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***Breaking the Mould: An Institutionalist Political Economy Alternative to the Neoliberal Theory of the Market and the State*, by Ha-Joon Chang, Published by United Nations Research Institute for Social Development, 2001.**

The debate over the role of state in economics is ancient and an ongoing agenda. While many countries at their inception were highly protective (or “interventionist”), with the development of market and formal institutions (such as law and state regulations), many envisaged that only a “minimal” or “zero” state is necessary. However, increasing market complexities and enduring market failures have compelled the social scientists to reexamine the role of state and its mutual relationships between the markets, institutions and politics.

In his book, Ha-Joon Chang critically examines the neoliberal discourse that currently dominates the debate on the role of state and suggests an alternative theoretical framework to overcome its limitations. To do this, the author first traces out the evolution of the debate on the role of the state during the postwar period that has led to the current dominance of neoliberalism (chapter 2). Next, he examines some of the basic assumptions underlying the neoliberal discourse on the role of the state (chapter 3). Finally, he sketches out how these limitations can be overcome by a theoretical framework, *institutionalist political economy* (chapter 4).

Chapter 2 traces out the evolution of the debate. In the post-war period, many state interventionist economic theories (collectively he called these theories as Golden Age Economics, “GAE”) had emerged to correct a horde of market failures. By 1970s, the debate over the role of state had received a new dimension and “neoliberalism” has emerged out of an unholy alliance between the neoclassical economics and the Austrian-Libertarian political philosophy. Neoliberals criticized the GAE over the role of state and argued that state should be an organization and run by self-seeking politicians and bureaucrats.

In chapter 3, the author attacks *four* main aspects of the neoliberal doctrine, which are the foundations of neoliberal’s analysis on the role of the state. First, he argues that any attempt to define “free market” and “state intervention” is a pointless exercise and the neoliberal way of defining these two issues is very problematic. To support his arguments, the author provides several interesting examples (implicit in which is the use of Coase’s theorem), which indeed indicate the complexity of defining whether a particular market is “free” and what particular regulation is considered as “intervention”. Overall, the message is that the “same state” action could be considered an “intervention” in one society but not in other; while no market in the end is “free”.

Second, he discusses how “market failure” is defined and analyzed in the neoliberal framework. Against the neoliberal doctrine that the ideal market should be competitive and possess other good qualities, the author knowledgeably provides some examples of non-competitive markets, which may look like absolute failure in the neoclassical framework, but are feature of perfect markets in the Schumpeterian or Marx’s sense.

Third, the author attacks on the neoliberal's way of treating the "market primacy" assumption. He claims that no markets have ever emerged spontaneously, and state intervention has always played a crucial role in the development of individual market or market system (with the exception of Hong Kong). The author cites examples of some early industrialized nations and argues that the process of industrialization would have been delayed without at least some periods of heavy state involvement.

Finally, he criticizes the neoliberal's viewpoint on "politics". In response to neoliberal's attempt to "de-politicization" of market, the author remarks that the *market* is ultimately a political construct, and any attempt to de-politicize the markets is not only an impossibility, but also has a dangerous anti-democratic undertone. He goes on to argue that most activities in the economy are regulated and often pay high political price. Minimum wage, interest rate, environmental protection, immigration policy, to name just a few, are virtually not free from politics.

In the final chapter (chapter 4) of the book, he argues that how the aforementioned problems can be overcome by adopting an alternative theoretical approach, which the author termed as "institutionalist political economy" (IPE) that incorporates politics and institutions into its analytical core. He discusses *three* issues in particular: analysis of the market, analysis of the state, and analysis of politics.

First, unlike neoliberal's de-politicization of market, IPE suggests to bring "politics" explicitly into the analysis of the market. This is because markets are ultimately a political construct and are defined by a wide range of formal and informal institutions. He further argues that many of these institutions are often "invisible" and need to be incorporated into the analysis of the market in order to understand the workings of the market properly. Second, while the neoliberal's analysis of state is only limited to "self-seeking" human motivation, IPE asserts that human motivations are "multifaceted" and suggests to adopt a more complex view of the interrelationship between motivation, behavior and institutions. Finally, analyzing the role of politics in market and state, he remarks that IPE's treatment to politics is not something damaging to the markets, rather IPE views politics as an institutionally structured process which shapes people's political actions, influences people's perception of their own interest, of the legitimate boundary of politics, and of the appropriate standards of their behavior in politics.

Although the author skillfully presents the limitations of the neoliberal discourse on the role of state and have been successful in establishing the need for an alternative framework to overcome its limitations, some caveats remain. The kind of coordination requires for proper application of IPE's framework is often difficult to obtain. In fact, excessive abuse of political power is widespread. Politics is a very dangerous yet indispensable tool and should be used with caution. The work by Ha-Joon Chang opens up a new research agenda, which will allow the future researchers to break the mould of current debate on the role of state.

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