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Beneficial constraints: beneficial for whom?

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Abstract

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There is, perhaps, no idea more fundamental to economic sociology than the claim that all seemingly voluntaristic economic practices presuppose the existence of non-economic social practices and relations. The idea of a genuinely 'free market' constituted solely by the voluntary choices of interacting individuals is a myth; no market is possible without a complex set of social conditions. Durkheim announced this principle in his famous discussion of the 'noncontractual bases of contract'. Sometimes these 'noncontractual' bases are conceived in largely cultural and normative terms; other times in terms of institutions of power, coercion and domination. But whatever the specific content given to these social foundations of economic activity, the central sociological thesis is that without these social foundations, economic activity would, at best, function in highly suboptimal ways, and at worst be scarcely possible.

In an important essay published in the mid-1990s, 'Beneficial Constraints: on the economic limits of rational voluntarism', Wolfgang Streeck (1997) builds on this foundational idea of economic sociology to propose a theory of the variability in the effectiveness of economic performance in market societies. His basic claim is that the economic performance of a market economy is enhanced where there exists effective, socially embedded constraints on self-interested, rational economic action. This claim is stronger than the conventional acknowledgement by economists that unfettered markets will sometimes generate 'failures', such as the underprovision of public goods. Rather, Streeck insists that even the mundane, routine transactions of a market economy—buying and selling goods, hiring workers, working in a labour process, etc.—will not be effectively carried out if they are governed by unconstrained, individualistic rational economic action. In the absence of trust, legitimacy, responsibility and other forms of 'obligation' market interactions will generate highly suboptimal levels of economic performance. Streeck describes this corrective to the conventional understanding of economists as a 'Durkheimian perspective on economic action' I would like to add a Marxian flavour to Streeck's Durkheimian cake.

In what follows I will make three basic points: first, Streeck's Durkheimian view of market economies tends to marginalize the variability in the meaning of 'good economic performance' for different categories of actors in a market economy, especially for classes with antagonistic class interests; second, in general the level of economic constraints that is optimal for the interests of capitalists will be below the level of constraints which is optimal for workers; and third, the level of constraints on markets not only affects economic performance but also the relative power of workers and capitalists, and this further complicates the problem of optimal constraints for particular classes.

Streeck's Durkheimian view is represented graphically in Figure 1. Societies vary in the degree to which market interactions are constrained by institutional regulations and normative arrangements.[1] At one extreme is an ideal-type world of highly atomized markets lacking any effective regulatory institutions with very weak normative constraints. Such an economy generates very low levels of economic performance. Opportunism is rampant, the non-contractual bases of contract are weak, trust is in very limited supply, prisoner's dilemmas and collective action failures abound. At the other extreme is an economy with massive institutional regulations and pervasive normative constraints. This too would, in general, produce low levels of performance because of excessive inflexibilities that block

[1] To add even more complexity to the problem, Streeck emphasizes that institutions that promote economic performance in one historical context may impede performance in a later period, so there may be no stable equilibrium of institutional solutions to these problems of beneficial constraints.

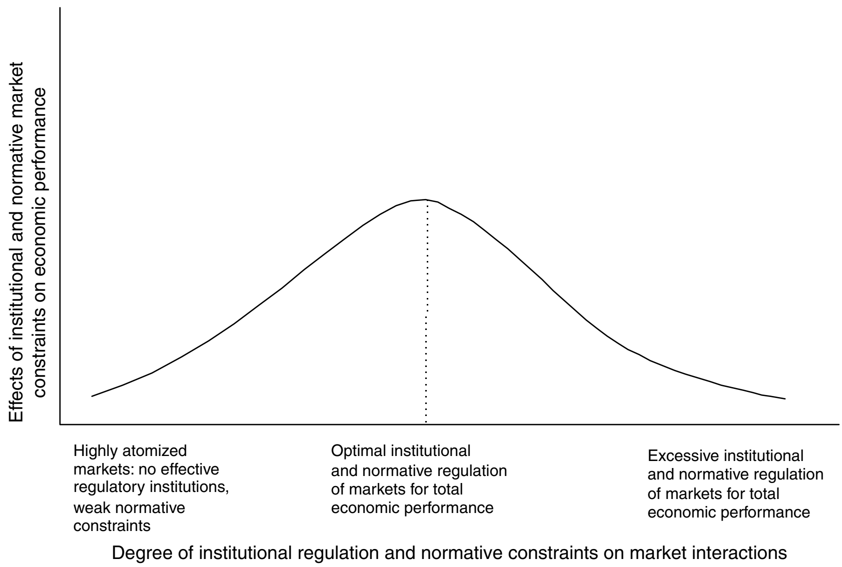

Figure 1 Effects of socially embedded institutional and normative market constraints on economic performance.

adaptiveness.[2] What is needed is some intermediate level of constraint, sufficient to create a cohesive, well-integrated society, but not so strong as to undermine the efficiency-enhancing properties of market competition. This level of constraint can be referred to as the social optimum for enhancing comprehensive economic performance.[3]

In this Durkheimian world, if the institutions of a society fall to the left of the optimal level of constraint, it is in *everyone's* interests to try to create new institutional solutions. This might require enlightenment, since people may be duped by

[2] More precisely: Streeck's analysis is silent on the question of class divisions and how this relates to the problem of 'good economic performance' and 'beneficial constraints'.

[3] For present purposes I will assume homogeneous, polarized classes—workers and capitalists. Of course in real economies there are other kinds of class locations as well as all sorts of divisions within classes, and these complexities also bear on the problem of the kinds of constraints which are optimal for the interests of specific groups. I will abstract from those complexities here. I am also abstracting from the problem of the relationship between the interests of capitalists in operating in an economy with 'beneficial constraints' and their individual interests in evading such constraints. This is the conventional collective problem for capitalists: it may be in their individual interests to defect from cooperation (i.e. to evade constraints) even though it is against their interests for all capitalists to evade constraints.

ideologies of *laissez-faire* and believe, incorrectly, that a further unfettering of the market is the solution to problems of poor economic performance. Furthermore, as Streeck points out, it is often a very tricky business to deliberately engineer the deepening and expansion of such normative/institutional regulation, since if institutions are designed exclusively for the purpose of enhancing the normative foundations for high economic performance they will be unlikely to accomplish this goal.[1] Nevertheless, it is in nobody's real economic interests to operate to the left of the socially optimal level of institutional constraints.

This Durkheimian vision is certainly an improvement over the standard neo-classical economics view of market economies. However, it shares with standard neo-classical models the implicit assumption that there are no classes with fundamentally antagonistic economic interests within these economies.[2] The key criterion for evaluating the outcomes of an economy is 'economic performance', not the extent to which the material interests of different classes are realized. The possibility that the optimal level of institutional constraint (let alone the qualitative form of such constraints) might be systematically different for different categories of actors is not entertained.

Let us suppose, for argument, that there exist fundamental antagonisms of this sort between capitalists and workers.[3] This opens up a potential wedge between the level (or form) of normative/institutional constraint that is optimal for comprehensive economic performance and the level (or form) of constraint that is optimal for the interests of capitalists, as illustrated in Figure 2.[4] If capitalists were exclusively concerned with comprehensive economic performance, of course, the two curves would overlap. But they are not. They are concerned with the rate of profit (and related economic issues like growth, market share, etc.). The conditions which maximize profits, even long-term profits, will in general be different from those which maximize comprehensive economic performance, at least if things like 'quality of life', negative externalities paid by consumers, and economic security are included in the concept of economic performance.[5]

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[4] It is also possible that the optimal level of institutional and normative constraint on the market for the interests of workers (defined as a subset of non-capitalists) might be different from the level which maximizes comprehensive economic performance. I will not consider this possibility in these comments.

[5] It is important for the argument at hand that comprehensive economic performance not be identified simply with profitability, bottom-line productivity, or even competitiveness. If it is, then the distinction between the interests of capitalists in profits and growth and comprehensive economic performance dissolves. What is good for General Motors becomes, *definitionally*, what's good for America. Comprehensive economic performance, of course, does include things like growth rates, productivity growth and rates of profit, but also the broader notions of quality of life, reduction of negative externalities, public goods, and so on.

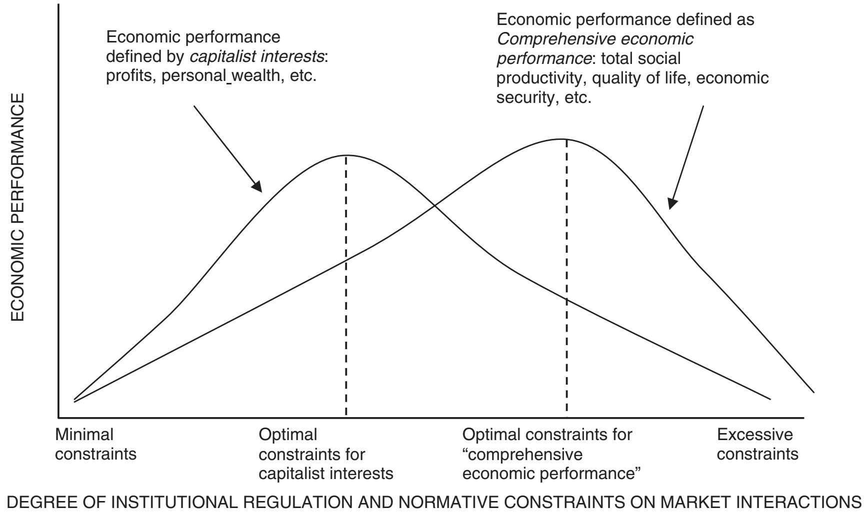

Figure 2 Effects of socially embedded institutional and normative market constraints on economic performance and on capitalist interests.

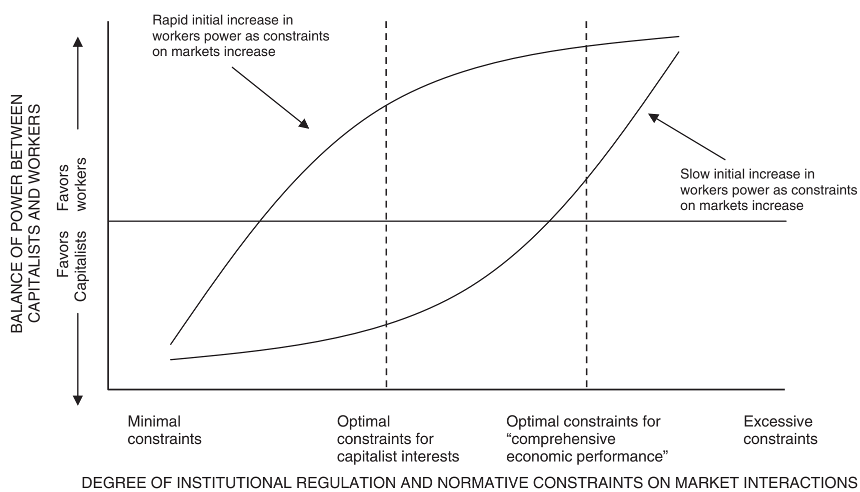

Figure 3 Effects of socially embedded institutional and normative market constraints on balance of power between capitalists and workers.

The model in Figure 2 argues that the level of normative/institutional constraints needed to maximize comprehensive economic performance will generally be *greater* than the optimal level for realizing the interests of capitalists. This means that, contrary to the pure Durkheimian assumption, capitalists will prefer a level of normative and institutional constraint to the left of the social optimum.[6] But note: if the curves in Figure 2 are drawn approximately correctly, then if capitalists were faced with the binary choice of having a level of institutional constraint set at the social optimum for comprehensive economic performance or at the minimal level of highly atomized markets, they would prefer the social optimum (i.e. in Figure 2, the social optimum level of institutional constraints corresponds to a higher level of realization of capitalist interests than does the extreme left-hand part of the curve). This is the kind of choice posed in many sociological discussions of these issues in which the Hobbesian state of nature (pure atomization) of unregulated 'free' markets governed by pure economic rationality is compared to an optimally cohesive and integrated society. Capitalists would certainly have their interests better served in the latter. However, in real social worlds the alternatives are not binary and capitalists would generally prefer a level of constraints between atomization and the social optimum. There is thus a basic conflict of interests between capitalists and those who would gain from the social optimum.

When a conflict of interest of this sort occurs, the actual level of institutional and normative constraints on the market in a society will at least partially be determined by the relative power of contending forces. For simplicity let us just consider the balance of power between capitalists and workers. (For present purposes, 'workers' can stand for the set of social actors whose interests are advanced by the social optimum level of provision of institutional and normative constraints on the market.) Once we introduce power into the equation, the analysis gets considerably more complicated. The problem is that the balance of power between capitalists and workers is not exogenous to the institutions that generate constraints on markets. In general it is expected that institutional and social structural arrangements that impose significant normative constraints on market interactions will also tend to increase the power of workers. There are two general possibilities, as illustrated in Figure 3. In the lower curve, the relative power of workers rises slowly as institutional and normative constraints are imposed on the market. This means that at the level of such constraints that is optimal for the realization of capitalist interests, the balance of political power is still heavily weighted towards the capitalist class. In the upper curve, on the other hand, the power of workers rises rapidly as institutional/normative constraints on markets increase, so that at the capitalist optimum the balance of power has shifted strongly

[6] This assumes, of course, that capitalists have a clear-headed view of their interests and the impact of different institutional arrangements on those interests. In practice, of course, capitalists may have little idea what institutional arrangements are actually in their interests. They can operate under ideological presuppositions that lead them to reject a range of institutional regulations that would, if introduced, be beneficial. They may be suspicious of all regulations on the grounds that regulations always pose Frankenstein problems. The purpose of the present discussion is to show that even if capitalists had a clear-headed understanding of the relationship between their economic interests and institutional constraints, they would be likely to support constraints below the social optimum.

towards workers. In such circumstances, workers would potentially be powerful enough to further push for the elaboration of institutional constraints, perhaps even to the social optimum level. Under this power function, in other words, *the capitalist optimum is not a stable institutional equilibrium*: it cannot be dynamically sustained since it empowers those actors whose interests are better served by a higher level of institutional constraint.

This dynamic instability of the capitalist optimum might well underwrite a preference on the part of capitalists for a level of institutional constraints that is to the left of the capitalist optimum itself: that is, in order to prevent the empowerment of challengers to the interests of capitalists, capitalists may prefer a set of economic institutions which are suboptimal on strictly economic grounds *even for their own interests*. This is one way of interpreting the mania for excessive deregulation in the past two decades: the zeal in dismantling the regulatory machinery of capitalism since the early 1980s was driven by a desire to undermine the conditions for empowerment of interests opposed to those of capitalists even if this meant under-regulating capitalism from the point of view of long-term needs of capital accumulation.

I do not know which—if either—of these power functions is more realistic. I suspect this depends on a range of other factors not included in this discussion. But I do think that it illustrates an important source of complexity that needs to be added to the Durkheimian perspective on economic systems. The right-wing enthusiasm for deregulation and the erosion of those institutions that sustain strong normative commitments and constraints on markets may not simply reflect a myopia on the part of élites or their lack of understanding about the essential role that trust and obligation play in the effective functioning of a capitalist market economy. The ideology of the unfettered, unregulated market may be an effective weapon in a battle over the optimal level of provision of such constraints, a battle driven by real conflicts of interests and resolved through power. Capitalists may also, of course, have short time horizons and be vulnerable to 'pressure for detailed cost accounting' (Streeck, 1997, p. 206) which lead them to destroy institutional arrangements that are in their own long-term interests. But I do not think that this is the main story. Enlightenment of the capitalist class to their long-term interests in a strong civic culture of obligation and trust is not enough; the balance of power also needs to be changed. And since this shift in balance of power will be costly to those in privileged position, it will only occur through a process of mobilization and struggle.

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