lenge the market exchange economy are very much on the political agenda of globalization and governance in the early twentieth century. Understanding the complex political economic dynamic involved and placing it in general economic history by means of a comparative institutional analysis is very much a work in progress. But as he similarly observed of Aristotle, Polanyi has left economic sociology with some very powerful pointers as to its scope, method and significance.

See also: economic action; embeddedness; economic sociology; exchange; institutional economics, old and new; institutionalism; markets, sociology of; Veblen.

References and further reading


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POLITICAL ECONOMY

In the history of economic thought, the field of political economy is usually associated with such classics as Adam Smith and Karl Marx, and is seen as having been challenged by the marginalist revolution, which brought an increasing division of labour between the disciplines of economics, sociology and political science. Yet the relationships between politics and the economy, and more generally the effects of non-market institutions on the operation of markets, have continued to be the object of study by scholars not fully satisfied with existing neoclassical models of the economy. The most prominent contribution in this perspective was Karl Polanyi’s analysis of the relationships between markets, states and social institutions. But his ideas remained long isolated. It was not until the 1970s, when inflation, stagnation and unemployment brought the long period of sustained growth of advanced economies to a stop, that a ‘new political economy’ was born, mainly to account comparatively for such phenomena by bringing non-market institutions back into the picture.

As several authors have noticed, however (e.g. Hall 1997), two very different views of the political economy developed, which started from different assumptions and aimed at different goals. The first view has been mainly developed by economists who sought to apply economic theories and methods outside the traditional realm of economics. Unlike most mainstream economists, these authors are interested in institutions and in examining institutional phenomena. But they hold a functionalist view of institutions, that are seen as being created to the extent that they serve economic needs (Williamson 1985). Theories of the ‘political–business cycle’ have been developed along these lines, as has the more sophisticated new economics of organization and, more generally, most recent attempts by economists to incorporate the role of politics into their analyses.

The second view, by contrast, sets itself in open competition with mainstream economics ability to account for economic action and performance. These are in fact seen as shaped by (or embedded in) pre-existing institutions and other non-economic factors such as political interests or ideas. In this view, institutions are often seen as the outcome of path-dependent processes of historical development and not as simply a response to functional imperatives. The general assumption of the studies that share this view of political economy is that these institutions are responsible for the
overall regulatory framework of economic activities, which, by constraining or offering a range of alternative courses of action to economic actors, determines economic outcomes. Following the definition given by Lange and Regini in their book *State, Market and Social Regulation*, by ‘regulation’ of the economy we mean ‘the different modes by which the set of activities and/or relationships among actors, which pertain to the sphere of production and distribution of economic resources, is coordinated, the related resources allocated, and the related conflicts, whether real or potential, structured (that is, prevented or reconciled)’ (1989).

It should be rather obvious why this second view of the political economy is the most interesting for (and closest to) economic sociology. In fact, several authors in this field are economic sociologists, especially in Europe, whereas in the USA political scientists, together with non-mainstream economists, have often taken the lead.

At the macro level, three major types of institutions are traditionally seen, echoing Polanyi, as shaping actors’ economic preferences and determining aggregate economic performance: markets, the state and societal-associative institutions.

Markets incorporate exchange as the guiding principle of resource allocation. In the economists’ idealized market, exchanges are based on prices determined by the interaction of supply and demand under conditions of competition; such competition is highly dispersed and is not influenced by normative linkages or the exercise of power and authority. An example of this idealized formulation is the assumption that the level of wages in an economy reflects the supply and demand for labour and the most efficient allocation of resources. As we know, however, this rarely occurs in reality. Normative factors or authority relations ‘distort’ the determination of prices and the destination of resources. In addition, the functioning of the free market itself is made possible by pre-existing norms that are generally ignored in the neoclassical market models.

For these reasons, political economists systematically look at the role of either state or societal institutions to understand economic outcomes and the very process through which actors form their economic preferences. The state can coordinate activities and allocate resources primarily through the exercise of its authority, which, in the last analysis, is based on its monopoly of legitimate coercion. In this case, regulative activity occurs primarily through the means of laws and administrative rulings that are binding on the actors involved. In democratic and complex societies, however, the state has found the exclusive use of authority ever less effective in the face of resistance from the individuals and groups whose activity it is seeking to regulate. In many areas, the success of its intervention depends increasingly on its ability also to use ‘political’ exchange and/or to call on shared values.

Shared values and collective identities, on the other hand, are the key underlying factors of communities, associations and social networks, that can be grouped together under the rubric of societal institutions. Where community institutions predominate, the coordination of activities and allocation of resources take place primarily through forms of spontaneous solidarity. This can be rooted in norms, habits or values shared by the members of the community and is based on respect and trust, or simply on identification with the community and thus its rules and hierarchy. An increasing range of economic activities, however, appear to be regulated by large interest associations rather than traditional communities. These associations often have a monopoly of representation of functional interests and a high level of disruptive power, and, as a result, are able to obtain privileged recognition from other associ-
ations and political authorities (Streeck and Schmitter 1985).

Both state and societal-associative institutions may be shown to be responsible for economic outcomes in different policy areas: e.g. the educational and vocational training system, central banks, industrial relations institutions, etc. Much research in the field of political economy has focused on the precise roles of each of them. Yet, in more general terms, the questions underlying most analyses are the same, as they concern the extent of change over time and variation across countries. Has there been a shift in the boundaries and balance between state, market and various social institutions in the creation and maintenance of social order? And how do the roles of these institutions in the coordination of economic activities and the management of conflicts vary cross-nationally?

Over time, different streams within the political economy literature have focused on one or the other among these sets of institutions to explain changes and variation in economic policy and performance across countries.

In the late 1960s and 1970s, the main focus was on the role of state institutions that, by adopting Keynesian policies, made for a universal expansion of welfare expenditures. Political economists proposed a re-reading of the adoption of Keynesian policies and of the development of the welfare state not as two separate phenomena stemming from particular techniques of government, but as essential components of a model of economic regulation which may be termed ‘concerted and centralized political regulation’ (Regini 1995). From this point of view, the state decisively changed its role in the economic system when, besides the traditional functions, it came to assume two further and crucial ones. The first of them we may call ‘control of the economic cycle and of crises’, the aim being to stabilize the cyclical trend of economic development caused by a lack of overall coordination, thereby avoiding repetition of the disastrous crises that have marked such development and their consequences: the destruction of socially accumulated wealth and social revolt. This was the manifest objective of Keynesian doctrines and of the various public policies they inspired. The second function we may call the ‘control of consensus’: that is, the securing of mass consensus for the economic and political systems of the advanced capitalist democracies, mainly through the diffusion of social services and the guarantee of full employment, i.e. through the welfare state in its most fully developed form. After the Second World War, this particular compromise between state and market spread, albeit to varying extents, to almost all the western countries – not just because it was an instrument with which to coordinate the economy and to avert cyclical crises, but because the governing elites saw it as the most reliable means with which to secure the consensus of the subordinate classes. In other words, the need to stabilize the economic cycle is not enough to explain the enormous growth of public intervention in the economy after the Second World War. Keynesian policies also proved a valuable instrument – justified on the basis of economic goals – with which to satisfy a specifically political requirement of the democracies reborn or revitalized after the war: namely, that of winning mass consensus for the new regimes.

The growth of the Keynesian welfare state brought with it a number of unintended and to some extent perverse effects; effects which were responsible for the crisis in this mode of regulating the economy which started in the late 1970s and which also produced diverse attempts to cope with it. One major attempt to deal with the dramatic worsening of economic performance in advanced democracies was tripartite concertation. Within the broader field of political economy, it was now the turn of neo-corporatist literature to draw
the attention of scholars and policy-makers alike to the role of interest associations in the regulation of their economies – the primary preoccupations being with such aggregate indicators as the level of inflation and unemployment. The economic crisis acted as a powerful stimulus for governments to seek the support of the large interest organizations by having them participate in economic policy-making. Two purposes were served by this strategy. First, the elites could compensate for the legitimacy they had lost as the authorities responsible for the country’s economic performance with the legitimation offered them by the major social interests. Second, they could utilize these organizations as a key instrument with which to combat the economic crisis, if they were willing to direct the variables under their control (wage dynamics, investment decisions, etc.) towards this common goal or general interest.

In the 1960s, the attention of analysts had been drawn to the state’s increasing intervention in the economic system; that is, to its intervention in a sphere of activities previously almost entirely dominated by the market. However, it was only towards the mid 1970s that the full importance was grasped of what was, in a certain sense, the phenomenon in reverse – the other side of the coin, so to speak: the reduction of the state and of its economic resources (public spending) to a market, to a system of exchanges among organized social groups. More generally, the realization grew that public intervention in the economy, and the partial restriction of the market’s sphere of influence that this entailed, came about less through the use of the bureaucratic structures of the traditional state than through forms of exchange, of institutionalized bargaining between governments and the large interest organizations. Further developments of the original neo-corporatist theory occurred during the late 1980s, adding such other institutions as central banks and a variety of features of the organization of the political economy to the overall picture.

By the mid 1980s, the various streams of literature inspired by a political economy approach reached their peak, while at the same time showing their main shortcoming: their almost exclusive focus on the macroeconomic level of regulation, whereas adjustment to international competition was increasingly taking place at the company-level and/or at the sub-national territorial level. It was here that different post-Fordist systems of production challenged the long-recognized superiority of Fordism, with inevitable repercussions on the functioning of institutions at the macroeconomic level. A new type of political economy was slowly developed, in which the relevant institutions were less and less the national state and the peak interest associations, whereas an increasing role was played by local political institutions and even more by societal institutions based on trust, social capital and the like (Piore and Sabel 1984). The redirection of attention to the social conditions of the different patterns of production, and more generally to the logic of action of different types of firm, gave rise to a new literature on local systems of production.

However, this shift of the analytical focus towards the local level did not solve the theoretical problem of giving the different macro-outcomes a micro-foundation in the behaviour of the key economic actors. A recent and systematic attempt in this direction is the literature on the varieties of capitalism (see capitalism, varieties of), which has concentrated on the theoretical problem to explain cross-national differences in economic policies and performance, and which is today the most promising venue within the political economy field. The typology that best captures the aspects of divergence considered crucial to the ways in which advanced economies are regulated – and which also puts forward
an embryonic theory of ‘institutional complementarities’ – is the one originally proposed by Soskice and later developed by Hall and Soskice (2001). They distinguished between the ‘coordinated market economies’ (like those of Germany or the Scandinavian countries) and the ‘liberal market economies’ (like the Anglo-Saxon ones). The core of the distinction goes back to differences in the capacity of employers to coordinate among themselves in order to create the conditions that can both secure wage restraint and encourage firm-based innovation and adaptation to rapidly changing markets.

This literature displays two key advantages, two sources of superiority over the neo-corporatist one, that has long dominated the political economy field. First, by focusing on the key concept and the key role of employers’ coordination, it brings firms to the centre of the analysis and makes employers, rather than trade unions or governments, the key actors in a political economy – as they have undoubtedly become at least after the crisis of the Keynesian class compromise. Second, by conceiving of institutions as sets of rules that do not directly determine economic outcomes but rather shape the behaviour of key economic actors, it links macro- with micro-analysis. What emerges is a picture in which different institutional configurations generate firm strategies based on differences in comparative institutional advantage.

The two major missing variables in this literature, however, are culture and power. Such varieties of capitalism as the Japanese, for instance, cannot be fully understood without proper reference to the specific national culture. As to the power variable, institutional arrangements are the product of conflict and must periodically be reaffirmed or renegotiated, while the varieties of capitalism literature takes them for granted. As Thelen shows in her paper at the SASE 14th Annual Meeting, ‘The Political Economy of Business and Labour in the Developed Democracies’,

the view of institutions shared by many scholars in this type of literature has a distinctly utilitarian cast, and emphasizes how institutions solve various collective action problems in ways that redound to the benefit of all – in this case, of all firms. It is, in other words, close to the other meaning of political economy cited at the outset and developed by economists. What is obscured, however, in characterizations of institutions based on their functional or efficiency effects are the questions of power and political conflict that drove the development of these institutions in the first place, and the political settlement on which they are premised.

(2002)

These two shortcomings may explain why two other strands of political economy literature have flourished, that pay greater attention to the role of either political interests or ideas than to the role of institutions, although this should be the key factor in any political economy studies. Interest-based approaches to political economy focus especially on ‘producer group coalitions’. They call on the ways in which the material interests of producer groups, as well as coalitions among them, change, to account for economic policy processes and outcomes. Ideas-oriented approaches to political economy, on the other hand, emphasize the importance of cultural variables to economic performance. This is because ideas about ‘best practices’ dominant in professional communities strongly influence both firm strategies and government policies.

As has been noticed, ‘some of the most exciting conceptual developments in the field [of comparative political economy] today are taking place at the boundaries of the institutional approach, where it interfaces with interest-based or ideas-oriented
work’ (Hall 1997). The future of the political economy perspective, and especially of a closer integration with the new economic sociology approach, may lie precisely here.

References and further reading


MARIO REGINI

POST-INDUSTRIALISM

Mid twentieth-century sociology was substantially composed of analyses of industrial society and its emergence. Major elements were the growth of employment in manufacturing industry, urbanization and a model of family life built around the ideal of a male breadwinner. The analysis was heavily influenced by Marx, so classes and class conflict were central in the relevant theory. On one side were capitalists controlling ever larger enterprises and, on the other, male manual workers. By the second half of the century economic and social change indicated the emergence of something different. ‘Post-industrialism’ was conceived to characterize that emergent social form. Two main versions of the idea of post-industrialism were developed, one North American and one European.

Daniel Bell was the most important contributor to the development of the North American version. He identified five emergent trends: (1) an increase in service employment as a percentage of total employment; (2) an increase in the share of professional and technical employment; (3) a more central role for theoretical knowledge in policy formulation (of which applied Keynesian economics was an example); (4) technological forecasting and planning by firms and government; (5) the development and use in decision-making of an ‘intellectual technology’ built around computers and quantitative methods. Subsequently, he modified this listing. Planning was dropped and both the economic independence of women and the emergence of leisure as a problem were added. Each iteration, however, constituted a self-conscious attempt to break radically with analyses in which social classes and class conflict were the major source of change.

For Bell, increased white-collar and female employment undermined trade unions, while rising education levels combined with the increasing knowledge-content of jobs, increased the attractiveness of professional organizations. The bases of conflict were shifting from the ownership or non-ownership of capital, emphasized by Marxists, to the possession or lack of knowledge. One form of this conflict would be increasing scepticism with respect to private corporations, as professionals brought their expertise to bear in evaluating corporate actions. The salience of knowledge meant that the core institutions of