the relationship between conflict and compromise should be addressed by looking into the possibility that different groups may be able to identify one or more systemic conditions they could see as a prerequisite for attaining their own objectives. These conditions may suggest boundaries to the striving for objectives and thereby make compromise possible.

The relationship between markets and states is also central in the paper by Craig Muldrew on ‘The Nation State and the Challenge of Global Political Economy’. This paper discusses the historical cleavage between expanding markets and the political sphere by taking a long-term perspective ranging from the early modern period to the recent decades. At the core of the paper is the idea that the state, as a coherent political organisation, developed not only in Europe but also outside of it, as in China, as a means of providing employment and necessities to its subjects and citizens. This foundational characteristic brings to light a tension between the state as a territorially based polity and its ability to adapt to the interdependencies generated by global markets in trade and labour. In Muldrew’s view, this tension explains why the early-modern connection between the nation state and welfare provision (a connection revived after World War Two during the decades of ‘Keynesian’ employment policies) became less sustainable with the global expansion of markets in the world economy. Welfare gains and losses are increasingly induced by market globalisation, while welfare provisions remain within national boundaries. This situation emphasises the need for enhanced connectivity between the economic and political spheres that could allow political economy to expand welfare provision beyond the nation state.

Martin Daunton, in his paper, ‘Meso-Economics: Thinking about the Origins of Welfare State’, considers the role of intermediate levels of aggregation (the ‘meso’ levels) as key for explaining the varieties of taxation and welfare provisions across economic systems, and the shift from one welfare model to another across time. This paper examines a variety of issues for which a theoretical framework addressing the constitution of each political economy as a multi-layered network of intermediate patterns of affiliation may explain similarities and differences between the structure of welfare models adopted in different countries and their transformations. In relation to the United Kingdom, Daunton considers the contrasting shift from local to central taxation, and from taxation-based to insurance-based pension schemes. The British case is taken as a benchmark for comparison with the German and U.S. cases, in which the preference for one or the other welfare model (such as social insurance, loan associations and employer-operated welfare schemes) can be explained in terms of differences between the interests of intermediate groups, the relative weight of those groups and their different attitudes to central state action.

The following paper is by Roberto Cardinale on ‘Origins and Implications of the Divergences between Economic Structures and Policy Approaches: Insights from the UK and the US Natural Gas Sectors’. This paper addresses the way in which the outcomes of policy measures may depend on the timing of policy measures and the beliefs of policymakers rather than being determined by strictly economic considerations. A central point of this paper is that policy beliefs and timing may significantly distort policy actions, making them inattentive to the opportunities and constraints arising from existing structures and sometimes leading to negative unintended outcomes. In this light, the paper compares the different approaches to gas market liberalisation that the United Kingdom and the United States followed in recent decades and highlights that, despite broadly similar objectives, the energy policy in the two countries followed different strategies and time trajectories, which eventually led to different policy outcomes.

The United Kingdom started to liberalise the natural gas market at a time when large North Sea reserves had been discovered and were being exploited. The United States liberalised the natural gas market to allow the use of unexploited resources whose utilisation had been hindered by price caps. This policy led to a very considerable increase in U.S. domestic gas production, largely due to the introduction of fracking techniques and the expansion of shale gas production. The two countries followed an apparently similar policy framework (natural gas market liberalisation) but applied it along different time trajectories and using different policy instruments. The outcome has been that the United States achieved virtual energy self-sufficiency while becoming sheltered from fluctuations on international markets, while the United Kingdom shifted, with the reduction of North Sea gas reserves, from a condition of domestic abundance to one of domestic scarcity that left her exposed to the price fluctuations on international markets and led to the huge price increase of recent years.

The final paper, ‘Embeddedness, Policy Making and the Dynamic Constitution: Which Ways Ahead?’ by Adrian Pabst and Roberto Scazzieri, addresses—from the above ‘constitutionalist’ perspective—the relationship between partial and systemic objectives, and the paths to collective action that the constitution of each political economy suggests. This paper explores collective actions under the conditions of mutual embeddedness of the economic and political spheres and emphasises that the character of that embeddedness is likely to change due to the transformations in either the economic or the political sphere, or both. The paper argues that the mode of embeddedness is fundamentally shaped by the type of aggregation that gives rise to the prevailing social units in the economy and the polity under consideration. This highlights the possibility of multiple forms of aggregation and interdependence, which suggests that ‘states’ and ‘markets’ should be considered as instances of a much larger range of possible social units and patterns of connectivity. As a result, policymaking is situated within a space of collective action that is much wider than that associated with states or markets, or with combinations of them. In turn, this emphasises the importance of social connectivity in which both institutions and policymaking are embedded.