New Systemic Institutional Approach for Comparative Political and Economic Analysis

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Abstract

The idea that modern economics is necessarily based on market capitalism continues to dominate in scientific-scholarly discourse. The objective of this article is to present institutional matrix theory, or X- and Y-theory, as an alternative systemic institutional approach to economic and political development. It puts forward some new arguments to explain "grassroots resistance" to the deep marketization in many societies and answers the question why capitalism triumphs in the West and fails everywhere else.

JEL Classification: P51, B52, A13

Keywords

systemic institutional approach, comparative analysis

1. Introduction[1]

An idea that modern economics is necessarily based on capitalism continues to dominate in scientific-scholarly discourse. It seemed that after the fall of the Berlin Wall there were no obstacles to the flowering of capitalism in the developing and post-communist world. However, with the rising power of China, the "left drift" in Latin America and the Caribbean, and Putin's Russia, we see socio-economic systems that do not fit well in the "Procrustean bed" of capitalism.

The article presents institutional matrix theory (IMT), or X- and Y-theory, as a new framework for comparative analysis of "capitalistic" and "non-capitalistic" countries. In opposition to the popular view that cultural differences principally do matter, IMT finds that the type of institutional matrix historically dominant in a given country is the crucial point.

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This systemic institutional theory develops a neo-Marxian approach to the analysis of societies. Sharing many of Marx's presumptions and accepting his analytical schemes, IMT updates and elaborates them in an attempt to better understand our dynamic and complex globalizing world. While Marx very briefly (Marx 1853) investigated in detail only one type of society and did not analyze societies with a so-called Asiatic mode of production, IMT deals with all kind of societies *pari passu* or on equal grounds. In its turn, IMT rejects Marxian economic determinism in favor of a more open-systems approach to social causality and creativity in history. As for institutional examination, IMT follows Marxian historical materialism and also admits that thought processes initiate human historical activity and praxis (Cox 1996). So institutions, as the results of human activity in the course of long-term iterative process, have a dual character: they are objectively (material-based and historically) determined and depend on the manner in which humans collectively produce the means of life, while at the same time they are also "human–made," which involves subjective and teleological features. Marx himself made this point, although "men" acted within societal constraints. It is known that Marxian dialectics showed the interdependence between public conscience, social practices, and the conditions in which people live (Marx 1904). So both the conscious human and the material "surrounding" factors are reflected in the forming of institutions.

IMT is based also on the ideas of cumulative causation (Veblen 1899), embeddedness (Polanyi 1944), and path dependence (David 1985) that have confirmed the important role of institutional structures for social and economic development.

2. The Systemic Approach in Economic Research

It is known that the systemic approach deals not just with the individual (mereological) details of an economy but with the system as a whole, and not just with the economy but also with the political, ideological, and social dimensions. It pays special heed to the interactions between these spheres, as did Marx. The most general features of the systems paradigm that appear in economic research are described by Kornai (1998) and summarized as follows:

1) Interrelations between the whole and its parts are the primary subject of social systems analysis.
2) Research focuses on the institutions that define the framework and flows of specific processes. Institutions are understood in a broad sense as structures that form historically and develop (types of institutions express particular interrelations between the society as a whole and individuals as its "parts").
3) There is a close connection in understanding the current social order in economies alongside of the historical process in which it appeared.
4) Primary attention is paid to major changes and deep transformations, rather than to small and constant changes.
5) System "dysfunctions" are inherently built into any system, which may be compensated for but not eliminated since their self-reproducibility is deeply rooted in the system itself.
6) Comparison is a typical method within the system paradigm and is conducted mostly on the qualitative rather than the quantitative level.

Kornai presented a list of authors (Karl Marx, Joseph A. Schumpeter, Ludwig von Mises, Friedrich von Hayek, Walter Eucken, Karl Polanyi, and himself), who, from his point of view, implemented the systems paradigm in economic studies.

The significant formation of the systems paradigm in the 20th century shows the need for producing *systemic theories* that have the status of scientific ontology (i.e. paradigms with "solid cores" for research programs). In the middle of the last century Schumpeter wrote: "Our time

revolts against the inexorable necessity of specialization and therefore cries out for synthesis, nowhere so loudly as in the social sciences" (Schumpeter 1951: 56). His statement is true up to our current day.

Empirical generalizations in economics have become more and more fragmentary. Likewise, the growing number of particular theories has not allowed us to solve problems of analyzing and comparing "big economies" over prolonged historical periods. Up to now contemporary economists have not yet created theories of this kind, which can be widely accepted by the public and by scholars. It leaves the prospects of building economic and social theories based on the systems paradigm wide open.

Recognizing the limits of the evolutionary paradigm and looking to go further with a systemic and institutional approach for comparative analysis, new research areas are being developed: ordoliberalism by W. Eucken, comparison of economic systems (CES), comparative institutional analysis (CIA), regulation theory of the French School, "varieties of capitalism" (Hall and Soskice 2001), etc.

Summarizing the main authors of the above mentioned research programs (Eucken 1950; Koopmans and Montias 1971; Neoberger and Duffy 1976; Boyer 1990; Montias, Ben-Ner, and Neoberger 1994), a Russian expert in economic methodology Oleg Ananyin singled out some common methodological principles, which are important for economic systems analysis:

- taking a holistic approach focused on the economic system as a whole not on economic agents' individual behaviors;
- attempting to develop a universal and ideologically neutral language to describe different economic systems;
- making a definition of economic systems as institutional structures;
- producing comparative and typological analyses, based on the underlying structures of institutions (Ananyin 2002, 9-12).

These methodological principles are in use in institutional matrix theory towards developing the systems paradigm in economic thought.

3. Institutional Matrix Theory (IMT), or X- and Y-theory

Proceeding with the Marxian approach, IMT (Kirdina 2001) elaborates on a model of human society as a social system structured into three main spheres: *economy, politics*, and *ideology.* In contrast to Marxian "economic determinism" (which gives primacy to the economic structure over politics and others cultural spheres in the development of human history), in IMT economy, politics, and ideology are of equal importance. This is in line with traditional Parsonian *structural functionalism* (Parsons 1951) in sociology. These value spheres are considered as strongly interrelated morphological parts, or components of an indivisible whole. Each sphere is regulated by a corresponding set of basic institutions. Institutions through the actions of their builders permanently reproduce the staples of social relations in different civilizations and historical periods. Basic institutions integrate a society into one whole that develops sometimes with conflicts and at other times in harmony; sometimes with competition and at other times with cooperation. As Thorstein Veblen wrote, "Social institutions are not only the result of selection and adaptation processes, shaping the prevailing and dominant types of relationships and spiritual position, at the same time they are special modes of the existence of a society, forming a special system of social relations and, hence, in turn, are an effective selective factor" (Veblen 1899: 188).

Aggregations of interrelated basic economic, political, and ideological institutions are defined by IMT as an *institutional matrix.* The first use of the term "institutional matrix" is found in the works of Karl Polanyi (1977). This idea has since been further developed by Douglass North

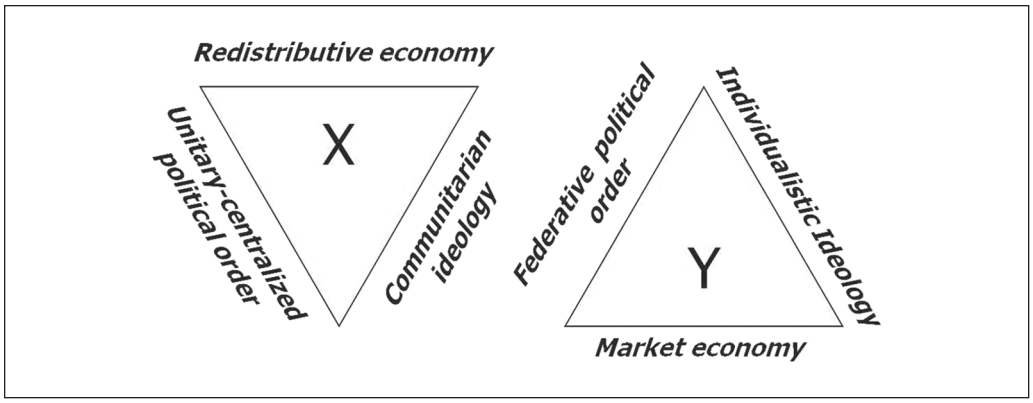

Figure 1. Institutional X- and Y-matrices.

(1990). In contrast to Polanyi and North, however, an "institutional matrix" in IMT is defined not as a flexible and historically changing net of economic and political institutions, but rather as a "rigid primary set" of basic institutions (coming back to the original meaning of matrix as a derivative from the Latin "queen," "foundation," "primary model").[2] The second main difference is that "ideology" (ideological institutions) is included in every society's institutional matrix as an integral part of the social whole, the foundation of a nation's or people's identity.

Historical observations and empirical research as well as mathematical modelling and a broad philosophical approach constitute the ground for the IMT hypothesis about two particular interdependent types of institutional matrices called X- and Y-matrices. These matrices differ in function according to the set of basic institutions forming them (see Figure 1).

The X-matrix is characterized by the following basic institutions:

- in the economy: *institutions* of a "*redistributive economy"* (a term introduced by Karl Polanyi 1977). Redistribution-oriented economies are characterized by a situation where the center (at the top) regulates the movement of goods and services, as well as the rights to their production, reproduction, and use;
- in the political sphere: *institutions of a unitary (centralized) political order* (top-down model);
- in the ideological sphere: *institutions of communitarian ideology*, the essence of which is expressed by the idea of collective, shared, public values and rights governing over individual, sovereign, private values and rights, i.e. the priority of "we" over "I."

The Y-matrix is characterized by the following basic institutions:

- in the economy: *institutions of a market economy.* Market-oriented economies are characterized by a situation where horizontal exchange relations between economic agents exist;
- in the political sphere: *institutions of a federative (federative-subsidiary) political order* (bottom-up model);
- in the ideological sphere: *institutions of an individualistic ideology*, which proclaims the dominance of individual values and rights over the values and rights of larger communities, where groups are subordinate to personalities, i.e. the priority of "I" over "we."

[2]In this context "institutional matrix" is used as a macro-sociological definition to analyze different types of societies in contrast to the use of the term "matrix" mostly as a technique for the integration of many kinds of information, e.g. "input-output matrix" by W. Leontief, "social fabric matrix" and "social accounting matrix" by Gregory Hayden.

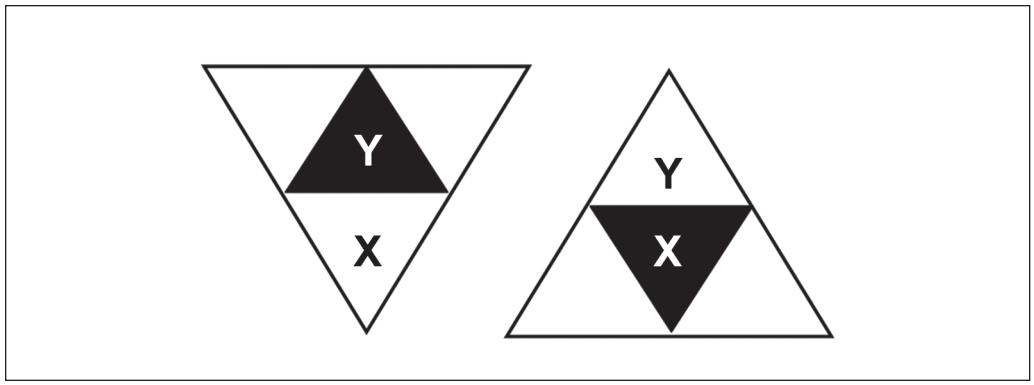

Figure 2. Combinations of governing and complementary institutional matrices.

In real-life societies and nations, X- and Y-matrices interact, with one of them permanently prevailing and governing. Nevertheless, the matrices are not and cannot be entirely exclusive of each other, given that both X- and Y-matrices co-exist concurrently in any given case. In other words, the social structure of any society can be singled out as a dynamic binary-conjugate structure of these two dialectically interacting, yet alternative, complementary institutional complexes. For each country the governance of one of the matrices over the other is usually constant during the course of history. The dominant institutions of the prevailing matrix therefore serve as a performance framework for harmonizing additional complementary institutions from the other matrix, as indicated in Figure 2.

IMT contends that X-matrix institutions predominate in Russia, China, and India, along with most Asian and Latin American countries. In these cases Y-matrix institutions are also a "must," but they have a complementary and additional character instead of a governing voice in society. And conversely, Y-matrix institutions encompass "varieties of capitalism" and prevail in most European countries and in North America as well as in Australia and New Zealand, whereas X-matrix institutions also exist but at a smaller ratio.

The material and technological environment is seen as a key historical determinant of whether either an X-matrix or a Y-matrix prevails. The national environment can stress an indivisible *communal* system, wherein removal of some elements can lead to disintegration of the whole system, or it can amplify a *non-communal* system with possibilities of functional and technological division (Bessonova et al. 1996: 17-18).

All economic, political, and ideological X- and Y-institutions coexist in different combinations and are embodied in many institutional forms, and in real-life situations the extreme cases are never fully demonstrated. The most efficient and effective interfunctioning of X- and Y-matrices in each society requires an appropriate institutional balance between them with all morphologically interconnected institutions (Sandstrom 2012). For example, economic policy aims to find the best proportion between market and planned (or regulating) redistributive institutions as well as means to their modernization (Kirdina 2010). People and authorities can actively help to achieve this balance faster and more efficiently with concentrated "teleological" efforts, rather than just letting "unguided" evolutionary history or the absolutely "free hand of the market" take its course.

4. The Comparative Position of Nations with X- or Y-matrix Prevailing

The position of countries with X- or Y-matrices prevailing can be measured by their GDP. Preliminary analysis shows that GDP proportions have been changed cyclically during a history of almost 200 years (see Figure 3).

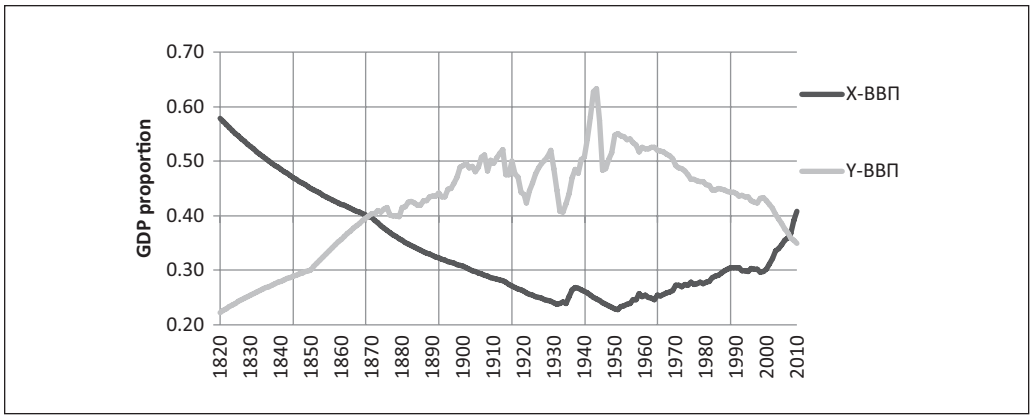

Figure 3. Proportion of GDP produced by countries with a prevailing X- and Y-matrix, 1820-2010.
Search: Maddison Data Base, http://www.ggdc.net/MADDISON/oriindex.htm

The sample for this analysis includes 34 nations (~75 percent of world GDP), data from which were available for the period 1820-2010. The Maddison Database was used to calculate GDP levels for nations with a prevailing X-matrix (China, India, Japan, Brazil, and former USSR countries) and Y-matrix (Western Europe -12, including Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, and United Kingdom; and Western offshoots including Australia, New Zealand, Canada, and the United States). This large sample gives us a considerable basis of comparison between X-matrix dominant and Y-matrix dominant nations.

We can see a long wave over a period of 140 years with a clearly distinguished GDP lead among Y-matrix countries. From 1820 (and before) to 1870, GDP was led by countries with prevailing X-matrices, after which Y-matrices became dominant. The maximum spread between shares of Y-matrix and X-matrix countries in terms of GDP took place between 1950 and 1965. But since the 1970s, the trend of Y-matrix countries' dominance has gradually decreased; and since 2008 the share of X-matrix countries has once again returned to prevail and this wave keeps growing.

This result corresponds to findings of the founder of world-systems theory (or world-systems analysis) Immanuel M. Wallerstein, who believes that capitalism has entered a phase of systemic crisis, which is paradoxically the result of its success in ensuring the continuity of the process of accumulation. In his analysis, the crisis broke out at the beginning of the 1970s (Wallerstein 1983). Similarly, many scholars suppose that a new period of "world shift," which extends from the beginning of the 21st century, has created a chaotic situation in the world that announces the emergence of a new society, the next world system, whose characteristics are not yet known (Schouten 2008). A new systemic institutional approach based on IMT, or X- and Y-theory, in this context helps us to anticipate the contours of contemporary global trends and provides a methodology for future comparative and political-economic-ideological analysis.

5. Conclusion

In radical political economy the term ''radical'' is often interpreted as a theoretical and practical rejection of capitalism (Stefanović and Mitrović 2011: 355), while ''political economy'' instead infers a return to the classical tradition and Marx (Jakšić and Lazar 2002: 327). I do not completely reject "capitalistic economic doctrines" but openly recognize the failure of these doctrines

to understand "everything and everywhere" in economic life. Institutional matrix theory, or X- and Y-theory, allows us to distinguish two types of institutional complexes (so-called X- and Y-matrices) that interact complementarily within each country. IMT is closely related to several previous ideas about two pathways of development: a European one and an "Asiatic mode of production without private ownership of land" (expressed by Karl Marx in 1853, Germany), "exchange economies" and "centrally planned economies" (expressed by Walter Eucken in 1939, Germany), market (exchange) and *redistribution* in the *economy* (expressed by Karl Polanyi in 1953, Canada), and market *self-regulating* category A economies and *culture-regulating* category B economies (expressed by Steven Rosefielde in 2002, United States).

Long-term analyses of the comparative role of countries with X- and Y-governing institutional matrices suggest that the configuration of the world's major global economic players is changing. Since 2008 the global GDP share of X-matrix countries (Russia, China, Brazil, India, etc.) has prevailed over Y-matrix countries (the United States, Europe, etc.) and the gap continues to grow. This developmental process is also accompanied by the important growth of X-institutions in Y-matrix countries: after the 2008-09 global financial crisis, the role of government regulation, centralized management, and communitarian ideology of "common survival" have become increasingly popular. The notion that "we're in this together" (WITT) rather than "you're on your own" (YOYO) signals X-matrix tendencies even in strongly Y-matrix oriented nations.

The start of a new "institutional long wave" requires a new intellectual platform to support a global dialogue among nations. This dialogue can be based on institutional complementarity and proportionality instead of on general acceptance of "Western" superiority and neoliberal capitalism as universal ideals or the inevitable "end of history." I hope that institutional matrix theory (IMT) will be helpful for interpreting and developing this important task.

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