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ARTICLE

EMBEDDEDNESS, POLICYMAKING, AND THE DYNAMIC CONSTITUTION: WHICH WAYS AHEAD?

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Abstract
The formal and informal arrangements underpinning constitutional settlements reflect the relationships at the foundations of the economy and the polity. There is mutual embedding of the economy within the intertwined collective objectives characterising the polity, and of the polity within the web of material interdependencies characterising the economy. This mutual embeddedness defines the 'constitution' of political economy as the pattern of connectivity reflecting the relationship between the political constitution and the economic constitution. This has deep implications for the dynamics of the economy and the polity, as well as for the character and effectiveness of actions by stakeholders in both spheres.

Keywords: constitution; political economy; embeddedness; partial vs. systemic objectives; policymaking

JEL Codes: P00; P48; D71; D74

1. Introduction

The formal and informal arrangements underpinning constitutional settlements reflect the relatively persistent relationships at the foundations of the economy and the polity in each societal and historical context. In this connection, it is essential to consider the embeddedness of the economy within the intertwined collective objectives characterising the polity and the embeddedness of the polity within the web of material interdependencies characterising the economy (Pabst and Scazzieri, 2023). This mutual embeddedness defines the 'constitution' of political economy as the relatively stable pattern of connectivity reflecting the relationship between the political constitution and the economic constitution. This relationship has deep implications for the dynamics of both the economy and the polity, as well as for the character and effectiveness of actions by stakeholders in both spheres.

Section 2 of this paper explores collective actions under conditions of mutual embeddedness of the economic and the political sphere. This section emphasises the dynamic character of the constitution of each political economy, as the character of mutual embeddedness is likely to change due to transformations in the economic or political sphere, or in both. This means that the conditions for the feasibility and effectiveness of actions aimed at collective objectives are likely to evolve as we move from one state of the dynamic constitution to another.

Section 3 examines the relationship between embeddedness and levels of aggregation. Both the economic and political spheres are rooted in patterns of interdependence between social actors, but actors may be identified in different ways depending on how individuals or groups are pooled together. This section argues that the pattern of interdependence characterising the constitution of each political

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economy is fundamentally shaped by the mode of aggregation that gives rise to the prevailing social units in the economy and the polity under consideration. Our analysis calls attention to intermediate levels of aggregation conceptualised as the primary relational setting for social units and their dynamics over time.

Section 4 examines the relationship between the patterns of interdependence in a political economy and the processes by which policy objectives are determined and implemented. This section argues that the mutual embeddedness of the economy and the polity involves the possibility of *multiple forms of aggregation and interdependence*, so that the conventional distinction between 'states' and 'markets' should be considered as an instance of a much larger range of possible social units and patterns of connectivity. Section 5 builds on the previous section to highlight the plural avenues for collective action that are open to a network of stakeholders belonging to multiple, but also interconnected, layers of interdependence.

2. Actors, actions and levels of aggregation

We may define collective action as action whose objective is to bring about effects at the level of a plurality of actors considered as a whole. This definition shifts the meaning of collective action from the actors' pattern of interaction to the intended sphere of effects of the actions themselves. A collective action derives its identity from its (intended) impact on economic and/or political interdependence rather than from the identity of the actors involved in it, and/or from the process leading to concerted decisions and actions across a plurality of actors. This approach implies that an action is collective (or not) depending on whether it has a 'systemic character' that distinguishes it from a private action (Cardinale, 2024). This means that actors who engage in systemic actions may be either public or private.

Private actors may be at the origin of actions whose aim is to affect the interdependence in the economic or political domain. On the other hand, there could be actions originating from public bodies whose intended effects are limited to the private spheres of actors and cannot be considered to be collective according to the above definition. A distinctive feature of the approach outlined in this paper is the shift from actors to actions. This shift brings to light the interdependence between collective actions in the economic and political domains and highlights the *nested structure* of those actions across the two domains: economic actions can have collective outcomes in the political domain, and political actions can have collective outcomes in the economic domain. In turn, the political impact of economic actions can have further economic consequences, and the economic impact of political actions can have further political consequences, both for individual actors and groups but also for the polity, the economy and the society as a whole.

The interplay between economic and political actions is central to political economy and takes place at different levels of aggregation of economic and political actors (Cardinale, 2018, 2022). Both the economic and political domains are structured by forms of interdependence between actors at different levels of aggregation. For example, in a production economy, the most important interdependence may be between industries delivering inputs to one another according to a 'circular flow' pattern (Leontief, 1991 [1928]), or that between stages of production along supply chains (vertically integrated sectors), leading from certain primary inputs (such as human labour) to a particular good (or collection of goods) as final output (Pasinetti, 1973). Similarly, in a polity, the most important interdependence may be connecting actors at the lowest level of aggregation, such as individual actors as citizens, or connecting actors at intermediate levels of aggregation, such as interest groups, territories and cultural communities.

The mutual embeddedness and reciprocal constraints between the economic and political domains work very differently depending on the prevailing form of aggregation in either domain. A production economy characterised by a 'circular' mode of aggregation of its constituent industries is likely to introduce constraints in the political domain that are very different from the constraints arising from a production economy in which the dominant mode of aggregation is between production stages along several supply chains. In the former case, the economic linkages are likely to 'constrain' political

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arrangements by emphasising the need for policy actions supporting the viability of the network of interindustry product transfers that make the circular flow possible. In the latter case, the economic linkages are likely to 'constrain' the polity by pressing the need for policy actions maintaining the effectiveness of one or more strategic supply chains without directly addressing the viability of the system of supply chains considered in their unity. In the former case, the economic embedding of policymaking would probably push stakeholders towards policies aimed at social cohesion, self-sufficiency of intermediate input provision, and the like. On the other hand, in the latter case, the economic embedding of policies is likely to favour policies aimed at the effectiveness of individual supply chains with little or no consideration for the mutual dependence of different supply chains in the economy covered by the polity in question.

Mutual embeddedness also entails the existence of constraints arising within the political domain and affecting the economic domain. For example, a polity built upon the belief in an unmediated relationship between individual actors, such as the 'citizens', and a high-level political unit, such as the 'State', is likely to privilege policies addressing individual economic choices and actions with little or no consideration for the interests arising at the level of intermediate economic units, such as industries and other groupings of economic actors. On the other hand, a polity whose building blocks are intermediate forms of aggregation (such as groups that mediate between the State and individual citizens) is more likely to drive policies addressing objectives arising at the level of intermediate forms of aggregation (such as industrial or territorial interests) without necessarily privileging individual interests and interests directly arising at the level of the whole political unit.

The mutual embeddedness of the economic and political domains highlights the coherence, or the lack of coherence, between constraints arising within either domain. This mutual conditioning also reflects the relative invariance of economic and political forms of aggregation, and of their respective modes of transformation. For example, we may have situations in which the prevailing aggregation in the economy reflects the distinction between industries and the coordination of industries within a 'local' or 'national' circular flow, while the prevailing aggregation in the polity presupposes an unmediated connection between individual actors and systemic decisions and actions, with no consideration for intermediate groups and their objectives. This mismatch makes it difficult to identify a point of convergence between the constitutional arrangements prevailing in the economy and the polity.

As a result, the 'constitution' of political economy is likely to be unstable, and policymaking is likely to shift between the two poles of actions addressing intermediate levels of aggregation (such as targeted industrial policies) and actions directly addressing the systemic level (such as macro monetary policies), depending on which mode of aggregation prevails under circumstances. Mismatch is likely to change across time. Changes may take place in the economic or political domain, or in both. These changes may lead to an increasing mismatch between the two domains, and thus to increasing instability of the political economy, or they may reduce the mismatch between the economy and the polity. In the latter case, a new convergence, that is, a relatively stable constitution of political economy, may take shape. This new point of convergence would likely reflect the form of aggregation prevailing either in the economic or the political domain, depending on which domain will work as the most effective constitutional anchor.

3. Interdependence and policy objectives: Heuristics and benchmarks

We may consider policy objectives as goals to be achieved by collective action. The latter is an action conducive to a systemic outcome, independently of whether it is carried out by public bodies or by private stakeholders who have systemic influence. Accordingly, the constitutional approach to political economy provides a heuristic for reconstructing the route taken by the setting of policy objectives and by the implementation of policy decisions. In general, the setting of policy objectives can be interpreted against a 'multiple objective' benchmark. The mathematician and probability theorist Bruno de Finetti argued that the setting of a particular objective cannot be examined in isolation from other objectives explicitly

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or implicitly pursued by a given individual or collective actor (de Finetti, 1979). This means that the setting of any objective is, in general, embedded within a collection of multiple objectives, which need to be identified to get a reliable picture of policy setting and implementation. These objectives are assigned different weights, which express their relative importance with respect to one another (Scazzieri, 2009; Pabst and Scazzieri, 2016, 2023).

In formal terms, we may express the overall objective of the policymaker as reflecting a plurality of partial objectives, such that each partial objective is associated with a weight denoting its relative importance relative to the other objectives. If we denote by O the overall objective, that objective may be considered a function of the weighted partial objectives $O_1, O_2, \ldots, O_m$:

$$O = \lambda_1 O_1 + \lambda_2 O_2 + \ldots + \lambda_m O_m,$$

where $\lambda_1, \lambda_2, \ldots, \lambda_m$ are the weights expressing the relative importance of objectives $O_1, O_2, \ldots, O_m$, which are related to one another by the condition:

$$\sum \lambda_i = 1.$$

Following de Finetti's suggestion, we may consider the partial objectives $O_1, O_2, \ldots, O_m$ as objectives of a single policymaker *or* objectives of different stakeholders, or groups therefrom, who are involved in determining the systemic policy objective O. The two interpretations of objectives $O_1, O_2, \ldots, O_m$ are mutually compatible and suggest a criterion for assessing the feasibility of policies, given the patterns of interdependence in the economy and the polity. Each stakeholder or group of stakeholders may be associated with multiple partial objectives as well as with a global objective constructed by assigning weights to the partial objectives. In turn, the global objectives of different stakeholders, or groups of stakeholders, are explicitly or implicitly weighed against one another whenever a systemic action is carried out.

This argument suggests a method for assessing the degree to which systemic actions are or are not compatible with constellations of interests in a political economy. We may conjecture that systemic objective O^* is compatible with the constellation of partial objectives in society if its implementation is compatible with the relative weights assigned to the objectives of significant stakeholders in the political economy under consideration. On the other hand, the systemic objective O^* would not be compatible with the existing configuration of interests if its implementation is not compatible with the weights assigned to the stakeholders' objectives. For example, a decarbonisation objective may be compatible with the weights assigned to the variety of stakeholders' interests in a political economy, provided the benefits and costs of its implementation are distributed in line with the weights assigned by stakeholders to objectives, and/or with the weights that the political economy assigns to stakeholders. This argument suggests that, in the case of a policy objective requiring systemic action leading to outcomes incompatible with the existing distributions of weights, policy design and implementation should first explore ways to change the system of weights that stakeholders assign to objectives, *or* the system of weights that the political economy assigns to stakeholders.

This can be done in a variety of ways. One route follows from the consideration that stakeholders express global objectives that, in turn, result from the weighing of partial objectives within their respective 'private spheres'. This means that, *prima facie*, policymakers may be able to overcome a clash between the actions needed to achieve a systemic objective and the existing constellation of interests by inducing a transformation of relative weights within the stakeholders' private spheres. Alternatively, policymakers may address the distribution of weights assigned to stakeholders and induce trajectories of structural transformation that would change the relative weights of stakeholders in line with a systemic objective.

Different constitutional arrangements are conducive to different routes by which systemic objectives are related to the existing configuration of stakeholders' objectives, which is, in turn, related to the

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'private spheres' in which stakeholders' objectives are formed. Constitutional arrangements also encode a dynamic potential that could transform the existing relationship between systemic objectives and stakeholders' objectives. On the other hand, they may also entail blockages for other ways of transforming that relationship. The constitution of each political economy discloses both opportunities and constraints for the design and implementation of systemic objectives in light of the interdependence between stakeholders' objectives at the different levels of aggregation at which interdependence arises.

Each constitution also brings to light opportunities and constraints for the generation and implementation of partial objectives within the stakeholders' private spheres, once a given systemic objective is assumed. For example, a constitution rooted in individual, rather than societal, rights and freedoms may constrain the acceptance of systemic objectives within a range compatible with those rights and freedoms. Similarly, a constitution that privileges collective sustainability and social cohesion may constrain the generation of private objectives within a range compatible with societal viability conditions.

The classical distinction between a prototypical market society and relational collective arrangements brings to light the above relationships between private and systemic objectives. At the same time, market and non-market institutions are instances of a wider set of constitutional arrangements that provide the embedding for both private *and* systemic objectives (Polanyi, 1944, 1957). This embedding may start within stakeholders' private spheres, which are the relational setting for patterns of aggregation *across* different actors' private spheres and in which the 'acceptable' relationships between private and systemic objectives are born. The constitutional embeddedness of private and systemic objectives makes the relationship between those objectives inherently open-ended and subject to the dynamics of constitutional arrangements. At the same time, constitutional embeddedness implies that *constitutional heuristics* is an essential investigative tool for identifying the prevailing relationships between private and systemic objectives in each context.

4. Social bodies and levels of agency

Embeddedness means that both the economy and the polity are embedded in society (Polanyi, 1944) and that the polity constitutes a complex space composed of macro-, meso- and micro-levels of affiliations (Pabst and Scazzieri, 2023). As a multi-layered and relatively persistent configuration of domains and subdomains in which economic structures and political actions are intertwined, political economy can be conceptualised as a relational field resulting from overlapping spheres of economic, political, and social life. Social and political relationships underpin the material provision of human needs, while economic relationships presuppose a balance of different interests with the goal of satisfying needs. Accordingly, a political economy is not reducible to a set of individual rights and freedoms held together by a social contract between the collective sovereign and individual actors, but extends to multiple forms of association that are inherently plural—meaning that they are not internally homogeneous but rather constituted in complex ways by their members. Association denotes the implementation of collective actions (as defined above) by individuals and/or groups, as opposed to formal ties between the individual and the collective governed by purely contractual relations.

The plurality of spaces in which systemic decisions are made rests on diverse forms of human association. These forms give rise to intermediate bodies through which individuals or groups can exercise political agency. Such bodies reflect a human disposition to pursue shared ends by way of collective action in space and over time—spanning different generations as well as places from the local to the global. The set of intergenerational and cross-spatial arrangements reflects the idea of interdependence based on relationships embedded in societal structures rather than the notion of a purely formal social contract.

The difference between association and contract has far-reaching implications for the issue of political agency in the context of the plural spaces of debate, decision, and action that constitute the polity. The plurality of spaces in which political decisions and actions are made rests on diverse forms of human association. These forms give rise to intermediate bodies that are sources of political agency. Such bodies are constituted by social and intergenerational ties, which are more open-ended and view informal

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norms as more primary than legally enforceable commitments, whereas contractual arrangements tend to be time-bound and privilege legal enforcement over social constraints and dispositions.

As such, intermediate levels of agency embody a fundamental human disposition to pursue systemic objectives by way of collective action over time and space—spanning different generations as well as places. Thus, the nature of political economy can be understood as a nested union of bodies with overlapping membership, both horizontally at each level and vertically in terms of the interactions of micro-, meso- and macro-institutions.

The internal plurality of political economy is not merely formal and procedural but extends both to the foundation of the source of authority and sovereignty and to the finality—the systemic objectives pursued by the polity and its members, whether individual actors, groups or territories. The concept of plurality is a way of highlighting the relative independence of social groups and rejects the idea of isolated, autonomous individuals whose activities can only be coordinated by an absolutely sovereign centre, holding a monopoly of violence, power and ultimate decision-making—as we can find in a wide range of thinkers from Jean Bodin via Thomas Hobbes to Max Weber (Milbank and Pabst, 2016).

By contrast, the emphasis on plurality shifts the focus away from the accounts of sovereignty in terms of a single source of absolute sovereign power towards the idea of plural sources and graded degrees of sovereignty. Key to this is the role of constitutionally protected intermediate bodies that mediate between the individual and the centre, for example, associations and intermediate institutions such as manufacturing and trading associations, cooperatives, ethical and profit-sharing businesses, trade unions, voluntary organisations, universities and the free trading cities of Europe and Asia (cf. Pabst, 2018).

This conception of plurality does not posit that political economy as a whole takes precedence over the particular societies internal to it. That is because political economy is itself a nested, interlocking pattern of interdependencies among social units at different levels of aggregation that are bound to one another by social ties (Polanyi, 1944). And despite the relative invariance of each constitution of political economy, which stresses the functional interlocking of diverse groups in pursuing private and collective objectives, political economy does not rule out elements of a more heterogeneous plurality of objectives and actors. The political economy as a whole need not entirely agree with the premises of individual groups or corporate bodies to be able, nonetheless, to accept that these groups and bodies are performing roles that contribute to the organisation and effectiveness of the entire polity (Milbank and Pabst, 2016). At the heart of this approach is the twin recognition that the meso-level is itself plural and consists of a variety of bodies with multiple layers and levels of agency. Such a conception shifts the emphasis from impersonal loci of agency to the agency of actors, whether they are individual or organised as social bodies.

5. Levels of affiliation, entitlements and intermediate bodies: Pathways to collective actions

Political economy presupposes a constitutional framework, which constitutional heuristics bring to light. This paper emphasises the role of constitutional heuristics as pathways to collective action. Given the constitutional embeddedness of private and systemic objectives, constitutional arrangements, and their dynamics over time, are central influences in determining the feasibility and effectiveness of collective action. The design and implementation of systemic objectives are distinctive features of collective actions, which may be carried out by a plurality of actors in a plurality of contexts. This means that collective actions may be associated with public bodies as well as with individual actors or collective private actors on condition that their actions are carried out in pursuit of a systemic objective, and/or lead to a systemic outcome (Cardinale, 2024). The shift of emphasis from actors to actions opens the analysis of collective action to a plurality of routes. The constitutional embeddedness of the relationship between private and systemic objectives makes certain systemic actions feasible under certain constitutional arrangements and unfeasible in others.

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Constitutional embeddedness also implies that different possibilities for systemic action are available at different levels of aggregation depending on the type of constitutional arrangement and its dynamics. Collective action at certain levels of aggregation may be possible under certain constitutional arrangements and not under others. This highlights an important yet generally overlooked issue concerning the shift of collective agency from one level of aggregation to another. What happens if collective agency shifts, say, from an intermediate level of aggregation to the level of the political economy as a whole? Here, we may conjecture that the shift would be associated with *more inclusiveness* of actors (more actors are involved when moving from a lower to a higher level of aggregation) as well as *less inclusiveness* of objectives (making collective action more general is likely to involve the shift to objectives that are less specific and more comprehensive, thereby potentially involving a greater likelihood of sharing between actors). The constitutional embeddedness of private and systemic objectives calls attention to the role of constitutional heuristics, which in turn opens the field of policymaking to a plurality of actors and levels of aggregation.

Actors may connect with one another along multiple dimensions and at various levels of interdependence. For example, production enterprises may connect with one another in different forms depending on whether connections are established via (i) the mutual dependence of product flows; (ii) the interdependence of skills and capabilities and (iii) the coherence between different ways of performing productive operations (tasks) (Cardinale and Scazzieri, 2023; Pabst and Scazzieri, 2023). This example highlights the multiple dimensions along which enterprises may relate to one another in the production sphere. The plurality of forms of interdependence may also lead to the arrangement of actors along different layers, from the affiliation between micro-units via that between groups of units at intermediate levels of aggregation to that between macro-systems. For example, production enterprises may join enterprises delivering the same product at the same stage of production, or they may join enterprises delivering products different from their own but belonging to the same supply chain. This may lead to yet other forms of aggregation if certain supply chains in turn combine into more comprehensive units, whose glue could be the utilisation of the same natural resource or of the same pool of knowledge.

Levels of affiliation may or may not be associated with the extent and strength of the entitlements to action. An example is the degree of agency associated with units at different levels of aggregation in the social space. To understand that it is helpful to move beyond the early modern and modern conception of 'private' ownership of assets providing a certain flow of returns, and to consider the collective rights to use common pool resources and other similar types of endowments (Grossi, 1981). Here, we meet the contrast between modern and certain pre-modern conceptions of ownership. The latter conceptions, while acknowledging (partly because of the cultural heritage of Roman Law) forms of control and disposal close to the modern conception, also admitted modes of ownership that entail a relational approach to the utilisation of resources and constraints on the possibility of their disposal. Relevant cases are the utilisation of common pool resources (such as woods and fisheries) by the social groups having collective ownership entitlements on those resources, the shifting assignments of plots of village land to peasant households in the manorial system and other types of socially constrained ownership (Ostrom, 1990, 2005).

Thus, different forms of ownership entitlements are associated with different types of agencies. The capacity to act under the modern ownership system is, in principle, unconstrained for what concerns the direct utilisation and disposal of assets (Macpherson, 1962). This mode of ownership is likely to be associated with agency at the level of individual stakeholders and may suggest a pathway to collective action circumscribed to the opportunities and constraints of non-relational contracting processes. This highlights collective actions that stakeholders may accept in the form of 'compromise' between their distinct and separate objectives, and independently of higher levels of forms of interdependence that may link stakeholders together beyond their individual objectives and plans for action.

Moving to other forms of ownership and agency also suggests the possibility of alternative routes to collective actions. For example, the ownership pattern characteristic of common-pool resources is more likely to induce actions by intermediate bodies, such as territorial communities or other groups entitled

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to act by virtue of a collective assignment of rights. In this case, collective action can follow a trajectory that is different from the type of collective action associated with the assignment of 'private' rights to individuals or even to social groups considered as individual stakeholders. In the case of common-pool resources, ownership entitlements are not private rights to free utilisation and disposal but rather utilisation entitlements within a multi-layered network of interdependencies. Ownership of the latter type assigns utilisation rights that are combined with conditions limiting the proprietors' capacity to act. For example, utilisation entitlements would often be associated with constraints limiting utilisation in view of sustainability conditions, such as conditions ensuring non-depletion and maintenance of the commons.

With the latter type of ownership, collective actions are not circumscribed to the contractual arrangements between stakeholders, since the holders of ownership entitlements would be embedded within a relational system making certain types of collective actions feasible and likely and other type of collective actions unfeasible and/or unlikely (Ostrom, 1990, 2005). An example would be a collective action whose objective is the maintenance over time of a resource for which collective ownership rights are assigned to a specific territorial community. Actions improving the maintenance of the common would be more likely under a collective ownership system, which is embedded within the relational structure of the community, than it would be in situations in which the ownership entitlements are distributed between private proprietors bound to one another only by contractual arrangements (Polanyi, 1944, 1957).

6. Concluding reflections

The above distinction between modes of ownership has far-reaching implications concerning the type of agency that can be exercised by individuals and groups and may lead to different pathways towards collective action. More generally, collective action takes a different mode of operation depending on whether we consider a 'private' or a 'shared' determination of objectives. In the former case, collective action stems from the agreement between actors free from constraints concerning the objectives that they may envisage (though they are not free from the constraints arising from the means available to them). In the latter case, collective action stems from the performance of functions associated with the internal structure of the shared objective under consideration and from the conditions for its achievement. Here, collective action and policymaking in view of a shared objective are embedded in the 'material structure' of that objective and in the feasibility conditions congruent with it. As a result, the determination and implementation of objectives get closer to a notion of guardianship, which distances them fundamentally from the free disposal assumption that characterises the assignment of individual rights to stakeholders.

The approach outlined in this paper suggests that the objective of collective action may be shared within larger or smaller groups in society and that the art of policymaking has to do not so much with mutual weighing and compromising between alternative goals as with the identification of actors who could effectively achieve systemic objectives through their own dispositions and actions.

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