

Dynamic Stagnation: Institutional Change as a Reflex of Declining Economic Growth

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Developed economies tend to face declining growth rates and stagnation. While stagnation would be rather associated with saturation and institutional stability, there is evidence for increasing dynamics and pressures for the marketization and economization of social spheres (e.g. the restructuring higher education systems according to market principles or the retrenchment of welfare systems). This constellation of institutional change (economization) and stagnation is causally linked and labeled as *dynamic stagnation*. It is explained by modeling the paradoxical operating mode of a capitalist economy (growth paradox): declining effective demand constitutes an inherent stagnation tendency (*growth brake*), but only growth allows avoiding increasing inequalities (*growth imperative*). Institutional change towards the marketization of social spheres previously organized outside the market is a reflex of attempts to maintain capitalism during low growth rates and stagnation. This type of institutional change then is less a product of economic growth, but of insufficient growth (*dynamic stagnation*).

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1. Introduction

The postwar political-economic reality as well as economic theorizing focused on economic growth. The known experiences of Japan and recent experiences of other Western economies gave rise to a breakthrough of a discourse on *secular stagnation* (Keen, 2014; Krugman, 2013; Lo & Rogoff, 2014; Summers, 2013, 2014), covering only a niche during the period of growth (Hansen, 1955; Scaperlanda, 1977; Zinn, 1989). From ecological perspectives, low growth is welcome. However, most economists, politicians and the general public are rather concerned about the social consequences of low growth. It seems that growth is keeping the capitalist system running. There is evidence of rising unemployment and rising inequality which can be related to too low growth rates (Bell & Blanchflower, 2009; OECD, 2011; Piketty, 2014).

At the same time, processes of institutional change of a particular type are at stake, broadly referred to as the economization or marketization of social spheres, which previously have been organized by non-market modes of interaction such the logic of state regulation, the professions, the family, religion, or the community (Thornton, Ocasio, & Lounsbury, 2012). Evidence for such type of institutional change is generated from different perspectives on different levels. For example, management research and organizational sociology has identified fundamental changes of whole private and public sectors. A world-wide trend discussed is the restructuring of public services according to principles of New Public Management (Ferlie, 1996; Lane, 2000). Research in the tradition of organizational institutionalism has asserted profound changes of professional organizations and shifts from professional and/or regulatory logics towards market logics for fields such as accounting, banking, finance, healthcare, and higher education (Brock, Powell, & Hinings, 1999; Lounsbury, 2002; Reihlen & Wenzlaff, 2014; Scott, Ruef, Mendel, & Caronna, 2000). Yet, turning higher education systems into

academic capitalism (Slaughter & Leslie, 1997) is a particular striking phenomena of marketization. Traditionally, (at least German) universities have been associated with slogans and concepts such as Humboldtian ideal, freedom and unity of teaching and learning, loneliness and freedom, autonomy, self-regulation of communities of scholars, or republic of science (Jaspers, 1959; Olsen, 2007; Polanyi, 1962; Schelsky, 1963; Scott, 2006). Today, higher education institutions are increasingly constructed as acting on competitive markets for students, staff, and funding. They are not only considered for New Public management and strategic management in order to achieve efficiency and competitive advantages; they are turned into “quasi-economic organizations” (Teixeira & Dill, 2011: xvi) stimulating innovation and growth through knowledge commercialization and job market oriented training. This idea is manifested in university models such as the entrepreneurial university (Clark, 1998), the triple helix (Etzkowitz, 2003), or the third generation university (Wissema, 2009) to name only few of an inflationary discourse on new university models.

The aim of this paper to link the two processes of stagnation and marketization by suggesting the theory of dynamic stagnation. The underlying hypothesis is very simple: assume full employment, prosperity, and balanced public budgets; governments would not perceive any pressure to restructure public services such as health care or higher education according to market principles. The idea of connecting institutional change to the decline of growth rates (stagnation) has rarely been addressed explicitly. Most economists would agree to perceive economy as an evolutionary process, associated with the complex of innovation, technological change, economic growth, and institutional change (Nelson, 2008). Accordingly, if innovations and growth disappear, economy turns into a steady state bringing the process of institutional change to an end.

This paper claims the paradoxical theorem that economic growth rather limits institutional change of marketization-type. Instead, stagnation increases the pressure for institutional

change as a valve for capitalism's growth imperative (Binswanger, 2012; Binswanger, 2009; Gordon & Rosenthal, 2003; Kimmich & Wenzlaff, 2013). Capitalism's tendency to stagnate, but requiring growth for a social equilibrium suggests the growth paradox. The growth paradox allows explaining the marketization of social spheres as a response to cope with stagnation and maintaining capitalism. This constellation is labeled as *dynamic stagnation*.

Without neglecting or challenging any grand theory of institutional change, I offer a theoretical explanation for a *specific type of institutional change* (economization) of a *specific period* (stagnating capitalist economies). The hypothesis of dynamic stagnation does not compete with, but is complementary to the existing grand theories of institutional change (Braudel, 1970; Bush, 1987; Campbell, 2004; North, 2005; Seo & Creed, 2002; Thornton et al., 2012).

The second chapter illustrates and debates the phenomena of stagnation and marketization in the first two sections. I conclude shortcomings in theorizing the problem of stagnation and connecting stagnation to the process of economization. Hence, the third section links the two processes and outlines the theory of dynamic stagnation. Since dynamic stagnation is dependent on a theory of the growth paradox – capitalist economies tend to stagnate but would need growth for a social equilibrium – the growth paradox will be derived in the third chapter. We get to the bottom by searching for the central institutions constituting capitalism and its inherent growth paradox by consulting rather heterodox literature on the monetary economy (Graziani, 2003; Heinsohn & Steiger, 2013; Riese, 2001; Riese, 2004; Rochon, 1999; Spahn, 1986). The last chapter concludes my analysis and points to some implications of the theory of dynamic stagnation for critical perspectives on capitalism.

2. Stagnation and Marketization

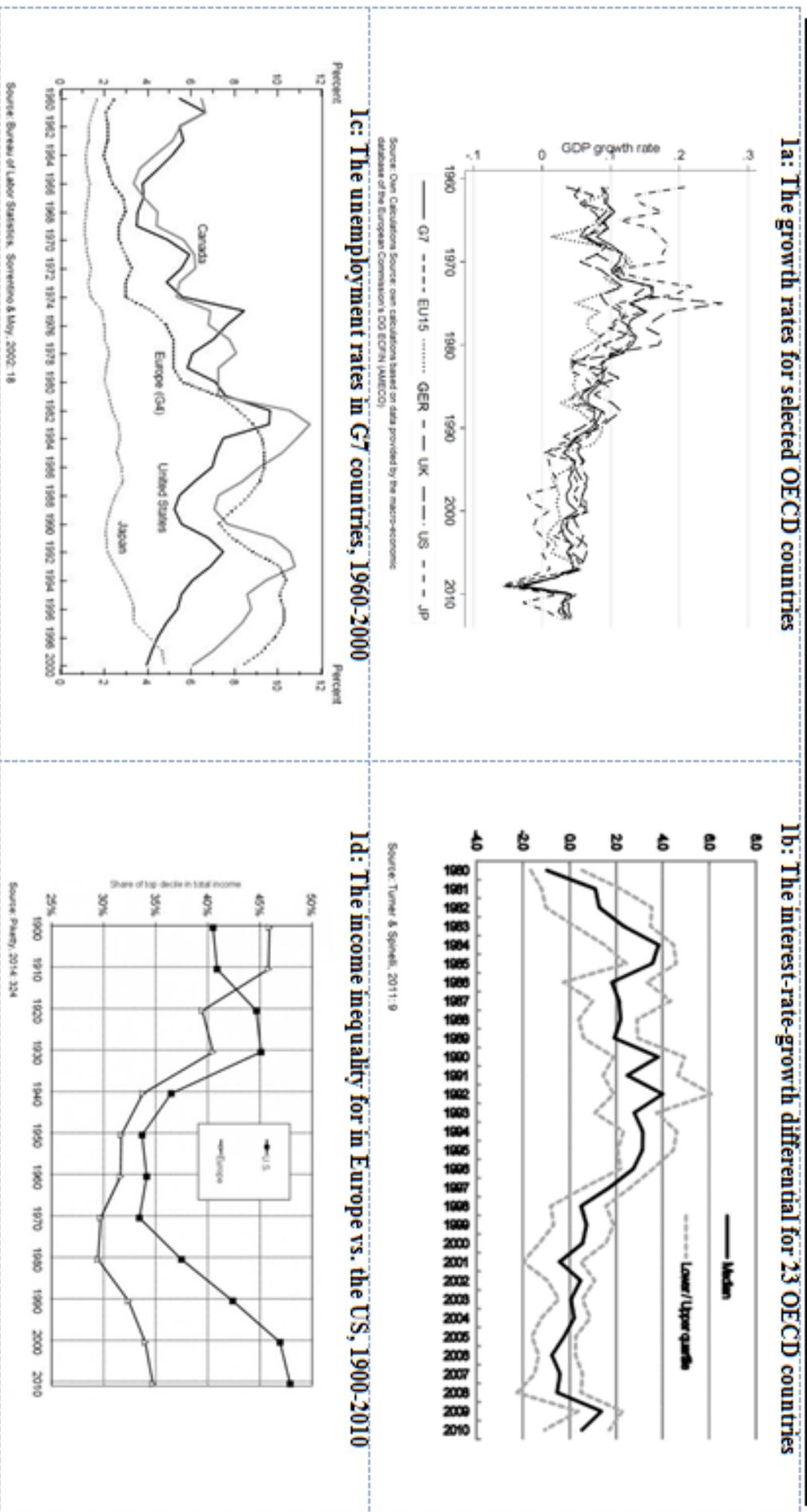
Stagnation

Figure 1 one illustrates developments of some key economic indicators, altogether speaking for a coming stagnation and stagnation as a serious problems for the economy. Public as well as academic discourses very often do not distinguish between *stationary or steady state* and *stagnation*. The difference is as follows: the steady state is rather a positive vision today many critics of economic growth embrace, while stagnation has a normative and negative connotation of an undesired state. In classical political economy, the stationary state was envisioned as a state of full employment at a zero interest and a zero growth rate, while stagnation is characterized by permanent, over-cyclical, involuntary unemployment (Kimmich & Wenzlaff, 2013; Spahn, 1986). One can hardly believe anymore that unemployment is only temporary according to rigidities and so on. Instead, unemployment is persistent and systemic (Arestis, Baddeley, & Sawyer, 2007; Stockhammer & Klär, 2008). Figure 1c illustrates the development of employment rates of G7.

Figure 1a shows declining growth rates, initiating a concern about how to manage low or non-growth economies (Victor & Rosenbluth, 2007). Low growth rates alone cannot pose a problem. Therefore, figure 1b relates the growth rate to the interest rate and illustrates that the differential of growth and interest rates initially has been positive, but turned negative in the 70s. Research around the golden rule of capital accumulation generally suggests that a macro-economic equilibrium does not allow the interest rate to exceed the growth rate (Allais, 1947, 1962; Kimmich & Wenzlaff, 2012; Phelps, 1961; Turner & Spinelli, 2011). Recently, Piketty (2014) is making a fuss about an awkward problem: if the interest rate (the capital income) exceeds the growth rate (the growth of whole income) income equality (or inequality in general) must rise. Figure 1d illustrates the rising inequality.

Figure 1

Indicators of Stagnation as an Economic Problem



There are various strategies of scholarly explaining and coping with stagnation. Stagnation has been related to the recent financial crisis (Palley, 2012), but also considered as a very likely scenario for developed economies (Duval & de la Maisonnette, 2010; Gordon, 2012). Explaining the “mysteries” (Galor, 2005) of growth and stagnation it is referred to technology change (innovation) (e.g. Krusell & Rios-Rull, 1996), resources, demographics, and institutions (Acemoglu, Johnson, & Robinson, 2005; Gregory & Stuart, 1985; Nelson & Sampat, 2001; North, 1990).

“Hardly any contemporary economist would have trouble ... about innovation being the key driving force in economic growth.” (Nelson, 2008: 265). However, there are only weak arguments why innovation in its broadest sense should slowdown. Some would refer to the scarcity of natural resources, which are a prime concern in the history of economic thinking. Ricardo has formalized the theory of rent in his corn model, initially developed in order to argue against the British import duties on corn in 1815 (“Corn Laws”). A domestic expansion of agriculture would result in lower productivity, lower wages and profits, but higher rent incomes of land owners, since less fertile and more distant land would be utilized.

Resource scarcity is particular relevant in the context of growing populations. Accordingly, Malthus (1998 [1798]: 4) suggested controlling for birth rates, since “the power of population is indefinitely greater than the power in the earth to produce subsistence for man.” The Malthusian pessimistic perspective has received some empirical confirmation (Ashraf & Galor, 2011). However, world population has sextupled since Malthus’ reasoning and there are counter-arguments. For example, Proudhon (Proudhon, 1888 [1846]) criticized Malthus and stated that population does not grow exogenously but emerges endogenously out of prosperity. Today, scholars of the West concern less for growing populations (since most Western societies rather shrink), but for aging populations in developed economies (Tuljapurkar, Ogawa, & Gauthier, 2010). Again, longer living is treated as an exogenous or independent

variable, rather than the product of being able to afford pension and healthcare systems (Bengtsson, 2010).

Coming back to the resources, growth theory often links growth to the availability of resources and consequently point to the limits to growth (Meadows, Meadows, Randers, & Behrens, 1972). On the other hand, there is evidence of the “curse of the resources” hindering development and growth (Sachs & Warner, 2001). The debate on underdevelopment and the curse of the resources is also linked to the institutional structure of the economies (Mehlum, Moene, & Torvik, 2006). Hence, the institutionalization of democracy, (intellectual) property rights and so on, may explain the variance in economic performance and growth between developed and under-developed nations. But all lines of reasoning I briefly introduced cannot convincingly explain why developed economies tend to stagnate. The following chapter attempts to offer such an explanation by developing the growth paradox.

Marketization of Social Life

Marketization is a modality of the more broad concept economization (Çalışkan & Callon, 2010). I do not attempt to explore economization and marketization theoretically, but use the terms as catch categories for a range of some empirical observations about the expansion of market principles.

Even if the reference to an age of hyper competition has become a truism (Chia, 1999), risky, unethical, or illegal behavior of firms, exemplified the Enron corruption scandal (Prentice, 2002), may reflect is intensification or perversion of existing markets. Intensification also results in product differentiation with a blurring boundary to the creation of new markets. Beyond the satisfaction of basic needs, consumption signals social status and reproduces social classes (Stiglitz, 2008; Veblen, 1899). Accordingly, scholars speak of an economy of persuasion (Alvesson, 2013; Hirsch, 1976; Skaperdas & Vaidya, 2012).

The process of interest here is the marketization of previously non-market spheres. This trend has been observed and analyzed for different sectors. For example, social welfare systems of developed economies are subject to austerity pressures and a reform dynamics, often resulting in retrenchments of public welfare production (Pierson, 2002). Economization of public spheres does not necessarily only mean surrendering public services to the market or family, but also indicates a changing way of providing services. The public administration discourse observes that the “public sector is increasingly adopting the methods and values of the market” (Eikenberry & Kluver, 2004: 132) and relates several problems to this trend such as negative impact on democracy and citizenship (Box, Marshall, Reed, & Reed, 2001; King & Stivers, 1998).

Marketization is not limited to the restructuring of public services, but effects also the existing nonprofit sector between state and market (Salamon, 1999). Social and nonprofit enterprises increasingly face competition from for-profit organizations and are under pressure to adopt elements of the market logic (Pache & Santos, 2013). Studies in this tradition of organizational institutionalism (Greenwood, Oliver, Sahlin, & Suddaby, 2008) investigate institutional changes of organizational fields, such as healthcare. Medical services traditionally are governed by a professional ethos and are heavily regulated by governmental agencies. Even if hospitals were run privately, the U.S. health care system was ruled by a professional dominance until 1965 (Scott et al., 2000). After a period of federal involvement until 1982, the system changed into a dominance of managerial control and market mechanisms (Scott et al., 2000).

Similar trends from professional dominance and/or regulatory logics towards a market logic have been found for the U.S. higher education publishing (Thornton, 2004), the German higher education system (Reihlen & Wenzlaff, 2014), U.S. architecture (Thornton, Jones, & Kury, 2005), U.S. accounting firms (Suddaby, Gendron, & Lam, 2009; Thornton et al., 2005),

Canadian law firms (Cooper, Hinings, Greenwood, & Brown, 1996), finance (Fligstein, 1990; Lounsbury, 2002), or utility companies (Jarzabkowski, Matthiesen, & Van de Ven, 2009).

Marketization is also debated for higher levels of analysis. Research on comparing varieties of capitalism, national business and welfare systems emphasize the institutional diversity of market economies (Esping-Andersen, 1999; Hall & Soskice, 2001; Whitley, 1999). However, a capitalisms do not further diversify, but rather convergence towards the Anglo-American model (Crouch & Streeck, 1997; Kitschelt, Lange, Marks, & Stephens, 1999; Levi-Faur, 2005; Yamamura & Streeck, 2003). Further, changing qualities for Western capitalism are observed. From a political and historical institutionalist perspective, for example, French capitalism moves from a legalistic tradition towards a more market-oriented model with lower influence of the state and lower social welfare activities (Schmidt, 1996). These works on institutional change of political economies account for the arising conflict between market expansion and limitation (Streeck, 2009; Streeck & Thelen, 2005). Other analysis refer to the developments of global capitalism, which has been labeled as investor capitalism (Useem, 1996) or casino capitalism (Strange, 1997), pointing to the growing dominance of institutional investors acting on delimited markets.

I have provided some evidence for the general claim of the marketization process. Market principles become dominant in fields, where they have been previously subordinated to rationales derived from the professions, the family, and the community and other sources. Political economies rather move to a market-liberal model than towards are more regulated model.

The Hypothesis of the Growth Imperative and Dynamic Stagnation

Low growth rates or even stagnation pose serious problems for developed economies maintaining a social-economic equilibrium. In a government declaration preceding the

Growth Acceleration Act (Wachstumsbeschleunigungsgesetz) adopted by the German Federal Parliament (Bundestag) in December 2009, the chancellor Angela Merkel hit the bull's eye:

“Without growth no investments, without growth no jobs, without growth no money for education, without growth no help for the weak. Conversely, with growth investments, jobs, money for education, help for the weak, and – most importantly – trust of the people.”

A similar discourse is to be found at the level of the European Union, which set itself a “new strategic goal” known as the Lisbon strategy: The EU should “become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs” (European Council, 2000).

The search for measures stimulating cost cuts and growth as well as to cope with declining growth rates are striking. There seems to be an endless but desperate reformism. Reformism does not always necessarily imply factual fundamental changes towards the market, but an ongoing *attempt* to create markets or to economize social spheres. For example, despite all the intensively debated aims and implications of the higher education reforms there is doubt, whether the observations labeled as academic capitalism really reflect fundamental changes of how universities are governed (Deeg, 2014). Universities and the self-organizing scientific communities proved to be extremely resistant against changes in history. This may not prevent policy makers sticking to the ideas and engaging in a circuit of endless reforms resulting in a “rushing standstill” (Deeg, 2007). The sociologist Lessenich (2003) derives an opposite argument from his analysis of the institutional change of the German welfare system. In this case, a created discourse of the German immobilism disguised a continuous but silent restructuring of the German welfare system. These two examples reveal the complexity of processes of institutional change, but both support my argument. Low growth rates unleash discourses on how to economize costs or reduce public spending as well as to make the economy more competitive and innovative.

My further argument is that the political desire for growth and the respective reformism is not simply a question of volition, ideology and hegemony – as most scholars criticizing the growth paradigm suggest – but a reflex of a capitalist growth imperative. If capitalism’s functionality is only maintained by growth, stagnation poses problems for the economy. The social problems arising from stagnation (empty treasuries, rising inequality and unemployment etc.) then would initiate institutional change processes of economization. This constellation is labeled as *dynamic stagnation*.

The hypothesis of the growth imperative can easily be misunderstood. The growth imperative theorizes the need for economic growth in order to maintain functionality and stability, but not the incidence of growth (Kimmich & Wenzlaff, 2013). Developed economies are rather facing stagnation with low actual growth rates. The expansion of the market illustrated above then can be seen as a systemic response to a lack of growth in the “real” market. Institutional change in terms of the marketization of social spheres occurs if the “real” market itself fails to generate enough growth nursing the growth imperative. Theorizing a growth imperative so far received very little attention in economics and social theory (Binswanger, 2012; Binswanger, 2009; Gordon & Rosenthal, 2003; Paul, 2012) but the interest seems to rise (for a review and suggested categorization of existing approaches see Wenzlaff, Kimmich, & Richters, 2014). It is now my task to deliver an institutional analysis of capitalism – interpreted as the search for the basic constituencies of capitalism and their causal relationships – and how the growth imperative leading to dynamic stagnation can be derived.

3. Institutional Analysis of Capitalism and the Growth Paradox

Institutional Analysis as the Search for Constituencies

New institutional economics as a further elaboration of the orthodox approach tend to perceive institutions out of individual utility maximizing behavior; institutions reduce transac-

tions costs and enhance economic efficiency (Coase, 1983; Furubotn & Richter, 1991; Williamson, 1998). Orthodox comparative economics treats institutions as policy choices explaining differences of economic efficiency and performance. They perceive “different economic systems as laboratories which hypothesis about economic behavior can be examined and their generality and validity established or denied.” (Gregory & Stuart, 1985: 4). Adam Smith (2007[1776]: 15) introduced “the propensity to truck, barter and exchange” of humans. The axiomatic thinking of human behavior guided by the utility principle has been elaborated by Jeremy Bentham (Hurtado, 2008). Utility of self-interest principle together with methodological individualism are the “foundation stones” of neoclassical and new institutional economics (Furubotn & Richter, 1991). The self-interest principle proved to be a powerful and resistive concept. Incorporating bounded rationality and behavioral economics allow absorbing many forms of social behavior under the hypothesis of utility-maximizing individuals. Accordingly, the appropriate way to criticize orthodox (methodological individualist) modeling of behavior is not to point to non-economic behavior, but to the institutional embeddedness of economic rationality and market behavior (Friedland & Alford, 1991; Polanyi, 1992 [1957]). As Mitchell (1916: 156) has stated

“To find the basis of rationality we must not look inside the individual at his capacity to abstract from the totality of experience the feeling elements, to assess their pleasant or unpleasant characters, and to compare their magnitudes. Rather must we look outside the individual to the habits of behavior slowly evolved by society and painfully learned by himself.”

Hence, the “laboratorythor approach” – assuming universal rationales across space and time – of doing institutional analysis claiming to be invalid. Using behavioral axioms are only a valid way of theorizing if one accounts for institutional contexts. “Economy never unfolds within an institutional vacuum. Who hides this fact, produces ideology (translated by F.W.)” (Helmedag, 1999: 53).

The German Historical School with Schmoller, Roscher, and Sombart as representatives (Shionoya, 2002) started to critique neoclassical methodological individualism and ahistoricism (“Methodenstreit”). The American institutional or evolutionary school with Veblen, Commons, and Mitchell as representatives continued to develop a counter-paradigm (Reuter, 1994). These schools of thought delivered important foundations for contemporary sociological institutionalist thinking and analysis (Scott, 2008). Early institutional economics and institutional theory “burst on the organization scene” (Scott, 2008: ix) have “a natural affinity” (Nelson & Sampat, 2001: 33). The key idea is to endogenize institutions and to account for their evolutionary character, instead of treating institutions as static policy choices. Accordingly, institutionalist perspectives emphasize the role of history and emerging institutions for explaining the diversity of social-economic systems and their performances.

Exactly this approach often resulted in a rather description of reality at the costs of analytical and systematic knowledge (Hodgson, 1996; Reuter, 1994). As Coase (1983: 230, cit. op. Scott, 2008: 5) stated, “Without a theory they had nothing to pass on a mass of descriptive material waiting for a theory, or fire.”

The argument to be made in this section is that both perspectives are unable to reach to the bottom of how capitalism is explained functions. The orthodox approach, taking utility maximizing behavior and free markets as taken for granted remain caught in the side scenes of free markets versus planning and private property versus orders of the commons. Institutional accounts, such as works on business systems (Whitley, 1999), social welfare systems (Esping-Andersen, 1999), postsocialist pathways of East European Transition economies (Stark & Bruszt, 1998), or varieties of capitalism (Hall & Soskice, 2001) spot light on things such as business relations among firms, industrial relations, trade unions, but also labor market regulation and education and training. This research serves for explaining diversity as an

emerging product of complex cultural and historical processes, but hardly has really theorized capitalism constitutive principles.

The most striking weakness of sociological as well as economic perspectives and the whole debate about capitalism versus socialism is a particular ignorance of the role of money and a monetary order in constituting a capitalist economy (even Schumpeter, 1942 has to be accused for narrowing the debate on free markets vs. social planning). The following sections outline such a paradigm, capturing the monetary order – and not markets and private property – as the *nervus rerum* of capitalism. Accordingly, the monetary order provides the *differentia specifica* for distinguishing capitalism (as a monetary economy) from other forms usually referred to as socialism, Third World and so on (as non-monetary economies). My institutional analysis – interpreted as the search for capitalisms constitutive institutions – starts with a section briefly debating the role of property rights and markets, before the principle of credit money creation is highlighted. In accordance with the idea of the institutional embeddedness of economic behavior, I only then present the section of individual rationales as the micro foundation of the monetary economy paradigm. The last section will synthesize the findings into a theory of the growth paradox as the basis for dynamic stagnation.

Property Rights and Markets as Constituencies of Capitalism?

Classical political economy as well as neoclassical economics tended to focus on processes of price formation as well as income creation and distribution as independent from economic systems. Not least because “Real Socialism” has been experienced, an interest in demarcating characteristics (or institutions) of capitalist and socialist economies arose. The theory of economic systems centers two dimensions – system of property ownership (private vs. public or state) and coordination mechanism (market vs. plan) – resulting in a matrix of ideal types of economies (Leipold, 1988). Works on comparative economic systems

(Bornstein, 1985; Montias, 1976; Neuberger & Duffy, 1976; Prybyla, 1969) has introduced further criteria. Gregory and Stuart (1985) identify *decision-making structure* and *incentives* as the main additional characteristics besides property rights and coordination mechanism, resulting in a different but still alike matrix (Gregory & Stuart, 1985). Private property rights and markets have become the common sense institutions of capitalism, but are rarely convincingly theorized as its constituencies. What do the schools suggest either concentrating on property rights or on the market?

The problematization of the private appropriation of the scarcity rent under the normative perspective of equal access to resources is central in the history of economic thought (e.g. Commons, 1932; George, 1879; Proudhon, 1840). Regardless, new institutional economics tends to exclude considerations of justice, focusing on efficiency and maximization. As pointed with the Coase-Theorem: the allocation of property rights does not matter for efficient resource utilization and output since private costs are equal to social costs (Helmedag, 1999). Inspired by Coase, new institutional economists are occupied with the design of property rights as the foundation for economic efficiency, development, and growth (Alchian & Demsetz, 1973; Furubotn & Pejovich, 1972; Posner, 1973). Varying degrees of the institutionalization of property rights may explain the variance of economic performance and varieties of capitalisms, but there is no sufficient analytical argument for property rights as the constituency of capitalism.

In reality there are rarely true free markets as in mainstream economics since Adam Smith, considering markets as taken for granted. The literature on comparative economic systems presents ideal types as analytical concepts, while acknowledging that real economies are always mixed types of markets and planning (Gregory & Stuart, 1985). Socialist planning would not work without some individual and firm-level choices as capitalist economies would not work without some interventions. The literature on economic sociology shows how mar-

kets are subordinated to or embedded in social networks and other non-market interaction and coordination forms (Granovetter & Swedberg, 1992; Polanyi, 1944). Even the rather orthodox transactions cost approach elaborated by Coase, Williamson and others accounts for non-market behavior of firms (rosabuch). On the level of the economy, the structure of markets can be more liberal or coordinated, characterizing varieties of capitalism (Hall & Soskice, 2001). But there is no analytical argument for the market as a constituency of capitalism.

Another way of analyzing the role of markets within capitalism is not to compare economic systems at a time, but to compare modern societies historically. Economic anthropology has argued that markets in the formal economic sense are relatively new, demarcating market and tribal or feudal societies (Polanyi, 1992 [1957]). While the question of the origin of the market under this perspective is tackled more seriously than institutionalist accounts comparing varieties in property and market structures, the question why markets have been originated and if they are the central constituency still remains unresolved (Heinsohn, 2008). How to put property rights and markets in its place within the functionality of capitalism?

An alternative paradigm. The property economics paradigm by Heinsohn and Steiger (Heinsohn & Steiger, 1997, 2002, 2006b, 2013; Steiger, 2006, 2008) and de Soto (2000) goes beyond considering allocation efficiency in order to explain “why capitalism triumphs in the West and fails everywhere else” (subtitle of de Soto’s book). Enhancing resource efficiency through property rights is not denied, but according to property economics, the mainstream has overlooked the credit and money creation function of property. Credit is the key to initiate production processes generating income and wealth. Property serves as collateral for borrowers and as a backing of issuers of money. Low levels of income and high employment rates are explained as the result of a limited availability of collateral due to underdeveloped property rights. While both new institutional economics and property econom-

ics conclude the institutionalization of property rights as the basis for economic development, only the latter approach accounts for property rights as a constituency of capitalism.

Property rights allow the emergence of debt contracts, which in turn create markets as the lieu to acquire means of payment through purchases in order to cancel debts. As Heinsohn and Steiger (Heinsohn & Steiger, 2006a: 260) state: “the market is born as a derivative of debt contracts and does precisely not constitute the beginning of economic activity. (translated by F.W.)” and are inverting the Polanyian and Marxist account of money following the expansion of markets (Altvater, 1993; Polanyi, 1944). The idea of the market as the “outcome of money-creating contracts” (Heinsohn, 2008: 257) is very appealing, even if the whole paradigm of property economics explaining money and interest through property as the missing link is not completely convincing and subject to severe critique (e.g. Betz & Roy, 1999; Spahn, 2001: 60-62). Accordingly, the following section centers the functionality of the credit money economy, revealing the two-tiered banking system and a respective monetary policy as the key constituency of capitalism.

The Monetary Economy

Mainstream economics is usually content with perceiving money as an evolutionary product of the human “the propensity to truck, barter and exchange” (2007[1776]: 15). The usage of money confirms its function of lowering transaction costs. At least for the long term, monetary policy does not determine “real” variables such as “the natural rate of interest” (Wicksell, 1898). This is basically what textbook economics has to say about money. However, the idea of money as an evolution out of barter exchange is rejected by works on the history of money (Graeber, 2011), its sacred meaning (Belk & Wallendorf, 1990; Laum, 1924; Zelizer, 1989) as well as its sociology and ontology (Baker & Jimerson, 1992; Ingham, 2006; Lapavistas, 2005; Paul, 2012). The neoclassical “history” as the evolution from barter ex-

change to money exchange is a fiction, neglecting the fact of a fundamental difference of pre-monetary non-market and monetary market societies (Heinsohn, 2008; Polanyi, 1992 [1957]). Heterodox economists try to account for this fact. Mitchell (1937 [1924]: 170, cit. op. Reuter, 1994: 227), one of the founders of evolutionary institutional economics, has paid superior attention to the role of money:

“(…) ... the money economy (...) is in fact one of the most potent institutions in our whole culture. In sober truth it stamps its pattern upon wayward human nature, makes us all react in standard ways to the standard stimuli it offers, and affects our very ideals of what is good, beautiful, and true.”

Since money is not only a commodity raising efficiency in exchange, heterodox economists have seen money as the “last riddle of economics” or the “unresolved riddle of economics” (Heinsohn & Steiger, 2006a). Economic theory is permitted to abstract from social and sacred origins of money in order to assess its economic principle and constitutive character for capitalism. The key to such insights is to perceive money as debt rather than a commodity or numeraire facilitating exchange. The Post-Keynesian and the Franco-Italian circulation approaches (Graziani, 2003; Rochon, 1999) as well as the Berlin School of monetary Keynesianism (Riese, 2001) account that money is not circulating stock facilitating exchange, but a flux of innumerable overlapping processes of debt creation and cancellation. Commercial banks autonomously provide loans, whereby debts and the debt claims are created simultaneously. While commercial banks create credit as the precondition of economic activity – production processes generating income and markets in order to sell products and redeem debts – central banks produce money (Riese, 2004). Bank money is still a claim on central bank money, while central bank money allows the definite cancellation of debts and forms no claim anymore. Central banks do not directly control the quantity of money, but set the price at which commercial banks can borrow central bank money. Monetary policy as interest policy

(instead of monetarist quantity policy) has become the new macroeconomic consensus (Woodford, 2003).

In order to understand the central bank rate as a response to endogenous market forces, it cannot be seen as an independent policy choice, but as a response to macroeconomic demands or goals such as a high level of income or low inflation. If central bank rates are a reaction, we need a theory of the individual rationales of economic actors in a monetary economy. I do so in the next section and then derive the growth paradox in the last section of this chapter.

Microfoundation – The Individual Rationales

Besides the danger of claiming universal axioms in an institutional vacuum, the opposite of linking behavior to the emergence of a certain specific context can be problematic. This is illustrated if one considers the profit motive, which is often connected to capitalism as its core micro foundation. Boulding (1945: 239) warned of attempts to use the profit motive as a characteristic of capitalism (the profit system):

“There is no reason why the "profit motive" should be necessarily connected with the profit system. In a profit system there is nothing to prevent anyone acting on altruistic lines; there is no law that says a businessman must maximize his profits. ... At the other extreme, there is nothing in a communist system that would do away with the profit motive, or the "advantage motive”.

Accordingly, one can argue on more safe grounds that capitalist order allows the profit motive to unfold (Nell-Breuning, 1974). Anyhow, the profit motive is an improper micro foundation of capitalism. I move on to the Keynesian perspective, highlighting the desire of storing wealth securing against uncertain future developments, as a more convincing micro foundation.

In mainstream economics individuals are modeled as *risk neutral* and the future could be forecasted if all information would be available at no costs and there would be no bounded rationality. Saving is understood as postponed consumption. Since Böhm-Bawerks influential works on the theory of interest, the axiom of a positive time preference explains the interest rate as a compensation for postponing consumption. However, for Keynes (1936: 167) it was “obvious that the rate of interest cannot be a return to saving or waiting as such. For if a man hoards his savings in cash, he earns no interest ...” Empirical studies regularly confirm that saving is not sensitive to the interest rate (Schmidt-Hebbel, 1999).

Keynes’ solution explaining saving and the interest rate succeeds through the separation of the propensity to save and the form of how to allocate savings (1936: 165ff). In Keynesian economics, individuals are not risk neutral, but risk averse (Betz, 1993), because the future is uncertain even under the assumptions of rationality and free information available. An uncertain development of the future explains why individuals would store wealth in order to buffer against future happenings. The ability to save is dependent from the level of income. Keynes assumed that individuals with higher income would have a higher propensity to save, which is generally empirically confirmed.

Risk aversion also plays a role in the second decision – the portfolio decision of how to allocate the savings –, which is independent from the first decision – which proportion to save from one’s income. Risk aversion turns into the plausible propensity to prefer saving in liquid forms of storing wealth instead of illiquid forms, while Keynes assumed money to be the most liquid form of storing wealth, allowing short-time disposals over the savings securing against uncertain events. “Thus the rate of interest at any time, being the reward for parting with liquidity, is a measure of the unwillingness of those who possess money to part with their liquid control over it.” (Keynes, 1936: 167).

The Growth Paradox

The paradigm outlined so far centers the principle of credit money creation as the constitutive institution. Since debt titles emerge, the debt has to be redeemed and interest to be paid. Following the works of Heinsohn and Steiger, the need for purchases for money as the medium of canceling debts creates markets and rational economic behavior in order to meet market demands (Heinsohn, 2008). The problem of stagnation would not occur, if interest rates would drop to zero or even beneath. While not following the property theory explanation of the interest rate, Keynes' liquidity preference theory (which Heinsohn and Steiger studied extensively) smoothes the way explaining the growth paradox.

Rightly, post Keynesians criticized that Keynes' original formulation of the liquidity preference theory is only valid in an exogenous money system, but not valid in an endogenous credit money system (Lavoie, 1992; Rogers, 1989). As Keynesians rejecting the orthodox theory of the interest rate as the price resulting from supply and demand of capital, they can only offer political or policy theories of the rate of interest, which is then exogenous to the economic process (Hein & Ochsen, 2003; Lavoie, 1995; Moore, 2006). As institutionalist accounts such as the varieties of capitalism confirms, monetary policy is institutionalized and embedded in operations of other economic actors (Franzese, 2001; Fullwiler, 2009). However, without offering a market theory of the interest rate, institutionalist and post-Keynesian accounts suggest that a policy change could easily drop interest rates to zero or beneath. Therefore, the Berlin School was interested in finding a theory of interest conforming to the idea of market forces and prices (Riese, 2001). The post-Keynesian critique is only valid, because they did not abandon the idea of money as the most liquid and safe asset. Monetary Keynesians have discovered real assets as a portfolio alternative to holding money, suggesting a market theory of the interest rate. If holding real assets would generate a premium, then interest rates are paid in order to generate willingness to hold wealth in the form of nominal

assets. The premium can be explained through the introduction of the *real value calculus* (Betz, 1993, 2001), completing the complex of risk aversion and liquidity preference.

If one measures wealth in the value of real assets such as land or estate, then unexpected inflation would reduce real wealth if held in nominal assets. But real assets would not be affected since inflation is only the nominal measure of real assets. In other words: real assets generate a premium of being secured against unexpected inflation and therefore nominal wealth bears interest as a compensation for incurring the risk of losing wealth through inflation. This monetary Keynesian approach can explain that the interest rate “may fluctuate for decades about a level which is chronically too high for full employment” (Keynes, 1936: 204). The monetary Keynesian perspective generates the theory of an underemployment-equilibrium, which I consider as the basis for the concepts stagnation and growth paradox. The underemployment equilibrium implies that a higher level of income through a higher level of investments would be necessary in order to generate full employment, while unemployment is a convincing indicator of inequality and a social disequilibrium.

In the last section I have emphasized the distinction between the portfolio decisions related to the interest rate and the saving decision related to the level of income. The importance of the analytical distinction between two types of decisions becomes obvious now: The portfolio rationale consisting of risk aversion, liquidity preference, and real value calculus alone would not explain the underemployment equilibrium if the propensity to consume would be a linear rate of income. Only the combination of the portfolio rationale together with the marginal propensity to consume (higher levels of income imply higher rates of saving) explains an underemployment equilibrium because of insufficient demand. The German sociologist Paul (2012: 156) hits the nail on the head interpreting a growth imperative:

“A relatively larger proportion of income is saved with growing prosperity, so that the relative demand shortfall increases and can only be compensated through increased investments. This

problem constantly repeats on higher levels. In other words, according to Keynes the monetary economy is subject to some kind of inherent growth imperative ...”

The growth imperative should not be interpreted as a theory of actual growth. Explaining actual growth is subject to growth theory and evolutionary economics, while a theory of the growth imperative theorizes insufficient growth in order to maintain a social equilibrium. The growth imperative does not explain growth, but the gap between actual growth and needed growth. This interplay of the inherent tendency to stagnate (growth brake), but the requirement of growth for a social equilibrium (growth imperative) constitutes the growth paradox of developed monetary economies (Kimmich & Wenzlaff, 2013).

Conclusion and Implications

It is now time to compose all debated elements into the theory of dynamic stagnation. After the introduction, the second chapter discussed two empirical phenomena, economic stagnation and the marketization of social spheres. I then outlined a theory of how these phenomena can be linked causally. It was further revealed that the key to problematizing stagnation (and deriving dynamic stagnation) in a capitalist system is the discovery of the growth paradox. The growth paradox – developed capitalist economies tend to stagnate but need economic growth in order to maintain a social equilibrium – is a only emerging research field, far from being consistent with the established paradigms. Therefore, the third chapter attempted to outline a paradigm suggesting the growth paradox.

There are several developments of key economic indicators of stagnation (see the section on stagnation) reflecting the systemic reactions to the growth paradox. For example, the rates of unemployment, wealth and inequality, public debts, labor market flexibility and so on rather increase than decrease. Equally, the colonization of social spheres, which previously have been organized outside market principles (see the section on marketization) can be inter-

preted as a response or a reflex to the growth paradox. The marketization characterizes a type of institutional change labeled as dynamic stagnation.

A central challenge of contemporary institutionalist thinking across disciplines is explaining mechanisms of institutional change (Campbell, 2004; Ebner & Beck, 2008). I do not attempt to contribute to or challenge grand theories of institutional change of economics and social sciences (Braudel, 1970; Bush, 1987; Campbell, 2004; North, 2005; Seo & Creed, 2002; Thornton et al., 2012). Grand theories typically attempt to generate valid theories across economic systems (even if sociologists are often aware of the limitations since the stock of knowledge generated is typically derived from scholars socialized in the West studying Western institutions and organizations). They rather search for drivers changing the “big” institutions shaping economic and social life. Since the big institutions classifying systems such as feudalism, communism, or capitalism are perceived as emerging evolutionary, they can be seen as *theories of system change*. My analysis suggests a theory of *intra-system change* – where capitalism as the economic system is maintained through colonization and marketization of social spheres. This theory, labeled as *dynamic stagnation*, is solely valid for the present functionality of capitalism with the credit money creation as its core institution. It is based on the concept of the *growth paradox*: the conflict between the tendency to stagnate and the system-inherent growth imperative. The theory finally serves linking and explaining the empirical observations of stagnation and the marketization of social life.

The theory of dynamic stagnation may appear teleological, one-dimensional, and mono-causal. Such models of institutional change attract critique if they would claim superiority over other mechanisms scholars have found. Note, that there is no need to reject any other account explaining institutional change since I solely add a mechanism rarely formulated that explicitly so far. The less relevant the theory may be considered to contribute to a grand theory of institutional change, the more relevance I claim for analyzing and producing

solutions for the current problems developed economies face. There are various perspectives problematizing and confronting the complex of economic growth, stagnation, and marketization of social life, which can be informed in the light of my analysis.

For example, there are practices and discourses of “changing the world without taking power” (Holloway, 2002). The basic idea is, not to claim changing regimes, but to push back the market through or re-embedding the economic system into the general organization of society (Bourdieu, 2003; Negt, 1997) through practices. As counter-movements to the process of marketization I have described above, the third sector (Evers & Laville, 2004; Lyons, 2001; Taylor, 2010), social economy (Amin, 2009), solidarity economics (Auinger, 2009), or. There are economic practices between market and state, social business (Yunus, 2007), and social entrepreneurship (Dorado & Ventresca, 2013; Parris & McInnis-Bowers, 2014; Stecker, 2014) has attracted researchers interest. These entities providing services can compete with the market (e.g. Pache & Santos, 2013), so that the future is rather undetermined whether marketization is triumphing or not. All this practices have emancipatory potential changing behavior as the micro foundation of the growth paradox. The key to overcoming the growth paradox is not only to change consumption patterns (consuming products and services from non-profit businesses), but also to abstain from capital incomes (through providing non-interest-bearing capital to non-profit-businesses in order to make them more competitive).

In nations of affluence, the discourse on the critique of capitalism has shifted its attention from social to ecological questions. Building on the famous study of the club of Rome (Meadows et al., 1972), and other pioneering works on the ecological limits to economic growth (Daly, 1974; Georgescu-Roegen, 1971), there is a growing discourse on sustainability and a post growth economy (Jackson, 2009). The sustainability discourse is calling for policy changes as well as changes of consumption patterns. While these claims are of no doubt sound, sustainability sciences (Heinrichs & Michelsen, 2014; Kates et al., 2000; Komiyama &

Takeuchi, 2006; Miller, 2013) extensively focuses on the governance of resource utilization, but has not yet incorporated macroeconomic reasoning yet and sufficiently thought about the macroeconomic conditions of a non-growth economy, not to think of problematizing the monetary system. The growth paradox points to the limits of changing the governance of resource utilization, if the institutional structure of a monetary economy is not included in the reform agenda.

My analysis suggests the following perspective from where to start further thinking of viable institutional reform parting with capitalism. Note, thinking about a reform perspective does not necessarily imply envisioning radically replacing constituencies of capitalism. Modifying the credit and money creation principle in order to allow the interest rate to drop beneath the growth rate could allow a social and macroeconomic equilibrium towards the stationary state (instead of stagnation when the interest rate exceeds the growth rate). A stationary state implies no systematic unemployment, a rising wage share, and a lower degree of inequality, and full treasuries. In such an environment, the process of marketization would stop if not reverse.

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