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## 7. Heterodox economics

*Jean-Louis Laville*

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### INTRODUCTION

Recurrent crises have challenged the standard form of economic thought which largely influences methods of government. Therefore, heterodox approaches make methodological choices that set them apart from mainstream economics in the sense that they combine economic analysis with other social sciences to study the relations between economy and society. After the fall of the Berlin Wall, while orthodox economics defended the idea of the end of history, other approaches resurrected heterodox approaches either by embedding themselves in the Marxian framework, as with the theory of regulation, or by distancing themselves from it, as with the new economic sociology and the theory of conventions.

The regulation school (Hollingsworth and Boyer 1997) moves beyond the overly simplistic distinction between infrastructure and superstructure. It seeks to revitalize the approach inspired by Marx by showing how the market can assume different forms depending on sets of rules and stabilized arrangements, codifying social relations within capitalism. The regulation of different varieties of capitalism thus rests on hierarchical sets of rules and stabilized arrangements, which link the economic domain to other fields of society. These sets of rules and arrangements constitute institutional forms, of which there are five: social relations, forms of competition, monetary regimes, state–economy relations, and international integration. Despite acknowledging the diversity of forms of capitalism, the regulation school still comes close to the critical philosophy of the Frankfurt School and the critical sociology of Bourdieu, for whom capitalism is an immense cosmos that pre-exists individuals, and cannot be changed by them. Its main concern is to draw our attention to market forces in Weber’s sense. It is the dynamic of capitalism that occupies centre stage in an approach focused on the factors that explain the system’s durability.

For its part, new economic sociology focuses on the social construction of economic action (Granovetter 1973). It has been an important trend in recent decades, at least in the English-speaking world. It proposes a form of social network analysis that, based on empirical observations, questions the atomism of orthodox economics: economic actors are not considered as monads, but as maintaining relationships that influence their behaviour. Although markets are not the only phenomenon to which this form of analysis has been applied, it is around markets that the new economic sociology’s proponents have entered into dialogue, shaping an approach that is as distinct from functionalist sociology as it is from orthodox economics. Other heterodox currents on the frontier between sociology and economics also refute the postulates of neoclassical theory. Joining economic sociology – particularly in its questioning of the rational choice model through the study of values – the school of the economy of conventions emphasizes the plurality of forms of rationality and modes of coordination. Optimizing rationality and market coordination are considered to be an overly narrow set of conceptual tools. In order to broaden our understanding of economic phenomena, the school of the economy of conventions draws attention to the role that conventions play in the economy,

as well as to its diversity of modes of coordination, notably through models of ‘justice’ that are essential to different forms of agreement (Boltanski and Thévenot 2006).

Working outwards from ordinary activities, the school of the economy of conventions, and new economic sociology, demonstrate the diversity of market situations that affect the course of economic events.

In sum, while macro-syntheses such as regulation theory may overestimate market forces by depicting capitalism as implacable, both the new economic sociology and the economy of conventions may underestimate these forces by focusing on micro-arrangements. Thus, on the one hand, the focus of macro-syntheses on market forces can lead them to notice only institutional forms of capitalism. On the other hand, insufficient consideration of market forces by new economic sociology (according to Granovetter) and the school of the economy of conventions concentrate on markets’ extreme variability. All these approaches – which are, in fact, very diverse – ultimately endorse the centrality of the market to the economy. The originality of Karl Polanyi’s heterodoxy lies in its questioning of the economics fallacy of reducing the economy to the market, which is considered a major problem of our time. To counter this fallacy – which corresponds to the formal definition of the economy, according to which scarcity determines the relationship between means and ends – Polanyi gives us a substantive definition of the economy. This definition recognizes our dependence on nature and on our fellow human beings, and holds that the satisfaction of human needs requires institutional interaction. This substantive understanding of the economy is illustrative of an approach relevant to the social and solidarity economy (SSE), both because of its own characteristics and because of its epistemological proximity to other important approaches, such as feminist economics (see entry 5, ‘Feminist Economics’).

## 7.1 THE FEATURES OF SUBSTANTIVE ECONOMICS

Substantive economics presents a theoretical framework that allows us to re-interpret history.

### **A Theoretical Analysis**

Substantive economics replaces the focus on the market with an openness to the plurality of principles of economic integration. These are principles of behaviour that ensure order in the production and circulation of goods and services. There are four such principles:

- The market principle allows the equilibrium of the supply and demand of goods and services; exchange happens on the basis of price-setting. The relation between supply and demand is established through contracts informed by the calculation of interest. The market principle does not presuppose immersion in social relations and it is not necessarily produced by the social system, unlike the other economic principles described below.
- Redistribution is the principle according to which central authority is responsible for allocating what is produced, which presupposes procedures defining the rules of levy and their use. A relation has become established over time between the central authority that imposes an obligation and the agents who submit to it.
- Reciprocity corresponds to relations established between groups or persons through actions that only make sense insofar as they express a will to demonstrate a social link

among the stakeholders. The cycle of reciprocity contrasts with the market exchange in that the former is inseparable from the human relations involving the desire for recognition and power; reciprocity also differs from redistribution insofar as it is not imposed by a central authority.

- Householding does not involve relations between groups, but concerns the basic group in the society under consideration (the *oikos*, the nuclear family, and so on). It refers to the production and sharing that takes place within this group in order to satisfy its members' needs.

This pluralist approach emphasizes the process of disembedding, through which public authorities promote the formal economy while hiding this support through the naturalization of the self-regulating market. By destroying social bonds and exercising violence towards nature, this disembedding threatens the substance of society. For this reason, disembedding generates a need for re-embedding, but this can take two directions: one authoritarian, the other emancipatory. Crises are dangerous periods, at once fraught with the risk of totalitarian regression but they are also charged with democratic potential. This is exemplified by Polanyi in *The Great Transformation*, which explains the emergence of fascism in the 1930s (Polanyi 1945). But crises can also represent an opportunity for deepening democracy, by inventing new institutional compromises. Through its critique of positions that reduce the economy to the formal economy, substantive economics joins up with bioeconomics and ecological economics, which blame these formalist positions for introducing a complete rupture between the economy and the living. In formal economics, both labour and land are equated to commodities, which is untenable from the point of view of both human and non-human beings. This extractivist way of thinking – for which these beings are only human or natural resources – denies the interdependencies of life.

On an epistemological level, substantive economics also converges with feminist analyses questioning the reductionism of formal economics, which values production and neglects reproduction. Taking up the discussion of care, economists such as Silvia Federici, Nancy Folbre, Julie-Katherine Gibson-Graham have criticized this view as neglecting the activities of provisioning, in which the purpose is not profit but rather the preservation of life and the concern for wellbeing. They argue that to reintegrate the dimensions of race and gender into the economy, it is crucial to take into account all forms of production and reproduction: those that make room for monetary flows as well as those that occur through non-monetary flows. Thus, they advocate a change in perspective that involves developing economic activities, such as the people's canteens in South America and West Africa, the local food networks in Senegal, the collective kitchens in Peru, the Self Employed Women's Association in India, and so on (Verschuur et al. 2021).

Polanyi's argument also joins up with that of the epistemologies of the Global South, which prescribe a 'sociology of absences and emergencies'. It is important, according to the sociology of absences, to show that 'what does not exist is in fact actively produced as non-existent' and, according to the sociology of emergences, to replace 'linear time ... with plural, concrete possibilities, which are both utopian and realistic' (Santos 2014). Finally, this approach is both critical of capitalism, and possibilist in its attention to initiatives coming from societies that exhibit other logics.

Because the process of disembedding generates a need for re-embedding, substantive economics, feminist economics and epistemologies of the Global South speak of a double movement that helps to elucidate how societies have changed over the last two centuries.

## **A Historical Analysis**

It is worth noting that the forms of re-embedding adopted in the 19th century were insufficient, and that this was due to a deficit in how civil society was understood (see entry 10, ‘Origins and Histories’). At least, this is what becomes clear considering the genesis of the compromises between the economy and politics.

Polanyi rejects Smith’s assumption of a propensity to exchange good for good, service for service, which reduces civil society to the market. He shares with Marcel Mauss (1997) the belief in institutional creativity within local civil society. Both authors recognize civil society’s contribution to democracy, while acknowledging that it may also have an economic dimension that is not simply that of the market alone. In doing so, Mauss and Polanyi move beyond a contractual framework to see democratic solidarity not as an involuntary consequence of market exchanges, but as a form of egalitarian reciprocity linked to the birth of modern democracies. Multiple forms of reciprocity are largely linked to kinship, to the division between genders, and to religion. However, egalitarian reciprocity – in other words, the social link defined by its hallmark, equality – involves an openness towards emancipation: associationalism arose not out of inherited ties, but rather from collective action in which freedom of commitment and equality in law are respected. In a way, self-organization extends the achievements of political democracy into economic and social life. The first version of democratic solidarity thus results from social practices that exhibit an egalitarian form of reciprocity inextricably linked to protests in the public sphere.

In the second half of the 19th century, as productivism and capitalism progressed, this solidarity-based associationalism, weakened by repression, ran out of steam (see entry 15, ‘Associations and Associationalism’). Solidarity gradually took on a different meaning: that of a social debt which social groups owed to each other and to past generations, and which the state had to settle by channelling redistribution. At the same time, pioneering associationalism gained ground, giving rise to various institutions such as trade unions, mutual societies, cooperatives and non-profit associations. Association thus gave way to social economy organizations, and trade unions and political movements retreated. Some of these movements made the revolutionary promise of a new world and a new human being. This vision centred on seizing power, a necessary step towards collectivizing ownership of the means of production. But far from providing the expected solution, upon collapse, ‘communist’ countries reinforced the belief in the inevitability of capitalism.

This is not the end of the story: the debate on the democratization of society is more topical today than ever. Nevertheless, it must learn the lessons of the last century, in particular the failure to take into account political interactions, and interactions between politics and the economy symptomatic of Bolshevism. The failure of this project invites us to re-examine other strategies for change. In contrast to totalitarianism, Keynesianism, but also – albeit to a lesser degree – the social economy, has progressed through the welfare state. Though we should not deny these achievements, an in-depth assessment of these strategies must also include an examination of their limits (see entry 53, ‘Social Policy’). Behind their apparent success during the post-World War II economic expansion lie long-neglected problems.

The one is that redistributive solidarity remains dependent on market growth. This dependency was imperceptible until the 1960s, but became increasingly significant with the decline in the rate of growth, which deprived social democracy of some of its key resources. This trend destabilized Keynesian methods and social transfers. In the traditional social democracy, while the state has a monopoly on legitimate violence, the market remains the natural mechanism through which needs are satisfied since it is based on individual interests and ensures their compatibility. The state limits itself to providing an institutional framework suitable for the operation of market mechanisms and for the limitation of the inequalities it generates.

The second problem is the tendency to consider users of public services as subjugated and concentrate decision-making in the spheres of representative democracy (government, employers' and unions' representatives), the voice of ordinary citizens being largely ignored. While Fordism reigned in companies, resulting in the exclusion of workers from decision-making in return for an increase in their income, according to P.R. Bélanger and B. Lévesque (1990), providentialism developed in the welfare state. Here, the recipients of social services remained distant from their design, with compensation for this exclusion taking the form of almost free access to such services.

The state ensures that each person's individual freedom does not encroach on that of others; it maintains the conditions for negative freedom. But this focus on negative freedom hides another side of freedom, namely positive freedom based on the ability to act together, and participate in public discussions and decisions. Consequently the deliberative dimension of democracy, the importance of consulting citizens, and the fact that individual preferences are modified through the establishment of a common public language, can be forgotten.

That is the case with social democracy, it has focused primarily on macroeconomic policies and state redistribution. It has been more concerned with solidarity than with economic initiative, acting as if democratic decisions could only pertain to the distribution of wealth already produced. Leaving the market economy to capitalist enterprises appears to be one of its constitutive weaknesses, long hidden behind the scale of economic expansion.

This elucidates the importance of the social economy tradition, which has stressed the various different forms that enterprises can take. It emphasizes legal statuses that break the link between economic activity and shareholder power, while sharing a key feature: they impose a limit on the individual distribution of profits. With its entrepreneurial culture, the social economy has focused on the collective enterprise without considering the extent to which this type of enterprise is dependent on the institutional framework in which it is embedded. It has done little to question the regulation of markets, continuing to see non-capitalist enterprises as the main lever for change. Yet, as one cooperative leader put it: 'Cooperatives wanted to change the market, but it is the market that has changed cooperatives.' Over time, social economy enterprises have increasingly lost their distinctiveness, and the representative democracy established in their statutes by the principle of formal equality (one person equals one vote) has not been enough to maintain effective member participation over time.

Unaware of their potential to complement one another, social democracy and the social economy have run out of steam. This may explain their absence in the fight against economic reductionism: their restriction of the market's effects through redistribution and collective enterprises has made them forget the potential of reciprocity. Meanwhile, the solidarity economy, which is motivated by reciprocity, reaffirms a socio-political dimension by allowing those concerned by an issue to self-organize and express their views in the public sphere.

A new configuration thus emerges: one that combines the experience of the social economy and the emergence of the solidarity economy.

## 7.2 THE CHALLENGES OF THE SSE

The resulting union of the SSE contests the capitalist paradigm but faces the challenge of joining up entities that have economic significance but are afflicted by a certain normalization, on the one hand, and entities more inclined to protest but which are undeniably economically fragile, on the other. The future of the SSE hangs on its capacity to build solidarity between the entities within this composite group. It also depends on its ability to increase its collective strength by respecting its internal differences and establishing itself as an interlocutor of the public authorities. Finally, it turns on its ability to find a conceptual framework that is less Western-centric and more open to the experiences of the rest of the world.

In any case, in its effort to legitimise itself and make its various components cohere, the SSE can draw on the analytical grid provided by substantive economics and reinforced by bio-economics and ecological economics, feminism, and the epistemologies of the Global South. Two features bring together these heterodox perspectives, which are all points of reference for the SSE.

### **An Institutional Analysis**

Capitalism can only be regulated if the market economy is both respected and complemented by other economic principles. These principles can be seen through an analysis that combines history and theoretical reflection, such as that which Polanyi conducted from 1947 to 1964, leading to a conception of the economy as an institutionalized process (Polanyi 1945, 2008, 2011). These activities remind us of the current relevance of Mauss, who stresses the importance of constructing institutions that can preserve effective solidarity. Associationalism creates institutions based on democratic solidarity that have an economic dimension, countering the dominant tendency to equate the economy and the market, as well as the belief in capitalism's omnipotence.

Two major lessons emerge from the 19th and 20th centuries. Firstly, the promotion of a market society underpinned by a concern for individual freedom has increased inequality. Secondly, the subjugation of the economy to political will under the pretext of equality has led to the suppression of freedoms. These two solutions have thus come to challenge democracy. Not only is this what totalitarian systems wanted, but it is also, alternatively, what the subordination of political power to that of money leads to.

The crises therefore raise the question of which institutions are able to ensure the pluralization of the economy in order to embed it in a democratic framework; a framework in which the logic of material gain has to be limited. The answer lies in institutional inventions rooted in social practices; it is these inventions that can show us how to re-embed the economy in democratic norms. The significance of the SSE lies in the fact that it is a 'real economic movement' and not a project of social reform that has been plastered over reality. The conception of social changes found in the SSE is one of the changes that 'in no way demand...brutal choices between two contradictory forms of society', but which 'are made and will be made by constructing new groups and institutions alongside and above the old ones' (Mauss 1997, 265).

It is due to their ability to initiate such changes that the convergences between the heterodox approaches mentioned above should be highlighted. More broadly, they support the citizen's search for a 'good life', to use Aristotle's expression, or '*buen vivir*', to use the phrase adopted in the Andean countries, by outlining the theoretical foundations of a plural democracy and a plural economy, with the SSE examining the practical conditions for their recognition.

### **An Aim for Democratic Social Change**

'The alternative is as follows: the extension of the democratic principle of politics to the economy or the outright abolition of the democratic "political sphere"' (Polanyi 2008, 393). This statement, made in 1935, is even more relevant today, as we see the emergence of a service economy with a strong immaterial and relational component. Indeed, within this economy, informational interactions are much more numerous and constitute a form of work that participates in the public sphere in a new way.

In any case, democratization of society cannot occur without democratization of the economy, which itself depends on new alliances between civil society and public authorities. There are signs of mutual rejection, as governments become more technicized, and citizens are becoming increasingly distrustful of institutional politics. Yet such alliances are emerging in areas such as the defence of common goods, whether local or global, from water to free licences (see entry 13, 'The Commons'). As Elinor Ostrom (1990) has shown, it is not possible to recognize these common goods if we start from a dichotomy between market and state. This can be achieved, however, through a combination of an engaged citizenry and new policies. To counter the excesses of capital and to maintain ecodiversity – which is equally as necessary to a living democratic society as to biodiversity – it is important to diversify forms of resistance, drawing on aspects of the real economy that are made invisible by its formal definition. This is why the SSE, understood from a Polanyian perspective, can no longer be scorned or dismissed in thinking about emancipation, as the proliferation of research in this direction shows.

Furthermore, the SSE requires an approach in which ideas and practices are interwoven. The separation between 'material' and 'ideal' motivations has, in Polanyi's view, produced 'disastrous' consequences for the vision that 'Western man' has of 'himself and his society', with hunger and profit the only real motives for the individual's participation in economic life, and other incentives seen as 'distant and hazy' (Polanyi 2011, 45–6).

However, if democratic possibilities are to be opened up, then what is material and what is ideal must not be separated. Economic motivations cannot be mistaken for material motives; ideas cannot be the prerogative of experts who are supposedly alone in having access to the truth about reality. 'It is the interdependence of thought and experience that gives us the method to follow. For terms and definitions established without reference to data would be hollow, while a simple collection of facts without readjustment of our perspective would be sterile' (Polanyi 2011, 31). To avoid this vicious circle, conceptual and empirical research must go hand in hand. The need to debate the interpretations made of SSE initiatives is taken up with vigour by major authors such as Jose Luis Coraggio (2015). According to him, these initiatives give agency back to citizens, countering the economic determinism that has dominated approaches to social change for far too long.



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