The Purposes of Political Economy

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There is now a large and ever growing literature of Political Economy. The catalogue of Books in Print lists some 300 books on The Political Economy of... everything from advertising, Africa, aging, agricultural protection, antitrust, Argentina, arms reduction and Austria, through Jewish workers' nationalism in Imperial Russia, natural gas, New York, nuclear weapons, to slavery, transborder data flows and Zimbabwe, and there are thousands of similarly titled articles in journals.

What is this discipline, Political Economy? What is the authors' purpose? What differentiates political economy as a branch of enquiry or knowledge from economics or political science?

Taxonomy

It will be helpful to begin with a sample of what authors themselves have to say on the subject. (The sample is drawn in the main from writings about Australia and east Asia because these have been most accessible. They could be paralleled with corresponding examples from literature about almost any other part of the world.)

1. "Political economy... seeks to situate economic analysis within an analysis of society and its institutional structure" (Stilwell, "Contemporary Political Economy" 1988).

2. Why have some Third World countries been more successful than others in adopting export-oriented strategies? "What has been the influence of political factors in this process? Here we may juxtapose the voluntarism of the explanations of neo-classical economists which stress the importance of adopting correct policies with the determinist analyses emerging from dependency theories... In the first analysis Third World economies can secure their destinies simply by introducing the right policies; in the second they are helpless" (Robison, "The Structure of Power..." 1989).

3. The political economy of finance analyses the motives behind credit control. "The general logic at work in all these cases is political - distribute income via preferential credit schemes in order to (hopefully) purchase social stability and political support or acquiescence" (MacIntyre, The Political Economy of Finance in Indonesia 1991).

4. "The central problem... If the state is so important, why did it act with [well chosen] priorities? The answer may only be found in the personalities of the leading figures... the political culture... and the structure of the regime" (Cotton, review of Amsden 1990).

5. "All agricultural distortions, in rich countries and poor, are explained by a unified theory of political economy... It is clear from standard economic theory that economic welfare is lessened by such distorting policies" (Anderson-Hayami, The Political Economy of Agricultural Protection 1986).

6. To throw light on "reasons why protection is so pervasive when it is so widely recognised to be against the national interest of the countries which impose it" (Findlay-Garnaut, The Political Economy of Manufacturing Protection 1986).

7. What "characterises the so-called economic theory of bureaucracy... is the underlying assumption that agents are... income-maximising individuals... The talk about duty and obligations of statutory authorities strikes the more cynically-minded economist as pure rhetoric or hopelessly utopian metaphysics" (Brennan, Comment on Tullock 1983).

8. Our object is "to assault economic privilege - that is income derived not from working harder or being smarter in a corporate market, but from political or coercive means... Statutory monopolies... restrictive trade practices" (Clough, Chairman's Report 1990).

9. "Government employees are frequently alleged to be primarily interested in seeking out some abstract entity called 'the public good'... Bureaucrats... are much like other men... primarily concerned with their own well-being" (Tullock, The Economics of Bureaucracy 1983).

10. "Institutional' rather than 'market' factors are at work in Korea's rapid economic development... The Korean state intervened in economic life, distorting relative prices to stimulate desired economic activity" (Amsden, Asia's Next Giant 1989).

11. "Reform and the pursuit of consistent policy were in each case facilitated by political systems in which the economic policymaking process was relatively insulated from direct political pressures..."
12. “Orthodox economics tries to show that markets allocate resources according to relative efficiency; political economy tries to show that markets distribute income according to relative power” (Nell, “The Revival of Political Economy” 1972).
13. “Conventional development theories have served the beneficiaries of this process in both rich countries and poor” (Ibid.)
14. “Political economy... is no more value-laden than other aspects of economics... The frankly ideological character of [Chicago political economists] is welcome - better blatant than latent as in [orthodox economics]”. (Stilwell, “Contemporary Political Economy” 1988).
15. “Political economists... are less inclined than more orthodox economists to prescription of particular policies” (Ibid.)

It is readily apparent that the quotations fall into several distinct groups. Those in the first (1-4) stress that the adoption of economic policies is the outcome of political forces, power structures and pressures, but they do not (at least overtly) pass any value judgments on the resulting policies. The second group (5-6) are unabashedly market-oriented. They see the task of political economy as being to expose the vested interests which use their political muscle to obstruct the adoption of policies which are deemed to be in the national interest, such as deregulation, or to promote policies which they regard as contrary to the national interest, such as protection. A third group (7-9) is also market-oriented, but it directs its fire at the regulators, the bureaucrats and politicians, who, under the guise of policies for the general welfare, pursue their own interests. The fourth group (10-11), by contrast, focuses on the role of the state in the economic development of the east Asian NICs, with the implication, explicit or implicit, that their success has been due to government intervention rather than to market forces. Finally, there is the vast literature of radical, and particularly neo-Marxist, political economy (12-13) which is most succinctly defined by the quote from Nell: “Political economy tries to show that markets distribute income according to relative power”. The last two items (14-15) point to corollaries of this version. Orthodox economics is just as ideological as radical political economy, in defence of the existing system and its beneficiaries, and radical political economists tend not to prescribe particular policies within the existing system because they think the system needs to be overthrown through political and social revolution.

Positive: Theory
What unites the practitioners of political economy, across all these differences of perspective and objective, is that, as positive social scientists seeking to understand and explain the behavior of economic systems, they emphasise the importance of power and, as a corollary of this, of distribution - cui bono? At this level, their quarrel with “orthodox” economics is empirical and analytical. One cannot, they claim, understand the working of the economic system if one neglects the role of power, the struggle between interest groups which is, inevitably and in its nature, about shares - in power, wealth and income. “Political economy seeks to situate economic analysis within an analysis of society and its institutional structure.”

When this view is put forward in a detached spirit, political economy is simply a branch of sociology or political science. To explain why good (or bad) policies were adopted, one needs to understand “the influence of political factors in this process”. For instance, it is not enough to say that the east Asian NICs were successful because they adopted good policies. One has to explain what it was in “the political culture and the structure of the regime” that made the adoption of good policies politically possible.

Even at this, most neutral, level of positive theory, political economy presents some difficulties. The test of any positive theory, in social as in natural science, is its predictive value. Economists have made valiant efforts to make theory testable, through econometric modelling. By comparision, there is little evidence that political economists have shown much interest in the predictive value of their theories.

It should, in principle, be possible to test the relative predictive value of a view of society characterised by “free exchange between utility-maximising individuals”, on the one hand, and a “society characterised by class divisions”, on the other. But the practical difficulties, involving non-quantifiable variables on a panoramic scale, are probably insuperable.

Two of the quotations in the first group draw attention to other difficulties of ostensibly value-free political economy. Is it really useful to “analyse the motives behind” particular policies, such as credit control, if the answer is merely that they are adopted “in order to purchase social stability and political support or acquiescence”? To stay in power presumably a motive in everything governments do and if the governments are in some degree democratically accountable, the purchase of political support or acquiescence would seem most likely to produce policies the public (or at least a majority) want. Politic
economists of finance, like the economic theorists of bureaucracy, fail to convince because they do not allow for the fact that people always act from a mixture of motives. The politician sincerely wants to make a better world and stay in power, just as the bureaucrat acts from a sense of duty and concern for the public weal not unaware that in doing so he keeps his job and may further his career.

A more serious issue is raised by the suggestion that political economy "juxtaposes the voluntarism of the explanations of neo-classical economists which stress the importance of adopting correct policies with determinist analyses emerging from dependency theories". If the upshot of a political economy approach to the problems of developing countries is to demonstrate that they are "helpless", it is obviously futile to propose good policies. There is no longer a role for the economist or for economics in its normative aspect.

In any case, very few exercises in political economy are undertaken in this ostensibly detached spirit. Most of the time, the quarrel with orthodox economics is not merely empirical and analytical. There is almost always a polemical agenda, open or hidden. Political economists see a need to expose the inadequacies of orthodox economics. In their eyes, orthodox economics functions as a cover or smokescreen for nefarious forces.

For the second group identified above, the nefarious forces are the rent-seeking vested interests behind protectionist policies. The object of political economy is to throw light on the "reasons why protection is so pervasive when it is widely recognised to be against the national interest". For the third group, the nefarious forces are the bureaucrats and politicians in league with lobbies and pressure groups. Government employees, frequently alleged to be primarily interested in promoting the "public good", are, in actual fact, much like other men, concerned with their own well-being. It is the job of political economy to expose the hypocrisy of all "the talk about duty and obligations of statutory authorities". The fourth group, in attributing the Asian NICs' success to the state rather than the market, have no specific bogeyman in their sights but, from a structuralist perspective, see the role of political economy as combatting, or at least questioning, neo-classical advocacy of market-oriented development strategies. The neo-Marxist or radical school of political economy makes no bones about its target: the enemy is capitalism, the capitalist-imperialist forces which make the rich richer and the poor poorer, nationally and internationally, and the conventional development theories of orthodox economics which "have served the beneficiaries of this process in both rich countries and poor".

All these four kinds of political economist are more than mere social scientists pursuing truth for its own sake. All are committed fighters in one good cause or another. Nor would most of them dispute this. Their usual defence against the charge of political or ideological bias is that orthodox economics is no better. "Political economy is no more value-laden than other aspects of economics". A neo-Marxist political economist senses affinity with a Chicago political economist, as against the orthodox economist: "The frankly ideological character is welcome - better blatant than latent." To the political economist, the orthodox economist appears either innocently naive, in which case he needs to have his attention drawn to the facts of political life; or he is the willing tool of the establishment, in which case he needs to be treated as such. "Orthodox economics takes the existing social system for granted, searches for harmonies of interest among individuals and assumes that change is gradual and non-disruptive" (Wheelwright 1974). "In this context, prices and markets are 'impartial'; they reproduce the existing class structure of a society, and the existing differentials among countries" (H. Magoff, cited Wheelwright 1975). In other words, political economy, at least in its radical version, denies orthodox economics the claim to be value-free positive theory. "Economics is in some sense more ideological than political economy" (Stilwell 1988). And from the neo-Marxist viewpoint, this applies equally to all "bourgeois" economists, from Friedman to Keynes.

**Normative: Prescription**

"Political economists... are less inclined than more orthodox economists to prescription of particular policies." The reason is obvious enough in the case of radical political economists. It is no good tinkering with a system that needs to be demolished through revolution. But what about the other groups of political economists? What, to use a piece of jargon, is their objective function?

The case of the political economists of protection is straightforward. Protection is "contrary to the national interest". The welfare of the community at large, and of producers of exports and consumers of imports in particular, would benefit from freer trade. These political economists are at one with orthodox economists in their objective of promoting economic welfare. They see their particular contribution as being to expose the political role of protectionist lobbies behind the facade of protectionist arguments. The same applies to the political economists of the east Asian NICs. The "success" with which the
Korean state intervened in economic life, the "desired economic activity" which it stimulated, the "well chosen" priorities, all this suggests agreement with orthodox development economists about ends, and disagreement only on means. The agreed objective is rapid economic development. (The disagreement about means, to be sure, has potentially important implications. If the success of Singapore, Korea and Taiwan has been due, in large part, to the fact that a powerful state was "insulated" from direct political pressures and that rent-seeking groups, such as trade unions and farm lobbies were politically weak, does this have political lessons? Is there a trade-off between rapid economic development and a democratic political system?)

The case of the third group, the exponents of the "economic theory of bureaucracy", is less clearcut. When they mock "some abstract entity called 'the public good'" and dismiss "the talk about duty and obligations of statutory authorities...as pure rhetoric", they give the appearance of total rejection of the welfare objective of orthodox economics. When they declare their object to be "to assault economic privilege - that is income derived... from political or other coercive means", they seem as preoccupied with power struggles over distribution as neo-Marxists.

But both the economic theorists of bureaucracy and the radical neo-Marxists presumably have, at the back of their minds, some vision of a better society which they would like to help bring about, a society in which bureaucrats, in the one case, and capitalists, in the other, have less power to enrich themselves at the expense of the rest of the community. They might even be prepared to admit that in some such sense their ultimate objective is the general welfare.

Is there then, ultimately, no difference between the objective function of these political economists and that of orthodox economists? Orthodox economics has not been very successful in its efforts to establish a rigorous corpus of welfare economics. Pareto optimality which abstracts from all aspects of distribution and from all non-economic objectives obviously falls well short of a satisfactory definition of welfare, not to mention the by no means trivial problem of interpersonal comparison of utility. Put orthodox economists, in all their work, positive as much as normative, believe themselves to be engaged in a positive-sum game: the object is to improve our understanding of the working of the economic system so that the general economic welfare of the community may be improved through better policies. Political economists may accept this as an ultimate objective, but their immediate interest is in the zero-sum game aspects, power struggle over shares.

Carlyle gave economics the name of the "dismal science" because it concerned itself with grubby things, money-making, "supply and demand" and such, instead of the higher things. One wonders whether he would have been any more charitable about what now goes under the name of political economy. He might have given it marks for being more realistic, more hard-headed, less naïve than most orthodox economics. But he might have agreed that, compared with political economy, economics is the cheerful science.

References