Book Review

Intangible Flow Theory: A New Way for Conceptualizing Embeddedness?

Review on: Intangible flow theory in economics – human participation in economic and societal production by **Tiago Cardao-Pito**, Routledge 2021, 323 pages

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1 Introductory Remarks

The book under review has an ambitious aim, namely to provide us with a novel way of conceptualizing the fact that economic actions, processes and organizations are doubly embedded – in a social context (Polanyi, 2001 [1944]) as well as in a natural environment (Daly, 1973; Raworth, 2017). For doing so the author suggests to acknowledge and appreciate that much socio-economic provisioning relies on intangible flows, i.e. flows between different agents that are identifiable, but cannot be measured with precision. The most straightforward example for such an intangible flow is probably given by cases that represent pure services, like psychological or technical counseling. In such cases, we definitely receive some noteworthy input in terms of social and mental support or information retrieved (which is conceived as a flow), but this input remains intangible as – in contrast to buying three apples or a new car – the properties of this flow cannot be clearly measured. Hence, we can differentiate between tangible and intangible flows.

This differentiation in turn is utilized for at least three purposes: first, to provide a novel way to think about social ontology or the ontology of social systems. Second, by emphasizing the ubiquity of intangible flows it enables an alternative perspective for analyzing economic processes. This alternative perspective does not rely on

prioritizing factors that are clearly conceivable and precisely measurable – especially money –, which would lead to a lop-sided account of these economic issues. Finally, the author identifies a series of approaches in the history of economic thought – mainly classical, neoclassical and Marxist economics – that bring forward such a lop-sided account. Thereby the common denominator across these approaches is that they downplay the complexity associated with the manifoldness of intangible flows that eventually bring forth socio-economic provisioning by effectively equating intangible flows with related tangible monetary flows and by discounting those (tangible and intangible) flows, that are not associated with any monetary flow.

Hence, the argument is that traditional approaches in economics carry certain observational biases that emphasize some aspects, while downplaying others. As what is seen and what remains unseen also pertains to normative questions – for instance, what remains unseen can hardly be important – the novel perspective induced by intangible flow theory allows for leveling an intellectual critique that in many instances lays bare the normative presumptions of currently dominant approaches and points towards potential alternatives. This aspect is clearly visible in the final part of the book that wrestles in its own peculiar and insightful way with the history of economic ideas. However, the remainder of this review will be concerned with the nitty-gritty of the subject, that is, in my view, the core ideas underlying intangible flow theory.

2 Getting Foundations Right: Conceptualizing Relations as (Intangible) Flows

Much of the argument of the book builds on the observation that most economic theories tend to focus primarily on tangible monetary flows, although large parts of the socio-economic provisioning process rely on tangible and intangible flows that either have no monetary equivalent (that is, no price tag) or are incorrectly represented by simply referring to corresponding monetary flows. Examples for the former are familial reproduction (e.g. a shared meal), services provided by nature for free (e.g. breathable air), distribution of labor that is based on reciprocity, (e.g. within communities, firms or non-profit organizations) or different forms of public infrastructure (e.g. a legal system or a save living-environment). Examples for the latter include all marketable goods and services, which either are fully intangible – as the examples given above – or are a ‘mixed bag’ including both, tangible and intangible aspects, like a restaurant visit, a construction undertaking (which typically includes a very relevant counseling part) or a visit to your local

haircutter. Similarly, human labor typically will encompass many different more specific flows, some, if not most of which, are eventually intangible. Hence, discounting intangible flows will also amount to misrepresenting human work, which is arguably a core element of any socio-economic provisioning process. In sum, one could argue that intangible flow theory builds its case on the ubiquitous relevance of intangible flows, which it tries to highlight and understand.

Against this backdrop, the author critically observes that in economic theory intangible flows are often not directly studied, but rather, like in modern-day accounting practices, equated with the monetary flow they correspond to. This fallacy taints conventional definitions, which are tied to this 'money view' right from the start: for instance, the term 'commodity' has been extended beyond its original meaning – a physical good that is somehow useful for humans – to mean anything that is tradable by money. A similar extension concerns the term 'capital', which was originally used to denote invested or investable money, but is now used in economic theory to denote everything that assures or increases future money flows (as in *human capital*). Large parts of the book are devoted to a concise cleaning of definitions and a related criticism of economic theories, which operate on the basis of conventional assumptions based on the priority of monetary flows. A clear-cut example is given by marginal productivity theory, which would directly equate the effective performance associated with the multitude of mostly intangible flows relating to a human work-processes with the associated wage as its corresponding monetary flow. In criticizing this and like-minded approaches the book often suggests a return to more traditional and literal definitions of key economic concepts, which may bring its own difficulties. However, it would do the service of reducing the theory-ladenness obviously attached to many definitions and empirical operationalizations currently prevailing in economics, for instance, when equating the income earned by each factor with its marginal contribution to production.

In a similarly constructive vein, it should be emphasized that intangible flow theory offers the opportunity to get a more precise ontological notion of social systems, which are said to be (a) situated in a specific environment and (b) constituted by an internal structure or organization that emerges from the relational setup of individual agents (e.g. Bunge, 1996). Such a notion of social systems can be found in many different branches of the social sciences in general and socio-economic research in particular. However, typically, these different takes on social systems do not precisely specify, what constitutes the environment and how to exactly conceive of the social relations that connect different agents. Here, intangible flow theory can be of service as its emphasis on the ultimate embeddedness of all economic action in nature implies that the biosphere should always be considered as a necessary part of a system's environment. For another,

and probably more importantly, intangible flow theory offers a novel take on how social relations could be conceived and modeled. Typically, these relations can be understood as constituted by a variety of different factors, like kinship-relations, acquaintances, hierarchies, contracts or monetary flows. While not offering a definite interpretation that constrains or restricts already existing approaches, intangible flow theory gives us a novel ontological account on how to identify and construct the interpersonal relations from a systemic perspective, namely by identifying the intangible flows that constitute relationships between different agents or organizations. In this way, intangible flow theory can contribute to and advance our understanding of social systems and the novel and emergent properties that arise from their existence.

Such an account on how intangible flow theory might inform our conceptions of social ontology already indicates that the novel perspective inherent in this approach is not confident with only providing a critical reflection of established definitions in economic theorizing. Rather, it suggests trying to see the world anew by focusing on the analytical precedence of intangible flows when addressing empirical phenomena. The book also provides a concrete example for doing so in Chapter 5, in which it suggests a formula to empirically assess the *Level of Intangibility* associated with a specific firm. The basic intuition of this formula is to derive the share of costs of a firm that is not related to tangible flows (like intermediate inputs, capital goods, raw materials, energy and the like). When doing so the book tries to empirically operationalize the idea that the differentiation into tangible and intangible flows is a useful tool for arriving at adequate categorizations of empirical reality to be employed in further research. The application on firm data is thereby suitable to illustrate the potentials of such an approach: given the definition of the level of intangibility, a conventional observer would assume the results to cluster consistently along the industry-service divide, with the former relying primarily on tangible and the latter mostly on intangible flows. However, a close inspection of the data shows that some industries, like air travel or tourism, which are conventionally defined as services are highly reliant on tangible inputs (as they require a significant physical infrastructure). This finding has implications not only for better understanding the peculiarities of a certain branch or sector, but also allows for a more objective assessment regarding the impact of sectors on net resource use. While this example provides a clear-cut case of the potential merits of intangible flow theory for applied work in economics, it is a pity that this is the only example of such an operationalization developed in the course of the book. As a consequence, many potential links between intangible flow theory and major areas of economic research – e.g. to production theory, the nature of workplaces, the heterogeneous forms of technical change or to variations in productivity growth – are not thoroughly explored, which might limit its perceived practicality and, hence, also its impact.

3 From Ontology to Theory: Some Problems and Missing Aspects

While the author is obviously interested to provide core building blocks for crafting an interdisciplinary and pluralist alternative to standard economics, the book is scarce on suggestions with regard to the concrete theoretical mechanisms that follow from emphasizing the analytical precedence of intangible flows. In my view, the only clear-cut example for a concrete mechanism related to (in)tangibility of flows is presented in Chapter 4 of the book, where the author argues that labor-substituting technological progress will cause a redistribution of income towards capital owners, who can now absorb the monetary flows formerly associated with the same workflow. While this one instance is plausibly articulated, it is regrettable that such instances remain rare: as conventional wisdom says, we need alternative hypotheses to effectively challenge currently prevailing ones and I am unsure whether the book lives up to its potential in this respect.

More specifically put, I found that the book partially suffers from a lack of concern for or an ambiguous treatment of more specific theoretical mechanisms. For one and as outlined above, the author shows little concern for excavating such (potential) mechanisms and seems confident to leave such issues for further research. For instance, it is suggested in Chapter 7 to study why monetary flows arise in some contexts and others not and how this is exactly related to the nature of the underlying intangible flows. However, instead of further pushing and exploring this vague but promising notion the book focuses on tracing how large parts of economics went astray by prioritizing highly tangible monetary flows. Although I find myself in agreement with these criticisms of economic reductionism developed by the author in this context, I am not sure whether this focus is the best route to take. Rather, I would have liked to see further explorations of intangible flow theory from a more constructive vantage point, that is, with a focus on theory-building.

The author would probably oppose this view by pointing to what he labels as a “new scientific law” that follows from intangible flow theory, namely that “humans are not commodities, assets, capital or resources” (p. 69). However, to me this is not so much an empirical law, but rather a (negative) definition, which still seems to belong to the agenda of cleaning up core definitions in economic analysis. And, although I would concede this approach towards defining humans is adequate in a literal sense, it comes with ramifications that I cannot fully appreciate at this point. For instance, according to the author the claim that humans are not commodities in a literal sense implies that they cannot be subjected to a Polanyian forms of ‘commodification’. Here, we seemingly run into deeper

problems as it surely makes sense to differentiate between different degrees or intensities, by which humans are subjected to market forces, which represents the traditional use of the term commodification. If we aim to replace this terminology, because it reinforces the wrong conclusion that humans are commodities, we need some new concepts for describing the fact that humans are often treated akin to commodities and to critically assess the marketization of diverse aspects and facts of human life, where work is traditionally conceived as the most important facet.

4 Concluding Thoughts

This book by Tiago Cardao-Pito contains many significant achievements. Most importantly, it provides a novel perspective for appreciating the reality of socio-economic provisioning processes that has the potential to refine our ontological conceptions, without constraining established accounts. This feature also points to the highly interdisciplinary and pluralist approach of the author that actively invites to synthesize different theoretical streams by utilizing intangible flow theory as a conceptual anchor. The book also carefully develops first implications and empirical analyses that provide rich inspiration for further research. Nonetheless, the book also leaves some questions open and some venues unexplored – these blank spaces can in turn either contribute to the book's success by inspiring further research or they can hamper the book's reception by constraining its accessibility and perceived merit. It goes without saying that this reviewer hopes for the former outcome so that the full implications of intangible flow theory will be thoroughly explored in the future.

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