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Understanding Political Economy, Capitalism, Democracy and Inequality

by **Bob Hancké, Toon Van Overbeke, and Dustin Voss**

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Bob Hancké, Toon Van Overbeke, and Dustin Voss (hereafter referred to as "the Authors") advocate for the revival of political economy. More precisely, they aim to contribute to what they see as a renaissance that has been unfolding over several decades.

The term "political economy" can, at least mechanically, be broken down into its political and economic dimensions. Considering this, the subtitle of the book makes it clear that politics holds greater significance here than economics. The Authors believe that sociology and politics have fundamentally contributed to the stabilization of political economy - this in itself is a critique of the notion that economics alone can resolve the issues of political economy.

Of course, we must remember that certain theoretical trends in recent decades have led to an understanding of politics that reduces it to economic terms, either by emphasizing utilitarian rationality or by equating politics with a mere reflection of market categories (e.g., the marketplace of ideas).

The genesis of political economy in the book can be described as (partially) standard. Classical political economy, the Industrial Revolution, and the split between subjective and objective determinants are the elements that explain both the rise and the erosion of classical political economy. In terms of classical political economy, the figures of Smith, Ricardo, and Marx (joined "hem: the recognition of "blind forces" above the heads of economic actors (think of Adam Smith's invisible hand or Ricardo's comparative advantage, p. 6), which are the "drivers of capitalism" (*ibid.*). In other words, classical political economy favoured "structural determinism".

However, the Authors characterize this trend as one-sided. Accordingly, they suggest that a reaction was inevitable, which came in the form of subjectivism. Their understanding of the subjective turn arises from resistance to the logic of an imposed "objective reality" in economics - a rejection of frameworks that dismiss "mediated through subjective experience" (p. 6.). They connect this with the issue of constructivity and the creation of social meanings (e.g., the concept of unemployment means something entirely different to Keynes than to neoclassical economists).

Thus, unlike some other (heterodox) interpretations, the Authors do not see the subjective turn in economic discourse as an automatic reflexive decline but rather as a conditioned discourse grappling with the one-sidedness of the classical approach. For instance, they note that Alfred Marshall "introduced the idea that actors make these subjective choices" (p. 7) and that marginalists had both a "substantive and a methodological side" (*ibid.*). This crystallizes a narrative of a great conflict within political economy, where both sides have some justification: on one side, sensitivity to objective determinants; on the other, a "blindness" to these determinants but an affirmation of choice.

The next step is the emergence of macroeconomics as a new subject and object. For the Authors, this signifies a new reflexive level of economic discourse that recognizes the constitutive nature of the *whole*, which is no longer a mere aggregate of disparate parts. Unsurprisingly, this highlights the historical role of John Maynard Keynes, who not only acknowledges this constitutive nature but also sees the aggregate of individual decisions as a potential source of crisis. The Authors conclude that Keynes marks a new chapter in the history of political economy: a synthesis of the "abstract workings of the economy" on one hand and democracy and political deliberation on the other (p. 10).

The Authors consistently emphasize the relevance of institutions, avoiding a drift into subjectivism. Moreover, they argue that institutionalism played a revolutionary role in the 20th century, a consequence of the growing complexity of the economy. It is essential to recognize the true scope of institutionalism: it is not a theory with "substantive" (p. 11) ambitions, but rather a framework for "understanding things", specifically economic things. The Authors make it clear that they are particularly interested in the articulation of interests and ideas, as well as their interplay. They highly value the intellectual contributions of institutionalism, which transcends the limitations of earlier political economy: it acknowledges the crucial role of subjective decisions while grounding them in specific frameworks rather than leaving them adrift.

Mainstream economic thought was not silent in response to the early institutionalist advances (though the Authors do not explicitly say this, we might think of American institutionalism *à la* Veblen and others). The Authors see the 1960s as a resurgence of marginalism, which, in various forms, produces a "political economics" *à la* Gary Becker. Simultaneously, the crisis of the 1970s undermines triumphant Keynesianism, giving rise to neo-institutionalism - without the heterodoxy of the old institutionalism, now favouring static rationality.

Concluding their historical narrative, the Authors frame the present in terms of "eclecticism". Historical figures of political economy are still with us (they are not relegated to a refined past as in the natural sciences). The current discourse, however, bears the stamp of neo-institutionalism and rationality. Yet arguments highlighting the limits of markets and the persistence of inequality have also been revived.

This brings us to the problematic relationship between capitalism and democracy. The Authors indirectly analyse this intriguing relationship by exploring different options regarding the interchange of capitalism and democracy (contrasting pessimistic and optimistic variants). This allows them to construct a vector space where various forms of engagement are mapped. They also acknowledge the argument of Torben Iversen and David Soskice (2006), who emphasize the interest of the "aspirational middle class" (a recurring theme in the book) in balancing capitalism and democracy. Thus, the goal is not to provide a definitive answer to the question of democracy and/or capitalism but to develop a heuristic response that enables analysis of their evolving relationship.

The Authors return to a question they deem important: why do different countries approach the combination of capitalism and democracy differently? They also note the fluidity of these scenarios: optimistic and pessimistic positions vary depending on socio-economic dynamics - particularly crisis processes. Empirically, the 1990s saw strong democratization, suggesting that accelerated globalization and marketization (nevertheless) promoted democracy. However, post-2010 dynamics (presumably referring to the 2007/2008 crisis) warn that the ultimate consequences remain uncertain. This leads the Authors to temper their arguments with caution, presenting political economy as a discipline/discourse that must be prepared for "puzzles".

The next chapter focuses on the driving forces of interests. Earlier hints that political economy lives with its predecessors are confirmed here: the objective philosophy of interest from classical political economy is invoked. This orientation is valuable because it explained key phenomena like imperialism, colonialism, and class formation. However, the Authors are dissatisfied with its one-sidedness, as it fails to illuminate historical variations (e.g., differing labour policies). In other words, classical political economy cannot account for the manifestation of subjectivity or the conditioning institutional structures. Yet the Authors maintain balance: while criticizing classical objectivism, they soon critique neoclassical subjectivism as well.

This cautious and distanced approach characterizes the book's argumentation overall. For example, they discuss rational choice, deeply embedded in political economy - often referencing Mancur Olson's work on collective action (their institutionalism posits that institutions are crucial for resolving collective action problems). They argue that rational choice can explain some episodes of social life but faces significant obstacles in explaining cooperation. Thus, they highlight the problem of cooperativeness (e.g., climate change) and show how rational choice logic clashes with cooperative moments in the economy. Political economy also turns to game theory for explanations, but the enigma of why cooperation is rational at all remains. They conclude that rational choice has necessary limits, opening the door to behavioural critiques.

After interests, the Authors examine the significance of ideas as "cluster concepts" (p. 52), particularly the scope of the rationality of ideas. Max Weber's approach to how actors make events and their surroundings meaningful (*Verstehen*) is highly valued here (interestingly, the Authors find this especially relevant for analysing uncertainty). The importance of ideas is demonstrated by their production of "shared meaning", their role as "causal mechanisms", and their function as "guides for action" (*ibid.*).

The Authors then analyse the role of ideas in the EMU (European Monetary Union), employing a constructivist approach that emphasizes the creative moments of idea production. Constructivism helps bridge interests and ideas, showing how ideas enable economic actors to give meaning to their actions - to shape their interests. At the same time, their balancing act leads them to acknowledge critiques of constructivism: ideas alone do not guarantee dominance - additional factors are needed to explain their power. Possible candidates for combining constructivism with other causal mechanisms include economists as interpreters and promoters of specific economic policies (e.g., the spread of neoliberalism) or unions in labour markets within the EMU. In any case, the Authors stress that ideas alone are inadequate for explaining their own penetration: the monetary ideas of *Bundesbank* bankers do not fully explain configurations - the position of unions in export-oriented sectors (e.g., in Germany) must also be considered.

In any case, the Authors write, "economic paradigms" must be taken into account, as must the causal influence of ideas. Moreover, they link ideas to the articulation of power, particularly in cases of race and gender, concluding that ideational explanations are indispensable but must be supplemented with either an "institutional frameworks, or pure power" (p. 59).

We have already seen that institutions are attributed great importance, even described as having "ontological" significance. Their relevance is demonstrated in a non-reductive understanding of market functioning: orthodox views that neglect rules and institutions fall short. Even the simplest market requires rules - the Authors seem to equate rules and institutions.

We encounter another critique here, this time targeting classical political economy, which is described as having erred by attributing excessive freedom to economic actors and imputing the logic of *homo oeconomicus* to them. The approach is familiar: analysing different theories (discursive, sociological, historical institutionalism), highlighting their strengths and weaknesses, and evaluating them against socio-economic reality. A characteristic historical episode (e.g., the decline of postwar Keynesianism) is selected to test a theory's explanatory power.

The Authors raise questions of primacy, cause, and effect: Do interests drive institutions, or do institutions provide the infrastructure for interest dynamics ("institutions as causes" of social behaviour)? Are institutions creators or mediators? They mention the well-known distinction by Daron Acemoglu and James Robinson between inclusive and extractive institutions but are particularly interested in the standard question of how institutions change.

A strong candidate for institutional change is crisis. However, some changes are not punctual but continuous - for example, "incremental change", as in the case of "welfare state retrenchment in the United States" (p. 72), where social programs are far less resistant than often assumed. In short, institutional changes are highly heterogeneous and always non-neutrally linked to political manifestations - hardly surprising, given we are in the realm of political economy.

The next chapter discusses markets. The example of the financial market collapse (2007/2008), which was both a "trigger" and an "output" of the crisis, introduces an intriguing feedback loop between cause and effect - though this moment is not explored more broadly. Emphasizing an institutional understanding of markets, the Authors highlight a key thread of the book: instead of a deregulation narrative, institutionalists show that there are intricate links between market freedom and rules - a "freer market" may require more rules. The institutional paradox is that the freer the market, the more rules it demands. Institutionalism reveals to economic discourse that markets always operate within frameworks - political economists see this as confirmation that market mechanisms are always linked to extra-market elements. Moreover, markets should be viewed with ambivalence. In other words, institutionalism offers a perspective for understanding the institutional frameworks of market failures (externalities, etc.).

The following chapter covers the welfare state, positioned in the triangular relationship of market, society, and state - under capitalism. The Authors attribute a constitutive role to the welfare state, even calling it one of the greatest achievements ever. Its definitive rise is dated to a situation 100 years ago; before that, elements of the welfare state may have existed, but its stabilization began only in the 1930s. The Authors emphasize that the welfare state strategically mitigates the negative social effects of capitalism's profit-driven efficiency, amortizing rampant inequality. Intuitively, it is justified to see the welfare state as the corrector of the market (p. 93), carrying the role of social justice. However, they also note the "complementarity" between the welfare state and capitalism, adding functional dimensions to the welfare state, as this arrangement is framed in terms of efficiency norms. While the genesis of the welfare state may reflect social struggles for justice, capitalists have succeeded in functionalizing it. The Authors argue that the welfare state must be seen as contradictory: on one hand, it acts to "decommodify" labour (a term rare in economic discourse but central to economic sociology); on the other, it prepares the ground for "recommodifying" labour by reintegrating it into the labour market.

Our perceptions of the welfare state have undeniably changed. Triumphant neoliberalism has painted it as a burden and a brake on capitalist profit. Fiscal logic has been mobilized to prove that the welfare state entails high costs - that it overburdens the state and efficiency-oriented economic actors, producing negative fiscal impacts. This has prompted politicians to pursue fiscal reforms and enforce "permanent austerity" (Paul Pierson 2011, p. 100). The Authors describe the recurring difficulties in implementing these reforms.

They offer an intriguing thought: "In the strict sense of the word, a fiscal crisis cannot exist. The crisis is an outcome of political choices: the size of the tax base and the definition of priorities, for example, in the denominator, and the economic growth rate in the numerator" (p. 97). A crisis is always positioned within *political frameworks*, reflecting shifts in political preferences or the perceptions of those steering the state apparatus. Instead of framing tax cuts as economic necessities or balancing acts, we should recognize that they create winners and losers (as in the cases of Ronald Reagan and Margaret Thatcher). The phrase "fiscal crisis" becomes an "instrument" in political configurations - here, we see the intervention of political economy, warning that the logic of economic laws must be interpreted differently from standard understandings.

The next chapter asks: Why do some democracies exhibit greater inequality than others? This question again reflects the enigmatic relationship between capitalism and democracy: one logic pleads for inequality as an engine of action, the other assumes equality among participants a priori - though neoliberalism has normalized inequality. The Authors argue that the "traditional focal point of political economy" - "political conflict over scarce resources" (p. 106) - must be considered. They believe this logic applies to democracy, which encapsulates equality and pluralism.

Yet we witness a genuine enigma for political economy: Why don't the poor use democratic resources to seriously subordinate the rich? Why don't their preferences translate into deep changes in redistributive policies - if the democratic game allows it?

As we know: a perpetual fear of redistributive engagement by the poor has shadowed history. Further, the Authors register explanations invoking rationality - the behaviour of "rational voters", articulated through the figure of the "median voter" (though this model has since been corrected). However, they highlight the limitations of the rational voter model and prefer an institutionalist approach. Institutionalism sheds light on voter turnout, distributive outcomes, participation, and inequality: the middle class fears concerning the redistribution by the poor is stronger than it desires to subordinate the rich by taxes. Thus, redistribution is shaped by fears moving both upward and downward.

They emphasize that economic policy does not reflect the preferences of the median voter; instead, the concrete organization of interests is more significant. The Authors add the relevance of political-economic approaches analysing lobby activities and transaction costs in solving collective action problems - further explaining why preferences may not translate into redistributive policy changes.

The final chapter addresses the problem of coordination and cooperation in an increasingly interconnected world. The EU again takes centre stage: once launched as a peace project, it is now increasingly subject to latent or explicit political conflicts. The Authors identify various solutions to coordination problems - particularly in the EU: convergence of interests, collective action, and normative orientation. While they acknowledge the merits of these solutions, their analysis of different cases suggests that none can provide a complete answer. Coordination simply requires more than aligning interests, affirmed collective action solutions, or "normative focal points". The Authors conclude with an analysis of federalism, which paradigmatically embodies questions of joint decision-making, and the application of game theory to coordination possibilities - assessing that coordination is harder than assumed (gains are unevenly distributed) but still possible (p. 131).

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Understanding Political Economy delivers what it promises: testing political economy against contemporary realities. I have only minor considerations.

Why attribute the figure of *homo oeconomicus* to classical political economy (p. 63) when the paradigm of political economy *per se* deconstructs this figure? Besides, the dichotomy of objective/subjective, though appearing in other interpretations as well, seems overstated, suggesting that classical economists (including Marx for the Authors) completely excluded subjective factors - e.g., Ricardo's distribution problem or Marx's treatment of the capitalist class reference subjective dimensions. Moreover, neoclassical economics cannot be homogenized based on subjectivity (Geoffrey M. Hodgson 2012). Finally, neoclassical economics is not just a turn toward subjectivity but a *breakthrough* in understanding economic reflexivity.

Why, further, tie political economy to "conflict over scarce resources" (p. 48)? This alludes to Lionel Robbins' famous 1932 definition, but far from being universal or universalizable: the absolutization of scarcity (even as “conflict”) clashes with the logic of political economy. Scarcity as a horizon cannot be transposed onto classical political economy, which focuses on distributional conflicts.

In the end, the Authors successfully and convincingly demonstrate the relevance of political economy through theoretical analyses and case articulations. Economists can learn from this. After reading this engaging book, we become convinced that economic discourse without political economy is simplistic.

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