Capitalism as an organizational order

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1. Starting Points

- I have proposed before to consider capitalism as a “grounded” system (Reis, 2015)
- By a “grounded” system I mean the formation of a complex set of relations that are beyond transactions, market relations, private ownership, and the technological base of capitalism – it is a large environment explicitly built to make the economy possible and dynamic
- Within this ground, I focus on precise material relations: labour and industrial relations, learning, and the organizational dimension of capitalism
1. Starting Points

- Efficient markets are exceptional and a system based only on transactions is unsustainable.
- The “ground” of capitalism is what allows it to be open and relational.
- Learning, organization, rights and other non-instrumental modes of action are crucial.
2. My references

A. Hirschman, K. Polanyi, K. Arrow and J. K. Galbraith are my main references to formulate the idea of a grounded capitalism:

- Hirschman, because he emphasized the notion of *non-instrumental modes of action* and considered them as a way to obtain cohesion and legitimacy (in contrast with instrumental modes, strictly connected to a self-interested, isolated individual)
2. My references

A. Hirschman, K. Polanyi, K. Arrow and J. K. Galbraith are my main references to formulate the idea of a grounded capitalism:

- Arrow, because of his notion of *learning by doing*; he demonstrated that the economic process did not simply consist of using given resources that would eventually be exhausted in a given activity - it also served to extend and improve own resources and increase their availability
2. My references

- Polanyi, because of the contrast he has formulated between a *market society* and an *industrial society* (characterized by the establishment of rights, including the right to a job, and by the non-fragmentation between production and consumption)

- Galbraith, because of his conviction about the destructive role of an unequal income distribution

- Additionally, I’m interested on the discussion about “democratic capitalism”, as it is formulated by W. Streeck
3. The focus of this presentation

- The focus:
  
  The new institutionalist perspective about order, conflict and dependence (Commons), the institutional structure of production (Coase), the lens of contracts to examine organizations (Williamson), and learning as the long-run source of change (North)

- An objective:

  To see the polymorphism of capitalism and a very specific type – democratic capitalism – when financialization depletes de the material bases of production and well-being
4. New institutionalism and the organizational dimension of capitalism

a) A heuristic scheme of the new institutionalist vision on the organizational dimension of capitalism:

• New institutionalism searches “continuities” (and not single and anonymous transactions) in the economic system

• Continuities are the kind of stable and inter temporal relations that may avoid uncertainties, transaction costs, bounded rationality, free riders, and strategic behavior

• Continuities are part of an order. Order, conflict, and dependence are social relations present in economic activity (Commons)
4. New institutionalism and the organizational dimension of capitalism

a) A heuristic scheme of the new institutionalist vision on the organizational dimension of capitalism

• Within an order there are *structures of governance* to build – they form the conditions for *adaptation* and *learning* (economic change)

• Economic change is a consequence of decisions: *routines* (within organizations) or *contracts*

• “But the most fundamental long-run source of change is *learning* by individuals and entrepreneurs of organizations” (North, 2001: 362)
4. New institutionalism and the organizational dimension of capitalism

a) A heuristic scheme of the new institutionalist vision on the organizational dimension of capitalism:

• “It is the interaction between institutions and organizations that shapes the institutional evolution of an economy” (North, 2001: 361)

• “Economic organization” may be “examined through the lens of contracts rather than the orthodox lens of choice” (Williamson, 2009: 455)

• The consequences of organization are: reinforced continuities, trust, and coordination
4. New institutionalism and the organizational dimension of capitalism

b) Why capitalism needs an organizational dimension?

• The new institutionalist answer
  – “It is exceptional to find economic markets that approximate the conditions necessary for efficiency” (North, 2001: 361) vs. “The normal economic system works itself” (Arthur Salter, quoted by Coase)
  – Transaction costs (the Coasean world of positive transaction costs)
  – Assets specificity
  – Free riders and strategic behaviour
4. New institutionalism and the organizational dimension of capitalism

b) Why capitalism needs an organizational dimension?

• A wider (institutionalist) answer
  – Capitalism had to be built
  – Its is crucial to form resources and processes (labour force, consumption power, human capacities…)
  – There are inclusive institutions (not exactly in Acemoglu’s sense) to be built
  – In fact is society that forms markets and not the inverse…
4. New institutionalism and the organizational dimension of capitalism

c) What is the economic world resulting from the organizational dimension of capitalism?

• Vertical and lateral integration: industrial organization
• An “institutional structure of production”
• Management: a “factor production, whose function [is] to coordinate”
• Routines, contracts, and learning
• “Areas of planning within organizations of the appropriate size” (Coase)
• A “specific type of social order” (Streeck)
4. New institutionalism and the organizational dimension of capitalism

d) A (not so positive) view about new institutionalism...

- New institutionalism is a very positive contribution to understand the organizational dimension of capitalism and the importance of organization.
- It demonstrates the "impossibility of the market" without additional modes of coordination of economic relations.
- Friction (not easy and rational transaction) is an universal circumstance of economic life.
4. New institutionalism and the organizational dimension of capitalism

d) A (not so positive) view about new institutionalism...

• But the order seen by new institutionalism is no more than a private order
• This is the order that allows capitalism to economize
• New institutionalism is limited by methodological individualism: this is its congenital weakness
4. New institutionalism and the organizational dimension of capitalism

d) A (not so positive) view about new institutionalism...

• Differently of Commons new institutionalism doesn’t deal neither with “national organized societies” or “a nationalistic theory of economics” nor adopts “institutional economics [as] the field of public interest” (Commons 1936: 242 and 246)
5. What exactly is capitalism?

- Capitalism as a polymorphic system with several orders
- Democratic capitalism as a type of capitalism where organization and a specific order predominates
- Democratic capitalism as a moment where cohesion and inclusion predominate over depletion
- Material institutions related to industrial organization, learning, income distributions, inclusion through employment and labour rights are crucial: an organizational order
5. What exactly is capitalism?

- Capitalism is not only a technological and transactional market system with a subordinated process of social regulation.
- Capitalism is more than private property and wage relationships.
- In its democratic form, capitalism is also a system grounded in dense material, organizational and relational processes.
6. Why this discussion?

Two reasons

• a) Because of the contemporary nature of capitalism
  
  — In the recent evolution of capitalism – the era of financialization – depletion predominates over production, industrial organization or cohesion
  
  — The institutions of financial capitalism are disconnected from any material or relational order and we are facing a general economic regression
  
  — A proposal of political economy to “reground” capitalism may be essential
6. Why this discussion?

Two reasons

• b) Because institutionalist debate is incomplete
  – The concept of institutions gives importance to norms, habits, and general frameworks that coordinate actors and explain historic evolution but doesn’t give enough attention to material institutions
  – There was not enough attention to the polymorphism of capitalism both in historical and in spatial terms
  – An institutionalist political economy, based on the material institutions of a grounded capitalism, is necessary in a time of depletion, crisis and regression of well-being