Promoting political economy in Québec: a new initiative and an heterodox approach to stimulate progressive public policies for the post-crisis era

Sylvie Morel, Laval University

In recent years, an initiative developed in Québec in order to promote heterodox political economy: the creation of a web site, called Economie autrement (EA) (www.economieautrement.org), by a small group of heterodox economists. It’s action has been most visible in the debate preceding the tabling of the 2010-2011 Budget in the National Assembly, by the Minister of Finance, Raymond Bachand. Indeed, following the global economic crisis, the debate on the issue of public finances, which is actively underway in Québec, is crucial for the restructuring of the role of the state and public policies in this province. The challenge is to effectively counter the reform proposals put forward by mainstream economists, whose ideas dominated the public debate, in spite of their inability to understand the crisis and the way to prevent another recession.

This severe crisis also pointed out another critical issue: the inadequacy of mainstream economics in conceptualizing its own research objects, that is economic realities. Thus, beyond the flaws of the economic institutions themselves, are the dysfunctional theoretical tools used by the vast majority of economists to analyse them. The fact is that the current academic agenda, or roughly speaking neoclassical economics, generate economic analysis on the basis of concepts and models disconnected from the real-world economy. Not surprisingly then that it cannot provide appropriate theorizing about key factors of economic life, nor strategic economic issues, like the crisis or public finances.

________________________

1 Sylvie Morel, Professor of Economics at the Department of Industrial Relations, Université Laval, Québec ; Sylvie.Morel@rlt.ulaval.ca.
In contrast, heterodox theories provide effective methodological and conceptual tools to grasp these problems. Indeed, according to them, the worldwide economic crisis has revealed the structural problems of finance-led capitalism. This specific capitalist configuration characterizes itself, among others, by an over-developed sophisticated financial sector detrimental to sustained employment and decent work, due to the fact that labour has become the main adjustment variable in economic processes.

If a theoretical shift in economics is a prerequisite to the reorientation of public policies in a progressive way, we know that there is not a single alternative to mainstream economics. Indeed, *Economie Autrement* brings together economists from across a spectrum of heterodox economic theories, including regulationist, institutionalist, post-Keynesian, or Marxist schools. In my own research, my priority has been to use a theoretical framework focusing on economic security, and rights and duties guaranteeing it: J. R. Commons’s institutionalist theory. Commons’s theory provides a coherent interdisciplinary conception of economic facts, grounded in their cultural context, in which economics, law and ethics are reconciled.

This paper is divided into two parts. First, I will briefly present this Quebecker initiative for political economy, the key measures of the last Québec budget, and some economic arguments that marked the debate. Second, I will introduce J. R. Commons’s institutionalism, and give a few insights on how commonsian theory could enrich research on what could be called a public policy agenda of economic security for the post-crisis era. My general concern is to explain that commonsian institutionalism represents a real theoretical alternative to mainstream economics for the development of a truly evolutionary, trans-disciplinary and ethical economic theory.

1. An initiative for political economy in a context of neo-liberalism

The promotion of political economy is a crucial issue in Québec. This is because the “pensée unique” in economics has reached a very advanced level, much more than in
France, for example. In fact, heterodox economics is almost nonexistent in economic departments of Québec universities (Laval, Montreal, UQAM, McGill, among others). And this lack of pluralism is not a new phenomenon: in 1979, it led to the creation of the Association d’économie politique (Association of Political Economy), whose aim was, as explained by Gilles Dostaler, co-founder and first president of this association, “to bring together economists, other researchers, as well as activists, in order to share their analysis and reflections on contemporary issues in a perspective that goes beyond the scope of both the orthodox economics and other closed-minded social sciences”² As both a cause and a consequence, several heterodox economists had to reorient themselves in departments other than economic departments (like political economy, sociology, industrial relations) in order to teach and conduct research in one’s own discipline. And the recent crisis has not questioned the hegemony of orthodox economics in the universities or shaken off the faith that it represents a rigorous and objective knowledge. Given these circumstances, it is very hard for economists who challenge the dominant economics paradigm to penetrate public space and discourse, and to play a significant role in influencing public policies. This is especially the case if we consider also the low number of Quebecer heterodox economists in the profession. In addition, it should be noted that, in the field of macroeconomic policy, fiscal restraint is a parameter of the Quebecer budgetary policy since the mid-1990s. Indeed, in the aftermath of the 1995 referendum, a balanced budget legislation,³ was adopted under the leadership of the Prime Minister of the day, Lucien Bouchard⁴. The focus on deficit reduction is still government’s first priority, as evidenced by the recent budget.

² Dostaler, Gilles, L’Association d’économie politique. Présentation ; http://www.unites.uqam.ca/aep/presentation.html; the translation is mine.
³ The «Act respecting the elimination of the deficit and a balanced budget» (Loi sur l’élimination du déficit et l’équilibre budgétaire) provided that the Government of Québec had to eliminate its budgetary deficit by the fiscal year 1999-2000 and thereafter maintain a balanced budget. It also set out the amounts that were not to be exceeded by the budgetary deficit in the next three fiscal years following its passage in 1996.
⁴ The Parti Québécois won the 1994 provincial election under the leadership of Jacques Parizeau, whose government quickly held a referendum on sovereignty. On October 30, 1995, the partnership proposal was rejected by an extremely slim margin of less than one per cent. Parizeau resigned and was replaced by Lucien Bouchard, a right-wing conservative who accelerated the implementation of austere economic reforms, including the zero deficit law.
It is in this global context that few of us joined together and launched, in spring 2008, the appeal entitled “Pour une autre vision de l’économie” (For another conception of the economy). We affirmed, among other things, that “the most fundamental challenge that faces us today is to revive pluralism in economic discourse, by restoring “droit de cité” for economic theories that provide an alternative to mainstream economics”. This appeal has been supported by over 120 economists in Québec, and nearly 1,200 citizens. EA, this new website dedicated to the promotion of heterodox economics in Québec, was created in the wake of this initiative. The editorial team of EA consists of about 25 economists, from different institutions (universities, unions, non-profit associations). The organization has a twofold mission: first, promote economic education and discussions on heterodox economics between individuals and groups who want to better understand the way the economy works and to contribute to the advent of an alternative economic order; second, build a network of heterodox economists, involved not only in academia, but in all sectors of Québec society, who are aware of the urgent need to change the way economic discussions are held. The preparation of the 2010-2011 budget gave us the opportunity for reappraising the arguments of mainstream economists actively engaged in the process.

Thus, on March 30, 2010, R. Bachand, the Minister of Finance, delivered its budget at the National Assembly in Québec City. This budget marks a significant shift in the orientation of Québec’s public policies: it reflects the gradual substitution of the Québec state model based on the principle of solidarity, with that of a minimal state increasing inequality. Clearly, by ideology and dogmatism, going against the public services model developed in Québec, the Québec’s Liberal government is organizing “de-solidarity” (Élie, Morel, van Schendel 2010).

---

“Sacred cows exist only in India,” Bachand told reporters when asked how far he was willing to go on the traditionally large role the Québec government plays in society. Indeed, Minister Bachand decisions about Québec's future are based on an unconditional and explicit acceptance of the dogmas of mainstream economics, as they were conveyed in the analysis of the “advisory committee on the economy and public finances” (ACEPF) (comité consultatif sur l’économie et les finances publiques (CCEFP)). This committee, co-chaired by the minister, was set up last October 26 as part of the 2010-2011 pre-budget consultations. Its mandate was to “propose to Quebecers a comprehensible reading of the economic and financial questions to which we must respond.” The ACEPF produced three fascicles which were widely publicized. All committee’s members, these ‘independent experts’, except one, are mainstream economists. Strongly oriented on the supposedly ‘debt crisis’ and ‘huge’ demographic problem in the context of an aging population, the proposals suggested by the committee in their documents, on the basis of a highly alarmist analysis, clearly go in the direction of regressive tax reforms, and privatization of public services. The measures announced in the budget even go beyond, on some points, the ACEPF proposals.

---

7 Philip Authier, “No sacred cows in Québec, Bachand says after delivering budget”, The Gazette, March 30, 2010; www.montrealgazette.com/sacred+cows+Québec+Bachand+says+after+delivering+budget. The committee experts called for, as they said, a “cultural revolution” in the way Québec spends and finances itself. For years Québec’s corporate elite and right-wing politicians have railed against the pseudo “immobilisme” of Québec society, by which they targeted the solidary social model in Québec in favor of public services and other policies benefitting working people and the poor and promote greater social equality.

8 The committee is mandated to examine the “broad economic orientations which must be privileged and to focus on ways to implement in order to overcome the recession, develop the potential of the economy and restore fiscal balance”; Fascicule 1. Le Québec face à ses défis. Des services publics étendus. Une marge de manœuvre étroite. De nouveaux défis à relever, Gouvernement du Québec, Québec, décembre 2009, p. 1. This translation is mine.


10 The committee consists of three economists: Pierre Fortin, professor emeritus in the economics department of the Université du Québec à Montréal (UQAM), Robert Gagné (co-chairman), professor emeritus at HEC Montréal and the director of the Centre sur la productivité et la prospérité, and Claude Montmarquette, who holds a doctorate in economics from the University of Chicago, and professor emeritus at the Université de Montréal. The last member of the committee is the fiscalist Luc Godbout, an associate professor at the Université de Sherbrooke.
Endorsing the committee’s catastrophist diagnosis of the situation of Québec public finances and demography, the budget amounted to a vast enterprise of fiscal consolidation and a fight against debt, omitting any ambitious collective economic development plan for the future, especially in times of crisis. The main goal of restoring fiscal balance is planned for 2013-2014. This dogmatic approach contrasts with that of other OECD countries. Even Canada, which is led by a Conservative government, has been more flexible in order to avoid the risk of threatening the economic recovery, giving himself five years to eliminate its deficit. The same applies to Ontario, the neighboring province of Québec, always put forward as a model for the latter, which chose a horizon of eight years to return to a balanced budget. However, the state of Quebec's public finances allowed other choices, such as a budget strengthening our public services. Let me say that the net debt of Québec (net from its assets) is below the OECD average. In spite of the bitter controversies surrounding the diagnosis on the level of indebtedness of Québec before the tabling of the budget, which are anything

11 The continuation of the recovery plan is far from a project of this kind. Indeed, in 2009, the government injected $6.8 billion in stimulus spending. The government intends to deploy the second half of its recovery plan by committing an additional $8.2 billion in 2010. The measures being pursued include Employment Pact (intended to help train people or integrate them into jobs), the Renfort program (to support enterprises that risk being affected by economic slowdown), and the 2009-2014 Québec Infrastructures Plan, under which the government will invest $42.6 billion over five years; Quebec Ministry of Finance. Budget 2010-2011, Maintaining control over our choices. Budget at glance. Gouvernement du Québec, mars 2010, p. 4-5.
12 Although less severely than in many other countries, Québec has suffered from financial crisis. The best example is the disastrous performance in 2008 of the Caisse de dépôt et placement du Québec (CDPQ), which manages public pensions plans in Québec and the largest institutional pension fund manager in Canada. That year, the pension fund lost $39.8 billion, the biggest loss in its history.
13 In March 2009, the government had already announced a plan to restore fiscal balance, with this goal of balancing the books in 2013-2014.
14 By 2006, the Stephen Harper-led Conservatives replaced the Liberal Party as government.
15 On this question, see: Pour une autre lecture des finances publiques. Une réponse au Comité consultatif sur l’économie et les finances publiques, 18 février 2010, Économie autrement; http://www.economieautrement.org/spip.php?article96; The deficits for 2009-2010 and 2010-2011 will be lower than expected in the fall 2009 update, being revised to $4.3 billion for 2009-2010 and $4.5 billion for 2010-2011 (taking into account a contingency reserve of $300 million for each of these years); Quebec Ministry of Finance, op. cit., p. 6.
16 The ministry of Finance even had to produce a new document in February on the level of the debt, to counter the arguments of his opponents, especially those of the heterodox economist Louis Gill; see : L. Gill, « Mauvaise dette » et méthode de l’OCDE, 28 février 2010
but neutral\textsuperscript{17}, the targeting of a zero deficit has been pursued obsessively. You could read in the fascicle 3 that, in the medium and long term, the only sustainable way to maintain sound public finances was to adjust the growth of spending on the economic growth\textsuperscript{18}.

The conception of ACEPF that an inflexible rule of decision must be adopted for governing fiscal and budgetary policies in Quebec – the rule of equivalence between growth, income and expenditures or the rule of balanced budget – reflects the absolute faith in “natural” market efficiency, which means, in the doctrine of neoliberalism, the dogma of the moral superiority of individual private decisions on the collective public decision. Thus, the tax and budget neutrality would protect from the intrusion of politics, which, supposedly, is a cost that society can no longer bears. This is the opinion that the orthodox view that has prevailed for over thirty years now is trying to convince us. Keynesianism had put in the background that “doctrinal submission of macroeconomic policies to the tenets of traditional orthodoxy, such as balanced budgets and debt reduction”.\textsuperscript{19} The resurgence of orthodoxy has put them again on the agenda and thereafter gradually imposed in the minds until it appears today as a necessity, i.e. to say a reality which we cannot escape. This is precisely what is “naturalizing” the economic facts, that is to set forth as an absolute constraint what is, in fact, the result of political

\begin{footnotesize}
\footnotesize
\begin{enumerate}
\end{enumerate}
\end{footnotesize}
decisions. “Nature” seems then to remove the political dimension. This approach towards public policy, characterized by the elaboration of economic rules increasingly going beyond democratic deliberation, is what is called “constitutionalism”, that is “the doctrine that certain economic rules must be integrated into the constitution for fear of seeing politicians use in a demagogic and electioneering manner the tools of economic policy. This is one expression of the depoliticization of politics”.20

Thus, Minister Bachand decided that program spending growth would be tied to economic growth in order to restore budgetary balance. Subsequently, the government announced a major and demanding effort to control and reduce spending growth. Program spending growth will be reduced to 2.9% in 2010-2011 (and will remain at 2.2% until 2013-2014), an even more restrictive choice than what was proposed by the ACEPF (a growth of 3.2%, a level already well below the average of the 4.6% of the previous seven years). Considering inflation and the increased health costs associated with an aging population, these capped increases will translate into substantial spending cuts in real terms. This downward revision of spending growth is taking place in a so-called "pact", an idea retained from the ACEPF, in which "everyone must do their part".21 In that perspective, the government proclaims that he will supposedly assume more than 60% of the financial effort required to put our public finances back in order. As a result, other restrictive measures are planned. The latter include, among others, the following: a civil service payroll freeze until 2013-2014; a gradual 10% decrease in administrative

20 F. Lebaron, op. cit., p. 43. One of the well known forms of this constitutionalism is the recommendation stated, in 1960, by Milton Friedman, about the conduct of monetary policy, to the effect that the rate of growth of money supply should be equivalent to the long-term rate of growth of the gross national product. According to him, this rule had to be written into the constitution because it was the only way to avoid monetary policy to what he saw as the arbitrary power of political authorities; M. Beaud, G. Dostaler, 1993, *La pensée économique depuis Keynes. Historique et Dictionnaire des principaux auteurs*, Paris, Éditions du Seuil, p. 155. Lucas will go in the same direction by suggesting a steady annual rate of increase of money supply, a rate of spending and of government transfers unchanged in real terms throughout the cycle as well as fixed tax rates ensuring balanced budgets in the long term; *Ibid.*, p. 176.

21 Fascicule 3, op. cit., p. 59.
operating expenses by 2013-2014; a maintenance of the rule replacing only one out of every two employees who retire, and extension of this measure to administrative staff in the health and education networks, including directors. By these sharp curtailing spending and cuts across the public sector, the budget sets the stage for service reductions. The government announces a review and examination of government programs and an amalgamation or abolition of some 30 organizations.22 On this last point, the transfer of the mandate, for example, of the Commission de l’équité salariale (Pay Equity Commission)23 to the Commission des droits de la personne et des droits de la jeunesse (Human Rights and Youth Rights Commission)24 represents a significant regress and goes against equality between men and women, which is a fundamental value in Québec society. Also, the Québec Model is one of industrial democracy in North America. But the creation of the Commission nationale sur la participation au marché du travail (National Commission for Labor market participation) on “active aging” goes against this partnership model in industrial relations, bypassing existing institutions and being co-chaired by Françoise Bertrand, president of the Fédération des chambres de commerce du Québec. The budget also destructures many innovative organizations involved in research, and with youth (Fonds de recherche universitaires, Conseil permanent de la jeunesse, among others) who had developed expertise and gained the confidence of their respective networks.

Again in the context of the pact, the government implements a funding policy based on an increased reliance on consumption taxes: the provincial sales tax will be increased by one percentage point next January, to 8.5 percent, and of a further 1% in January

23 This Commission monitors the implementation and maintenance of pay equity in all enterprises subject to the Pay Equity Act, adopted in 1996; http://www.ces.gouv.qc.ca/english.asp.
24 “The Commission shall promote and uphold, by any appropriate measures, the principles enunciated in the Charter Human Rights and Freedoms. The Commission also ensure, by any appropriate measures, the promotion and the protection of the rights of children recognized by the Youth Protection Act and the Youth Criminal Justice Act.”; http://www.cdpdj.qc.ca/en/commission/index.asp?nœud1=1&nœud2=1&cle=0
2012.25 But more fundamentally, as was announced in the previous budget, this new funding policy reorients pricing for public services in accordance with the user-payer principle. Thus, fiscal policy will rely more extensively on user fees:

"User fees must be centred on the notion that those who use a service must also pay for it. That is the user-payer principle. The price of a public service must reflect the true cost assumed by the government. A lot of government services are thought to be “free.” That is an illusion that leads to individual conduct that results in the waste of our resources. They are our taxes, so society as a whole foots the bill for these services. Ultimately, the result is a heavier tax burden than elsewhere, which curtails economic growth."26

This user-payer approach comes again from the orthodox economists consulted by the government.27 This reorientation of public services funding takes the forms, first, of substantial increases in university tuition fees, beginning in 201228; second, of a 3.7 per cent a year raise in electricity rates starting in 2014 for the next four years29; and an immediate one-cent increase in the gas tax and then a one-cent increase each year until 2013. In addition to reducing access to public services, Québec budget attacks the national health system. Government is creating a “health contribution” to be paid when income taxes are due and applicable to all Quebecers, except the extremely poor. Starting

\[ \text{References} \]

25 To jack up the sales tax to a total of 9.5 per cent negates the two-point drop in the federal goods and services tax already in place.


27 It comes directly from the Task Force on Fees for Public Services, chaired by economist Claude Montmarquette, also one of the the ACEPF members; quoting the report, the minister underlined that "the factor in question goes beyond the strictly financial question: user fees are an essential tool to manage our collective behaviour as efficiently as possible in the best interests of all Quebecers." This Task Force released its report April 10, 2008.

28 Lifting the 14-year freeze on university tuition fees was a principal demand of a panel including former Parti Québécois premier Lucien Bouchard, business leaders and retired rectors. The details remain to be worked out at a “meeting of education partners” next fall.

29 When fully implemented, in 2018, the increase in the price of heritage pool electricity will represent additional revenues of $1.6 billion annually; Finances Québec, 2010-2011 Budget, Budget Speech.
this year at $25, the charge, a flat tax, will rise to $100 in 2011 and $200 in 2012.\textsuperscript{30} Minister Bachand is also considering a health deductible, calculated on the basis of the number of medical visits during the year. These measures have been strongly criticized. For example, the president of the Conseil du statut de la femme (Council on the Status of Women),\textsuperscript{31} Christiane Pelchat, requested their withdrawal, arguing that they were "obnoxious" and "discriminatory", and that they violate charters of rights, international conventions and the Canada Health Act.\textsuperscript{32}

Many organizations criticized the orientation of the budget. At EA, a collective text was written and subsequently supported by more than fifty economists in Québec to denounce the neo-liberal vision of government and its expert committee, its myths and its false diagnoses and solutions.\textsuperscript{33} In addition to promote a counter-analysis concerning the level of indebtedness of Québec, EA defended Québec model of social state based on solidarity\textsuperscript{34}; challenged the belief that only private sector is creator of wealth as well as the analysis that the state debt is the same as that of average household; denounced as regressive the increases in taxes, fees and other charges imposed by the budget. We emphasized also the fact that the downsizing of social services will adversely impact

\textsuperscript{30} In the budget, the same amount is charged for each adult, but government announced that this contribution will be modulated on income. Under the Canada Health Act, the federal law that governs Canada’s public health insurance system, user fees are illegal and a province can be penalized for imposing them. Because of this, the Québec government is claiming that the proposed charge will not be a user fee, calling it a “health deductible” instead, and has, as of yet, only announced its intention to introduce such a charge. I must say that privatization of health care system is already very advanced in Québec.

\textsuperscript{31} The Conseil du statut de la femme is a government advisory and study council responsible for informing the government of the status of women’s rights in Québec.


\textsuperscript{34} The ACEPF constantly repeated that the Québec government funds 26% more services than Ontario, even though our collective wealth, that is our ability to pay for those services, is actually 14 per cent lower than that of our neighbour. Clearly, the committee has distorted the debate by presenting the Quebecker model as a cost only, without mentioning the undeniable benefits it provides to the people.
people: no “collective effort” is in this return to budget balance, the bulk of the effort required to achieve a zero deficit is based on the middle and low income citizens. EA has challenged the government’s stubborn refusal to make more use of income tax, a solidary funding policy, added that the government reduced personal tax by 5.4 billion between 2003 and 2009, an amount equivalent to that to be harvested with the new rates and charges. We also protested against the user-payer principle for public services, the opposite of the principle of solidarity which corresponds to an abandonment of state collective responsibility. The devaluation of the state missions goes along with the denigration of its employees. And we stressed the fact that the orthodox economic discourse of the ACEPF was used by the government to validate its neoliberal structural adjustment project. This method of validation is that of science: the academic status of the committee’s members was the primary foundation of the credibility that was tied to their work, giving the Minister Bachand the ability to move forward.

2. J. R. Commons’s institutionalisme as an alternative to mainstream economics

In order to counter neoliberal policies, the challenge confronting economists in Québec as elsewhere, is to bring to the forefront heterodox theories which question the dominant economic paradigm. But priority must be given to the ones which radically break with mainstream economics. J. R. Commons’s institutionalist theory accomplishes that, by putting also economic security, and status of rights and duties implementing it, at the center of an ethical reasoning. Being radically different in the way to understand economic rules and processes at the ontological, methodological and conceptual levels,

36 The preparation of the budget coincided with negotiations for new contracts for half a million Québec teachers, school board support staff, nurses, hospital workers and civil servants. The previous contacts were imposed by the Liberals by decree in 2005.
commonsian institutionalism represents a real theoretical alternative to orthodox economics. Before presenting some key elements of Commons’s analytical framework, I will briefly point out some limitations of the mainstream school of thought in economics.

Economic theory developed since the end of 19th century under the label of “neoclassical”. For the majority of economists, “economic science” is limited to this current. Neoclassical economists adopt a technical definition of economics as being the “science of choice”, that is to say “the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”.38 The coordination of economic activities rests on the “market”, an imaginary theoretical construction represented by the confrontation of “supply” and “demand”, articulated around a concept of equilibrium (of prices and quantities). Because “market” is primarily an intellectual production of economists, a theoretical construct based on a series of assumptions and hypotheses; this sense of the term is to be distinguished from that which refers to the empirical reality of the place where economic transactions occur. Another keypoint of neoclassical economics is its reference to the perfect competitive model. Society is seen as the collection of autonomous individuals, conceptualized in accordance with the figure of homo œconomicus. Neoclassical economists postulate that economic subjects, or “economic agents”, are equal, free, and rational. According to the rationality postulate, economic action is understood as a utilitarian behaviour of utility maximization (or profit maximization) under a budget constraint (or cost constraint). Of course, the neo-classical is more complex than it appears here, the basic model has been frequently amended. But its basic foundations remain the same. Mainstream economics prevent economic questions from being grasped in their full complexity, because it is based on highly reductionist methodological premises. For example, it presents economics as a quasi-exact science, different by nature from other social sciences, whereas it is, in

reality, a social science; the metaphor “hard” is applied to its science as the opposite metaphor “soft” is seldom used to depict the difference. Second, the economic vision of \textit{homo oeconomicus} as an isolated individual whose actions are motivated by an individual rationale to maximize utility, is not only a fictitious vision of human conduct, but also of society. Indeed, the latter, in accordance with the principle of methodological individualism, is reduced to the aggregation of its parts, and the explanation of economic phenomena, to the analysis of individual behaviour. Mainstreams economics also characterizes itself by the pre-eminence, in line with the “hard sciences” paradigm, of mathematic formalism in the methodology used, thus reducing the focus of analytical proposals and constructs to those materials that lend themselves to this process. Another characteristic of neoclassical economists is their dualist conception of the knowledge process: they postulate that the objectivity of the scientific discourse rests on a clear distinction between “positive” (what is) and “normative” (what ought to be) dimensions, pretending that the latter can be excluded from economic science. Economists must study “facts” separately from value judgments which belong to the domain of normative economics. In other words, they defend a view of economic science as a positive science that states universal scientific truths beyond any subjective bias concerning the objects studied. Doing so, mainstream economists present themselves as neutral agents – the “experts” – with no responsibility for the results produced by their advice when it is given to political actors. Also, this construction of mainstream economics around the notion of general equilibrium has the consequence that it is static and thus neglects the transformation process of institutions over time. Moreover, equilibrium implicitly conveys a normative dimension while it depicts a situation of harmony of interest. Indeed, neoclassical equilibrium is optimal, when “we live in the best of all possible worlds, barring minor frictions”.\textsuperscript{39} This perspective is in accordance with the failure of neoclassical current to take into account questions of power relations, conflict, and social

inequality in access to resources. An examination of all these issues is required, above all when we consider that, in financial capitalism, the first problem to be understood and tackled is economic insecurity. Thus, and this is a key point, economic insecurity does not in itself represent a subject for research for neoclassical economists. For example, labour analysis centres on individual “work incentives” instead of examining the economic vulnerability caused by social institutions: neoclassical analysis of “labour market” focuses on the isolated economic agent who arbitrates between work and leisure or, where social transfers exist, between wages and wage substitutes, while facing a budget constraint. By contrast, to reshape public policies in the context of combat against economic insecurity by structural reforms of economic institutions and public policies, one must be concerned with “institutional dysfunctions”, which cause economic problems like unemployment, macroinstability, inequality of income, discrimination, environmental deterioration, and so on. It is not only that the current academic agenda did not pay attention to these serious problems, being unable to explain them, but that, having played a direct role in the choices made since the mid-1970s in public policy, it is therefore directly involved in the evolution followed by the economies and the associated malfunctioning of economic institutions. Economic orthodoxy’s direct responsibility in the crisis is the best example:

“The most important thing that global financial crisis has done for economic theory is to show that neoclassical economics is not merely wrong, but dangerous. Neoclassical economics contributed directly to this crisis by promoting a faith in the innate stability of a market economy, in a manner which in fact increased the tendency to instability of the financial system. With its false belief that all instability in the system can be traced to interventions in the market, rather than the market itself, it championed the deregulation of finance and a dramatic increase in income inequality. Its equilibrium vision of the functioning of finance markets led to the development of the very financial products that are now threatening the continued existence of capitalism itself”.

By contrast, J. R. Commons’s economic theory is able to offer a sound analytical framework for economic issues. Let me clarify first that Commons is one of the cofounders (with T. Veblen and W. Mitchell) of what is called the original

---

institutionalism, which was developed at the end of the 19th century and continued until the 1940s in the United States. Now being rediscovered, Commons’s economic approach provides a coherent interdisciplinary conception of the capitalist system which, on its employment side, has been labeled by Yngve Ramstad, a well-known institutionalist economist, as a “citizenship theory of labor”.

Commons’s theory owes its strength to its social investigation approach, its “logic of inquiry” rooted in philosophical pragmatism. It leads one to adopt a research approach which is entirely different from the one driven by neoclassical theory. Pragmatism has been qualified as “the first great philosophical movement authentically American”.

Philosophical pragmatism appeared in 1870 in Cambridge, Massachusetts and received its original shape from Charles Sanders Peirce, William James, and John Dewey. Among the differences with mainstream economics is the way of thinking economics, which stresses the fact that economics is a social science. Economics is characterized by its trans-disciplinary nature, involving an inescapable ethic dimension which stems from the fact that it deals with interactions of human beings among themselves. Indeed, a fundamental point is that, for Commons, political economy was not a technical issue, as is the case for mainstream economics. For him, the subject-matter of political economy was not only individual and nature’s forces, but “human beings getting their living out of each other by mutual transfers of property rights”. This is the reason why economics is correlated with law and ethics, which permitted to grasp, according to him, the “critical turning points of this human activity”. From an ethical point of view, the posture of commonsian economists is at the opposite of mainstream economics. Their theoretical ambition poses a direct challenge to the established powers: the identification of relations

---

of domination in society that allows their theory is part of a political enterprise, i.e. a transformation of the economic world on which they act. The “role that power and coercion play in the way in which the economy is run” is a key theme of institutionalism, permitting that economists be “more able to cope with the world as it is, not as it might be if the assumptions of the neo-classical paradigm were true”.\textsuperscript{44} It is only by taking into account the civic dimension of his role that we can fully grasp the meaning of the research methodology of the institutionalist economist. Thus, on the basis of the pragmatist method, the institutionalist research program is “the scientific investigation of these economic relations of citizens to citizens. Its subject-matter is the whole concern of which the individuals are members, and the activities investigated are their transactions governed by an entirely different law (than the one governing physics), not a law of nature, but a working rule, for the time being, of collective action”.\textsuperscript{45}

Also, consistent with its pragmatist mode of inquiry, theory and experience could not be separated. In neoclassical theorists’ view, the economic problem must be inquired on the basis of deductive reasoning. Thus, inferences regarding all concrete cases are made from an \textit{a priori} conceived economic model defined with respect to a natural law theory. By so doing, neoclassicists pretend to enunciate universal scientific truths. Institutionals apply, on their side, an abductive methodology. For them, knowledge and action are linked. The “process of inquiry”, in Dewey’s terms, is not defined as a purely intellectual operation, but as an action on the world, a transformation of the inquiry subject, a main idea of Dewey’s pragmatism.\textsuperscript{1} In the social inquiry, theory and facts are in permanent interaction. The instrumental logic of pragmatism rejects essentialism, that is to say “the formulation of eternal verities, first principles, or essences”.\textsuperscript{46} As outlined by Bush, the approach is “contextualist”, to the extent that knowledge is developed out of


\textsuperscript{45} John R. Commons, 1934, \textit{op. cit.}, p. 157.

consideration of the context in which facts are an inherent part, instead of being deduced from first principles totally disconnected from the experienced problematic situations inquired. This methodological procedure guarantees a theorization grounded in the reality of economic facts.

J. R. Commons’s institutionalism does not represent a radical shift from mainstream economics only at the methodological level, it also offers a new set of conceptual tools. Indeed, various concepts, such as those of social relation, transaction, negotiational psychology, rights and duties, opportunities, and futurity, form Commons’s analytical framework. This may explain why, despite its strength and originality, it had little impact in economics, its theoretical content having been largely misunderstood. It is beyond the scope of this article to define these concepts, but what I can say however is that this innovative theoretical approach leads to the replacement of the representation of the economics in terms of markets by one in terms of the institution.  

Thus, commonsian institutionalism is fundamentally a theory of institution, one of its essential specific qualities being its articulation with a theory of action, which has nothing to do with the inclusion of “institutional influences” into a theory centered on the market. So the economy can be conceptualized as an “instituted social fact” (fait social institué) rather than as a “fact of nature” (fait de nature), as economics is a social science.  

In the field of labor economics and industrial relations, for example, it is not the “labour market”, but the “employment relationship”, and its interrelations with other social relations that are investigated. “Commonsian labor economics” may be defined as a “transactional analysis

---

49 In that perspective, to argue that markets need to be regulated doesn’t make any sense: no market can exist outside regulation, because it is nothing else than the expression of a regulated order.
of the employment relation”\textsuperscript{51} In this perspective, employment and public policies are studied in an entirely different way than within the orthodox theoretical framework. They are examined as phenomena integrated in their own social space, insofar as they define particular social relations\textsuperscript{52} in which economic status are established on the basis of combinations of rights and duties. In this way, the active subject in the institutionalist economy is an individual-citizen, instead of the \textit{homo oeconomicus} of the orthodox perspective. Commonsian institutionalism focuses on the question of economic vulnerability and on the need for implementing economic security through a comprehensive and solid set of social institutions. Commons thought that insecurity of labor threatened the Western civilization. Thus, he devoted a lot of efforts to analyze economic insecurity, both theoretically as an instituted process, as well as practically, as the major “labor problem” of capitalism.\textsuperscript{53} Economic insecurity goes well beyond the pecuniary dimension, it is also, to a large extent, a problem of confidence in the future. In Commons’s view, this refers to the concept of \textit{futurity}.\textsuperscript{54} Economic insecurity, or its opposite, economic security, can be explained by stressing the strategic role played by the present expectations of the stability of collective action guaranteeing everybody a share of the social output. In other words, it is through an economic theory of citizenship that commonsian institutionalism helps us to conceive economic insecurity in all its complexity, integrating, among others, the ethical dimension of justice.

Finally, commonsian institutionalism can open new opportunities for gender analysis. Because, equality between men and women is an issue that crosses all economic problems. More precisely, the research strategy I have advocated elsewhere (Morel,
2007) is a bit different: it consists in an exercise of “cross-fertilization” between original institutional economics and feminist economic theory. This research agenda involves a two-way process: using the analytical framework of institutionalism to enrich gender economic analysis, and conversely, enriching the former through the systematic integration of feminist theory. This would be a fruitful research agenda because original institutionalism shares many views with the currents of feminist thought which rely on a research program founded on the methodological precepts of pragmatist philosophy (evolutionary and trans-disciplinary approaches, abductive methodology, rejecting the distinction between positive and normative dimensions, and concerns for solving real problems, among others). Because of these methodological convergences, some writers have spoken of a deep compatibility between original institutionalism and feminist theory:

“Institutional economics and feminism share, at the epistemological level, a rejection of the cartesian conception of knowledge. Both treat knowledge as socially constructed, and as a result, inquiry as a cultural process. Both engage self-consciously in ethical dialectical reasoning. This epistemological stance implies a shared rejection of dualisms in all its forms, especially the objective/subjective and public/private manifestations. Both methodologically focus on ongoing cultural processes. This clearly indicates that institutionalism is both congenial and equipped to become a feminist economics.” (Waller, Jennings, 1990, p. 620)

This convergence should be studied more extensively. This is why many feminist institutionalist economists think that both approaches would benefit to grow by building on one another, as argued by the economists who remain in favour of a “feminist institutionalism”. But original institutionalism is congruent with feminism beyond their common pragmatist

---

roots. Feminist scholars have adopted a theoretical approach to public policy that focuses on the themes of citizenship, social entitlement, and economic status. Commons’s institutionalist theory is consistent with this approach. Indeed, by paying particular attention to the problem of economic inequality, and to the way in which rights and duties are constructed, it provides a theoretical framework that can also make fundamental contributions to a feminist analysis of differentiated status by gender. Moreover, the requirement imposed by feminists on the social sciences in analyzing public policy is that they first take into account the family and second, the family is analyzed as a force that actively structures all institutions. Commons’s evolutionary institutionalism offers the tools to precisely develop such an analysis of interrelations between social spaces as employment, social security, and the family.

In sum, a commonsian expert committee would have advised the Québec government in very different ways than what has been done. The budget of a government is an essential part of a social project, with its collective commitments guiding and ensuring development. An institutionalist view allows us to evaluate macro-economic policies from the perspective of the progressive realization of the people’s economic needs, and the state’s compliance with its collective responsibilities to their citizens. The focus on economic insecurity would then prevent that priority be given at any cost to repay the debt. Public services are essential to combat economic insecurity, especially to ensure equality between men and women. Ensuring social cohesion within the society so that it can be maintained in operation, which requires that each of the “shareholders” be assured of the security of expectations concerning the part of social wealth which will be returned to them, is also the aim of an economist investigating the economic relations between citizens. Individualism, and the orthodox economist’s belief in the neoliberal conception of a non-conflictual world maintains an idealism that has no connection with reality. Instead, acknowledge the conflict force to find ways of resolving it through social negotiations. Thus, the lack of a real public debate before the filing of this budget contrasts sharply with Commons’s approach of *Reasonable Capitalism* capitalism
centered on industrial democracy. 56 No determinism also in economic reasoning when economic facts are socially constructed by economic theory as a social science. A political project may then be developed as the expression of collective human will necessary to adapt the economy to the needs of individuals. A political project because of a contextualised research method, which is not guided by “universal” principles, but implemented according to specific national economic, and cultural contexts. This goes hand in hand with a truly integration of the spatiotemporal dimension in the analysis, including history, instead of the conception of a logical and fictitious time of neoclassical theory. We could go much further in the reconceptualization of “macroeconomics”, 57 if we theorized institutional interactions between the state and the citizens on the basis of a commonsian transactional analysis. This theoretical reconstruction remains to be done.

Conclusion

Good public policies, such as the fiscal and budgetary ones, depend on good policy research. And as good solutions also depend upon good diagnosis, theories guiding policymaking must be relevant. However, appropriate theorizing about strategic economic issues is precisely what economists, for the vast majority of them, have failed to provide. Furthermore, the dominant economic approach is the scientific legitimation of the neoliberal political agenda. This is the alliance that we have clearly seen between our Minister of Finance and its committee expert. For the link is direct between the ideas contained in the fascicles and the budgetary measures adopted.

56 The concept of *reasonable value* is the ethical principle used to guide the collective process of conflict resolution to a social order formed in reference to the preferred practices, for a given society and at a given period, that is for a given historical stage of development. It is by virtue of this principle of *reasonableness* that rules counteracting the effects of the position of economic inferiority of the greatest number should be instituted through institutions favourable to wage-earners (such as employment policies, labour legislation, and social security programs); on Commons’s reformist ideal of reasonability, and its ethical dimension, see : Laure Bazzoli, 1999, *L’économie politique de John R. Commons*, Paris, L’Harmattan.

57 Even this term is not appropriate in a commonsian institutionalist perspective.
However, all heterodox economic theories are not identical in their ability to confront and replace the dominant paradigm in economics. In this article, I argued that a radical break must be made from orthodox economics, what makes a new epistemology reviving the tradition of pragmatist philosophy, associated with an innovative conceptual analysis framework. Such is commonsian institutionalism, economics as a pluralist theory of instituted action, which may opens new avenues that the reference to the market preclude.

In the context of what has now degenerated in many countries in a crisis of employment, jeopardizing the economic status of important segments of the population, firstly the most vulnerable, to proceed to this kind of theoretical reconstruction in economics is imperative. The international networking of heterodox economists involved in the promotion of political economy, is the way to give to this project the best chance of success. For EA, which contest, with very few resources, the hegemony of orthodox economics in Quebecer academic institutions, this strengthening of ties between organizations working in the same direction is crucial.

References

Keen, S., 2009, “Mad, bad, and dangerous to know”, [Electronic version]. real-world economics review, issue no. 49.

