

# **Meso level analysis from the perspective of Heterodox Economics**

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# Motivation

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- Institutions, clusters, networks, associations and other structures require their own theoretical space - meso (Chen, 2008, p. 121)
- But the meso level is not regarded as necessary within the micro-macro dichotomy, especially by mainstream economists. These include *Thomas Shelling* – the Nobel Prize Winer and specialist in game-theory analysis, *Robert J. Barro* – the founder of New Classical Macroeconomics, *Jochen Runde* – from the University of Cambridge, UK and similar.
- Why heterodox economists strongly support the idea of meso level analysis and what it is useful for?



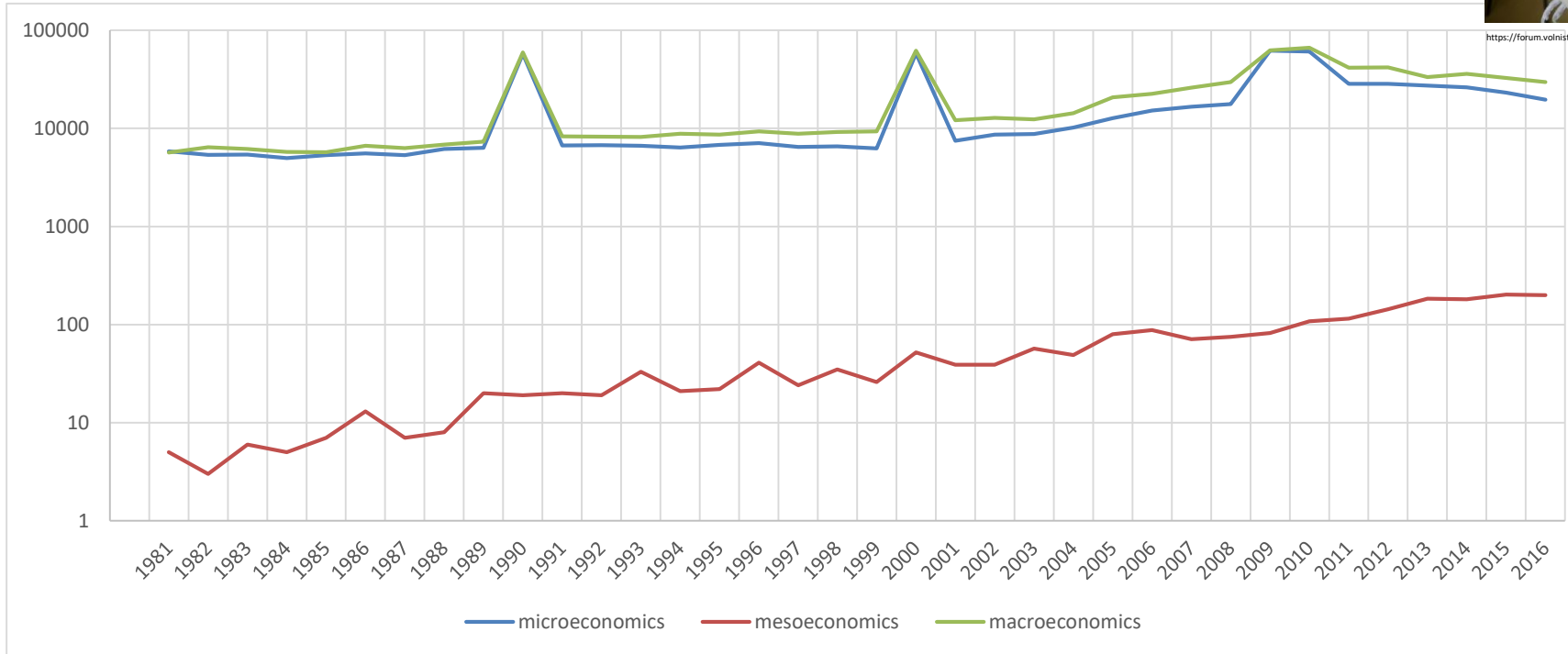
# Outline

- The growth of attention to meso level analysis in the 21st century - why?
- Ontological factors of dissatisfaction with the traditional micro-macro dichotomy.
- Epistemological factors and new research paradigms.
- Meso level analysis in neoclassical economics.
- The essence of the heterodox approach to meso level analysis.
- Methodological institutionalism as the new premise to obtain new results in meso economics.

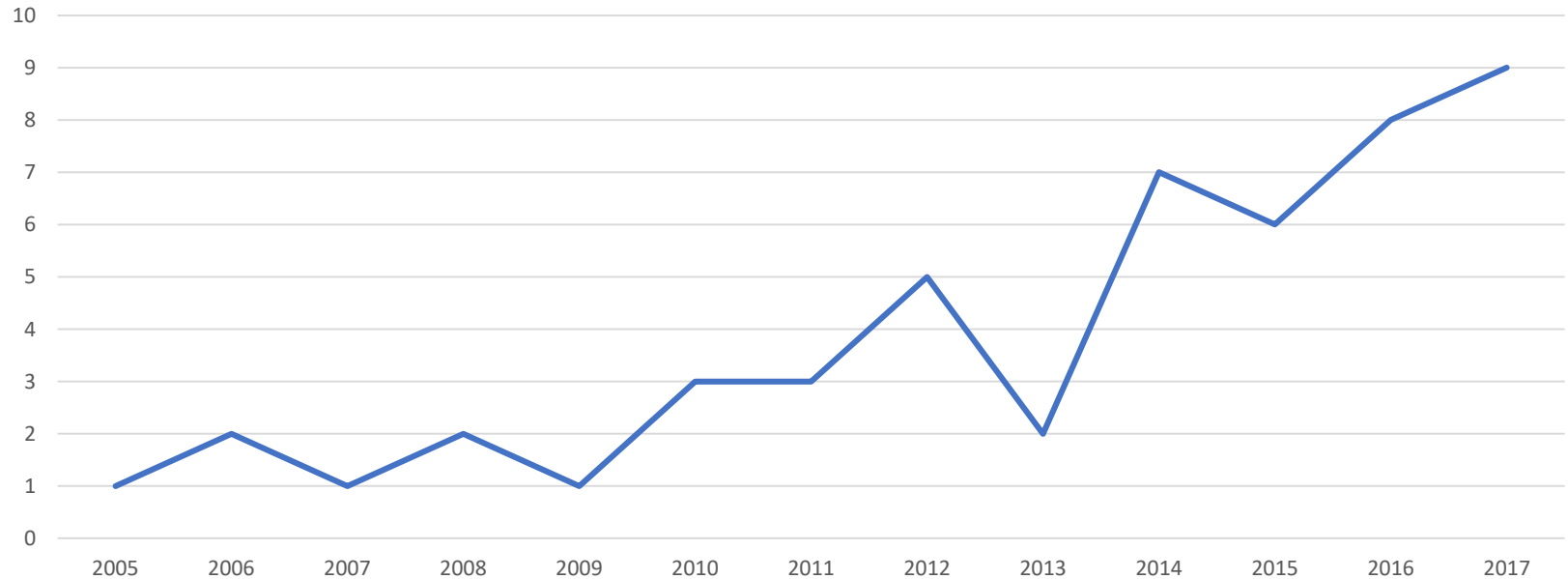
# Logarithmic graph of the growth rate of publications from the requests of "microeconomics", "macroeconomics" and "mesoeconomics", based on Google Scholar, 1981-2017



<https://forum.volnistye.ru/viewtopic.php?t=9693>



# Papers on the meso level in the heterodox *Journal of Institutional Economics* (which was founded in 2005)



# **Ontological factors:**

**dissatisfaction with the traditional micro-macro dichotomy**

## **Neither complexity nor cyclicity is explained**

- The micro-macro dichotomy in economics does not take into account the growing complexity of the economy.
- Also mainstream economics cannot predict and explain the causes of recurrent and increasing global crises.

## Crises and structuring of Economics

- Microeconomics: 1870-1920s (before the Great Depression)
- Microeconomics+  
Macroeconomics: 1930-1980s (before the energy crises of the 1970-80s)
- Microeconomics+  
Macroeconomics+  
Mesoeconomics 1990 onwards (after the dot-com bubble and especially after the 2008 crisis)



# **Epistemological factors:**

**new research paradigms**

# Reflections on the economy are also becoming more complicated: a new "episteme epoch" (M. Foucault)

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- A synergetic paradigm has come from chemistry and physics. It takes into account the complexity, non-equilibrium, hierarchy and nonlinearity of the processes occurring.
- Development is understood as an irreversible process of evolution with successive changes in the hierarchy of structures and mechanisms of increasing complexity ("the Other Canon").
- Such evolving structures and mechanisms form the meso level of the economy.



# New view of the economic world

The increasing complexity of economic reality and dissemination of new theoretical concepts have, together, contributed to the development of mesoeconomics, in addition to macro- and microeconomics.



# Understanding the meso level

## Conventional approach:

- Micro level - individual actors and their behavior;
- Macro level - an aggregate at the level of national or global economies;
- Meso level - an intermediate level: large corporations, industries or regional economic complexes.

## Institutional approach:

- "Meso" analysis is aimed at studying the mechanisms of the influence of macroeconomic decisions on micro-level agents (*Stewart, 1992; Rodgers and Cooley, 1999*);
- "The economic system is a rule-system contained in what we call the meso" (*Dopfer, Foster, Potts, 2004*);
- At the meso level the evolution of institutions ensures the cooperation of individual and group activities which take place (*Elsner, 2007, 2010*).

The meso level as a subject for investigation

**Neoclassical approach:**

The study of the meso level of the economy is based on micro-foundations (the same as for the macro level). Among them are the prerequisites of the rationality of economic agents, the profit maximization and equilibrium principle.

**Heterodox approach:**

The meso level includes structures and mechanisms that determine the patterns and rules of interaction, as well as the proportions of economic reproduction, which ensure the development of the economy as a whole. They depend on history, culture, geography and similar aspects.

# **Methodological institutionalism:**

**A new premise to investigate the meso level in economics**

# Methodological *individualism* as a core principle of mainstream economics

- Methodological individualism "assumes an explanation of the social and economic phenomena in terms of individual behavior" (*Lukes, 1973; Hodgson, 2003, 2007*).
- Methodological individualism has led to "neoclassical synthesis" (*Samuelson, 1967*) and "new neoclassical synthesis" (*Woodford, 2009*).

# Methodological individualism and methodological holism

- Methodological holism (*Gruchy, 1947 ; Rutherford, 1989*) is usually considered as an alternative to methodological individualism. Is this really true?
- The principle of methodological holism is the **epistemological** philosophical premise which has been investigated since Aristotle (the IV century BC) and reflects an idea that "the whole is more than sum of its parts".
- Its **epistemological alternative** is a reductionism ("the whole is understood as a set of primary elements forming it")
- A reductionism is expressed in economics as methodological individualism.
- As for methodological holism, in economics it is still used "directly", without specification.

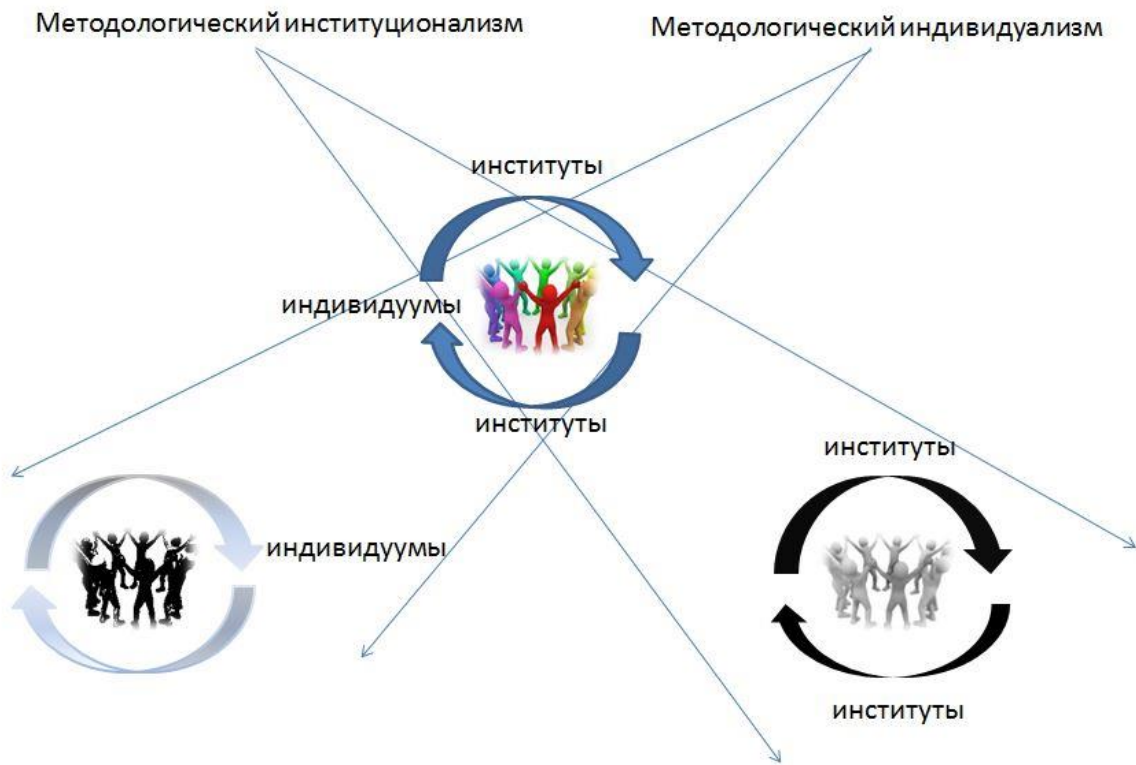


# Institutional individualism as a middle way?

- Institutional individualism (*Agassi, 1960, 1975; Jarvie, 1972; Toboso, 1995, 2001, 2008*).
- If we summarize the views of institutional individualism supporters, we see that they are still focused on the analysis of human interactions in the institutional environment where "macroeconomic effects have to be presented as a result of interaction of certain actors within existing institutions" (*Polterovich, 2011*).
- I agree with Jarvie (1972) that institutional individualism is a wider version of methodological individualism and it still contains "an explanation of the social and economic phenomena in terms of individual behavior".

# Methodological institutionalism

- The integrity of economic systems is provided with structures of institutions. Therefore identification of holistic and systemic principles in economics can be presented by methodological institutionalism.
- Methodological institutionalism means an explanation of the social and economic phenomena in terms of the functioning and changes of institutional structures. Factors of institutional change are also explained.



# Examples of the application of methodological institutionalism

- Eucken W. (1939). Die Grundlagen der Nationalökonomie. Jena: Gustav Fischer.
- Eucken W. (1965). Grundsätze der Wirtschaftspolitik. Rowohlt: Reinbek.
- Polanyi K. (1957). The Economy as Instituted Process. / The Sociology of Economic Life. Mark Granovetter and Richard Swedberg (eds.). Boulder, CO: Westview Press.
- Kirdina S. (2013). New systemic institutional approach for comparative political and economic analysis. // Review of Radical Political Economy. September. Vol. 45. Number 3.

# Karl Polanyi as one of the first researchers of the meso level on the basis of the methodological institutionalism principle



1886-1964

He showed that, from the same properties of economic agents attributed to them in the neoclassical micro level economics, different types of institutions are being created in the economy at the meso level to coordinate economic performance. Among them exchange (market), redistribution and reciprocity (*Polanyi, 1977*).

# Meso level research for economic policy

Meso level research can be used to understand the balance between market and redistributive mechanisms; the depth of privatisation, nationalisation or *publicisation* (Andrew Purves); competition or cooperation (the creation of alliances); regulated prices or free pricing, etc, for the effective development of entire economic systems.

# Question:

Could methodological institutionalism (Keizer, 2007; Kirdina, 2013) possibly be one of the core methodological principles for Heterodox Economics?



# Discussion



Institutions are constantly evolving. However, in a manner similar to how new branches contribute toward the continuing growth of a tree, new institutions inherit existing characteristics and move forward, evolving from foundational institutional structures. *Methodological Institutionalism* gives us the lens to investigate this process.



# Conclusion

- For HE the meso level is clearly of primary interest, although there is not yet a consensus about the definition of the meso level.
- Nevertheless, despite the differences in its interpretation attention is focused on that part of the economic system where the mechanisms of economic development arise and where they are identified during the interaction of economic agents (subjects, subsystems).
- The meso level is associated with the realisation that it is here (rather than at micro or macro levels) that new economic and technological solutions are increasingly being constituted.
- It is here that the endogenous mechanisms of economic growth are formed as well as the main obstacles to its achievement. Accordingly, the meso level becomes a subject of study in its own right in order to manage it, and to use the results obtained in the interests of the whole society.

**JOINT**

**Association for Evolutionary Economics / European Association for Evolutionary Political Economy**

**SESSION**

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— Thank you for your attention!

Спасибо за внимание!