As I am writing these words, the world economy is entering the seventh year of one of deepest and longest economic crisis ever experienced by capitalist economies. Crises of such depth and longevity, similar in many ways to those that took place in the 1870s, the 1930s, 1970s are associated with some of the most profound wholesale political, economic and institutional transformations of our time. The 1870s economic crisis and subsequent response gave rise, according to some interpretations, to the emergence of modern national state, and produced dynamics that led eventually to the First World War. The economic crisis of the 1930s generated massive political and economic upheavals that saw the rise of Fascist movements; the Second World War and subsequently the rise of the modern ‘welfare state’; the crisis of the 1970s was associated with the latest wave of globalization, the end of the Cold War and the rise of neoliberal movements. What then, about the current crisis? Will it be viewed by future historians as another important milestone in the development of a
globalized capitalist economy? Most probably yes, although the scale and scope, let alone the nature of these transformations, are not clearly visible right now.

One of the puzzling observations about the current crisis concerns emerging agents of change, or at the very least, the self-appointed agents that are seeking to lead change during this period. I would argue that none of the traditional social forces that were in evidence in past crises are leading the forces of change right now. States, civil servants and politicians far from leading the change, are, if anything, being led; traditional political parties are seeking ‘new ideas’ (but then, they are always seeking new ideas); there is not yet evidence of any systemic rise of ‘new parties’ or social forces of the kind that were witnessed in Europe in the 1920s and 1930s – besides the rise of typically fascist and nationalist forces in the most devastated areas in the world economy (Greece, Spain). There is also no sign that businesses or business organisations (i.e. their lobby groups) are as proactive and innovative as they have been in the past in inducing social change. Curiously therefore, none of the ‘usual suspects’ appears particularly active nowadays.

Although I am not aware of any systemic impact study, it appears to me that new types of social agents are self-consciously organising and energetically seeking to lead and direct future change. They consist of networks of activist organisations, regulators, the media and (some) academics, or ARMA in short. In each and every key area of controversy and debates, we witness today the rise of important ARMAs leading the discussion: there are ARMAs in fiscal and monetary policy debates, in ecological and environmental debates, debates on immigration, development, medicine, human rights, security, and space. The list goes on.

Susan Strange would have been a typical ARMA-oriented academic – only that ARMAs were not yet well established throughout her time. She was not interested in an academic career for its own sake. I do not think she wrote just to get published in the right places, or to be recognised by the right people. She was an engaged political academic, who sought to join forces with others to change the world. I believe that the fact that we still talk about Susan today is because she was an engaged academic. In truth, I believe, that the only social scientists that are likely, in her words, to leave slightly deeper traces in the washed up white sands on the beach, are the engaged academics.

Yet, the role of the engaged academic is not well theorised in Susan’s work. Her concept of power, structural or otherwise, allows for little intervention by ARMAs. IPE more
generally, as a field of study that operates on a grand scale, states, international markets, large and powerful business organisations, is not naturally oriented towards the role of ARMAs. How then should we think of such small networks of individual as political agents from an IPE perspective?

This paper is not intended to be a study of social movements – I do not discuss the social movements literature at all. Instead, I seek to sketch here a conceptual framework from an IPE perspective that may explain, or at the very least, accommodate, the idea that such amorphous networks as ARMAs can have a great impact. In conventional political science, ideas matter, they can matter a lot, provided they serve to mobilize a large group of people. But there is an alternative theory that is less reliant on collective action which I address in this paper. In doing so, I differentiate between two core theoretical frameworks in the field of political economy: the one centre on what Perry Mehrling (Mehrling, 2013) calls, the economy of the past, the other on the economy of the future. Economies of the past are economies of accumulation and investment, whereby capital investment encourages economic growth, and aggregate wealth figures represent capital stock accumulated gradually throughout the ages. Historical political science tends to think of political processes as operating within certain institutional constraints, or path dependency. Theories of the economy of the future, associated primarily with ideas of the old school of evolutionary economics of Veblen and Commons (known as Old Institutional Economics or OIE), are better tuned to the practice and ‘habits of thought’ of business and other corporate organisations such as states: their modus operandi is future oriented. Capital represents a numerical interpretation of what society believes the future may hold for us, hence, capital ‘formation’, if that is the right term, is highly volatile.

Future-oriented political economy presents a different framework. Conventional political science is centred on the quadrat of agency, interest, power and outcomes. While that quadrat is accepted by future-oriented political economy, it is considered reductionist and hence insufficiently attuned to the nature of the political process. Actors may be constrained by social institutions, understood broadly as ‘collective action in control of individual action,’ (Commons, 1961) and slowly evolving ‘habits of thought’. At the same time, as actors seek to take advantage of opportunities that may reveal themselves at historical junctures, their action is largely future-oriented, based, in the case of the economy, on projections of future profit making, or in the case of politics, on projections of future advantages. In other words, causality in this frame lies largely in the future. As and when new opportunities are
discovered, and they evolve often through technological change or social-technological (i.e. organisational and logistical) changes, there tend to follow fast-paced evolutionary processes displaying dynamics of emulation, adaptation, convergences, followed by differentiation and niche-seeking strategies. In these schemata, it is not the size of the group that matters, or its historical political power, as much as the hold an idea or innovation may have on the future. Future-oriented political economy relies on concepts of historical change complementary to the conventional theories which allows for relatively small networks of individuals to make important change. For instance, a series of financial innovations that have literally changed the world, such as securitization, robotised trading and so on, can be traced down small group of people, ‘desks’ in the jargon, located in various financial houses.

There is a second reason to examine the role of ARMAs. She was, as I have argued elsewhere, an important thinker in the economy of the futures camp. Despite her being known as the progenitor of the ‘British’ school of IPE, her approach was more ‘American’, in a sense that her politics was more of the progressive movement ideals and engagement with politics and state, than ‘European’ Marxist tradition – possibly one of the reasons why we are having this conference on this side of the Atlantic.

This paper is about unique theories of change that were developed by OIE. To do so, I need to chart first in very broad brush an OIE conceptual framework adapted to the field of study of IPE. I start this paper from a description of the different traditions of IPE, followed by a discussion of the nature of the economic space, specifically, of firm, followed by own rendering of evolutionary theory of the state, or logistical state theory. These discussions frame then my own interpretation of ARMA type political interventions.

*IPE of Past and Futures*

The social sciences are replete with apparently deep, unbridgeable, epistemological positions – some even prefer to use the more grandiose term, ‘ontological’ propositions -- and these divisions found their way into the study of IR and IPE. Perhaps best known are rationalism versus continental philosophy, positivism and anti-positivism (or post-positivism), realism versus the rest: liberalism, Marxism, constructivism; quantitative versus qualitative methods, the British versus the American school, and so on.
I view these typologies somewhat differently. I consider International Political Economy (IPE) as a synthetic field of study. The different schools of IPE draw practically all of their analytical concepts and conceptual frameworks from elsewhere (economics, comparative politics, sociology, anthropology, psychology) and apply them to the study of states and markets. The different schools of IPE present in effect simulated encounters between diverse theoretical universes, typically drawn from economics and/or comparative and international politics. The theory is that there is a marked difference between behaviour of economic agents that are operating in an imagined smooth space called ‘the market’ or ‘international economics’, and their behaviour in a striated space divided among nation-states.

In one scheme, the so-called Westphalian construction of the world, theories of international politics are predicated on the idea that from about the seventeenth century jurisdiction over the earth was divided among discrete territorial entities, and furthermore, that these divisions are a key determining factor in politics. This rather absolutist conception of sovereignty has gone through a subtle reformulation in the hands of IPE scholars. The liberal states, which is the principle object of inquiry of conventional IPE, sees its ‘sovereignty effectively limited by holders of property rights’ (Robé, 2009, 862). Sovereignty is limited, therefore, spatially (at the borders), and legally, at the limit of the public sphere. In this formula, states (or governments) are forced to interact not only with other states but also with private sphere actors in their territory (domestic politics) or other territory (transnational politics). One popular theoretical approach is predicated on the assumption that the two spheres, international and domestic politics, share similar dynamics and hence can be analysed with similar analytical tools, marginalism. Two level game theory elevates the figure of the politician (operating on marginal principles as well) as the person who mediates pragmatically and skillfully the inevitable tensions that arise from the conflicting dynamics generated by the encounter between standard economics and orthodox theories of international politics.

Marxist theory has radically different views on the matter. Marxist analysis centres on the concept of an averaging of national or international corporate profit rates, and the idea that business cycles as well as deeper capitalist crises are traceable to the movements in corporate profitability. Decline in corporate profit rate across the board triggers crisis-mode. The ‘ruling classes’ would seek on those occasions to recapture an adequate profit rate, typically at the expense of the rest of society. Deep crises of the sort that were experienced
during the 1870s, 1930s, 1970s or the one experienced nowadays call for radical institutional reorganisation in the form of new ‘mode of regulation’ of capitalist markets. Modes of regulations are understood as profound re-ordering of the relationships between the public and private spheres in the liberal state. Such wholesale reordering of the public and private spheres of the kind that had been witnessed following the 1930s Great Depression (Fordism), are complex, complicated and diverse. Many observers however, reject the theory on the ground that conventional Marxist vision of political action, including the concept of the ‘ruling classes,’ conveniently gloss over some very challenging ‘collective action’ problems. How do the ‘ruling class’ in complex and diverse economies, which in truth is nothing but a theoretical proposition, able to maintains a common vision and sustained political action over decades in support of an unknown future? How indeed?

One possible answer has emerged in a synthesis between Marxism and what I call, universal Darwinism (). The argument of the French school of regulation is that mode of regulations do not emerge by design, but evolve experimentally because a competitive state system encourages diversity of experimentations in state/market relationships throughout the world. ‘States’ consists of bundles of historical institutions, laws, each boasting their own distinct political process. An economic crisis would trigger intensive debates in different countries about the appropriate institutional and regulatory reform that would resolve the crisis. Most of these experimentations prove utter failure, writes Alain Lipietz, hence capitalism is ‘full of experiments which lead nowhere: aborted revolutions, abandoned prototypes and all sorts of monstrosities’ (Lipietz, 1987, 15). Some of those experiments some are able to resolve temporarily the deeper contradictions in capitalism. Those resolutions tend then to be emulated across the board. Although Marxist theory is not particularly popular these days, there are indeed good case studies that provide empirical corroboration to the thesis.

From the an evolutionary perspective, the two approaches, neoclassical and Marxists, have merit, but are limited, not least because they tend to privilege the economy of the past. Their theories are centred on the notion of ‘business concerns,’ whose value is judged primarily on the basis of future earnings capacity. Credit is not constrained by aggregate saving rates, but is generated largely against estimation of future income streams. Credit, therefore, is a crucial but highly volatile bridge between present and future. Causality (as opposed to constraint) lies, therefore, largely in the future. It is an economy that is capture by John Common’s adage: ‘man lives in the future but acts in the present’.
There is no consensus as to the nature of an evolutionary perspective in IPE – besides perhaps that there is none. The perspective that I present here represents therefore my own reading of the OIE tradition, based on the twin notions of futurity and what I call, the heterogeneity principle. It is a core assumption in historical theories of change.

*IPE and the Heterogeneity Principle*

The orthodox position in political economy is founded on the proposition that the social field is experienced as a homogenous spatio-temporal space of activities that can be legitimately described by concepts such as ‘international economics’, the ‘market’, or the ‘international system of states’. The reasons for those assumptions are not entirely clear. For Weber, for instance, science is about observable behaviour. Since only individual’s behaviour is observable, the rest is metaphysics; he proposes what was subsequently dubbed ‘methodological individualism’. Individual action may be oriented towards different spheres, economic, politics and so on, but these are ultimately the same individuals. Hence, the concept of the actors describes the unifying characteristics of individuals as human being ensures that they all operate within a shared context. Others appear agnostic as to the true nature of the social field, e.g., but believe that the social field should be considered a common space of activities for analytical purposes e.g., Waltz or Williamson.

Old institutionalism, in contrasts, belongs to a strand of thought that considers the social field ‘ontologically’ heterogeneous, consisting of an array of institutions with only a degree of coherency among them.ii Van Der Ven’s summary of John R. Common’s view, ‘institutions existing at a specific time represent nothing more than imperfect and pragmatic solutions to reconcile past conflicts; they are solutions that consist of a set of rights and duties, an authority for enforcing them, and some degree of adherence to collective norms of prudent reasonable behaviour (Van der Ven, 1993, 142). The heterogeneity principle has been elevated as defining feature of strand of OIE thought known as historical institutionalism. As we will see later, the heterogeneity principle also frames those theories of evolutionary change that avoid the collective action problem that is at the heart of conventional political science.
Taking my cue from this perspective, I am proposing to view the international political economy (or the global political economy) as agglomeration of different clusters of institutions, rather than an encounter between two systems, international politics and international economics. In this vision, the international environment contains clusters of institutions that have evolved historically to support (at the very least) three distinct sets of goals. The international environment contains capitalist-oriented institutions. These institutions are founded on the principles of private property and market (or contractual) economy (Sorokin). It is a decentralized system of resource allocation that entrusts key decisions over the production and services to owners of capital. The international environment contains, in addition, institutions that sustain a nationalist-oriented state system founded on the twin principles of sovereign equality and ‘national self-determination’. It contains, furthermore, institutions that evolve to sustain a liberal vision of a world economy founded on the principle of open-market economy and free trade. The combination of these three agglomerations, including the tensions between them, is a unique habitat of mores, conventions and rules and institutions that make up the international political economy.

A Legal Theory of the Firm

There are important differences in opinion about the central concepts in economics. Neoclassical and New Institutional Economics (NIE) are centred on the concept of utility; OIE in contrast, centres on the concept of the economic transaction. The former work on the general principles of so-called *homo economicus*, a utility maximising individual, and assumes that a. corporate entities are instruments established to further advanced individual utility, and b. (at least until Coase), that the legal niceties of such incorporation would be handled somehow instrumentally by those individuals. OIE theory, in contrast, is highly legalistic in orientation and hence centres on the concept of the transaction. Economic transactions take place simultaneously in two spheres, the sphere of actual delivery of goods or services, and a legal where the transfer of ownership takes place. Crucially, OIE maintains that the latter determines the former.

My own approach draws heavily on the work of a French lawyer, Jean-Philippe Robé who presents a legal opinion of the nature of core institutions of capitalism, the firm, or what
Commons called it, business concern, and it applies equally to common law and civil law countries. The dominant theory of the firm, as summarised succinctly by Robé, is built, ‘around the notions of agency, property rights and contracts. The common view is that the shareholders are the owners of the firm and that the managers, as their agents, must manage the firm in their interest. That’s the micro, private, part of the analysis. The prevailing theory is also part of a broader, macro, societal view. Firms are assumed to be operating within perfect legal and political environments internalizing all externalities within the firms’ production prices. All interests affected by the firm’s activities (other than those of the shareholders’) are assumed to be adequately protected by contracts and laws. Maximizing the shareholders’ interests in the management of the firm is then presented as the only form of management to be socially beneficial’ (Robé, 2011, 1).

The conventional view described above conflates, however, ownership structures of assets (capital) with institutions (such as multinational corporations), and furthermore, to conflate legal institutions (corporations) with economic logic (firms). The corporation is a legal entity that must be licensed by a sovereign entity and can only operate in each national space at the time. The firm is an economic entity. Firms often control strings of legal entities or corporations – at time numbered in the thousands – and in that sense can operate in many jurisdictions. But the firm does not have a legal existence. In other words, legally speaking, there is no such thing as a ‘multinational corporation.’iii This important distinction has been at the heart of my interpretation of the rise of the offshore world, with current aggregate financial assets estimated at between $US 25 – 30 trillion.

Another important factor in the institutional make-up of contemporary capitalism is the innovation of the limited company and the joint stock company. The limited company was established to create a certain distance between owners and the legal entities they control – which is particularly important during bankruptcy proceedings. It has created the fiction of corporate entity as a legal personality, modelled on the concept of the citizen-person. The joint stock company was another important innovation, allowed in effect the pooling of disparate resources less than one legal entity. New Jersey allowed in 1889 also the principle of company ownership of other companies, which allowed for the further pooling of resources. Firms, in turn, have shareholders who may be located in many jurisdictions in the world — and there is a tendency now for a certain class of share-ownerships to be ‘owned’
for very short time, down to seconds or milliseconds, due to techniques of high frequency trading. Indeed, trade in stocks and shares spawned its own, and far larger in terms of volume, parallel world of trading (or betting) on share movements (known as financial derivative). At the same time, firms, or even an alliance of firms, may be controlled by a single or alliance of ownership structures that may be located in various jurisdictions as well.

Share ownership, however, should not be confused with control of corporation or of firms (which may control strings of corporations). Robé argues: ‘shareholders do not own firms and nor do they own corporations: they own shares issued by corporations. The shareholders enjoy the privileges of the owner towards what they own: the shares. They don’t and can’t have these privileges towards the corporation having issued the shares. They own neither corporations nor firms; no one does’ (Robé, 2011, 4). This is an important but highly confusing point, and it applies to both businesses and states. Corporate legal personalities are far more than mere legal fictions and are ultimately owned by no-one.

This is an important point. Let us take the case of the state, which is a fictional legal personality and demonstrate so vividly the problem of ownership. The theory is that states have complete and absolute sovereignty over territory and its people. At the same time, modern theory of sovereignty assumes that the ‘people’, those who are subject of that corporate personality called the state, are the ultimate sovereign of that state. The ‘people’, are therefore simultaneously sovereign and subjects of the state, and the state is simultaneously sovereign and subject of the people. This is a logically absurd – but it seems to work.

The legal foundations of modern capitalism are characterised by many such legal fictions that are logical absurdities – but crucially, they seem to work. They have resulted from the ongoing historical encounters between very different type of institutions, institutions of markets and the state.

OIE analysis differentiate, therefore, between ownership of various assets, including the state, and control of these assets. The powerful ‘actors’ in the business world, according to OIE, are neither firms or corporations, or even the majority of fleeting owners of various corporate structures, but typically, somewhat amorphous and legally confusing entity that I will describe for the time being as controlling ownership structures. These controlling ownership structures tend to operate through pyramidal ownerships structures that convey enormous leverage and economic power to certain groups or ‘families.’ Such ownership
structures are often in control of a great many firms, let alone corporations, and may choose to exercise their power through one legal unit controlling the rest (holding companies), or may devise complex sets of controlling units, located in various tax havens.

Such complex, layered, ownership structure has emerged for a number of reasons. It has led to great concentration of resources far beyond anything that data like Forbes would make one believe. Corey, for instance, estimates by the mid-1920s, J.P. Morgan controlled about 24% of the US financial assets, while the Rockefeller group controlled 18%. The behaviour of such groups is reminiscent of the competitive behaviour among post-medieval Europe dynasties. The language of business is replete with terms such as control, attack, tactics, strategies, heroic generals and so on and so forth. The ‘Hobbesian’ world is the world of business.

*Corporate Entities and Futurity*

The second great innovation in the development of capitalist institutions was the re-orientation towards the future that took place during the late 19\textsuperscript{th} century. Traditionally business were valued on the basis of two modes of valuations, either for their liquidation value – i.e. the value of assets when the firm ceases operation, or as per replacement value – current market prices for the assets owned by the firm. In both cases, valuation is based on the principle of the economy of the past, whereby the present company is considered in effect to have ceased activities. This idea is strictly speaking, nonsense, as the purpose of capitalist enterprise is to capture future income streams. But it was a nonsense that represented the relations of power at the time between entrepreneurs and creditors. Liquidation and replacement value represents, broadly speaking, and the power of creditors. In a creditor dominated economy, companies are valued against what creditors would ultimately get if the company ceased operations.

A relative new perspective on business enterprises evolved largely with the development of late 19\textsuperscript{th} century U.S. capitalism. Business was increasingly viewed as future-oriented, ‘business concern’; a living and organic object that represents exactly what business thought it represented: claims on future income streams. It is not surprisingly, therefore, that
although drawing on English common law, the innovation took place in US. To oversimplify somewhat, these ideas represent the interests of business dominated economies.

The innovation of the concept of business concern and futurity was enshrined in law through a number of court rulings in the late 19th century US. It had few important implications. First, business aggregated valuation was denominated against estimation of their future earning capacity. It became soon clear that the greatest asset business held were largely ‘intangibles’, that is, their name and reputation as represented by their trademarks and brand names, including in addition, their organisational and other non-tangible behavioural patterns known collectively in English common law as ‘goodwill’. The market would factor in an estimation of the potential for future income stream of a company and trade its shares accordingly. Companies would then be able to borrow against their estimated value. Already in the late 19th century, my own research reveals that capital as goodwill was created on an annual accretion rate of between 2 to 4% of US GNP.

Second, a core argument of OIE theories was that businessmen, or as Veblen called them ‘absentee owners’, have developed techniques for augmenting value by capturing or creating the perception of capturing ever greater portion of anticipated future earnings. In contrast to neoclassical economics of his time (a term that he coined) which posited a world of many producers and consumers, that would passively respond to an independent system of price mechanism (and hence, without intervention, the system would or should return to equilibria producing Pareto optimality outcomes in the process). For Veblen, basing his theories on important Congressional committee studies of business practices, one of the key priorities of business was to undermine the independence of the price mechanism. He believed that neoclassical economics represented an idealized version of what the economy could or should look like barring any business intervention. It was based on the idea that the economy consists of discrete corporations which operate more or less uniformly. It is an economics without its politics of the economy.

The key to business profitability, agued Veblen, was what he called, sabotage: sabotaging competitors, clients, states, but most importantly, sabotaging the independence of the price mechanism. During his time business developed a number of techniques to undermine the independence of the price mechanism, including, cartel, trusts, combinations and monopolies. Techniques such as mergers and acquisition were devised to create large monopolies that would be able to dictate prices rather than take prices from the market. OIE
theories gave the theoretical impetus at the time for progressive movement’s insistence on inter-state regulation and anti-trust laws.

The Concept of Wealth

In line of the above discussion, OIE scholars are particularly interested in the concept of wealth. The concept of aggregate global household wealth is neither new, nor is it inherently uninteresting. Yet, the value of data on household wealth in economic or political economic analysis is not well established. Political economists are generally speaking more interested in projections of GDP trends, often treated as growth projections, or in data on economic debt, household or otherwise, in trade data, or income distribution. They are less clear as to what to do with data on wealth. Hence it is ignored. One aspect of household wealth that does get attention is distribution. But then, from Keynesian perspective, income distribution plays a more immediate and decisive role. Wealth accumulation, which presumably is one of the key goal in most known civilizations, seems curiously to play little role in our understanding of political economy.

Crédit Swiss began issuing trend reports on the direction of global aggregate wealth in 2009. Its latest report, global wealth 2013, it suggests that aggregated household wealth stands at $US 242 trillion (or approximately three times world’s GDP). Credit Swiss estimates a rise of 40% of global wealth the next five years. How should we interpret these figures? What do they mean in terms of political action and/or economic wellbeing? Would it be a disaster of wealth would grow only, say, by 20% in the next five years? Or perhaps did not grow at all? We do not know the answer to these questions.

The concept of wealth that is used in these projections can be confusion and possibly misleading. Economists tend to identify household wealth largely with ‘tangibles’ such as stock holing and real estate, and contrast those they consider ‘intangibles’ such as human capital. Hence, data on household wealth is typically referred to as ‘net household wealth’ and wealthy individuals are referred to as ‘High Net Worth Individuals (HNWI). These figures refers to households with their stock holding plus real estate (probably also jewellery, yachts etc.), or their easily marketable assets, but not to their ‘goodwill’. Stock valuations, however, are based largely on estimated value of the underlying asset as a ‘going concern’; in
other words, as profit generating assets whose value is based on a multiplier of current earnings. Since the value of those assets is based largely on future projections, they would be entered in the accounts as ‘goodwill’.

In addition, certain a certain degree of goodwill is expressed in stock market valuation, which has tended to stabilize in the past decades or so at 10% or now 2.3 trillion dollar is denomination of trademarks etc. the two key dimension of wealth creation are largely in future oriented economy, both subject to bubbles bouts, in particular real estate closely linked to financial system and specific regulatory or fiscal or monetary policy.

Wealth represents, therefore, not the collective accumulation of goods and services, but rather, some amorphous notion that can be described best as the collective believe in future earnings capacity of current assets. Perceptions of future can, and are subject to manipulation, and hence the ‘value’ of wealth presents the well-known problem that geographers tried to grapple with for years: what is the exact measure of the circumference of the British isle – which is a figure that changes second by second. What is completely lost in these processes is what Jean-Philippe Robe ‘value’. To use further maritime metaphor, value lost all anchor as practically all major assets are denominated against the value of other assets, and are all caught in endless whirlpools of positive or negative pro-cyclical evaluations.

*Finance in a Future Oriented Economy*

The high priests of that magical world are financiers. OIE theory presents a distinct interpretation of that mode of thinking and habit of thought as a distinct set of activities we call ‘finance.’ Supposedly intermediating between savers and borrowers, ‘high finance’ a term that emerged in the 19th century, has tended to specialise in techniques of ‘extracting value’, to be specific, the techniques of extracting future value (for present purposes) or even extraction value on the basis of manipulation of perceptions of future. Those techniques of value extractions are discovered, learned, emulated and diffused. Financial innovation, therefore, plays an important role and the evolution of the financial system. Hence the financial system evolves in typical cumulative causation model of Veblen. Financial innovation not only takes advantage of opportunities, but changes the system.
High finance in late 19th century concentrated on ‘extracting value’ during the transition period from traditional accounting to the notion of ‘business concern’; J.P. Morgan etc. were the high priests of the first M&A wave in late 19th century, and were hoping to take companies from private to public offering in order to extract ‘goodwill’. During the 1980s, ‘extracting value’ often meant, evacuating the firm or hollowing of the firm so that it could concentrate on its intangible value, i.e. captured future earnings. Syndicates of raiders would raid precisely those companies that planned for future business cycles, or saved for a rainy days. As those saving would generally speaking not represented well in the valuation, raiders would purchase companies typically borrowing against the cash holdings of that company, and then would split the company apart. Today, securitization and complex derivatives are used for similar purposes, extracting future value.

The Logistical state theory

Theories of state are less developed by this tradition, but a common theme is the view that states are neither enthusiastic supporter of these developments, nor necessarily as neutral observers. As I mentioned before, the modern state a legal personality that may be controlled by certain forces for a while but ultimately is not ‘owned’ by anyone. States are viewed as logistical organisations that have evolved in competitive situation to become technological wonders that can wreak serious damage on each other.

The logistical theory of the state can be attributed to, among others, Michael Mann. Mann describes societies as ‘organised power networks’ whose “central problems concern organisation, control, logistics, communication” (Mann, 1986, 2-3). The modern states, as complex set of institutional arrangements consist of ‘evolving techniques of mobilisation and concentration of social power’ (Mann 1986, 24). The state did not displaced completely previous organisations, it drew on existing institutions, rearticulated relationships among them, and made huge impact on the rest. ‘When it appeared’ writes Braudel ‘[the state] distorted or shattered all previous formations and institutions’ (Braudel 1979, III, 515). But it was a process of infiltration and accommodation. Still, he argue, the state remains, a ‘tangle’ of technique of governance that evolved typically by drawing on a diversity of societal mechanisms of administration and governance.
There is a great deal of evidence to suggest that the development of the logistical and organisational format of states followed broadly evolutionary pattern of convergence and divergence, including typical niche-seeking strategies. As David Leonard notes: ‘No new state entity ever creates its governing institutions from a tabula rasa’, ‘it must instead respond not only to patterns of individual interests but also to persisting structures of non-state governance as well’ (Leonard, 2009). States are as a result institutional hybrids; they contain layers of institutions whose historical or geographical roots are varied. Jacques Ellul argues that state “will adopt techniques simply because it finds them functioning” (Ellul, 1965, 243). Ellul goes as far as to argue that as “[t]echnical advance gradually invades the state… the structures of the modern state and its organs of government are subordinate to the techniques dependent on the state’ (1965, 271). Michael Mann and Michel Foucault took on these ideas and developed them further. Mann described one of the great historical innovations of the 19th century, the infrastructural state. He saw it as a new mode of power organisation that was far superior to the absolutist states of the ancient regime. Foucault added for good measures other influences on the state, such as the Church, the barracks, the prison, the hospital and the school.

The modern post-feudal state adopted its principal techniques of centralised organisation from two related sources: the Church and the Byzantium hierarchical states, which survived in Europe most probably via the kingdom of the two Scillies (Palan 1990). The first kingdom of the two Sicilies (1130-1282) was the first absolutist European state preceding others by about four centuries the rest. Modern law is an amalgam of Roman, Greek, Germanic, common, and biblical ideas and practices. Commercial laws were introduced, or ‘nationalised’ from around the 16th century and were adopted from ideas and practices of the law merchants of the Hansean league, the lex mercatoria.

As the modern infrastructural state developed on contractual principle, it drew partially on the ideas of the social contract already pervasive in European thought. More intriguingly, the system of security and pacification that today we assume to be the very heart and soul of state, the idea that the state seeks a monopoly over the means of violence, has a previous history in the so-called Peaces of God, or the Landpeaces of late medieval Germany. It is generally agreed that since late 19th century, the corporate form had become the main source and inspiration for the continuing logistical development of states. In Waldo’s words, ‘Demonstratingly, the corporation, both in its ‘private’ and in its ‘public’ varieties, has influenced our administrative thought, just as the institutions of the fief and the guild
influenced medieval political thought’ (p.6). Legally, the boundary between private and public sphere, conceptually, the both draw on similar organisational technologies and technical innovation. There are close synergies between development of business and state.

The state from this perspective is viewed less as system, and more as a collage of historically evolving techniques and technologies, institutions of organisation, extraction, pacification, and eventually (by mid to late 19th century) techniques of forward planning, adaptation and economic growth. States are always in transition, in-between situations. With two related outcomes: first, much of the political debate in modern industrialized societies is concerned with institutional design, specifically, designing and redesigning a state that can cope with the future. The state developed techniques of forecasting, scenario planning, organisational information flows, that are adapted to a future oriented economy. Second and related, in doing so, the state had become a key selective mechanism, an artificial selective mechanism in the words of John Commons, a key node in contemporary evolutionary processes.

*Political process and institutional time-lag*

In the economy of the past theories, the necessary ingredients to understand the political process among utility-oriented actors are the concepts of (group) interest, power and outcome. Simple format theories tend to present political process as akin to mechanical engineering, one can chart vectors of forces and reach conclusions about possible outcomes by charting the direction and the power vectors of each group. There are of course, more sophisticated variants of the same theory that have introduced the notion of institutions and/or narratives (constructivism), and of course, the famous problem of collective action.

It appears to me that OIE, as represented in the work of Sombart, Veblen and Commons, presents a different formula. Actors operate within an inherited institutional environment that presents them with opportunities, penalties and rewards. There are no clear road maps through the maze of possible opportunities, penalties and rewards. Actors behave therefore instrumentally, i.e. seeking opportunities, on the basis of partial information. Opportunities are discovered either by innovation or by accident, and then, dynamics akin to ecological behaviour ensued, including emulation, adaptation and niche-seeking behaviour.
The new opportunities draw in resources until saturation is reached (and often beyond saturation). At the same time, new opportunities generate secondary innovations or niche-seeking strategies. These dynamics change the situation of opportunities, penalties and rewards. In other words, the ‘system’ has changed.

The principle actors in this mode of change are not organised social groups, and hence the issue of collective action does not come into it. Historically, they happen to be either individuals or ownership structures that were able to innovate or grasp discovered opportunities.

It appears to me that the situation is more complicated not least because the two set of dynamics of political processes take place concomitantly. Which one may be more significant at any particular circumstances is an empirical, not a theoretical question. But because political processes take place as interaction among different agglomeration of institutions, inevitably a certain degree of time-lag in institutional adaptation takes place. The time-lag is a crucial ingredient in the analysis as well. According to Commons, followed later by Skowronek’s analysis, the rise of the new type of capitalism in late 19th century U.S. described so well in Josephson’s Robber Barrons, induced a series of political and legal responses that effectively turned an entity so peculiar that ‘many have refused to consider it a state at all’ (Skowronek, 1991, 6) into the modern bureaucratic and integrated federal state that it is.

‘The expansion of national administrative capacities in America around the turn of the century was a response to industrialism. The construction of a central bureaucratic apparatus was championed as the best way to maintain order during this period of upheaval in economic, social and international affairs. .. Specific and contemporaneous parallels can be found throughout the rapidly industrializing western states for each of the administrative innovations to be examined here.’

(Skowronek, 1991)4

Similar interpretation of time-lag and hybrids were presented, for instance, by Michael Hogan’s analysis of the Marshall plan or Meyer’s theory of US export of productionist politics.
**Synopsis and Conclusion**

To summarise the argument so far:

1. The dominant organisation format of our time is the corporate form. Corporations are legal entities, indeed, legal personalities that may take public format (states, religious organisations and so on) or private format (business corporation).

2. Business operates at the interface between the legal corporate structure and controlling organised structures. They latter are seeking to maximise holding of future oriented profits. The vast majority of wealth is intangible.

3. Business is strongly future-oriented in outlook; the key concern of business is capturing future income streams.

4. Business operates largely within a context of evolutionary dynamics of innovation, emulation, converge and niche-seeking; Business does play a role in conventional political scheme of the quadrat of agency, interest, power and outcome – but that role tends to be exaggerated.

5. States are absolutely crucial to business because they maintain a political, legal and security framework that sustains the contractual world where these evaluations have meaning. Without states, the vast majority of intangible wealth, currently estimated at 80% of global wealth, will evaporate into thin air.

6. States developed logistical and organisational capabilities through emulation, adaptation, restructuration and niche-seeking strategies.

7. States are expensive to run, but also, through an historical innovation of the differentiation between public and private, they developed synergies with the private sectors (that they have created in the first place).

8. Political processes are pulled in two contrasting directions. Political processes are concerned with future institutional design (which includes the task of coping with the present in the name of the future); politics is also about distribution of income and wealth at any given moment.

9. The former type of politics is largely future-oriented, it developed a non-traditional political narrative (i.e. not Us and Them narrative), but develops a narrative of a ‘better future’ and is concerned primarily with institutional design.

10. The latter is about Us and Them; it is politics of the past, or politics seeks to safeguard past gains.
It may be argued that some networks of activists, regulators, media and academia (ARMA) represent perhaps the purest form of future-oriented politics. Even when they are concerned with distribution, they are concerned with future-oriented distribution. ARMAs tactics are, therefore, not aimed at organising large collective action; rather, they are aimed at political intervention in the right time and the right place, to control societal selective mechanisms. Activists and the media are used to publicise just cause, to create a sense of ‘public opinion’, while regulators and the academia concentrate on technical details.

\[1\] Many of the ideas discussed in this paper were developed in discussions with colleagues and friends, Jean-Phillipe Robé, Yuval Milo and Richard Murphy, Anastasia Nesvetailova, Amin Samman, Herman Schwartz, Duncan Wigan, and few years back, Michael Mann.

\[ii\] According to this view Hayek, as well, was an important figure in evolutionary thought. ‘Hayek is closer to the evolutionary institutionalists. He saw institutions largely as the unplanned consequences of human action, with the actual structures which developed and their effects, not well predicted by the individuals who influenced their development’ (Nelson and Sambat) 9.

\[iii\] ‘Corporations are apart among the legal instruments used to legally structure firms. The reason for this is that they are treated by the legal systems as if they were “real” persons (with some adaptations), i.e. they can participate in the legal systems through the phenomenon of “juridical personality”. They can own property, have debts, contract, sue and be sued in courts, get bankrupt, etc. –i.e. they can “function” in the economy like human beings because they are treated by the legal system as if they were “persons” (Robé, 2011, 11).