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Principles of Institutional and Evolutionary Political Economy: Applied to Current World Problems

by Phillip Anthony O' Hara

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Heterodox theory is constantly conquering new domains. Its progress is certainly noteworthy and can no longer be ignored. Earlier, the insurgence of its minor “sects” could be underestimated, but the situation is entirely different today. There used to be an epoch in which heterodox theory could have a negative identity, given the fact that it was defined based on orthodoxy. However, it can no longer defend itself as being a mere victim of the dominance of orthodox discourse. Perhaps the changes that have led to the expansion and pluralization of the economic discourse are not revolutionary in bringing rapid changes (this particularly refers to the speed that the representatives of the heterodox theory would like, even after the 2007 crisis, which in all likelihood is not a recurrence of the 1930s in terms of the depth of the economic discourse change), but they can be clearly and unambiguously identified. Orthodoxy, with its sense of over security in its fortress, can no longer afford to ignore the results of heterodoxy: we can observe the fact that even Nobelists (albeit critically) or neo-Keynesians (Gregory N. Mankiw 2020; Paul Krugman 2021 for example) refer to the corresponding claims of certain heterodox directions. Think of the case with Modern Money Theory – MMT; it is no coincidence that MMT appears as an important direction in this book (see p. 299), although certain criticism can be accepted.

There has certainly been the genesis of change in the situation, and we could talk at length about it. The excessive self-assurance of orthodoxy was already shaken during the crisis of 2007/2008 when deep doubts appeared regarding the effectiveness of the well-established economic discourse. The various economic and political measures that followed also loosened the framework of orthodox economic philosophy. The earlier ideological-negatory attitude towards state interventions in the market could no longer be maintained, so the purism of orthodoxy suffered the attacks. In terms of conceptualization, the fact that heroes of the heterodox trend, such as Keynes, appeared (again) on the horizon of economic discourse in the form of saviors, signified, if not a reversal, but at least a *transformation*.

In reality, the pandemic (Covid-19) combined with the simultaneous existence of a number of crisis tendencies (the term “polycrisis” appeared within the framework of economic discourse) generated additional impulses to the rise of heterodoxy, which was ready to offer its principles to transform the categorical system of economic science. The pandemic is far from being just another fleeting historical instance that will soon be forgotten; it offers many lessons and heterodoxy, without a doubt, has recognized its chance here. A struggle over discursive supremacy regarding the interpretation of “polycrisis” (Matthew Davies and Christopher Hobson 2022) certainly exists and the fate of heterodoxy will depend on the answers it will give in the coming period. After all, if the claim about “polycrisis” stands, that we are witnessing an unprecedented condensation of different crises that carry elements of diversity of previous situations; then, it must be said that heterodoxy must strive to affirm its readiness in terms of the articulation of contemporary problems.

Phillip Anthony O’Hara’s book must be set in this context. It is symptomatic that his methodologically refined and concisely written book strategically confronts, in tables and statements, the corresponding propositions of orthodox and heterodox approaches. The sharpening of the differences between heterogeneous and orthodox principles makes it clear which orientation is pursued in this book.

What makes this book special is also its ambition to present a sketch of the *entirety* of the heterodox discourse. Whoever is interested in the in-depth achievements of heterodox theory, especially concerning the present, should read this book carefully: it will help construct the view of all socio-economic relations. O’Hara was previously known for making an overview of those areas relevant to heterodox economic theory (see Phillip Anthony O’Hara 1999). He is certainly familiar with heterogeneous discourse well enough to try to synthesize and classify the vast stocks of heterogeneous discourse.

A heterogeneous discourse reaching for “complexity” will necessarily become complex itself. It should be taken into account that heterodox economists are emphatically skeptical of the “reduction” of complexity in orthodoxy: it reduces complexity to a few determinations from which various propositions are deductively derived. The intense non-linearity that characterizes the economy, however, calls into question the efforts of orthodoxy regarding deductive reasoning. This does not mean that the representative of heterodoxy does not realize some kind of reduction of complexity – without this, theoretical reflection would not be possible, but it appreciates the constitutive elements of complexity to a much greater extent than the representatives of the orthodox orientation.

The institutional-evolutionary political economist will thus emphasize the irreducible complexity of the economy that should be defended against reductions: “The economy is a complicated system of arrangements comprising numerous roles, positions, strata, rankings, estates, divisions, sectors, institutions, ideologies and belief systems”. This complexity manifests itself in various classes of occupations, skill-sets, strata of status positions, and officials” (p. 25). Thus, the heterodox theory claims the right to consider “evolutionary propositions, endogenous processes, self-reproduction, emergent properties and ‘holistic’ relationships” with refusal of “general equilibrium”,

and emphasize the “constant flux of variables interacting through historical time, and a transformational reality of change and uncertainty” (all, p. 65).

Why should the results of the institutional and evolutionary economy be affirmed? Is it just a theoretical dispute, or...? The specificity of O’Hara’s book is that it considers operationalization range of heterogeneous discourse, that is, it tests the effects of the same discourse with regard to the modern dynamics. By introducing the principles and concepts of institutional and evolutionary political economy, we get patterns for a concrete analysis of the current capitalist reality. Most of the book consists of applications of heterodox principles. The author of the book is particularly interested in “policy-oriented” economic approach, and “institutional realism” which is engaged in the dialogue with the present and shows the advantages of institutional-evolutionary political economy in terms of explanatory capacity compared to orthodox theory. Needless to say that the author’s choice to use the phrase “political economy” is a sign of him taking the path that separates him from orthodoxy.

In doing so, O’Hara acts ecumenically: the contributions of Karl Marx, Joseph Schumpeter, Thorsten Veblen, John Maynard Keynes (and others), as well as feminism are important to him. He reflects on the results of post-Keynesians (Keynes, for example, is not strongly affirmed in all heterodox directions), but on those of neo-Marxists, too. Of course, he does it from an institutional-evolutionary perspective, so Keynes and Schumpeter will become “institutional-evolutionary scholars” (p. 28). Furthermore, he does not only rely on European authors for tradition, but he also considers Japanese authors for the development of his argumentation. Furthermore, his approach goes beyond the narrow framework of economic discourse and enters the field of multidisciplinary. Obviously convinced that economic reflection must respect the results of other disciplines to be able to speak complexly about the current phase of capitalism, O’Hara decides to adopt the numerous results of non-economic disciplines, but he also processes them for the purpose of his analysis. Here, heterodoxy is presented as an orientation that is no longer defensive but is entrusted with the task of analyzing “world problems” to focus on itself in the sense that it can influence the course of politics.

At the same time, the analysis of contemporary capitalism was started with a critical intention: here we are talking about “capitalism”, “neoliberalism”, “globalization”, “world-system”, “uneven development”, and “financialisation” – these terms are loaded with criticism, at least in this book, and as such, they break through the framework of orthodox orientation. This should be noted because both institutionalism and evolutionary logic are present in other non-heterodox orientations, so there is institutionalism with a neoclassical mark, just as there is also Austrian-biased affirmation of evolutionary logic (I shall leave aside the debate here whether Austrian economic theory is heterodox or orthodox). Accordingly, it is necessary to point out the intentions present in this book, which separate it from the orthodox articulation of institutions in the economy, and evolutionary aspects of economic life.

As for the structure of the book, the first three chapters discuss conceptual reflections and their history. They help us recognize the historical dynamics of the principles that are important for institutional and evolutionary political economy. I will list some of those principles that are explained in detail in the book: circular and cumulative causation, historical specificity, the principle of heterogeneous groups and agents,

uncertainty, innovation, and the principle of institutionalized culture and evolution. Still, the categories such as trust and precautionary principle have also gained their part in the argumentation.

As for capitalism, it should be said that it is problematized *à la* Marx, through “contradictions” and “unstable reproduction of economic system” (p. 80). Contradictions (for example between monopoly and competition, capital and labor, etc, p. 108) create systemic dynamics and prevent the economy from becoming paralyzed – at the same time, they indicate conflicts in the foundations of the system. I emphasize again that this is an institutional-evolutionary perspective that demystifies the teleological criteria of orthodoxy and highly respects the relationship between “agency and institutions”, and “habits and instincts” (p. 80). “Historical evolution” is here a key determinant mobilized against the teleological logic of orthodoxy (“end-state”): the determinant in question allows to overcome the underestimating attitude of orthodoxy towards historical dynamics and to talk about the importance of temporality for the reproduction of the economic system.

The pertinence of the stated principles is thus tested concerning the “political economy of the coronavirus”. The choice, that is, putting the chapter in question first in terms of operationalization, is probably not accidental given the recent experiences with the pandemic. Each stated principle is put to the test here, each previously mentioned conceptual indication is tested on new ground. The claim that the “political economy of the coronavirus pandemic” should be studied criticizes the typical stand of orthodoxy which is to cover up, and suppress the elements of power to obtain (supposedly) neutral aggregates – here, the goal is intentionally set to investigate the “structure of power” that breaks through the socio-economic dynamics of the pandemic.

The next chapter deals with climate change from a well-known methodological perspective. The changes must be included in order to articulate the complex interdependencies between nature and the economy. In addition, the principle of uneven development is affirmed to analyze the continuously existing fact that the periphery is more strongly affected than other parts of the world. Finally, so commonly used programmatic indication of “sustainability” (which is in danger of becoming empty due to inflationary use) takes a political-economic shape.

Corruption is discussed on the basis of the principle of “historical specificity” and the contradictions marked by “systematic corruptions” are particularly emphasized. Furthermore, uneven development is also discussed, as well as the peculiarities of corruption in the periphery, and endogenous processes that strengthen corruption in institutions.

Next chapter presents a discussion that is within the framework of neurobiological political economy. Analyzing the possibilities of artificial general intelligence and humanoid robotics, the author of the book illuminates the issue from the point of view of institutional-evolutionary political economy, which shows that the principles mentioned so far are especially useful for research in this area.

The eighth (slightly shorter) chapter in the book thematizes an aspect that runs like a red thread through the book: policy and governance. These are the aspects that give meaning to the heterodox theory that aims to be practical. Their biggest problem is that they face the phenomenon of multi-causality. This is also the moment when the

announced contradictions can be sharpened and when they acquire new meanings: the contradiction between “monopoly and competition”, the contradiction between capital and labor as “core” (p. 262: in this regard, the ambition of the heterodox theory presented here to “advocate moderating... contradictions between capital and labor, *ibid.*), between industry and finance, ecological and market capital”.

I would especially single out the discussion in the forms and gradual variations of embeddedness, which is declared to be the “prime contradiction” anyway. It is a theme traditionally associated with Karl Polanyi, and it gets a deserved place in this book. At the same time, O’Hara models here, as well as in other chapters, combinations of explanations and visual presentations – I have recognized a significant pedagogical dimension in this.

Money and credit dynamics are the subjects of chapter nine. After the historical thematization of money, the “dynamic circuit of capital” is analyzed and well-known endogenous and exogenous theories about money are confronted. Consequently, in order to report on the crisis dimensions of money movements, the famous figure of heterodox theory, Hyman Minsky, and his theses on financial instability receive special attention in the analysis. As I have already indicated, reflections on MMT can be read here, more specifically, “friendly critics” on its account are the first to be taken into account. Nevertheless, O’Hara is unequivocal in his assessment: MMT “does have a core of logical consistency” (p. 300) - although, of course, he does not deny that MMT requires further theoretical treatment. In other words, the author of the book obviously highly appreciates the results of MMT, which is a continuation of chartalism in terms of money; it is a theory that attacks various economic-political logics that affirm austerity for the purpose of economic rationality and, of course, he wants to change our thinking about deficit spending of the state. It is no coincidence that MMT appears in the book that aims at making a strong and direct connection with the policy: MMT and its not a small number of supporters want to change the framework of economic policy.

The tenth chapter again enters the sphere of distinct operationalization: terrorism. Perhaps it is needless to say that the discourse that protects “economics” from insufficiently “consistent” non-economic domains implies suspicions of such undertakings. Still, if the economic discourse cannot discuss such phenomena as terrorism, then we can rightly be skeptical about its effectiveness.

The eleventh chapter can be observed as a parallel to the analysis of the covid-situation. Here, the focus of analysis is HIV and AIDS, with an emphasis on the eruption of the crisis of reproduction. Heterodox theories can talk about it adequately if they tackle the socio-economic dimensions of the said processes, which this chapter does.

The final chapter of the book is entitled “Love Capital and the Nurturance Gap”. Again, we can speculate about the coincidence that the argumentation ends with this intriguing topic – I must admit that I was doubting the adequacy of transferring the concept of “capital” to love. However, regardless of this relatively minor skepticism, this is a very exciting chapter (are there really policies in capitalism that will stimulate love, see p. 352). Namely, love is a more challenging notion for economic analysis than any previously mentioned phenomenon. The economic discourse has said little of the relevance of love, behaving in an economistic manner *à la* Gary Becker. It should be noted that O’Hara starts from various critical analyses in our journal *Panoeconomicus*

that thematized the rise and reign of neoliberalism – it is the socio-economic framework that represents the context for the critical analysis here, which affects even its own orientation. Namely, he claims that considering the relevance of love in social practice, the political economy he affirms would be much less valuable if it could not include the analysis of love – O’Hara talks about the fact that it is a “great shame” that institutional-evolutionary theory omits the phenomenon of love, which should be at the forefront of those problems that are on the research list of this political-economic orientation. Love (Agape, Eros, etc.) and its different dimensions are analyzed through contradictions, between an individual and society, markets and nurturance, love, freedom, and constraint – it is a framework that enables a critical discussion about “post-familial family” and about “putting” of “self above group” (p. 379).

To conclude and summarize the previously stated: this book, in addition to the theoretical virtues already stated here, and the operationalization of the given theoretical direction, also exhibits pedagogical values. Its tendency to show the capacities of heterodox theory with an institutional-evolutionist conviction can be a guide to all those who wish to convince themselves of the social relevance of heterodox theory. Although the addressees of this book are probably primarily (both heterodox and orthodox) economists, the representatives of other disciplines who receive the results of economic theory can also learn lessons. Such a chapter on the pandemic could be consulted by all those scientists-experts who are interested in the socio-dimensions of the pandemic (other attempts in this field can be easily confirmed, see for example Jackues Pepin 2011 and Robert G. Wallace and Rodrick Wallace 2016) – the same can be said for those scientists who are interested in the study of HIV and AIDS. Why wouldn’t terrorism researchers consider the results of the chapter on terrorism? Why shouldn’t those dealing with corruption consult the relating chapter on the subject?

Once, the Nobel laureate John Hicks, certainly a non-heterodox economist, said that a large part of economic theory is for “intellectual attraction”, in fact, “it is a good game” (Paul Davidson 1979, quoted by T. W. Hutchison, *The Politics and Philosophy of Economics* 1981, p. 266). That sounds like harsh self-criticism – although we can only guess which part of the theory Hicks was referring to. It is possible that he would recommend an ideal combination, namely that our theory should be intellectually attractive, but at the same time, it should go beyond the narrow framework of “game” in the aforementioned sense. Yet, this is not easy to achieve. It is certain that the representative of “institutional-evolutionary” political economy wants immeasurably more than just a “good game” – if we understand “game” as optional theoretical self-referentiality. The heterodox theoretician is convinced that “intellectual attraction” is too high a price if it means giving up the persistent analysis of socio-economic reality. Namely, the theory will inevitably remain sterile, however sophisticated, if it is fenced off from entering the rut of the dynamics of current capitalism. The heterodoxy that promotes the results of evolutionary political economy is itself encompassed by evolutionary logic; this means that it is also part of the reality of capitalism whose dynamics involves various contingent processes. It claims that these contingencies belonging to the complexity of economic reality cannot be articulated by a mathematization that is closed to the dynamics of capitalism: it does not reject models, or different matrices, but combines the striving for logical consistency and narrative elements of the flows of capitalism in a different

way than orthodoxy does. Heterodoxy is in such a position that it cannot renounce self-understanding, especially not in a dynamic context – it remains to be seen whether the unprecedented condensation of contemporary crisis processes will work in its favor.

The focus on politics definitely implies the author's intention to present the heterodox orientation in contradictory aspects of the present with practical intentions. Of course, he thereby takes on the risk of going into a battle with orthodoxy, which, regardless of the transformations mentioned here, still has a strong foothold. Heterodoxy has changed a lot in terms of the configuration of economic discourse, but nothing is over yet.

“Institutional realism” which is recommended in this book as a possible path for researching the complex reality (which is determined by aspects of radical uncertainty) creates rich and multidimensional effects. In a word, heterodox economic theory announces itself here as an indispensable participant in the conversation about the evolutionary dynamics of capitalism which leads us in uncertain directions. Affirming the fact that this task can bring forth shaped political-economic reflexivity speaks in its favor.

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