

INSTITUTIONS AND CAPITALIST DEVELOPMENT: A MARXIST/INSTITUTIONALIST
ANALYTICAL FRAMEWORK *

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1. Introduction

Capitalist countries do not converge toward a unique model. Despite predictions of economic and institutional convergence, a great variety of production structures, socio-economic relations, and patterns of spatial distribution of resources co-exist and persist in contemporary capitalism (Hall and Soskice 2001; Hodgson 2001b, and 2003b; Hodgson et al. 2001; Boyer 2005; Baumol et al. 2007). A key ingredient of this variety is represented by the multiple modes of inequality – including class, income, gender, religion, space, and ethnicity – which cross capitalist economies, emphasising social differences within countries and among countries. A major role is played by the increasing inequality in income distribution that has been observed since the first Industrial Revolution (Bourguignon and Morrisson 2002; Wade 2004; Milanovic 2011, 2012).

Undermining the concepts of uniformity and convergence on which economic theory relies, the diversification of development patterns and the increasing inequality among individuals and groups bring about a major theoretical impasse. Owing to its focus on equilibrium and uniformity, neoclassical economics is not fit to address the complexity of contemporary capitalism. By contrast, Marxism and Institutionalism appear suitable candidates. Yet, each considered individually, they provide only a partial analysis of capitalism and could not account, simultaneously, for variety and

* This paper largely relies on Chapter 2 of my book *Capitalist Development in India's Informal Economy* (Routledge, 2013), in which I have applied the Marxist/Institutionalist framework to the analysis of informal capitalism in India.

for inequality. On the one hand, Marx's theory contributes to the understanding of capitalism, focusing on the commoditisation of labour and capital/labour conflict, but does not account for the variety of development trajectories. On the other, Institutionalism explains variety as an outcome of the interplay between individuals and institutions, but misses the centrality of capital/labour conflicts. Innovative conceptual tools are then needed to address simultaneously growth and change in 'real world' economies.

In this paper I argue that this theoretical impasse might be solved by means of an eclectic framework based on a combination of Marxist and Institutional concepts and propositions. The framework I propose is eclectic in many senses. On the Marxist side, it is built on Marx's analysis of capitalism integrated and amended of dogmatism and determinism by the contribution of Critical Marxism. On the Institutional side, it relies on Evolutionary Institutionalism, i.e. the branch of Institutionalism that, building on Thorstein Veblen's agency theory, rejects the concept of maximising rationality, focusing instead on the interplay between individuals and institutions. By means of the eclectic framework, I conceptualise the impact of institutions on human behaviour and social interaction as a key to explore inequality and variety.

My aim in this paper is to show that the eclectic combination is feasible and enhances the understanding of contemporary capitalism, addressing, simultaneously, inequalities and conflicts, different patterns of individual behaviour and the varieties of organisational forms. The paper is organised as follows. Section 2 deals with Marxism. First, it summarises Marx's contribution to the conceptualisation of capitalism; and, then, it reviews some integrations and amendments to Marx's theory that, in my opinion, have improved the understanding of capitalism facing the unpredicted developments in the XX century. Section 3 deals with Evolutionary Institutionalism. My aim is to show that, with its emphasis on change and growth, this branch of Institutionalism provides a far-reaching theory of capitalism that can enter into a dialogue with Marxism. Section 4 reviews the debate on the dialogue between Marxism and Institutionalism, pointing out the major discrepancies between the approaches. It also suggests adaptations that might assist the dialogue. Section 5 presents the proposition of the Marxist-Institutionalist framework. Finally, section 6

concludes, underlining the contribution of the eclectic framework to the analysis of contemporary capitalism.

2. The main traits of capitalism according to Marx's theory

Relying on the conceptual tools provided by historical materialism, Marx presents his conceptualisation of capitalism in *Capital*, in which he explores class structure and the commoditisation of the labour-force, capital accumulation and the introduction of technical change, and the laws of motion of capitalism.

The capitalist economy is inhabited by three major classes identified on the basis of their control of the means of production and their revenue: 'owners of labour-power, owners of capital, and land-owners, whose respective sources of income are wages, profit and ground-rent' (*Capital III*, 1894, Part 3: 302). The capitalist class structure also includes an intermediate class – the 'petty bourgeoisie' – seen as a transitory class that is to be dissolved by the spreading of capitalism. Class antagonism occurs between the classes of capitalists and workers: 'personifications of economic categories, embodiments of particular class-relations and class-interests' (*Capital I*, 1890, Part 1: 18). Class antagonism requires class-consciousness, i.e. that the members of each class become conscious of their class interests and pursue their class interests collectively.

Labour-power is a commodity which its possessor – the wage-worker – sells to the capitalist. The commoditisation of labour-power is only possible when: i) the owner of labour-power 'offers it for sale or sells it, as a commodity'; a situation that requires that the worker considers it 'his own property, his own commodity'; and ii) the owner of labour-power is obliged to sell the labour power in order to live (*Capital I*, 1890, Part 1: 184-186). As a commodity, labour-power has a value, which is determined by the quantity of labour that is embodied in it, i.e. by the quantity of labour socially necessary for its production.

Capitalists exploit workers by producing and appropriating surplus value: the difference between the quantity of the labour-time socially necessary to produce the commodities and the quantity of the labour-time socially necessary to produce the means of subsistence for the workers engaged in production. Then, the surplus value

comes from unpaid labour-time and it is converted into capital enlarging the scale of production.

Capital accumulation increases the physical basis of production leading to the growth of productive forces. A major support comes from technology, i.e. the systematic application of 'science' to production. Technology increases the quantity and the quality of the means of production, by reducing the 'working-time required in the production of a commodity' (Capital I, 1890, Part 1: 107). Technology is then the main factor of capitalist change.

The role of technical change is enhanced by the competition among capitalists. As innovations increase the quantity of appropriable surplus value, they rapidly spread among capitalists leading to the mechanisation of the economy and, then, to the further development of productive forces. The development of productive forces is then the joint outcome of technical change and of competition among capitalists, and has the final objective of increasing the level of workers' exploitation.

Owing to the compulsion of capitalists to extract surplus and accumulate, and to introduce technical change, the amount of necessary work decreases per unit of product, bringing about a decrease of the average rate of profit. This determines the tendency of the organic composition of capital to increase, leading to the secular decline in the rate of profit. This internal contradiction also accounts for other tendencies of the capitalist economy. The competition among capitalists creates the conditions for technical revolutions and for the concentration and centralisation of capital. Simultaneously, in an attempt to limit the decrease in the rate of profit, capitalists increase the exploitation of workers by increasing the length of the working day. Together with the displacement of workers due to technical change, this leads to class struggle.

Capital/labour conflicts lead to the dissolution of the capitalist mode of production. This is the outcome of the inherent conflict between production forces and production relations, which determines a 'revolutionary' change in the material conditions of production and living. As the development of productive forces is determined by technical change – which depends on the balance of power between capital and labour – also the conflict between production forces and production relations can ultimately

be reduced to class conflicts. Class conflict is the ultimate fate of capitalism. This fate is a consequence of individual choices and actions. Workers are 'free' wage labourers that dispose of their labour-force to sell in the market, capitalist appropriate super-values and transform it into capital. Class struggle is a 'necessary' behaviour for workers, as it is accumulation for capitalists.

These tendencies constitute the 'laws of motion' of capitalism. They lead to the final collapse of capitalism that appears to Marx to be inevitable.

2.1. Understanding the unpredicted developments of capitalism

Marx conceptualises the 'purely capitalist society': an abstract model of society where all pre-capitalist residuals are cancelled out by the growth of productive forces and classes are made of individuals sharing the same pattern of behaviour (Hodgson et al., 2001: 6-7). The basic features of the 'purely capitalist society' are to be observed in every historical and geographical context, and, as Marx asserts in *Capital*, 'the country that is more developed industrially only shows, to the less developed, the image of its own future' (*Capital I*, 1890, Part 1: 16).

History has provided a critical test for this position. Marx's predictions about universal laws of motion and the inevitable collapse of capitalism have been invalidated by XX century history, which has produced a number of 'anomalies' not accounted for (Gouldner, 1980: 14). As Burawoy (1990: 781 et seq.) shows, the development of capitalism and the Russian Revolution 'falsified' the postulates of historical materialism. In advanced economies, the expansion of the forces of production was not being 'fettered' by relations of production, and the concentration and centralisation of capital were not leading to the end of capitalism, while a weak class struggle was unable to lead the transition from capitalism to socialism, and pre-capitalist 'residuals' were persisting in co-existence with advanced forms of capitalism. By contrast, the revolution occurred in Russia, a backward country in which the 'material conditions' for the existence of capitalism were not yet emerged from feudal production relations.

Denying the primacy of structure over superstructure

Antonio Gramsci (1891-1937) is the first Marxist to challenge Marx's view of capitalism, laying the basis for the revision which is necessary to enhance the interpretative power of Marxism in front of the 'anomalies' of XX century capitalism (Resnick and Wolff, 1987: 75-76; Boggs, 2002: 58 et seq.). He moves from a historical relativist approach, maintaining that the ideas and concepts on which individuals rely for their activity are an outcome of social relations.

Gramsci's view of history is first introduced in 'La rivoluzione contro *Il Capitale*', an article published in the socialist newspaper *Avanti!* in 1917.¹ Commenting on the fact that Russia was not 'ready' for the Bolshevik Revolution, Gramsci argues that the revolution is the outcome of an historical process in which both structure and superstructure change, and that change is not induced by abstract 'universal laws', but by 'collective, social will' which becomes 'the driving force of the economy and moulds objective reality'.

This revisionist view of history provides the theoretical basis for Gramsci's theory of hegemony in which he explicitly challenges the primacy of structure over superstructure and denies that history is moved by historical laws exclusively rooted in production relations

Gramsci (1975) assumes – with Marx – that the power of the ruling classes has an economic basis (i.e. the control over the means of production); yet, he also associates this supremacy with other forms of political, moral and intellectual dominance. For Gramsci, the ruling classes keep their leadership over subordinated classes by ensuring their consensus by means of shared ideas and values. The subordinated classes accept the leadership of the ruling classes by accepting their moral and cultural values, and not as a consequence of the use of force.² To describe this form of cultural and moral leadership, Gramsci introduces the term 'hegemony'.

1. 'The revolution against *Capital*'. The term '*Capital*' in the title of the article refers to Marx's work.

2. The "spontaneous" consensus ... is "historically" caused by the prestige (and consequent confidence) which the dominant group enjoys because of its position and function in the world of production' (Gramsci, 1975: 1519).

Hegemony requires a complex process of construction of political and ideological consensus that does not necessarily imply the use of coercion (though coercion is not always excluded) but is based on 'ideology': a system of beliefs, values and symbols that are expressions of particularistic interests.

Arguing that ideologies often are more powerful than material forces, Gramsci introduces the concept of the 'historical bloc' to emphasise that the distinction between material forces (structure) and ideology (superstructure) has a mere 'didactic' significance. In the concept of historical bloc he includes both material forces and ideology, stressing that material forces are the 'content' and ideology is the 'form', and that content and form cannot be taken separately (869). Ideology and superstructure overlap, while structure and superstructure are 'the reflex of social production relations' (ibid.). As Althusser puts it (1970: 51), with the concept of historical bloc Gramsci unifies 'structure and superstructure'.

Stressing the mutual determination of structure and superstructure, and, then, the impact of ideas and institutions on social production relations, Gramsci deeply influences the development of Marxism in the XX century. Due to the uncertain outcome of the interplay of structure and superstructure, the very concept of laws of motion is challenged, while, at the same time, the impact of ideas and institutions on social production relations is acknowledged, undermining the material basis of Marx's concept of class and raising the issue of what determines human agency.

Overcoming class polarisation

As Wright (1985: 6) argues, while his work is 'filled with class analysis', Marx never 'systematically defined and elaborated the concept of class'. Moreover, though in his historical writings he describes several categories and social groups, in his abstract representation of class relations he points to a simple polarisation of the capitalist class structure, describing classes in their pure form on the basis of the relation to the means of production.

Wright challenges class polarisation. He argues that, while capturing the conflicting nature of class structure, this polarised image is misleading. This is due to the complexity of class structure, which depends on: i) the co-existence and intertwining

of a variety of different types of class relations (which are specific to different modes of production that might co-exist); and ii) the existence of a variety of social institutions and formal/informal rules that influence individual rights and powers over production and exchange. Impacting on the position of individuals in classes, the complexity of class structure gives birth to contradictory class locations (2005: 10).

Through this concept, Wright conceptualises the position of the middle classes in the capitalist economy. Middle classes consist of individuals with contradictory class locations: they might have different locations according to their functions in the production process – for instance in the case of individuals who, for some activities, occupy a capitalist location and, for others, a working class location – and/or they might be individuals to whom ‘certain kinds of skills and credentials’ confer ‘effective rights and powers over many aspects of their work’. Individuals in these situations do not have a univocal location as they are neither owners nor workers and/or they are ‘simultaneously’ owners and workers (1985: 125 et seq.).³⁴

By means of these concepts, Wright builds his class analysis on an original concept of exploitation. Exploitation is defined as the situation that satisfies three principles (2005: 16):

- (1) The inverse interdependent welfare principle: the material welfare of exploiters causally depends upon the material deprivations of the exploited.
- (2) The exclusion principle: this inverse interdependence of the welfare of exploiters and exploited depends upon the exclusion of the exploited from access to certain productive resources.
- (3) The appropriation principle: exclusion generates material advantage to exploiters because it enables them to appropriate the labor effort of the exploited.

This conceptualisation has many advantages: i) it allows for a wide perspective on class relations, including both production and exchange; ii) it identifies the roots of conflicts in the capitalist economy; iii) it shows that class relations are substantially power relations; iv) it lays the basis for a theory of the formation of consent: as class

3. Using the category of exploitation, we can say that middle classes are made of individuals who are at the same time exploiters and exploited and/or are neither exploiters nor exploited.

4. Examples are highly-skilled workers, such as professionals, self-employed producers, managers (*ibid.*; see also Ossowski, 1966: 85-89).

relations are power relations in which exploiters appropriate rights and powers over production and exchange, and as this appropriation is costly, then, appropriators can employ ideological mechanisms to reduce the costs for the appropriation; and v) it facilitates comparative analyses in time and space.

Analysing the complexity of labour-power commoditisation

The commoditisation of the labour power is a foundational process of the capitalist economy. While for Marx labour commoditisation occurs when workers are 'free' to sell their labour time in the market and exchange it for a wage, Marxist analysis has recently focused on the multiplicity of forms of labour commoditisation.

Marcel van der Linden (2008: 19 et seq.) challenges the two 'questionable ideas' on which Marx's theory of commoditisation of labour power is built: i) that the labour power is sold by the worker 'who is the carrier and possessor of this labour power' and that the workers who sell their own labour power 'sell nothing else'. He argues that the distinction between the 'carrier' and the 'possessor' of labour power allows distinguishing between 'autonomous' commoditisation (when the carrier of labour power is also its possessor) and 'heteronomous' commoditisation (when the carrier of labour power is not its possessor). To these, two other forms may be added, considering that 'the carrier's labour power can be offered by the carrier him-or herself or by another person'.

Accordingly, the commoditisation of a free worker selling her/his labour force is only one example, while in the real world commoditisation takes 'many different forms'. Questioning the very existence of Marx's free wage-worker, van der Linden outlines many intermediate forms of commoditisation: i) in between wage labour and slavery, ii) in between wage labour and self-employment, iii) in between slavery and self-employment; iv) in between wage/slavery/self-employment and lumpenproletariat. These forms need to be analysed keeping into account key evidences, such as: economic and non-economic linkages between employers and employees; the possibility that labour power is not exchanged for money; and the possibility of multiple employment relations, both for the employer and for the employee (ibid.: 22 et seq.).

The complexity of labour-force commoditisation requires the boundaries between free wagedworkers and other forms of workers to be redefined. It also requires a new conceptualisation of the working class in which different forms of commoditisation may be accommodated. Relying on Cohen's redefinition of the proletariat as the individual who 'must sell his labour power in order to obtain his means of life' (1978: 72), van der Linden defines the class of subaltern workers (ibid.: 33 – emphasis in the text):

every carrier of labour power whose labour power is sold (or hired out) to another person under economic (or non-economic) compulsion belongs to the class of subaltern workers, regardless of whether the carrier of labour is him- or herself selling or hiring it out and, regardless of whether the carrier him- or herself owns means of production.

The class of subaltern workers includes all categories that do not have control over their labour power (their body), their means of production, and the product of their labour, whose lack of control is due to their socio-economic dependency within the household and within the production process (ibid.: 34).

2.2. The unsolved problem of agency and structure

The weakness of the working class is a major evidence of XX century capitalism – an 'anomaly' that Classical Marxism fails to account for. This drawback is a consequence of an inadequate analysis of human behaviour and of its influence on social structures.

Marx's theory deals with human agency in methodological collectivist terms (Hodgson, 2004; Callinicos, 2004; Basile, 2013b). Methodological collectivism is one of the two main approaches to the agency/structure problem, the other being methodological individualism (Hodgson, 2004; Archer, 1995).

In broad terms, the agency/structure problem refers to the nature of the relations between individuals and social structure. Many key questions are associated to it, ranging from the nature of human behaviour and the source of human desires and aims (is human behaviour always conscious and deliberative? how are individual preferences created?); to the nature of society (is society only an aggregation of individuals or is something more, including also 'social relations'? and, again, in

which situations social relations become social structures and then social ‘norms’?); to the mutual influence of human beings and social structures (which one of the two has the primacy)? The way in which these questions are answered – i.e. the way in which the agency/structure problem is dealt with – has major theoretical and empirical implications (Hodgson, 2007: 96 et seq.; Archer, 2000: 66-67; Archer, 1995: 57 et seq.).

Both methodological collectivism and methodological individualism elude the agency/structure problem, providing a one-dimensional theorisation which reduces society to individuals or, symmetrically, individuals to society⁵. In methodological collectivism, what counts is the social structure which is dominant in any specific situation. Individual choices and actions are explained in social terms: they are an outcome of social phenomena and structures. Social structures and their features determine individual aims and desires. Then, individuals are made puppets (Hodgson, 2007: 100). By contrast, in methodological individualism only individuals matter. Deliberate and conscious behaviour is specific of human beings and social phenomena are an outcome of individual choices and actions. Individuals generate social structures, but social structures do not exert influence on them. The features of society are embodied in individuals and society is nothing more than a collection of individuals (Archer, 1995: 251).

Methodological collectivism brings about two major theoretical problems which undermine the understanding of the relations between agency and structure. First, structures show willingness and deliberation (attributes that are specific of human beings): they are the ‘agents’. Second, methodological collectivism leads to determinism. Individual behaviour is determined by the structure, which, at the same time, shapes goals and desires. It follows that, according to the nature of the structure which prevails in any situation – and which might be an expression of the economy, technology, and culture – different forms of determinism are observed.

In Classical Marxism, class is the agent and the motivations of human agency are found in class interests rationally pursued by individuals. Then, human agency is explained in determinist terms: individuals enter production relations that are

⁵ Archer refers to this situation as ‘conflation’ (1995: 6 et seq.).

independent from their will, their consciousness is determined by the material conditions of production, and their actions are consistent with their class location.

Althusser (1967) provides the major theoretical support to this view. In his attempt of presenting Marx's theory as a 'science' free from all ideological influences, he argues that Marx rejects the whole idea of individual agents – which he believes to be an outcome of ideology – to focus instead on production relations. For Marx, economic development has to be explained in terms of changes in economic structure, taking also human actions as a response to the requirements of the structure.

From this analysis, the failure of Classical Marxism in providing a solution to the agency/structure problem clearly emerges. In its 'scientific' version, Marx's theory does not account for the source of individual preferences and does not explain how these transform into aims and desires. It does not provide an interpretation of the link between class interests and the actions which are necessary to pursue them. Finally, it does not provide the analytical tools to explore the interplay between individual behaviour and action, and social structure. The role of individual agents is denied and social change is only imputed to structure (through class).

Denying the supremacy of structure over superstructure, Gramsci challenges this view of human agency, pointing to the influence of non-economic factors on individual behaviour. Yet, after his path-breaking analysis, the issue has been substantially neglected in XX century Marxism, the only notable exception being Analytical Marxism.

Analytical Marxists widely perceive the inadequacy of Marx's analysis of human agency, stressing the necessity to complement Marx's theory with rigorous 'micro-foundations'. While being an heterogeneous group, Analytical Marxists – in particular Roemer (1986) and Elster, (1986) – attribute a foundational role to deliberate individual action and introduce the concept of rational optimising behaviour into the basic Marxist framework, applying it to the analysis of Marxist issues, such as class struggle, exploitation, and the process of formation of ideas (Wright, 1989). The outcome of this eclectic combination is an ambiguous form of Marxism, in which social processes are reduced to individual actions, and the methodological individualism of neoclassical economics is substituted to the methodological collectivism of Classical Marxism.

Then, the conclusion of this section is that, while the theoretical contributions we have reviewed in section 2.1 successfully contribute in integrating and amending Marx's theory in order to explain the unpredicted developments of XX century capitalism in key areas, such as the relations structure/superstructure, class analysis, and labour commoditisation, a major drawback remains in the analysis of human agency and the agency/structure problem is not solved. Left without a sound theory of agency to explore the 'source' of individual desires, aims and choices, Marxism fails to explain why individuals behave as they do and what is the outcome of the interplay between them and social structures.

3. Evolutionary Institutionalism and the solution of the agency/structure problem

Evolutionary Institutionalism differs from neoclassical Institutionalism for its research programme. For neoclassical Institutionalism, institutions are the product of individual optimising actions and their existence and evolution is described in terms of efficiency in meeting the needs of agents. Since preferences are given (exogenous), institutions may not be used as explanatory tools for individual behaviour. Evolutionary Institutionalism reverses causation. It assumes that institutions influence human agency and are themselves social outcomes, while the aim of its research programme is to explain how institutions and human agency interact, and how this interaction evolves in time and space, generating different economic structures.

3.1. Agency and structure

Veblen's critique of mainstream economics provides the theoretical background for Evolutionary Institutionalism. Veblen (1919) rejects the concept of rational and optimising human behaviour as unrealistic and inadequate for economic analysis. 'Rationality' is simply not possible because individuals live in a situation of structurally limited information. Individuals are not self-contained entities with given aspirations and desires: they are social beings whose preferences and aims are socially determined. Limited information and social relations constrain individual's aspirations to rationality. The assumption of fixed preferences – the major corollary of

rationality – is not adequate for the study of capitalism in which everything, including human beings, changes in an interconnected fashion.

According to Veblen, human behaviour is the outcome of the interplay between constructive and destructive instincts and institutions. Institutions – which Veblen defines as ‘settled habits of thought that are common to the generality of men’ (1919: 239) – influence individual’s perceptions of reality and preferences, shaping human agency. Individuals are social beings historically situated. Past situations determine present behaviour through a selective process that makes individual preferences endogenous (Hodgson, 1993b: xv). Preferences are constructed on the basis of the interplay between instincts and habits and routines crystallised in the form of institutions. Like preferences, aims are institutionally and socially determined.

Evolutionary Institutionalism builds on Veblen’s view of human and social behaviour incorporating important progress in anthropology, biology and psychology (Hodgson, 1988 and 2004). Institutions are seen as the ‘cognitive framework’ to interpret sense data and to transform it into information. The cognitive framework is necessary as sense data may be incomplete (or inadequate) to provide the necessary information and human brain is not able to process the full amount of information coming from it. Then, filtering and selecting sense data, the cognitive framework supports human agency in a situation of limited information.

Habit is the core conceptual category of Evolutionary Institutionalism and refers to a ‘largely non-deliberative and self-actuating propensity to engage in a previously adopted pattern of behaviour. ... a form of self-sustaining nonreflective behaviour that arises in repetitive situations’ (Hodgson, 1998: 178). Habits are necessary to assist human action because human brain is limited: they are mechanisms that individuals develop ‘for relegating particular ongoing actions from continuous rational assessment’ (Hodgson, 1988: 125).

Individuals acquire habits in conscious and unconscious ways: by imitation of others and by learning, and through choices that, being initially conscious, transform into unconscious behaviour by habitual repetition. They are ‘congealed’ repeated actions ‘removed from the sphere of rational deliberation’ (Hodgson, 1988: 127).

Owing to imitative behaviour, habits spread in time and in space and become ‘routines’ – i.e. accepted rules of behaviour widely shared by individuals in a community – while an integrated set of habits and routines produces an institution (Commons, 1924: 45, quoted by Hodgson, 1998: 180). The function of habits and routines within institutions is to preserve the knowledge necessary for institutions to play the role of cognitive frameworks for human agency.

While institutions influence individual preferences and aims, they do not transform human beings into ‘puppets’ (Mayhew, 1989). Individual actions are not free from external conditioning but they are not entirely moulded by it. As social products, habits and routines are involved in a continuous process of institutional change and do not impose on individuals a mere automatic behaviour. Actions differ in their level of consciousness and intention: while there is a category of unconscious and non-deliberative behaviour which substantially depends on instincts, other typologies show a variable degree of consciousness and deliberation. Human action maintains some degrees of spontaneity and indeterminacy, even if it can never be fully deliberative. It is then ‘partly determined and partly indeterminate: partly predictable and partly unforeseeable’ (Hodgson, 1993a: 224).

Institutions are ‘both “subjective” ideas in the heads of the agents and “objective” structures faced by them’ (Hodgson, 1998: 181). In empirical terms, the concept includes: formal organisations (such as firms, banks, state agencies); common patterns of behaviour (such as social conventions and ‘ethical codes’); norms and prescriptions (such as formal and informal laws) (Coriat and Dosi, 2002: 98; see also Hodgson, 1998: 179).

For their capability to select and elaborate sense data, individuals depend on institutions that support decision-making when rationality is internally and externally bounded. Yet, being by-products of human society, also institutions depend on individuals. The interaction between agency and structure moves in two directions: the ‘downward’ direction – institutions influence individuals – and the ‘upward’ direction – individuals influence institutions. This interaction is ‘causative’, in the sense that institutions can change individual behaviour, while individual action can change the institutional framework (Hodgson, 2000: 326-7; see also Hodgson, 2001a: 294-296).

Institutions are established and reproduced both to constrain and to enable human behaviour: they perform this two-fold function because they embody the cognitive framework necessary to human agency. By means of the cognitive framework embodied in institutions, individuals ‘learn’ what is accepted behaviour and ‘acquire’ the habits of thought and action necessary to implement it. The cognitive framework also transmits information about the aims and desires shared by the society; again, individuals absorb this information and adapt their behaviour. Then, embodying habits and routines, institutions ‘constitute’ and ‘reconstitute’ individual aims and desires in a continuous interaction (Hodgson, 2004: 177; see also 184-185).

The concept of ‘reconstitutive downward causation’ allows Evolutionary Institutionalism to explore the impact of power relations on economic processes (Hodgson, 2000: 326). As they ‘constitute’ and ‘reconstitute’ individual aims and desires, institutions may be created – or transformed – in order to embody cognitive frameworks that are suitable to established or emerging vested interests.

3.2. The institutional embeddedness of change

Individuals and society cannot be taken for granted. Preferences and aims change under the influence of institutions, while the interplay between individuals and the external environment changes the institutional infrastructure of society. The economy is then an open system under a process of continuous transformation in time.

As institutions influence individuals and individuals influence institutions, it is pointless to ask where the process starts. As Hodgson argues, ‘neither individuals nor institutional factors have complete explanatory primacy’, while the question to be asked then is not ‘which came first?’ but ‘what processes explain the development of both?’ (1998: 184-185). To answer this question, Evolutionary Institutionalism applies Darwinian evolution theory to the analysis of capitalist change, incorporating into the Institutionalist framework the main Darwinian principles and adapting them to the economy.

Nothing in the economy and society is ‘given’. Variety is the major trait of the institutional structure and a necessary condition for selection to occur. Institutions behave as ‘units of selection’: they have a durable nature, and emerge and die according to the needs of society. The ‘selection’ of institutions is based on their

fitness and on their capability to adapt to the context. Social evolution is then a process of selection that involves institutions and individuals in an ‘ongoing creation of variety’ (Hodgson, 1993a: 44; see also Hodgson, 2003 and Delorme, 1994).

Selection is a ‘causal process’ – which needs to be explained – and a ‘cumulative process’ – in which individuals and institutions change continuously and their change is the starting point for further change. As in biology, the selection of institutions implies causality. Institutions endure because they are fit or adapt to be fit in a specific context. Economic change is then a process of ‘cumulative causation’ (Hodgson, 1993a: 132-133). There is no room for determinism in this evolutionary view of change: no ‘laws of motion’ govern the outcomes and change has never a ‘final term’.

Institutions are established and reproduced by different categories of social relations which take form because individuals live in society, acquiring habits. Different types of social relations produce different types of habits and routines that, in turn, crystallise into different types of institutions. According to Evolutionary Institutionalism, the main sources of habits is found in culture and in the relations that human beings establish with the environment for their survival.

Individuals are ‘encultured’ beings that have instincts and material needs (Rutherford, 1989; Mayhew, 1989). They live in a society and their social life generates culture: ‘a complex of the habits of life and thought prevalent among the members of a community’ (Veblen, 1919: 39). In turn, culture generates institutions. Then, habits of thought are ideas and repeated actions that are ‘foundational’, both, of individual and social behaviour.

Human beings require the means to survive, and they live in a social environment. The search for the means of human survival is a social task that generates two major types of social relations and, then, of institutions. Economic relations give birth to ‘provisioning institutions’ (Hodgson, 2001a: 284) that are essential to the ‘provision and protection’ of the means to ensure human survival. They include institutions related to the production and exchange of goods and services necessary to human life, including educational institutions and families. Strictly related to economic activities

are legal institutions, such as markets and contracts, that regulate property rights, which are essential for economic transactions.

Then, institutions play a key role in determining individual behaviour and are, at the same time, the outcome of the relations that human beings establish among themselves and with the environment for their survival. This double interplay gives birth to a cumulative process of change which involves both institutions and individuals. This situation may be described as one of embeddedness of socio-economic change in institutions – i.e. of institutional embeddedness. Change does not progress toward a predetermined outcome, but the outcome itself depends on the ways in which the process of change occurs, which in turn depend on the culture and history embodied in institutions (Hodgson, 2001b: 69). Moreover, as the institutional framework is the outcome of the relations between human beings and the external environment, institutions are specific to any historical and geographical context: change is then path dependent and historically specific.

Institutional embeddedness accounts for the diversity of institutional structures and trajectories of development, and explains the divergence of real-world countries from the model of the ‘purely capitalist society’ described in Marx’s theory. As Hodgson, (2001b: 70 et seq.) argues, this divergence is due to ‘impurities’ – institutions and structures of the previous modes of productions which capitalism does not dissolve. For the ‘limits to the extension of the market’, the capitalist system cannot be fully commoditised. It includes non-market institutions – the family, for instance – that are regulated by cultural and social norms descending from the past. These impurities are ‘necessary’ to the working of real-world capitalism and, together with path-dependency, mark the direction of long-term change.

3.3. The inadequate conceptualisation of capitalism

In *The Theory of the Leisure Class* (1899) Veblen presents a ‘cultural view’ of capitalism, arguing that to understand its nature, it is necessary to explore its ‘pecuniary culture’ (1899: 7-8). He distinguishes between ‘industry’ and ‘business’: while the former refers to the activity of making ‘goods’, the latter refers to the activity of making ‘money’. Accordingly, society is divided into two classes that are defined on the basis of their position in relation to work: the leisure class, made of

individuals who receive income but do not have to work for it, and the lower servile class, made of individuals below the leisure class, who need to work in order to have an income. The pecuniary culture – which refers to the situation in which making money becomes an end in itself – is specific to the leisure class. Then, the relation of the leisure class to the economic process is ‘a pecuniary relation’, i.e. a relation of exploitation (Veblen, 1899: 209).

The leisure class and its pecuniary culture emerge with the beginning of ownership and are reinforced in the course of industrialisation. They concur in building the system of power that for Veblen represented the core of American capitalism at the beginning of the XX century.

The cultural view of capitalism proposed by Veblen strongly contrasts with Marx’s view, which focuses on the material conditions of production. This contrast is reduced by the recent theoretical developments of Evolutionary Institutionalism, which pay a major attention to production and employment. A significant example is provided by the definition of capitalism recently proposed by Hodgson (2001a: 323, emphasis added):

[Capitalism] is a social formation in which markets and commodity production are pervasive, including capital markets and labour markets. ... [a] generalised commodity production, where most goods and services are destined to become items of trade. Under capitalism, most production takes place in capitalist firms. A capitalist firm is an institution in which products are made for sale and workers are employed under the supervision of the management. *The employment relationship is thus the core relationship of production under capitalism.*

Yet, while the emphasis on commoditisation and on the employment relationship greatly facilitates the Marxist/Institutionalist dialogue, this conceptualisation of capitalism does not seem to be fully adequate to the assessment of contemporary capitalism. The main reason is that it misses the specificity of the capitalist mode of production in comparison to the others. While acknowledging that capitalist society is unequal and conflicting, it neglects the role of class as a conceptual category and, as a consequence, it misses the key role played by class inequality and class conflicts in capitalist development.

True, class cannot be taken as a collective agent, and behaviour and action have to be explained in terms of individuals, like Institutionalism does. Yet, class is an institution and, like other institutions, it constitutes and reconstitutes individual behaviour in a continuous interplay. Moreover, while also other institutions count, class deserves a unique place in the capitalist economy for its key influence on inequality and conflicts.

Several modes of inequality cross the capitalist society. Some of them – for instance, inequality within the family and gender inequality – are also found in non-capitalist societies. By contrast, capital/labour inequality is specific to capitalism and deeply impacts on other modes of inequality. As Amartya K. Sen points out (2005: 205-207), class plays a ‘very special role in the establishment and in the reach of social inequality’ as it makes ‘the influence of other sources of disparity ... much sharper’. The influence of class is not ‘merely additive’ – i.e. ‘there is class and then there is also gender ... , caste, and so on’ – but also ‘transformational’, as it strengthens the impact of the other modes of inequality.

Moreover, class conflicts – which in the capitalist economy take the form of capital/labour conflicts – directly impact on the core relations of capitalism, such as capital accumulation and technical change. They ultimately determine the development of productive forces and the living standards, defining the trajectory of change.

In Marx’s theory, the crucial role of class conflicts is established by means of core concepts such as accumulation, commoditisation of the labour force and exploitation, and, as we have seen, their analytical importance has also been confirmed in the development of Marxism in the XX century. By contrast, Evolutionary Institutionalism overlooks the specificity of class interests, including them in the broad category of vested interests of individuals and social groups.

I conclude this section pointing out that, like Marxism, Evolutionary Institutionalism has advantages and weaknesses for the analysis of contemporary capitalism, and its advantages are found in the areas in which Marxism is weak, and *viceversa*. This conclusion supports the idea that an eclectic combination of Marxism and

Evolutionary Individualism might improve the understanding of capitalism. In the next section I explore the feasibility of this option.

4. The Marxist/Institutionalist dialogue

That a dialogue between Marxism and Institutionalism is possible and that it might improve the understanding of capitalism is not a new idea. Veblen was the first to raise the issue, inaugurating a long-standing debate. Being himself a socialist, he was sympathetic towards Marxism, while being at the same time critical of Marx's philosophical foundations. After Veblen, the feasibility and the usefulness of the dialogue between Institutionalists and Marxists have been addressed by a large number of scholars.

4.1. Veblen on Marxism

For Veblen, Marx's major original contribution, as well as his major theoretical weakness, is found in the combination of 'Materialistic Hegelianism' and 'the English System of Natural Rights' (Veblen, 1906: 409 et seq.). Moving from Hegelian premises, Marx assumes that a natural law exists according to which workers have the right to claim the whole product of their work, and builds his theory of exploitation on the conviction that the appropriation of surplus deprives the workers of a 'natural' right.

Veblen challenges the very idea of a 'natural right' on the grounds that rights are defined by the institutional framework and that economic analysis should examine how institutional factors separate workers from the means of production, rather than to indulge in 'moral' assessments of workers' natural rights (O'Hara, 2000: 50). Veblen is also critical of Marx's materialist conception of history. He stresses that Marx uses the term 'material' to mean 'economic' and suggests that class struggle should be taken to mean 'struggle between classes for the material means of life' (1906: 415).

Yet, the core of Veblen's critique refers to Marx's view of class-consciousness. While believing that class struggle occurs over the material conditions of life, Marx does not find a direct causal connection between material forces and actions. Seeing

individuals as led by ‘human desire and passion’ – and not by physiological needs and instincts – Marx’s materialism is ‘sublimated by the dominating presence of the conscious human spirit’ (ibid.). As a consequence, Marx stresses the rationality of human beings and overlooks the interplay between individuals and structure. By contrast, Veblen maintains, the influence on individual behaviour of instincts and physiological needs is continuously combined with ideological factors and class interests: human agency is not always conscious, nor can be explained exclusively by class factors. Marx’s determinist conception of class struggle is ultimately grounded in his incapacity to interpret human nature.

With an adequate theory of human agency, Marx would have produced a more sound analysis of capitalism, rejecting the notion of conscious class struggle and seeing change as a cumulative process, in which both structure and agency change. Then, history would have appeared as an ‘un-teleological’ process of change without goal or final term (416).

Commenting on the ‘adaptation’ and ‘modernisation’ of Marxism after Marx, Veblen argues that XX century Marxists belong to ‘the school of Darwin’, and that this change radically distorts Marx’s analytical framework because it requires the influence of material needs on habits of thought to be acknowledged. This implies the analysis to be shifted from the determinants of action to the process of ‘brute causation’, with the consequence of undermining the very idea of the inevitability of class struggle (Veblen, 1907: 437 et seq.).

Veblen’s conclusion is that, while it is necessary to adapt Marx’s theory along Darwinian lines for a better understanding of capitalism and class struggle, the outcome is a theoretical framework that might be ‘good Darwinism’ but ‘does not belong in the neo-Hegelian Marxism’ (450).

4.2. The debate after Veblen

Veblen’s critique of Marx’s theory starts a debate in which two opposite views confront themselves: the conviction that the Marxist/Institutionalist dialogue is not possible due to the theoretical differences; and the conviction that the dialogue is feasible as the approaches produce a similar substantive analysis of capitalism.

After a long-standing controversy over whether Veblen was or was not an American Marxist, Hunt (1979) revisits the debate about Marxist/Institutionalist relations. Hunt's argument is that Marx and Veblen's analyses are not only compatible but also complementary, and that Institutionalism offers a key contribution to contemporary Marxism. For Hunt, the discrepancies emphasised by Veblen are the outcome of misunderstandings and mistakes: the major argument of Veblen's critique is wrong, as Marx is not a dialectical materialist and Marx's view of history is not teleological. . The importance of Marx and Veblen's theories lies in their analyses of capitalism. Stressing the historical relativity of capitalism and the role of conflicts and class struggle, they reach results that are either similar or complementary.

Edgell and Townshend (1993) challenge Hunt's conclusion. They argue that there can be few doubts about Marx's teleological view of history, and that the similarities between Marx and Veblen are very much confined to the fact that they both were socialist. Mayhew (1987) shares a similar position: an alliance between Marx and Veblen is not acceptable since Marx is rooted 'in the pre-Darwinian world of natural rights' (984), while Veblen develops a Darwinian approach. Hodgson also takes this position arguing that Marx's theory of change is basically antagonist to the Darwinian concept of evolution (2001a and 2001b; see also Hodgson's contribution in Hodgson and Callinicos, 2005).

On the opposite side, Henry (2001) argues that Marx and Veblen are compatible and should be studied in tandem. They share the same view of capitalism – as a transitory form of organisation in which production is organised 'around money' – and a holist approach to economic analysis. While part of Veblen's critique is wrong, the actual discrepancies between Marx and Veblen are very few: Marx's premises are only formally Hegelian, while his analysis is essentially evolutionary. Moreover, political tactics explain Marx's emphasis on economic relations and forces.

Similarly, O'Hara (2000) maintains that similarities prevail over differences. He argues that Veblen had only a partial access to the works of Marx and based his analysis on secondary sources and that this partial and biased access accounts for his wrong interpretation. He also argues that in the third volume of *Capital* Marx moves towards an institutional approach in the analysis of the formation of aggregate social capital. His conclusion is that Marx is a 'softened' Institutionalist and Veblen a 'softened' materialist.

The debate is clearly inconclusive. Despite the daring attempts by Henry and O'Hara, the theoretical discrepancies between Marx's theory and Veblen's Institutionalism cannot be denied. Marx and Veblen lived in different contexts and in different historical periods and these differences are reflected in their theoretical constructions. Yet, to mark this difference does not imply that the Marxist/Institutionalist dialogue is not feasible.

4.3. The advantages of cross-pollination

With the joint contribution of Marxists and Institutionalists, it has been shown that the dialogue between Marxism and Institutionalism is feasible and improves the understanding of capitalism. With the support of a comparative analysis of capitalism, the Institutionalist William Dugger and the Marxist Howard Sherman, (2000, 1997, 1994) point out how specific discrepancies may be overcome in order to enhance the dialogue.

Dugger and Sherman show that, while Marxism and Institutionalism broadly converge in their analysis of capitalism, two major areas of divergence exist: class analysis and agency theory. From these discrepancies, significant differences follow in the analysis of capitalist change, which is seen as a process determined by capital/labour conflicts, on the Marxist side, and as an evolutionary and cumulative process driven by the two-way interplay between individuals and institutions, on the Institutional side.

Their conclusion is two-fold. First, they argue that the Marxist/Institutionalist dialogue requires 'an open mind', free of dogmatism, and substantial adjustments in both approaches (Dugger and Sherman, 1994: 125). On the Marxist side, the existence of more than two classes and the impact of non-class factors on individual behaviour are to be acknowledged; on the Institutional side, the primacy of class stratification and class interests is to be accepted. Second, they argue that the dialogue might lead to the cross-pollination between the approaches with the consequence of improving their interpretative potential.

Also Cullenberg (2000 and 1999) stresses the advantages of the Marxist/Institutionalist cross-pollination, pointing to the 'analytical connections' between non-determinist Marxism and the Institutionalism built on Veblenian roots.

Relying on this cross-pollination, it would be possible to account, at the same time, for the impact of class conflicts on change and for the influence of institutions on individual behaviour. The consequence would be an improvement of the understanding of capitalism (2000: 811 et seq.).

5. Towards a Marxist/Institutionalist synthesis

Sharing the conviction that the Marxist/Institutionalist dialogue is feasible and improves the understanding of capitalism, I present in this section an eclectic framework based on Marx's theory – integrated and amended to account for the 'anomalies' of XX century capitalism – and Evolutionary Institutionalism. Its aim is to provide the conceptual tools to interpret and explain the behaviour and the processes leading to growth and change in contemporary 'real world' economies.

In building the eclectic framework, I am moved by the two-fold aim of avoiding the original sins of Marxism and Institutionalism, and of finding a solution to their discrepancies. Accordingly, the framework proposes a Marxian view of capitalism as a conflicting socio-economic system characterised by multiple forms of commoditisation of the labour force and by a complex class structure in which workers are exploited by capitalists. The framework rejects the hypothesis of maximising rationality and explicitly acknowledges the primacy of class and class conflicts. Change is analysed in evolutionary terms, stressing the interaction between individuals and institutions in a process of cumulative (downward and upward) causation.

This Marxist/Institutionalist 'synthesis' is theoretically feasible and enhances the interpretative power of the eclectic framework. Its feasibility is better observed in relation to the way in which the discrepancies have been dealt with.

The main solution I propose is to introduce into the framework the Veblenian theory of agency. From a methodological point of view, this solution is equivalent to the one of Analytical Marxists who propose the introduction into Marxism of neo-classical optimising rationality. Yet, from a substantial point of view, it is a much more coherent solution, as the Veblenian agency theory rejects any form of determination of human behaviour and then is consistent with an anti-essentialist view of capitalism.

In relation to the primacy of class and class conflicts, it should be noted that, as my review of the recent theoretical developments shows, Evolutionary Institutionalism conceptualises capitalism in terms that are close to Marxism. The employment relation is seen as the major trait of capitalism and the conflicts of vested interests as a major driving force. Class and class interests and stratifications are explicitly considered in this framework: class interests are included among the vested interests; class is seen as an institution that influences individuals and as an outcome of social intercourse; and class stratifications are explored in their intertwining with other forms of stratification. While the primacy of class conflicts is not explicitly acknowledged, yet the view of capitalism is consistent with it.

The framework proposes a theoretical representation of the main socio-economic relations of the capitalist economy. It consists of 15 propositions for three levels of analysis: the nature of the capitalist economy, its working, and its change. The propositions are presented below. Each group is introduced by a short comment in which the linkages with Marxism and/or Institutionalism are pointed out.

The capitalist economy and society

The view of the capitalist society shown in propositions 1 and 2 broadly relies on Marx's theory (*Capital*, Vol. 1). However, it is not distant from the view of contemporary capitalism proposed by Hodgson (2001a), which focuses on commodity production and on the employment relationship. Together with the concept of labour force as a commodity (proposition 1) and the idea that labour commoditisation is central to capitalism (proposition 2), which belong to classical Marxism, also the hypothesis of multiple forms of commoditisation has been included, as theorised by van der Linden (2008).

Propositions 3 and 4 are jointly inspired by Marxism and Institutionalism. While the existence of class and non-class inequalities is pointed out, only capital/labour relations and conflicts are taken to be specific to the capitalist economy. The primacy of class conflicts is also acknowledged. Building on Wright's contribution, class conflicts are conceptualised by means of a concept of 'exploitation', in which exploiters and exploited are compared in terms of access to resources and living standards. To assess the nature of middle classes I have employed the concept of 'contradictory class location', which is again borrowed from Wright (2005).

Proposition 1: The capitalist economy and society and the market

Capitalist economy and society is the social formation produced by the capitalist mode of production. Markets and commodity production are pervasive. The vast majority of goods and services are produced for the market (including the labour force).

Proposition 2: Capital accumulation and the commoditisation of the labour force

Capitalist production requires accumulation to enlarge the scale of production and to enhance growth and employment. In turn, accumulation requires the commoditisation of the labour force. Multiple forms of commoditisation of labour force exist according to the features of employers and employees and to the patterns in which commoditisation occurs.

Proposition 3: Social stratification

The capitalist society is unequal and stratified. Modes of inequality and forms of stratification vary among and within countries. Several modes of inequality co-exist – in relation to wealth and income, gender, religion, ethnicity – producing a complex network of social stratification that takes economic and non-economic forms. Among all modes of inequality, the one between the capitalist class and the working class pertaining to the control of the means of production is specific to the capitalist economy, as are specific to capitalism class conflicts over the access to resources and over the appropriation of labour effort.

Proposition 4: Class relations and class conflicts

Capitalist class structure is complex owing to the persistence of pre-capitalist residuals and for the variety of social institutions and formal/informal rules influencing individual rights and powers. The main classes are the capitalist class – which includes the individuals who control the production process and commoditise the workers – and the class of subaltern workers – which includes the individuals who do not have control over their labour power, over their means of production, and over the product of their labour. Capitalists exploit workers, excluding them from the access to resources and appropriating their labour effort.

Proposition 5: Middle classes

In between the capitalist class and the class of subaltern workers, there are the middle classes. Middle classes exist due to the complexity of class structure. They are made of individuals with contradictory class locations, who are at the same time employees and employers or, alternatively, who are neither employers nor employees.

The working of the capitalist economy and society

The working of the capitalist economy is analysed by means of two different types of propositions. Propositions 6 to 8 focus on individual behaviour and largely rely on Veblen's theory of agency; propositions 10-11 deal with social intercourse, which is theorised by means of conceptual categories borrowed from Gramsci's theory of hegemony (1975). Proposition 9 works as a connection between the two levels of analysis.

After the rebuttal of the idea of rational and optimising behaviour in proposition 6, the role of institutions as cognitive framework for human action is pointed out in proposition 7. Also the two-way 'reconstitutive causation' between individuals and institutions is established (Hodgson, 2004). Proposition 8 points to institutions as a tool to shape power relations. Proposition 9 establishes that, while being made of agents, class is not an agent and then the concept of agency does not apply. The influence of class on agency is mediated through individual class identity, which is jointly influenced by economic and non-economic factors.

Deviating from Classical Marxism and moving on the track opened by Gramsci (1975), proposition 10 establishes the two-way interplay between economic structure and the institutional/ideological superstructure. The impact of this interplay on capitalist development is pointed out in proposition 11.

Proposition 6: Agency

Individuals are not rational optimising beings; rationality is not possible, due to uncertainty and to the limits of the human brain. Individual behaviour is socially determined by means of institutions – formal and informal social rules – in which shared habits of thought are embodied.

Proposition 7: Agency and structure

Institutions provide the cognitive framework for human action. They constrain and enable human behaviour and, being the by-products of human society, are influenced by it. Institutions influence individuals and individuals influence institutions: between them there is a 'reconstitutive causation'.

Proposition 8: Power and institutions

Owing to the reconstitutive causation between individuals and institutions, institutions may constitute and reconstitute individual aims and desires. They may also be created – or transformed – in order to embody specific cognitive frameworks in function of established or emerging interests. Then, they may be used to enhance the power of individuals and groups.

Proposition 9: Agency and class

Class is not an agent, but it is made of agents. Agents in a class might acquire class-consciousness and participate in the process of class formation on the basis of their class identity. Class identity is the outcome of the relationships with the means of production and is articulated on the basis of culture – construed as ethnicity, caste, gender, and religion.

Proposition 10: Structure and superstructure

The capitalist economy and society is made of an economic structure – i.e. relations of production and forces of production – and a superstructure – i.e. ideas and institutions. No primacy is given to economic structure over superstructure: economic structure influences the superstructure and is influenced by it in a two-way causation. So, production relations are determined by productive forces, ideas, institutions, and by the past history of production relations, while productive forces are determined by production relations, ideas, institutions, and by the past history of productive forces.

Proposition 11: Ideology and hegemony

The capitalist class exerts a hegemonic – i.e. economic and non-economic – dominance on the subaltern class obtaining its consensus by means of ideology and of an institutional framework in which the hegemony is negotiated between the classes. Production relations and ideology constitute the 'historical bloc' that enforces the hegemony of the dominant class, ensuring social stability.

Change and growth of the capitalist economy and society

The Marxist/Institutionalist synthesis also enables the interpretation of growth and change. Proposition 12 relies on Veblen's view of change. Proposition 13 introduces the core concept of institutional embeddedness of capitalist change. Proposition 14 points out the influence of non-capitalist structures and institutions on the working of the capitalist economy, introducing the concept of 'necessary impurities' (Hodgson, 2001a). Finally, proposition 15 stresses the primacy of class conflicts over non-class conflicts.

Proposition 12: Evolutionary change

Capitalist change is an evolutionary process in which nothing is given and unchangeable. Economy and society change with an adaptive process in which every step may be explained on the basis of the previous one. The fittest institutions and individuals prevail. No laws of motion govern the outcomes and change has never a final term.

Propositions 13: The institutional embeddedness of capitalist change

History and culture matter. As the institutional framework is the outcome of the relations between human beings and the external environment, institutions are specific to any historical and geographical context. Change is then path dependent and historically specific.

Proposition 14: The necessary impurities

Real-world economies diverge from the model of the 'purely' capitalist economy in which all social relations are expressed in market terms. This is due to the persistence of institutions and structures of the previous modes of productions which are not dissolved by capitalism. These are 'impurities' that are 'necessary' to the working of the capitalist system.

Proposition 15: conflicts and change

The capitalist economy and society is crossed by a variety of conflicts determined by different modes of inequality. Among them, class conflicts play a key role in the development of the capitalist economy, both in the short and in the long run. They influence the development of the forces of production, including the introduction of

technical change, determining the material conditions for production and the standards of living.

6. The necessity of being eclectic

In proposing the Marxist/Institutionalist framework for the analysis of contemporary capitalism, I am led by three major beliefs. First, the aim of socio-economic research on capitalism is to explain the processes of change and growth in the 'real' world. Empirical evidence has a primacy over theoretical rigour and cannot be adapted to fit abstract theoretical models; on the contrary, it is the theory that needs to be adapted to explore the variety of social structures observed in contemporary economies. Second, applied research on capitalism requires a theoretical background, without which it cannot identify the forces behind the processes of growth and change, ending up with a description of the existing situation. Third, social theory is itself a social construction and is produced in a specific socio-economic context. A major task for applied analysts is to understand the interpretative power of their theoretical tools and when, and how, adaptations or improvements are necessary in order to explain the evidence.

The framework presented in this paper is the outcome of these beliefs. In front of the complexity of world capitalism, eclecticism is a necessity. The eclectic framework is the solution I propose to deal with the drawbacks of Marxism and Institutionalism – individually taken – in accounting for the main traits of contemporary capitalist development, i.e. the variety of relations and structures and the inequality among individuals and groups.

The framework combines Veblenian Institutionalism and a Marxian political economy of capitalism obtained by amending and integrating Marx's theory with some selected developments of Marxism in the XX century. Both theories are joined by their rebuff of rational/optimising behaviour. Moreover, to enhance the feasibility of the Marxist/Institutionalist synthesis, I have selected theories (and segments of theories) with the aim of reducing the possibility of contradictory and conflicting analyses. So, the framework includes Gramsci's theory of hegemony, which, for its emphasis on the impact of ideas and institutions on production relations, is widely consistent with the concept of reconstitutive causation between individuals and

institutions theorised by the Veblenian Institutionalists Hodgson. Besides, I have adopted Wright's class analysis, which is coherent with Veblenian Institutionalism as it employs a concept of class in which both material and ideological factors are taken into account. Moreover, Wright's class analysis theorises exploitation avoiding any reference to Marx's controversial theory of labour value. Also the concept of 'multiple' commoditisation proposed by van der Linden is consistent with Veblenian Institutionalism for its emphasis on the impact of historical and cultural factors on capital/labour relations. These amendments and integrations enhance the interpretative power of Marx's theory in any situation in which cultural and institutional aspects rooted in history intertwine with capitalist production relations and make it difficult the identification of the basic traits of capitalism.

Once a Marxist political economy of capitalism has been outlined amending Marx's theory with the contribution of critical Marxists, the Marxist/Institutionalist 'synthesis' has been carried out by introducing in it Veblen's agency theory. The outcome is a framework which is eclectic in many senses and has been built with the explicit aim of guiding empirical analysis.

The framework provides a straightforward representation of the working of the capitalist economy. The main relations on which capitalist development relies are conceptualised by means of few basic propositions describing the nature of the capitalist economy, its working and its change. By means of Marxist conceptual categories, it is possible to focus on the main traits that distinguish capitalism from other modes of production – i.e. the commoditisation of the labour force and capital/labour conflicts. Moreover, by conceptualising the impact of institutions on individual preferences and desires, it is possible to conceptualise the institutional embeddedness of growth and change, showing that past culture and institutions influence present institutions, and therefore also individuals, while change is path dependent and does not progress toward a predetermined outcome. Variety is the consequence of the institutional embeddedness of growth and change, while capitalist production relations are at the origin of class inequality, which accompanies non-class modes of inequality, reinforcing them.

Eclecticism is not a new approach in economic analysis. Important eclectic approaches have been proposed to explore the developments of capitalism in the second half of the XX century. This is the case of the Social Structures of

Accumulation (SSA) theory successfully employed for the periodisation of long waves in the USA and in other industrialised countries. The SSA theory consists of an eclectic framework in which the theories of long waves by Kondratieff and Schumpeter are developed against a background of Marx's political economy and Keynesian economics (Kotz, McDonough and Reich, 1994). Also the Regulation School theory, widely employed for the analysis of the Fordist crisis and the post-Fordist transition, is based on an eclectic framework in which new concepts broadly inspired by Keynesian and Institutionalist economics – such as the 'regime of accumulation' and the 'mode of regulation' (Aglietta, 1979; Lipietz, 1987; Boyer, 1990) – are combined with Marx's political economy. In both cases, eclecticism has shown to be very fruitful, producing heterodox approaches that have been successfully employed in empirical research.

The Marxist/Institutionalist framework has many qualities. The SSA theory and the Regulation School Theory are inadequate to the analysis of macro dynamics at micro-level for their lack of an agency theory to explore the changes in individual behaviour and, therefore, have been employed for research on long-term change at macro level. By contrast, owing to inclusion of Veblen's theory of agency, the Marxist/Institutionalist framework contains the conceptual tools to explore both the determinants of human choices and the double interplay between individuals and institutions, covering an area which is usually neglected in Marxian analysis. Moreover, it provides a satisfactory solution to the agency/structure problem with the conceptualisation of the reconstitutive causation between individuals and institutions. Finally, it acknowledges the primacy of class and class conflicts as a major driver of growth and change, while rejecting all forms of determinism and interpreting change as an evolutionary process influenced by past history and culture.

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