CENTRO BRASILEIRO DE RELAÇÕES INTERNACIONAIS

Texto para discussão

Polanyi, Market Fundamentalism, and the Institutional Structure of Capitalism

By Leonardo Burlamaqui

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Abstract[1]

The basic proposition of this paper is that the so-called "new economic sociology" which is rooted in key ideas of Karl Polanyi, and which basic propositions will be subsequently defined and explored, is an indispensable "tool" for two tasks: a) it provides us with a powerful critique of market fundamentalism, and b) it equips us to analyze the economic performance of contemporary capitalism by accessing the working of its institutional structure. A concrete example is given through the application of a "Polanyian" framework to the case of East-Asian Capitalism. As a follow up of this line of inquire a, perhaps unconventional, point of departure will be suggested in order to frame the 1997-98 "Asian Crisis": as a crisis of under regulation. From a analytical perspective the paper suggests that Polanyian Economic Sociology is an essential complement to both the Schumpeterian and the Post Keynesian perspectives in economics, when it comes to the discussion of "socioeconomic stability" and, more precisely, as Keynes himself stated in the General Theory: to explain why in spite of encompassing inherent elements of instability and unpredictability, capitalism economies manifests them in different ways and degrees.

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[1] Leonardo Burlamaqui is Senior Fellow at the Brazilian Center for International Relations (CEBRI), Professor at the Department of Economic Evolution at the State University of Rio de Janeiro and Researcher as well as Professor at Minsky Summer-School, both at the Levy Economics Institute – Bard College (New York).

1. Introduction

" Polanyi's enduring insight is that markets are sustainable only to the extent that they are embedded in social and political institutions. These broader institutions serve three functions without which markets cannot survive: they regulate, stabilize, and legitimate market outcomes" (Rodrik, 1998)

"...it often seems that Polanyi is speaking directly to the present day issues. His arguments – and his concerns – are consonant with issues raised by the rioters and marchers who took to the streets in Seattle and Prague in 1999 and 2000 to oppose the international institutions" (Stiglitz: 2001, vii).

The liberal perspective from Adam Smith to Robert Lucas assumes as its primary axioms, in the economic theory, the existence of a maximizing agent called rational economic individual and the existence of mechanisms that display a tendency towards equilibrium. The economic sphere is analyzed as a system provided with a logic of its own, self-regulated, and, thus, autonomous with regard to other spheres of society. Once these axioms and their implications are accepted, there will be an analytical possibility of separating the working of the economic sphere (and its understanding) from its articulations with the other spheres, or its conditioning by the social structure where it is inserted (cf. Swedberg: 1990, Block: 1990, chap.2 and Holton: 1992 chaps. 3 and 4).

This intellectual strategy has allowed for *two* "conquests" undoubtedly fundamental both for the consolidation of the respect for Economics as a discipline, and for its academic prestige. The *first* one has been the establishment of a conceptual-theoretical framing comprised of generalizations supposedly capable of indiscriminate application (that is, in an atemporal and away-from-history manner): a passport towards its status as a science. The *second,* was the possibility of *assuming the economic order as an inherent property of its functioning logic* - the "invisible hand of the market" operating via price system is the most synthetically metaphor of this assumption. Economic order is, thus, conceived as being endogenous, flows spontaneously from the maximizing behavior of the agents which detain information and select rationally. *The economic system is stability-bounded and order is an endogenous and natural process; instability and crises are exogenous, and a result of the interference of non-economic factors into the economic logic.*

From this perspective, economic theory has built itself a hierarchical relation of superiority vis-à-vis the other areas of social inquire. The proposition of Pareto to the effect that economy as a science would be compromised solely with rational behavior, while sociology would be basically dealing with irrational behaviors is a consequence of what has been previously said. This issue has been synthesized precisely by the well-known declaration by J. Duesenberry that... "*Economics is all about how people make choices; sociology is about how they do not have any choices to make*" (1960: p 233). Economics would thus be the science of the rational choice as an affirmative and ordered action, and sociology, the investigation on the absence of such elements (cf. Swedberg: 1990, introduction).

The result was that the methodology progressively utilized by economic theory, which has afforded it high intellectual acknowledgement and the status of science, *implied the non-consideration of both the social context within which the economic activity is developed and the role of the institutions in its operation* (cf. North: 1990 chap. 3, Granovetter: 1992). The "spontaneity of the economic order" is, from this standpoint, not a characteristic of the object to be interpreted, but a methodological imposition by the liberal economic perspective.

This axiom was frontally questioned, within the very territory of the economic theory, both by the Schumpeterian (cf. Minsky: 1990, Rosenberg: 1992, Nelson: 2012 and Burlamaqui: 2019) and by the Post-Keynesian perspectives (cf. Kaldor: 1985, Minsky 1982,1986,1996 and Burlamaqui: 2022). Emphasizing conflict, multiple sources of instability and uncertainty, and, therefore, the systematic instabilities and fluctuations in economic activity – as well as emphasizing its endogenous character – both perspectives in fact *turn upside-down* the proposition inserted in the liberal paradigm, either in its classic stream and *a fortiori* in the neoclassical (main) stream: *both stability and order in the economic system are non-natural; they cannot be supposed; they must be explained.*

Taking on board conventions, institutional arrangements and the social context which involves and supports the economic activities - that is, exactly those elements excluded from analysis in the neoclassical and liberal interpretations - as originators of the order, both *Keynes and Schumpeter's approaches point in the direction of the recovering of the dialog between economics and sociology,* and mainly, to the reconstruction of a field of knowledge that has been *aborted* in the past: that of *economic sociology* (cf. Hodgson *in* Lawson and Pesaram eds.: 1985 -concerning Keynes, and for Schumpeter, Swedberg: 1987, Swedberg ed.: 1991, introduction and Burlamaqui 1995, chap 1).

Loosely present in the "origins of modern social science" - in J. S. Mill, Marx, and Durkheim- and explicitly worked out in the works of Weber, Veblen and Commons, economic sociology was progressively eclipsed by the self-isolation of economic theory, and by the resignation of sociology with that "economics imposed" division of labor, which implied in its exclusion from the discussion of "economic" issues.

This was an odd outcome, given that *economic sociology deals exactly with the mechanisms of interaction and articulation of economic processes and social structure* (cf. Block: 1990, Granovetter and Swedberg: eds.1992: introduction, and Hodgson: 1993). Specially through the concepts of *embedded economic action* and of *economic institutions as social constructions*, economic sociology introduces, as we will see, a new dimension into economic analysis, acting as the equivalent of a paradigm shift, allowing the formulation of new questions- such as for example, on the relation between economic culture and productive efficiency, and between institutional architecture and economic performance. Those issues, although virtually ignored by conventional economic theory, were present, as mentioned, in the "classics" of social science, but specially, in the backbone of the theory of an author that has been afforded, until recently, little recognition: Karl Polanyi.

2. Polanyian Economic Sociology I: The Self-regulating Markets' Utopia

"The congenial weakness of nineteenth society was not that it was industrial, but that it was a market society" (Polanyi, 1944)

Polanyi's work stands out both for its radical critique to the whole classical-neoclassical paradigm (the "economics fallacy" in his own words) and for the innovative departure points he provides for the "new economic sociology" ,in a way that avoids both methodological individualism and equilibrium as their building blocks. According to the author, the event of the industrial revolution in England meant both a "miraculous progress in the instruments of production" and a "catastrophic disarticulation in the lives of common people" (cf. Polanyi: 1980, p 51). Along this transformation there has been the project of consolidation of a *market society,* that is, a totally mercantile society, ruled by the logic of the economy, and the latter, by the principle of the market. (For discussions of the various fields, in social sciences, where it is possible to use Polanyi's *insights*, see Kari Polanyi-Levitt ed: 1990 and Mendell and Salèe eds: 1991).

This set of events, far from having been a natural evolution of the development of the "tendency of the human beings for bargain and exchange" assumed by Smith has been, according to the Polanyian interpretation, the result of a deliberate intervention of political forces - mainly State force - in the name of a new intellectual paradigm: liberalism (cf. Polanyi: 1980 part 2, and Block and Sommers: 1985 pp. 52-55). His main argument in this direction is the antithesis of liberalism: Polanyi states that:

> " . . . The *idea* of a self-regulated market implied a complete utopia. Such an institution would not be able to exist at any time without annihilating the natural and human substance of society; it would have physically destroyed man and transformed its environment into a desert". (1980: p 23; our emphasis)."

This statement is supported in the author's concept of *economy as an instituted process*, that is, on the subordination of the economic activity to the social context where it occurs. From this standpoint, the project of an economy autonomous from the social structure and operating as a self-regulated market system appears as a *great transformation* whose impact on both of them can be summarized in two words: *disorganization and instability* (cf. Polanyi: 1980, chaps. -10, and Martinelli: 1986, chap. 4).

At the core of Polanyi's analysis lies an idea already exposed by Marx, but reinterpreted in an original way - and a radical one: *that the imposition to society of a "market logic" - productivity driven and exclusively aimed at efficiency - implied the disruption of society, with equally destabilizing effects on its economic relations* (Michael Sandel has recently re-stated the same line of arguing: cf. Sandel, 2013). Polanyi's key idea is that in the commoditization of nature and human beings, and by the submittal of international economic relations - of monetary and financial flows among the nations - to the impersonal and supposedly automatic mechanism of the gold-standard, would generate a process of economic instability and shredding of the social tissue. (cf. Polanyi, 1980 chap. 6).

This triple "disrupting" process pointed out by the author, which resulted in the "creation of fictitious merchandises" (land, labor and money)[2], and their exposure to the laws of supply and demand, are seen as the *causa causans* of the endemic instability of a market economy. At this point, one comment is in order: the connection between the predominance of the market logic and liberal capitalism *and* instability is a link between the analysis of Polanyi, and the ones provided by Keynes and Schumpeter (Especially Schumpeter's 1942 book). The perception, by Polanyi, of ideas as historical forces - that is, of the existence of a project at the base of a process - leads him closer to Keynes and Weber. The interpenetration between social context, institutions and stability is, as we shall see, the most significant result of the conceptual-theoretical alternative that can be derived of his insights .

[2] In the case of money, Polanyi's proposition demands a correction: It is not meaningful to talk about "the mercantilization of money "due to the fact that the use of money is itself an *index* of the *degree of mercantilization of a particular society* (although not necessarily of its capitalistic nature) . The concept to be used here should be the *complete exogeneization of the money supply*. This, if possible, once done would remove all types of "political" interference with the economy's money supply, and therefore would provide a sort of - supposedly- *self regulative device for international* trade*, as well as to domestic adjustments in the price level*. That was the intended logic of the Gold Standard (although it never worked that way) and is also the rationale behind current proposals for complete independence of Central Banks. According to this (monetarist) perspective, monetary policy should restrict itself to *monetary rules* above and beyond all bureaucratic or political "interference".

3. Polanyian economic sociology II: conceptual innovations -Reciprocity and Redistribution as Systems of Socio-Economic Integration

"Markets do not exist apart from the rules and institutional settings in which they operate" (Tyson and Zysman,1989)

Our main proposition here is that these conceptual innovations made by Polanyi – the perception *of the embeddedness of economic activity, and the insight that reciprocity and redistribution could be seen as organizing principles of socio–economic integration* – should therefore be recovered, reworked, and used as analytical instruments to access the workings of mature capitalist economies. Let's try to elaborate this proposition.

Polanyi's *conceptual* starting point is the idea of *economy as an instituted process*, that is, constructed and reproduced by behavioral rules and derived from the social structure.

> " The instituting of the economic process vests that process with unity and stability; it shifts the place of the process in society, thus adding significance to its history, it centers interests on values, motives and policy. Unity and stability, structure and function, history and policy spell out operationally the content of our assertion that the human economy is an instituted process. The human economy, then, is embedded and enmeshed in institutions, economic and noneconomic. The inclusion of the noneconomic is vital. For religion and government may be as important for the structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves. . ." (Polanyi [1957] *in* Granovetter and Swedberg eds. 1992: p 34).

In spite of the *uncritical identification*, by the author, of *institutions and stability,* - a complex and changing relation as we shall indicate – the transcribed paragraph contains a fundamental idea: *that the study of how the economies are institutionalized is exactly the investigation on what are the mechanisms which afford them cohesion and coordination. The study, therefore, of the institutional roots of economic and social stability* (cf. Sjöstrand: 1992, p 1026).

Economic order and stability are, according to Polanyi, the result of the *combination* of basically three forms, or systems, of integration distinguishable along History: *reciprocity, redistribution and exchange* (Markets). Thus, it becomes evident that the ways in which these forms become interconnected at the various levels of economy and society, their coherent balance or the eventual predominance of one of them are crucial elements to face, in deciphering the sources of economic and social stability .

There is a synthetical statement in Polanyi's above mentioned text whose current relevance will become progressively more visible in the remaining parts of the paper:

> "Reciprocity as a form of integration gains greatly in power through its capacity of employing both redistribution and exchange as *subordinate methods*" (cf. Polanyi eds.: 1957, p 297- my italics).

His observations in this respect are, nevertheless, predominantly referred, as already noted, to pre-capitalist societies and economies. From the standpoint of an analysis related to capitalism, an effort of conceptual adaptation is therefore required *which, although not violating the essence of his thinking, allows us to apply his ideas to contexts which were not explored by the author.* This is what we will seek to do.

According to Polanyi, *reciprocity,* as an integration system, *implies movements of resources and information between correlated points of symmetrical groupings* (cf. Polanyi *in* Polanyi, Arensberg, and Pearson eds.: 1957, p 296).From our perspective, this means that besides social-cultural connections embedding the parts, *it also presupposes the existence of a dimension of cooperation among economic agents.* Reciprocity as an integrating system thus constitutes, we propose, a relation *where both the cooperative dimension and the value of trust are recognized as essential to continuity, stability and efficiency of the interaction process.* Reciprocity systems, when institutionalized, function, mainly, through *networks.* Both the "Community-model firm" in Japan and the close links attaching the (thousands of) Chinese businesses within Asia are clear examples of reciprocity mechanisms *embedding* economic action and market transactions (cf. Dore: 1986 and Burlamaqui: 1995, chapter 3).

As to *redistribution,* it consists, according to Polanyi, of "movements of appropriation and control of resources by a centralizing institution and, subsequently, its mobilization towards dispersed points in the social-economic structure" (cf. Polanyi: Idem, Ibiden). According to our interpretation, *systems centered in the mechanism of redistribution function through hierarchies.* As an *integrating system,* redistribution consists of *coordination of asymmetric relations* among agents where the efficiency in the deployment and allocation of resources depends critically on the existence of a certain degree of centralization of decision making power in one of them, and therefore, of hierarchical relations between this one and the others. *Redistribution systems* are, therefore, typically *"visible hands "*.

Their integrating effects are, in our view, the ones Weber studied so carefully for public administration, and Chandler extended to modern corporations: the efficiency which unfolds from the characteristics of, both public and private, bureaucracies as agents of rationalization and administration of complex tasks: systematization, professionalism, specialization, and organizational capacity (cf. Weber: 1977,vol 1,part I [III], Beetham:1987, and Chandler: 1962, 1977, 1990 and 1997).

Pure exchange (pure markets) is, to Polanyi, the expression of the interaction between agents in the context of a system where *ex-ante* coordination mechanisms are absent, and the decision making process is always "a venture into the unknown". Contrary to the previous systems, pure interchange does not suppose extra-economic links between agents, neither is it characterized by the symmetry or asymmetry between the parts. Its base is *"the full availability of goods and services – as merchandises- and the existence of a price system which regulates their acquisition"* (cf. Polanyi [1957] *in* Granovetter and Swedberg eds.: 992).

In our interpretation, its integrating character resides in the fact that the price system contains a set of information, which although incomplete, allows the (ex-post) articulation of decentralized decisions. Its efficiency lies in the flexibility which it affords to economic relations between the agents in contexts where changes are recurrent phenomena, and in the disciplining character imposed by its logic ("innovate or die" is a good shorthand for it). Pure exchange systems function as *markets, in their Austrian-Schumpeterian sense, which is to say, as a social order based on private property and voluntary exchange and entrepreneurship* (cf. Hayek: 1945, Schumpeter: 1976, Kirzner :1991 and Ikeda:1994)[3].

Based on this "updating" of Polanyi's concepts, we suggest three propositions regarding their contemporary relevance:

- The "disciplining" logic imposed by "pure" market systems has, when left alone, exactly the "collateral effects" that Polanyi always stressed: conflicts, volatility and major instabilities[4]
- Therefore, precisely within mature capitalist economies- and contrary to what Polanyi himself suggested in his "historical thesis"- both the efficiency of markets and their stability are greatly enhanced when they are *embedded*. Which is to say, when *markets* are combined with *visible hands* (hierarchies) and, specially, when cooperative networks encapsulate both markets and hierarchies.
- This "Polanyian" tripartite framework is an alternative – a better starting point- to the "Coase- Williamson" theoretical base, to access and discuss the "economic institutions", or the "institutional structure" of capitalism (cf. Coase: [1937] 1993 and Williamson: 1985).

The originality *implicit* in Polanyi's argument, and that we are seeking to recast and clarify, is the possibility of taking "reciprocity" and "redistribution" as systems of coordination, control and mobilization of economic resources, that are parts of *any* economy's institutional framework, and their functionality and complementarity – instead of corrosiveness- to pure markets. It is exactly this argument that backs up the entire discussion of markets, hierarchies and networks as alternative but not mutually exclusive means of coordination of socio-economic interaction, and as "stability builders" to otherwise instability-prone (pure) market systems A discussion which only very recently has been raising (increasing) interest within the field of social sciences, including economic theory (cf. Thompson et alii eds. 1991,and Orrú, Biggart and Hamilton;1996,Boyer,and Drache, eds.: 1996.Crouch, and Streeck, eds.:1997, and Hollingsworth and Boyer eds.: 1997.)

The analytical advantage of this *Polanyian* departure point is that it is straightforward institutionalist. It avoids both the methodological conflict between "individualism" and "collectivism"; and the dependence on the twin concepts of maximization and equilibrium that are very much in the root of almost all works on institutions taking off from the "Coase-Williamson" theoretical base that constitutes the so called "new institutional economics".

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[3] As change propellers and rivalry arenas, therefore, rather than *equilibrium locus* as they are seen in Neo-classical economics.

[4] And this is- let us stress it-an important link between Polanyi's vision and those of Schumpeter, Keynes and Minsky. The link between Polanyi and Keynes was recently noted by Boyer and Drache (cf. Boyer and Drache eds., 1996,introduction), but the ones between his and Schumpeter and Minsky's remain to be worked out (But see Kregel and Burlamaqui: 2004 for an attempt).

To be sure, to those who still see the “new institutional economics”, as a superior alternative to the “new economic sociology”, Oliver Williamson himself acknowledges the limits of his own framework to deal with innovation, and therefore with economic change:

> “ The introduction of innovation plainly complicates the earlier-described assignment of transactions to markets and hierarchies based entirely on an examination of their asset specificity qualities. Indeed, the study of economic organization in a regime of rapid innovation poses much more difficult issues than those addressed here” (cf. Williamson: 1985, p 143)

Thus, let us take a closer look at the three basic “Polanyian” propositions suggested above, working out their main analytical implications.

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4. Polanyian economic sociology III: Embeddedness and Embedded Autonomy

" There are many routes to capitalist success, and to failure as well. Specific analyses of [concrete]...economies can be more informative than generic commentaries on 'Capitalism' abstractly conceived " (Mc Craw: 1997).

Besides its "Polanyian roots", new economic sociology also incorporates in its analytical framework ideas and concepts from Weber, Veblen, Commons, Mitchell, and Schumpeter - which should be viewed, as already noted, as a *crucial bridge* between evolutionary economics and the "embeddedness approach" (cf. Swedberg: and Granoveter:1990). Its core postulates are the following: a) *being economic action a dimension of social action, it is, thus, socially inserted, that is, embedded in the social context where it occurs,* b) *economic institutions are social constructions.* c) *institutions (in their organizational dimension) are decision-making units.* These are three propositions which carry deep implications and bear enormous importance for our discussion.

First, they imply that the decisions regarding *economic objectives* are not, as a rule, *exclusively* oriented by *economic criteria*. According to the "new economic sociology", on the contrary, these decisions are mingled with non-economic parameters such as legitimacy, social acknowledgement, obtention of power and cultural conditioning. *This, in its turn, questions the axiom of the existence of a "pure" economic rationality.* The rationality exerted by economic agents in their decision making processes is, under this perspective, *not only restricted* (or "bounded") by uncertainty, cognitive limits and limits of their capacity to process information *but, also, limited by the social structure and by symbolic elements* (cf. Etzioni:1988, parts 2 and 3, Simon: 1982, and Keynes: *CWJMK vol.* viii) .

Secondly, the assertion that the economic action is socially and culturally structured implies the fact that *it cannot simply be explained as a result of individual choices.* It is *always* embedded in *mechanisms of regular interaction between individuals and groups in which base there are personal relations, which in their turn are supported by implicit codes of conduct (conventions); and explicit ones (organizations and rules)*. The introduction of social structure and heterogeneous patterns of interaction among agents as constitutive elements of their actions and decisions implies, necessarily, a skeptical perception of methodological individualism which is at the basis of the vast majority of economic theory today.

Thirdly, the perception that the economic institutions *are not unidimensional* , that is, they are not built solely as efficient and rational responses to economic problems, *demands a substantial shift in the analytical framework: the incorporation of elements such as historical inheritance (path-dependencies), the impossibility of predicting future outcomes (radical uncertainty), and social context constraints (core rigidities).* Economic variables are, in this approach, *one of the* inputs, and economic efficiency, one among other possible outputs (cf. Hodgson:1988, Granovetter:1990, and North: 1990, chap.11).

Taking these propositions into consideration, institutions and institutionalization processes should be taken as *the key concepts* of economic organization (or, in Paul David felicitous catch phrase," the wings of history"). Moreover, from an economic sociology point of view, they represent not only *results* of human action, but also *constraints*, and most significantly the *causes* for divergent socio-economic outcomes*.* Under this perspective, the *same* technological and economic problems may have rather *differentiated* unfolding, according to the characteristics of the social structures where they are inserted, their path-dependencies, and to the patterns of collective action associated thereto, (cf. Granovetter:1990 p. 106)[5].

From the standpoint of its theoretical implications, it is worth noting that this framing allows for the introduction, *in the constitution and development of economic relations between agents,* of reciprocal obligations[6] as *strategies* (not as "benevolence"), of trust as a condition to arrive at credible commitments, of reputation as a source of competitive advantage (and *rents*) and of power relations as an inseparable dimension of hierarchies (cf., in the same sense, Thompson et alii:1991, parts 3 and 4, and Holton:1992 chap 1). A few implications unfold:

First, the importance of the above arguments are reinforced if economic organization is taken as a historical process, that is to say, unfolding across time, and subject to *uncertain expectations about the future* (instead of happening instantaneously as in the paradigm of general equilibrium). Being so, the requirements for matching socio-economic stability with structural transformation include the construction of links of mutual obligation (reciprocity and co-operation) between agents, but also involves power relations, that is, *hierarchy and control.* Stability emerges from the patterning of these interactions in time and space and from the enduring effects of solidarity, reinforced by recurrent rituals of varying intensity, where moral density is strongest" (cf. Powell e DiMaggio: 1991, p 24)[7].

Secondly, from an "evolutionary perspective" (as opposed to the neoclassical), the meaning of the introduction of these elements in the social analysis of economic relations is crucial. It stems from the fact that they *may* turn themselves into mechanisms for information diffusion, conventions enforcement, and devices for coordinating expectations. Summing up: as mechanisms of *uncertainty reduction* and *conflict management.* From the standpoint of both evolutionary and post-Keynesian economics, as *socially constructed sources of stability;* and (cf. Keynes 1983 chaps. 12, 16 and 24, Hodgson *in* Lawson and Pesaram eds. 1985, Hodgson 1988 chaps 6 and 8, and Crotty *in* Dymski and Pollin eds. 1994)*.*

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[5] To this respect, recall the opening quotations of this text: Swedberg remarks, in his biography of Schumpeter, that: "we shall suggest that his central theme - in Capitalism, Socialism and Democracy - is.... *The role of institutions in the economy.* As we know, Schumpeter felt that economic theory should deal with 'economic mechanisms' and economic sociology with economic institutions"(cf. 1991p 152). As for Keynes's approach: … "expectation and confidence formation are institutionally specific and historically contingent processes… Keynes macro theory is based on an institutionalist methodology."(cf. Crotty *in* Dymski and Pollin eds: 1994,p 129).

[6] Cross-shareholdings or profit distribution reward structures for instance.

[7] It is worth noting that these issues are making inroads within neo-utilitarist thinking. James Buchanan in an essay written to discuss the relationship among order, governability and *moral bonds;* compares unfavourably the U.S to Japan from the point of view of the "erosion of moral order" in the former vis-à-vis the robustness of it in the latter (a very Schumpeterian "take", by the way). Buchanan's treatment of the subject is way behind any sort of analytical coherence and there are much more questions asked than answers given, but its relevance is promptly recognized by the author (cf Buchanan:1986 pp 115-19).

Thirdly, from a " Political economy" perspective, these same concepts make room for a major step ahead in the discussion of the relationship between state structures, business groups and structural transformation. This will bring us to the concept of *embedded autonomy* that we will use following Evans (1995). Concerning the internal organization of state, the "Weberian approach"-a highly selective, meritocratically recruited, bureaucracy with long-term career rewards creating professional commitment and a sense of corporate coherence- seems to be one *necessary condition* for achieving "development power": the bureaucratic "autonomy" indispensable in order to pursue *collective action and promote the "public interest"* [8].

A second condition, however, (not discussed by Weber and whose roots are in Polanyi, Granovetter and is clearly stated in Evans:1995, and 1997b), seems to be that although "autonomous", state structures and bureaucracy cannot be *insulated* from society (as Weber himself suggested they should be).*To the contrary, to be able to act as a developmental state they must be "embedded" in a concrete set of social ties that binds the state to society and provide institutionalized channels for the continual negotiation and renegotiation of goals and policies*.

According to that perspective, a state that is only autonomous would lack sources of intelligence, information, and the ability to rely on decentralized private entrepreneurial activities. On the other hand, dense connecting networks *without* a robust internal structure would leave the state incapable of resolving "collective action" problems, of transcending the individual interests of its private counterparts. Only when *embeddedness* and *autonomy* are joined together, can a state be called - according to this perspective- *developmental* (cf. Evans:1995 chaps1 and 2). The combination of corporate coherence and connectedness, or *embedded autonomy,* provides the underlying structural basis for successful state involvement in structural transformation.

While recognizing that autonomous states completely insulated from society could indeed become very effective predators, this perspective nonetheless points to the fact that when autonomy is *monitored* by private organizations and agencies, the resulting institutional arrangement -*embedded autonomy*- becomes a source of strength: it erects a barrier to both sides of "capture" (of state bureaus by private agents, and of state power by public bureaucracies), while simultaneously injecting *developmental power* into both public and private realms of society. From that perspective " deterioration of state institutions is likely to go hand in hand with the disorganization of civil society"(Evans: 1995,p249).

Finally, it should be stressed that the existence of *embedding institutions* is not a sufficient condition for uncertainty reduction or complexity management. As Powell noted, following Schumpeter's main thesis in Capitalism, Socialism and Democracy, *institutional inertia* is always around the corner, and a menace to both growth propelling, and economic efficiency :

> " The benefits associated with familiarity may easily outweigh the gains associated with flexibility. Altering institutional rules always involves high switching costs, thus a host of political, financial and cognitive considerations mitigate against such changes..…..Success is frequently the enemy of experimentation. . ." (1991:p 192).

[8] In fact, in his highly perceptive comparative study of state structures in Asian NCI's and Zaire, Peter Evans concluded that-and in total contradiction whit the Neo-liberal perspective-it was the *scarcity of a "Weberian bureaucracy", not its prevalence that undermined state success in terms of propelling development* (1995: chap 3.)

To accept that, is to conceal that the level of abstraction permitted within institutional analysis is rather low, or, to put it in another way, that it is well fitted for empirical and comparative studies where *interpretation* rather than *prediction* should be the main goal: the conclusion about the “fitness”, or lack of it, of a particular set of institutional arrangements is only possible through its concrete investigation [9].

Two concluding comments for that section. First, this “Polanyian economic sociology” can- and should- be articulated with both “Schumpeter’s approach”, and with post-Keynesian economics, and linked to a *comparative perspective* in the social sciences -their only possible “laboratory- (cf. Albert: 1993,Berger and Dore eds: 1996,Crouch and Streeck eds: 1997, Dore: 1997, and Hollingsworth and Boyer eds: 1997). Secondly, it obliges the economic analysis to move from “economic self-regulation” to “institutional architecture”, and “institutional patterns” to understand its inner workings, as well as to move the core concepts of hierarchy (power), reciprocity, (co-operation) and *embedded autonomy* (institutionalized and mutually agreed processes of coordination) to the front and center of economic analysis. These points will be referred in our comments on the East-Asian capitalist “institutional architecture” and its 1997-98 crisis, which are the next sections of the present paper.

[9] A point already very well made by Nicole Biggart (cf. Biggart 1991, in Orrú, Biggart and Hamilton: 1997).

5. The Institutional Structure of East-Asian "Alliance Capitalism": A Polanyian perspective

> *" By now we know that what brought Japan economic success was much less of ' a miracle' at least in the supernatural or divine sense of the word, but more a matter of institutional design at all levels from central administration down to the shop floor" (Aoki and Dore, 1994).*

The discussion above provides the means for *establishing parameters for the development of a comparative approach in the relationship between institutional contexts and economic performances*. The acknowledgement of the existence of links between work ethics and productivity, economic culture and production, shared values and economic performance whose *variability* in time and space provides an important part of the explanation of *differences in result deriving from a same array of (or access to) productive resources, technological base and material infrastructure is a fundamental step in this direction* (cf. Morishima: 1984,Berger: 1986, Redding: 1990,Clegg and Redding eds: 1990, Murakami and Rohlen:1992, and Orrú, Biggart and Hamilton: 1997 for a set of texts pointing in the same direction).

Tyson and Zysman summarize its most important implication:

> ". . . . it has been most difficult for America to recognize that there are different national economic strategies, each representing a different way of organizing a capitalist marketplace. It has been difficult to acknowledge that *there is more than one form of capitalism,* more than one way of structuring business-state relations in a democratic society with a marketplace economy " (cf. Tyson and Zysman : 1989, p . [Our Italics]).

From a Polanyian perspective, what is being suggested in the paper is a major theoretical point: that one can *access* and *explain* the institutional structure *embedding* any capitalist economy, as well as an important part of its dynamics, by analyzing how in each case reciprocity, hierarchies and markets *combine,* or better, how the relative weights of each one in different institutional structure *mix* points to different dynamics, as well as outcomes in terms of economic performance (meaning the degree in which economic dynamism combines with socio-economic stability).

The point we want to make here is that the exceptional economic performance of East-Asian capitalism during the last several decades can be explained - at least in part - as a product of its "Polanyian institutional structure"…

- Where markets and competition played an important part, acting as pressure mechanisms towards the will to innovate and to the search for competitive advantages.

- Where markets, notwithstanding, were *embedded* and competition was *encapsulated* and both were inserted in the *visible hands of a State-directed capitalisms.*

- Where markets were *embedded* in social networks where both cooperation and reciprocity ties played a strategic role, competition was regulated by a set of *disciplining norms* to which all major players had to adapt, and those norms themselves were supervised by the State and enforced by public policy. The "major players" by their turn were (are) a blend of large public and private, financial and non-financial corporations - either mostly private as in Japan, South-Korea, and Singapore or public and private as in Taiwan and China -hierarchically managed and market-organizers instead of market-organized.

The common denominator was the presence of the a well-balanced – and evolving - *Polanyian mix*, of markets, visible hands and cooperation mechanisms, and the differences within this major similarity has to do with the relative weight of each of its components within the mix. In that sense, the works of Gerlach on Japanese *Keiretsu*, of Clegg and Redding on Capitalism in Contrasting Cultures, and specially of Orrú, Biggart, and Hamilton on the Economic Organization of East-Asian Capitalism are both pioneering and illuminating (cf. Gerlach: 1992,Clegg and Redding eds.1990, and Orrú, Biggart, and Hamilton: 1997). Although neither of them -and somewhat strangely- quotes Polanyi or works out his ideas; they provide us with the raw material to integrate concrete institutional patterns and data with a Polanyian economic sociology framework[10].

Writing in the beginning of a decade that would be intellectually dominated by neo-liberalism, Daniel Bell pointed out, with his usual discernment, to an instigating question: the fact that...

"At the close of the 20th century the sociological question seems to be of why capitalism has become so very successful in Japan which maintained many of its traditions ... emphasized its communitarian roots, privileged the search for

[10] To be sure, there is one -and only one- mentioning to Polanyi in Orrú, Biggart and Hamilton papers (collected in the 1997's book), none in Clegg and Redding edited book. As to Gerlach, he discusses Polanyi's ideas (pp. 41-45) but mainly to criticize them from the same perspective of Granovetter 1985 paper. It does not occur to any of these authors that a "Polanyian framework" can be built as an alternative to deal with the "Economic Institutions of Capitalism". Biggart in her turn, tried, as already referred, to do a similar effort to ours in terms of framing Asian economic organization into a Weberian perspective. We appreciate her effort as a very interesting one to witch ours should be seen as a complement, but two critical remarks are in order. First, Biggart's effort to build a "Weberian approach" does not go very far, it ends up being more an effort to *map the terrain that should be traveled if one wished to construct a Weberian framework than the construction itself*. It is an excessive preliminary sketch (originally published in 1991) that, by now - 1998-, should have been extended and developed. Second, Biggart's characterizing of Chandler's as a "market" type of explanation of industrial structure patterns is oversimplified, to say the least. Chandler is worldly recognized as a pioneer of the *organizational approach to industrial development*- his slogan is exactly about "the visible hand of management replacing the invisible hand of the market...(See Lazonick: 1991 for a very sharp appreciation of Chandler's work). Our choice of Polanyi instead of Weber stems from the fact that we see more "elective affinities" between East-Asian Capitalism's institutional structure and Polanyi's framework than Weber's; and last but not least, because this "Polanyian framework" remains *unoccupied territory,* while the "Weberian" is already "patented".

consensus, and assures lifetime employment for a good part of its labor force" (Bell, 1980: pg. 76)

In the nineties, after a substantial analytical, and empirical, effort to deal with this issue, "the Japanese puzzle" was in accelerated process of being solved. Alliance Capitalism was an apt label to sum up its main institutional traces. As Gerlach has put it, Alliance Capitalism combines horizontal organizational links with vertical ones. The *Keiretsu* organization meshing horizontal and vertical *"business communities"* is one of its most sophisticated forms, where long-term relationships, extended networks, affiliation ties and overlapping transactions involving trade, debt, equity holding, and personnel interlocks are used to consolidate financial, commercial and other business operations (cf. Gerlach: 1992, chaps 1, 4 and 5). Attached to that, there is the so-called "community model firm" where there is hierarchy and authority, but both are blended with democratic-cooperative procedures (like the quality-circles and workers participation in the companies' profits).This "communitarian" model of firm organization is backed by a set of "credible commitments", and feeling of participation in a positive-sum game of (where all win), in a hierarchy strictly based on meritocracy and seniority; and on the scarce division between manual and intellectual labor. (cf. Dore, 1986 and 1987: chap. 5, and Freeman, 1987: chap. 2).

Therefore, both company (*Kaisha*) and business communities (*Keiretsu*) stand on a mutually reinforcing set of institutional arrangements that gives concrete form to what Orrú, Biggart and Hamilton have been calling *Organizational Isomorphism* (cf.1997,chaps 6 and 10).Of course markets and competition are all around, and the competitive process is fierce. The distinctiveness here is exactly the presence of a "Polanyian" institutional structure: both markets and competition are *embedded into co-operative networks that act as uncertainty reduction devices, and as buffers to both instability and to predatory practices*.

At the level of the State-business relationship, the same kind of blending takes place. In this turn, between hierarchy and *reciprocity* (co-operation). The Japanese state, being neither "Deus ex-machina" nor a passive agent in a self-regulated market, constitutes a functional complement to the previously described institutional structure. Either as an *arena* for collective action "strategizing", or as a growth propeller, it combines *developmental* characteristics (cf. Jonhson:1982, and 1995) with *network* traces (cf. Okimoto,1988 and 1989, and Burlamaqui: 1995).The institutional outcome is Peter Evan's "*embedded autonomy*.

The resulting institutional structure is, it should be crystal clear by now, a "Polanyian" one. One that meshes exactly markets, hierarchies, and co-operation, and operates within a high degree of *institutional isomorphism* where the same rules, codes of behavior in business practices apply. In other words, the "community model firm", *Keiretsu* organization, and state-business relationship are grounded in the same operating principles, conventions and organizational practices. The final result is a socially constructed frame for economic stability. This frame, in its turn, neither eliminating markets nor competition (but controlling them) also makes room for economic dynamism.

Seen from that perspective, both the South-Korean and the Taiwanese institutional structures can be perceived as variations on the "Japanese model", which is to say, as "Polanyian mixes" are present, although with different relative weights for each component. The South-Korean variation would, in our framework, resemble the pattern identified by Orrú as a *Dirigiste Capitalism* where the combination of a Strong State and a few huge corporations (strong hierarchies) with markets and controlled competition (embedded markets) would constitute the core of the institutional matrix, while reciprocity/co-operation schemes although present would not have the same weight (cf. Orrú:1997 chap.10).

The Taiwanese variation, on the other hand, would resemble Orrú's *Familial Capitalism* combining markets and competition with a more dense reciprocity based network (the web of indigenous small and medium enterprises and its connections with the "overseas Chinese business community ").The State although present and active, would have a more discrete role as compared with both its Korean and Japanese counterparts (cf. Orrú: op cit., and Orrú, Biggart and Hamilton:1997 chaps 6,8 and 9. See also Redding: 1990 passim).

To conclude this section, let us stress the usefulness of our "Polanyian approach" to institutional analysis. First, it links institutional data to the core concepts of economic sociology and by doing that, it enables the former to be theoretically framed - which its to say: allows for generalizations and, therefore, to theoretical work. Secondly, it makes room for a cross-fertilization among economic sociology, evolutionary economics and political economy (cf. Burlamaqui: 1997, and 1998 for more on those issues).Finally, it reveals the power of Polanyi's core concepts in order to interpret the institutional dynamics of the most spectacular phenomenon of economic development and structural transformation since the industrial revolution: the rise of East-Asia to a position of first class producer, as well as a region with - surprising - records of social and economic stability.

All the above would hold without much questioning or controversy until 1997. But then came the so-called *Asian crisis* and with it the ferocious debate about the nature of East-Asian capitalism, as well as the drawbacks of its institutional structure. Strong states suddenly were converted- by both academics and media- into corruption powerhouses and shrines of bureaucratic arrogance. Cooperation schemes and networks started to be labeled as "crony capitalism" and perceived as a disease instead of a social source of stability and efficiency. The "market fundamentalism finally penetrated the whole region, and was presented as *The* cure to all evils in Asia. Being so, the question comes naturally: How all this fits our "Polanyian perspective" ? Should we tear it down as "history" -at best- or simply a wrong one ? The answer is no. Quite the opposite, there is a strong case for an interpretation of the *Asian crisis* along "Polanyian lines". We will not do it in length- this is a subject for another paper- but let us end our discussion suggesting how it could be done (For a rigorous and up to date comparative analysis of the Asian crisis, see MacIntyre, Pempel, and Ravenhill, J. eds., 2008.)

6. The 1997-98 Asian Crisis as a Case of Under Regulation

From our point of view, the *Asian crisis,* although very complex in its origins - a complexity that defies easy explanations- should be seen as mainly a product of the clash between two developments that came to reinforce each other in a perverse way: fast globalization (specially financial globalization) and fast domestic deregulation at several levels (trade, investment, exchange rate, and foreign borrowing).Wade and Veneroso nicely summarize the point:

> " Clearly, the rapid deregulation of national financial systems and the opening of their capital accounts, without paying attention to both the adequacy of the regulatory regime and the skill base in the financial sector... was an act of gross irresponsibility on the part of both the national governments and the international organisations that championed them"(cf. Wade and Veneroso: 1998,p 23).

The bottom line of the argument is the following: from an *institutional perspective* [11], the crisis can be seen as an *Asian great transformation* exactly along Polanyian lines. A departure from reciprocity (cooperative networks) and hierarchical controls (State policies of investment coordination, and strictly regulated foreign borrowing for instance) to a "market-oriented" playing field (cf. Boyer: 1996 for a similar reasoning applied to the broader context of the erosion of post-World War II institutional legacy).

To be sure of that possible reading of the crisis I ask the reader to note two *facts*: first, the argument that the *villains* were excessive state intervention, and "crony capitalism", has to deal with the following question: why State and "cronyism" should be blamed, if, for the preceding three decades, at least, they reigned in the region ? Second, the cluster of deregulation measures in the region clearly *precedes* the financial shock. In point of fact, only *after* financial deregulation the financial disruption took place. In Japan, according to Dore, "some of the institutional changes in the last seven years have been designed to bring the Japanese financial system closer to American norms...[and] it seems obvious that the intensification of competition which liberalization will imply will probably damage the 'relational trading' links between banks, insurance companies and non-financial firms (already starting...)" (cf. Dore: 1997,p17, and Calder:1997 chap 2).

In South-Korea, according to Chang, "In the traditional model, the Korean government controlled all the (internal and cross-border) financial flows very tightly. And despite certain liberalization that occurred during the 1980s, the system remained a tightly monitored one until the early 1990s. However, from the early 1990s, the Korean government started relaxing its control over the financial sector significantly,

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[11] It is very important to emphasize that: We are *not,* of course, proposing a full explanation of the crisis. We are suggesting that *from a particular point of view*-the institutional perspective- and from a polanyian theoretical background, that this is a possible reading of its *institutional dynamics.* We could be building, alternatively but not antithetically, a *financial fragilization,* a *balance of payments* , or a party-politics reading of the crisis. All those elements were components. None of them should, if detached from the changing institutional architecture, be regarded as sufficient. This is a very useful weberian methodological warning.

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and under Kim Young Sam government,the liberalization process was accelerated"(cf.Chang:1998,p 6). This liberalization process in Korea -both government promoted and *Chaebol*s seaked- included investment coordination (with the demise of the Economic Planning Board in 1993), foreign borrowing, "an area which had been traditionally most tightly controlled by the government, liberalization was considerable, and now there is virtually no restriction", and exchange rate management (cf. Chang, 1998,p 6-9).

Following Chang, and in the tracks of Polanyi, we suggest that the Asian crisis should be seen as "a crisis of *under regulation"* and that contrary to the mainstream economics' perception, it was deregulation itself (or *disimbedding*) that created the main "enabling conditions" under which the a "Minsky crisis" could unfold[12] (cf. Chang: 1998, p 7, Kregel: 1997).Of course the crisis also displayed government shortcomings, and policy mistakes, but its roots seemed to be in the above mentioned *newly acquired traces* of East-Asian capitalism, traces that point to the *dismantling of its "Polanyian institutional structure"* as preparing the ground and to the resulting increased financial fragility as the trigger to be squeezed.

The counter proof of our suggested interpretation can be seen in Taiwan's (and China's) behavior *vis-à-vis* the crisis. None of them showed the weaknesses displayed by South Korea, Thailand, Malaysia and even Japan. According to Fields, " One of the interesting features of the financial crisis was the fact that Taiwan not only remained virtually unscathed; it was in a position to offer help to some of its less fortunate brethren" (cf. Fields: 1998, p1). Why was that so ? No easy answers to that question, but to approach it, one should bear in mind the following features:

Both Taiwan and China have a huge display of state-owned enterprises(In Taiwan, estimates of state and *party* holdings range as high as 50% of all company assets. Cf.Fields:1998, p1. Could this be a source of stability once a crisis has blown up ?). In neither the deregulation process was too sharp or too fast, no high leveraged foreign debt also, nor short-term debt profiles[13]. Finally, no loss of "reciprocity" (co-operation) in the Taiwanese entrepreneurial tissue, and no "melting" hierarchical structures or state strength in both of them. From our perspective, they showed more resilience *because* they were protected from financial globalization exactly by their "Polanyian institutional structures" while the reverse occurred in the other countries above mentioned.

If this reading of the crisis makes sense to the reader I will have to leave as an open question. It makes to me, and from my perspective it underlines the usefulness reworking Polanyi's approach as a key to both the institutional structure of capitalism, and to the *current* institutional dynamics of (post 1997-98 crisis) East-Asian capitalism.

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[12] In South-Korea, the K.Y. Sam administration took office in 1993 and thereafter, the deregulation process gained much speed (cf. Chang: 1998, p 7) . In that respect recall Peter Evan's observation that " deterioration of state institutions is likely to go hand in hand with the disorganization of civil society "(Evans: 1995,p249).

[13] In South Korea, the short-term foreign debt jumped from 20% of total debt in 1986 to 58.2% at the end of 1996 (cf. Chang: 1998, p 8).

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CENTRO BRASILEIRO DE RELAÇÕES INTERNACIONAIS

Rua Marquês de São Vicente, 336
Gávea, Rio de Janeiro - RJ - Brasil
CEP: 22451-044

Tel: +55 (21) 2206-4400
cebri@cebri.org.br

cebri.org