


An abstract painting with a textured surface, featuring various shades of blue, green, and orange. The brushstrokes are visible, creating a sense of depth and movement. The colors are layered, with some areas appearing more saturated than others.

The Constitution of Political Economy

Polity, Society and the Commonweal

Adrian Pabst and Roberto Scazzieri



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The two dominant conceptions of political economy are based on either reducing political decisions to rational-choice reasoning or, conversely, reducing economic structures and phenomena to the realm of politics. In this book, Adrian Pabst and Roberto Scazzieri contend that neither conception is convincing and they argue for a fundamental rethinking of political economy. Developing a new approach at the interface of economic theory and political thought, the book shows that political economy covers a plurality of dimensions, which reflect internal hierarchies and multiple relationships within the economic and political sphere. *The Constitution of Political Economy* presents a new, richer conception of political economy that draws on a range of thinkers from the history of political economy, recognising the complex embedding of the economy and the polity in society. Effective policy-making has to reflect this embedding and rests on the interdependence between local, national, and international actors to address multiple systemic crises.

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Preface

This book develops a new conception of political economy at the interface of economic theory and political thought. Our argument is that political economy covers a plurality of dimensions, which reflect the internal hierarchies and multiple relationships within the economic and the political sphere. We theorise political economy as the interdependence between these two spheres that rests on the web of social relationships in which both are embedded. Policy-making depends on recognising the complex interactions of the economy, the polity, and society.

An overarching theory is needed not only to conceptualise the nature of systemic crises such as pandemics, climate change disruptions, arms races, and struggles for resources facing the world today but also to help design effective policy responses. There are plural and interdependent domains involved in policy-making, which highlight the key role of coordination between local, national, and international actors as a necessary condition to reduce the vulnerability and enhance the resilience of humankind.

The theory of political economy developed in this book considers the economy and the polity as twin spheres arising from the constitution of society in its relatively persistent structure. The economic system and the ‘body politic’ are closely intertwined within each political economy, which is in turn a sphere whose ‘constitution’ is identified by specific proportions and an admissible range of transformations. A *constitutional heuristic* is therefore necessary to understand the interplay of persistence and change and to assess the feasibility of policy actions in any given context.

The intellectual strands underpinning our argument are manifold, but two traditions turn out to be central. The constitutional tradition in political theory is a major source of inspiration with its emphasis on the *lex supra regem* principle, which draws attention to the political order of society as a relatively invariant condition independent

of the contingent acts of will of a sovereign authority. The structural tradition in economic theory is the other key influence behind our conception of political economy. This tradition emphasizes forms of interrelatedness between economic activities that derive from human actions but not necessarily from human design. Our book combines these two traditions in a unifying framework based on the relative invariance of certain relationships relative to others, and on the ‘order of motion’ that policy actions should follow under given constitutions of the economy and the polity.

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Introduction

Rethinking Political Economy

The Complex Identity of Political Economy

What is political economy? Contemporary conceptions tend to divide it into separate spheres such as individual actors in an idealised marketplace or the state as an internally undifferentiated actor. In reality, both the economy and the polity are constituted by multiple and overlapping levels of interdependence between actors across the economic and the political sphere. As a result, political economy is a complex object with both static and dynamic characteristics. Its constitution derives from the relationship between two spheres that are distinctly structured and yet are mutually dependent. This means that political economy is subject to mutual constraints generated within the economic and political spheres, and to the mutual influence of sources of change arising within either sphere.

The constitution of political economy is the focus of this book, which builds on both economic and political thought to develop a theory of the relationships between the economic and the political body. Our emphasis is on the body politic considered as a sphere constituted by political actions and agents, which fit some collective condition or purpose that would at a minimum include the (relative) persistence of the body politic itself. Similarly, we consider the economic body as a sphere constituted by economic actions and agents, which fit some systemic condition for material sustenance and welfare that would at a minimum ensure the (relative) resilience of an organized economic sphere.¹

¹ This approach reflects the view of both the economy and the polity as instances of ‘organized complexity’ (Weaver, 1948; Simon, 1962; Scazzieri, 2021), such that both the economic and political spheres rest on a complex network of interdependencies open to a variety of configurations but subject to systemic conditions of viability and persistence.

Economic and political thinking originally emphasised the dispositional activity connected with governance of the household or of the state but eventually gave way to the consideration of relationships between mutually dependent yet partially autonomous activities, as in the Renaissance literature on civil life.² This duality between the dispositional activity of a single individual (or sovereign body) and the relational activities carried out by a plurality of actors in the pursuit of mutually compatible or complementary objectives has remained central to political economy both as an object of investigation and as a field of study.

A consequence of this complex identity is that the long-term historical evolution of political economy shows shifts between a focus on dispositional activities (such as allocation of capabilities or resources) and a focus on material and social interdependencies. This dynamic often makes it difficult to identify the underlying unity of political economy, even if the recurrence of those two perspectives is by itself an indication of the intertwining of actions and structures at its core. The divide between the two opposed conceptions of political economy mentioned above has its roots in reductionist theoretical developments that, both in economic and in political theory, have failed to address the embeddedness and mutual shaping of dispositions and structures at multiple levels of aggregation in the economy and the polity.

The purpose of this book is to develop a new theoretical framework that avoids both types of reductionism by bringing to light the close integration between human dispositions and socioeconomic interdependencies. In our view, avoiding reductionism allows a better understanding of the way in which a given society meets economic needs through principles of direct or indirect governance, that is, how economics meets politics in a given context. In particular, this approach draws attention to the fact that dispositions and structures shape each other at multiple different levels. For example, the pattern of interdependence (say, the pattern of division of labour) at a certain level of aggregation may be the generative mechanism of dispositions that may in turn trigger a certain political arrangement (say, a certain mode of

² This conception is expressed in Justus Lipsius's definition of civil life as 'what we conduct in the society of human beings to the purpose of common benefit and utility' (Lipsius, 1596, p. 1, as quoted in [Ornaghi, 1984](#), p. 71; see [Chapter 5](#) of the present book).

conciliation of conflicting interests). On the other hand, a different level of aggregation may generate dispositions (and modes of conciliation of interests) that are incompatible with a certain pattern of material interdependence and may trigger a structural dynamic moving the economy from one pattern of division of labour to another.

Beyond the Boundaries of Economics and Politics

This book outlines a theory of political economy that moves beyond the boundaries of economics and politics. Our analysis starts from the observation that contemporary political economy as a field of study and as an object of investigation is divided in two ways: first, the disciplinary divide between economics and political science and, second, a separation between the economic and the political domain that obscures their multiple levels of interdependence. This double division is not merely theoretical but translates into serious shortcomings in policy-making from an economic or from a political perspective, including an excessively short-term outlook, policy and institutional unpredictability as well as the exclusive promotion of sectional interests to the detriment of the ‘systemic interest’ of the commonweal. As a result, policy makers lack the conceptual tools to understand or tackle systemic challenges within and across regions, nations, and the international community.

By contrast with these dualisms, we argue that the mutual embedding of the economic and political domains suggests a new definition of both domains in terms of multiple and interrelated levels of agency. As a result, the political domain is not limited to a purely ‘contractualist’ sphere of formal rules and agreements but encompasses a ‘constitutionalist’ perspective: whereas the former considers how prior interests vie with one another through conflict or compromise, the latter shifts the emphasis to objectives subject to a systemic condition, which gives shape to the interests of different actors. Similarly, the economic domain is not reducible to the micro level of the individual household or to the macro level of the sovereign state but rather is constituted by the relatively persistent relational patterns established at multiple levels of aggregation within a community of actors engaged in division of labour and exchange.

The theory of political economy developed in this book brings to light the fundamental architecture of the economic and political spheres, that

is, the relatively invariant structures determining the ‘orderliness’ (constitutional identity) of either domain. Accordingly, politics cannot be equated with coercive power and the struggle for influence. Rather, the economic features of politics call attention to the complementarities, constraints and possibilities that shape both conflict and cooperation. Likewise, the economy cannot be conceived purely as a collection of rational and self-interested actors interacting with one another under resource constraints on individual opportunities and choices. Instead, the political features of the economy highlight systemic conditions that constrain and orient the division of labour and exchange in the polity if material and social resilience is to be achieved.

Outline of the Book

The argument of this book is developed in a sequence of steps. [Part I](#) (‘Interdependence and the Economic Constitution’) discusses the current state of political economy and develops a theory of interdependence based on social dispositions, technical complementarities, and modes of association. [Chapter 1](#) (‘Political Economy in Question’) argues for the need to move beyond the duality between micro and macro approaches by focusing on the intermediate units of analysis (such as professional groups, unions, or industrial sectors) that provide the building blocks of an organized economic-political system. The chapter conceptualises political economy as a system of multi-layered interdependencies between a plurality of actors. Against this background, the arrangement of actors’ relative positions is subject to constraints, opportunities, and affordances that identify what can be described as the ‘constitution’ of a political economy. This is defined as a relatively stable constellation of relative positions, which includes the relative positional changes that are feasible in a given system without modifying its fundamental identity.

This chapter contrast this ‘constitutionalist’ conception of political economy with the ‘contractualist’ view of a deliberate formal arrangement between actors. The chapter also maintains that the constitutionalist approach, by emphasising the context-embeddedness of different actors, provides a bridge between actors’ dispositional activities aimed at the provision of needs in a means-ends framework, and the material and social interdependencies that provide a structure to the dispositions and actions of the actors themselves.

Chapter 2 ('Sociability and Interdependence') examines interdependence as both a necessary condition and a consequence of sociability. The latter is a condition of relationality which develops dynamically through a complex interplay between dispositions, actions, and their consequences. Mutual needs (the needs of human beings for one another) give rise to mutual dependencies, from the most elementary relations within the nuclear family to the complex patterns of division of labour in society. On the other hand, mutual dependencies give rise to social dispositions, which induce human beings to rely on one another (or to be opposed to one another) for the satisfaction of their own needs. This chapter considers the reciprocal structuring of interdependence and sociability as the starting point for a theory of social congruence. The continuum between different spheres of mutual needs (from elementary needs to needs of increasing complexity) explains *both* the emergence of distinct affiliations and the likelihood of multiple affiliations for the same individuals or groups.

In particular, the chapter distinguishes between two different approaches to social congruence: the 'analytic' mode and the 'genetic' mode. This distinction can be traced to the work of the seventeenth-century English philosopher Richard Cumberland, according to whom the analytic and the genetic approach entail, respectively, the identification of a general (and fundamental) proportionality condition for congruence, and the reconstruction of the historical process by which a given society ends up with a particular pattern of group affiliations. Cumberland's distinction suggests a way to reconcile the approach to social congruence as the pursuit of an idealized 'perfect republic' (as with the Neapolitan Enlightenment philosopher Paolo Mattia Doria) and its view as an evolutionary process taking shape through history along a plurality of routes (as with David Hume, Adam Smith, and other authors of the Scottish Enlightenment).

In other words, the analytic *versus* genetic distinction emphasises a complementarity between the proportionality conditions for the mutual fitting of dispositions and actions, on the one hand, and the multiple routes by which these conditions can be met depending on context and historical trajectory, on the other hand. The duality between analytical conditions and contexts also allows the identification of the plural ways in which the partial interests of individuals and groups can be accommodated with the proportionality conditions expressing the systemic interest of the political economy as a whole.

Chapter 3 ('Association and the Division of Labour') builds on Adam Smith's theory of division of labour as the mutual fitting of specialised human actions and develops that theory integrating the conditions for the complementarity of specialised technical abilities with the scale requirements arising from the different sizes and capacities of human actors and mechanical tools. This chapter examines the relationship between division of labour and modes of association along the three fundamental dimensions of capabilities, tasks, and materials-in-process. The three dimensions entail distinct association criteria that must eventually find a degree of mutual fitting. Capabilities must combine in executing different tasks (or range of tasks) to deliver a given product or service (or range therefrom). Tasks must 'recognize' one another in the sense of being matching components within the same broad platform of technical operations. The flows of materials-in-process must be satisfactorily synchronized so that the delivery of a certain output at a certain time matches in timing and quantity the need for that output by other processes.

Capabilities, tasks, and materials require modes of coordination eventually integrated with one another within a 'production regime' that entails a network of capabilities, tasks, and materials spanning different levels of aggregation in society. The chapter also analyses the relationship between networks in the production sphere and modes of association of individuals and groups in the social sphere, and it concludes examining ways in which changes of production regime may presuppose and/or induce changes in the social structures of the political economy.

Chapter 4 ('The Constitution of the Economy') develops the conceptual framework of the previous chapters of **Part I** into a theory of the economic constitution. This chapter argues that the arrangement of economic activities in a society based on division of labour between specialized agents and groups leads to the introduction of interdependencies governed by a principle of relative invariance. This means that the complementarities between activities must be supported by a core set of persistent relationships providing a degree of stability to division of labour beyond the changes that may take place in the modes of coordination between capabilities, tasks, and materials. This material and social infrastructure generates the 'constitution' of a given economy and provides the framework within which patterns of coordination between capabilities, tasks, and materials can change resulting

into different schemes of division of labour and sometimes into different production regimes.

This chapter develops a theory of the economic constitution that allows alternative mappings of interdependence between social groups to be compatible with a given fundamental pattern of division of labour. A preliminary step is to identify whether the dominant social infrastructure derives from capabilities, tasks, or materials. A second step is to consider what is the dominant pattern of aggregation for different capabilities, tasks, and materials. A third step is to recognize the dominant constellation of interests in view of the two previous steps. The chapter discusses alternative patterns of complementarity or cleavage depending on whether division of labour is centred on capabilities, tasks, or materials, and on what scheme of aggregation is the dominant one.

A constitutional taxonomy based on the dual distinction between hierarchical *versus* non-hierarchical, and closed *versus* open modes of association leads to the view of the economy as a ‘constituted body’, in which the relative invariance of certain relative positions allows the feasibility of certain types of transformation while excluding others. Finally, this chapter discusses the constitutional framing of economic policy and suggests that a constitutional heuristic is needed to determine which policy objectives and policy instruments are compatible with the existing economic constitution, and which ones are only feasible provided the existing material and social infrastructure is changed.

Part II of the book (‘Political Spaces and Policy Actions’) moves to the consideration of the ‘body politic’ as a system of interdependencies between individual or collective actors reflecting the dominant pattern of division of labour and determining the character of political spaces as domains of complementary or conflicting interests subject to systemic constraints. This point of view is first developed in **Chapter 5** (‘A Political Economy of the Body Politic’), which starts with the conception of political life as based on the primacy of the relational opportunities, constraints, and affordances involved in social interdependence. This view of politics as inherently associated with the interpersonal embeddedness of human action (Hannah Arendt’s *vita activa*) leads to a constitutionalist view of the Body Politic, which is seen as reflecting the human disposition towards mutual recognition and interdependence rather than the mere pursuit of ‘influence’ through sheer political power or economic wealth.

The chapter develops this constitutionalist view of political life by exploring its links with a complex intellectual tradition which draws on Shaftesbury's and Doria's view of civil life as combination of mutually reinforcing capabilities ('virtues'); Montesquieu, Burke, and Tocqueville's reflections on the primacy of interpersonal association over the actions of individual actors or 'personalized' collective bodies; and Genovesi's conception of the civil economy as the 'political science of the economy and commerce'. This way of conceptualising politics is contrasted with politics as conflict over limited resources, and its development either through struggle or compromise and 'contract' (as in Machiavelli, Hobbes, Locke, and the *Federalist Papers*). On this premise, the chapter outlines a critique of contractualism in its dual expression of the primacy of the state over the economy and society and of the primacy of the economy over society and the polity.

The latter part of the chapter develops the constitutionalist perspective of politics first by exploring its roots in Shaftesbury, Doria, and Genovesi's conception of a 'rational image' of human capabilities and their complementarity in the polity, then by examining the 'evolutionary' approaches followed by Hume, Smith, Beccaria, and Filangieri in their endeavour to root dispositions and social structures in the path dependence followed by modes of association over time, and finally by considering the explorations by Montesquieu, Burke, and Tocqueville into the relationship between social structures and the constitutional development of each polity. This chapter concludes highlighting the openness of the constitutionalist perspective to the plurality of political spaces made possible by multiple layers of interdependence between social actors.

Chapter 6 ('Constellations of Interests and Institutional Architecture') explores the formation of interests in political spaces, the possible recognition of a systemic interest within those spaces, and the emergence of institutional architectures responding to the relative persistence of constellations of interests in a political space. This chapter examines the extent to which the institutional architecture of a polity at a given time is compatible with the existing, or emerging, pattern of division of labour between social groups, that is, with its economic constitution. Interdependencies and their evolution generate different political spaces in which partial interests can be expressed. In turn, this process may lead to alternative mappings of the systemic conditions

constraining the pursuit of interests in each political space. This chapter highlights the distinction between a conciliation of interests through compromise or conflict (a scenario close to the contractualist point of view), and a conciliation of interests through the pursuit of partial interests under a systemic constraint (a scenario close to the constitutionalist point of view).

The following analysis in the chapter turns to a discussion of alternative identifications of systemic constraint depending on (i) the dominant pattern of interdependence between social actors, and (ii) the prevailing mapping of interdependence by those actors in a given context. This discussion leads to considering institutional architectures as focal points determining both the patterns of compromise or conflict and the type of systemic interest that may be identified under given conditions. Social dispositions and patterns of interdependence, which are at the origin of institutional architectures, may also be the source of a mismatch between interdependencies and their mapping by social actors. This point introduces the discussion of institutional change as a process influenced by the mutual structuring of changes in the division of labour and changes in actors' dispositions and mapping of interests. Policy-making is a privileged interface between economic interdependencies and political spaces.

Chapter 7 ('Policy Actions in an Embedded Polity') develops a constitutional heuristic aimed at assessing the opportunities, constraints and inducement factors that generate certain policy objectives and policy trajectories while excluding others in a political economy. Our argument in this chapter is that policy actions are carried out at the interface between the economic and the political sphere. The internal structure ('constitution') of the economic body and of the body politic implies that certain policy actions may be compatible, say, with the economic constitution but not with the political constitution, or vice versa. This means that only policy actions compatible with *both* the economic and the political constitution can be carried out without changes in either. In other words, we need a constitutional heuristic as means to evaluate whether a given policy is feasible under the existing constitutional settlement or not.

This chapter outlines a set of policy principles derived from the constitutional framing of the economic and the political sphere developed in the previous chapters. This is done by emphasising that policy actions are designed and carried out in the light of complex patterns

of association (division of labour) in the economic sphere and of complex patterns of collective action in the political sphere. The patterns of division of labour and of collective action are not necessarily compatible with each other, and this brings to light the role of constitutional heuristic in evaluating which policy actions are feasible under the existing constitutions of the economic and the political body, and which ones cannot be implemented unless there is a change in either. This chapter then illustrates the above set of principles by examining industrial policy, credit policy, and international trade policy as domains in which the constitution of each political economy makes certain policy actions feasible and others unfeasible under given circumstances. The chapter concludes with a discussion of the conditions for embedded policy making in a political economy facing systemic challenges that may require constitutional changes in the economic or in the political sphere, or in both.

Chapter 8 ('Conclusion') considers possible lines of further research suggested by this book's emphasis on the economic embedding of political activity and the political embedding of economic activity. The distinction between constitutional architectures in the economic and the political sphere may provide a heuristic into the dynamic trajectories open to a political economy and to the policy actions likely to take place within it. Our argument is that constitutional principles entail that persistence and change are closely intertwined: a degree of persistence ensures the identity and stability of a political economy, while openness to transformation is necessary to allow resilience vis-à-vis shocks and adjustment to societal change.

PART I

*Interdependence and the
Economic Constitution*

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