Taking Political Economy Seriously

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“What is this discipline, Political Economy? What is its authors’ purpose? What differentiates political economy as a branch of enquiry or knowledge from economics or political science?”

These are the questions that Heinz Arndt poses in his account of “the purposes of political economy”. The answers Arndt himself gives to these particular questions are not always clear, but the general spirit of his assessment is clear enough. In his judgment, anything that is valuable in political economy is familiar and anything unfamiliar is dubious. Whatever the purposes of “political economists” (of whatever stripe), Arndt’s own purpose seems unambiguously...it is to clear the decks of all this “political economy” stuff and encourage economists to get back to their traditional preoccupations: In short, Arndt’s aim is to debunk the pretensions of self-styled “political economists”. My grounds for interpreting Professor Arndt in this way lie less in anything he says directly much of which is accurate and useful—and more in the way he says it. Consider, for example, the number of times in which the words “simply”, or “really”, or “presumably” occur in his account. Three cases spring to mind:

“when this view is put forward in a detached spirit, political economy is simply a branch of sociology or political science” (page 114)
“to stay in power is presumably a motive in everything governments do” (page 114)
“is it really useful to analyse the motives behind particular policies?” (page 114)

(my emphasis in each case)

The implication is that most of what political economy has to say is pretty obvious and that attempts by political economists to distinguish their “product” from that of their orthodox economist colleagues and to “expose the inadequacies of orthodox economics” (p.115) involve a great deal of ado about very little.

In this note, I want to respond to this aspect of Arndt’s discussion. I want specifically to argue that political economy does involve a significant and distinctive emphasis, and that the approach it takes to normative analysis (and the positive-normative distinction) is more coherent than that which prevails in most conventional economic policy analysis. I would also want to insist, though I shall not here offer argument to this effect1, that the porpositions that emerge from political economy scholarship (as I identify it below) are far from self-evident: intuition and casual empiricism are no better guide in public choice analysis than elsewhere in economics.

In making these claims, I do not want to argue that political economy represents some single, coherent intellectual enterprise: the term “political economy” is used by a wide range of scholars to describe their activities, from neo-Marxists to rational-actor political theorists to essentially conventional economists (those who, for example, contribute to the Journal of Political Economy which is widely regarded as a mainstream journal). The particular tradition with which my own work is most naturally associated is often called “the Virginia School of political economy” or “constitutional political economy” — that branch of so-called public choice theory that emerged out of welfare economics and public finance in the decades of the 1950s and 1960s, under the predominant influence of James Buchanan and colleagues. I wish to make it clear that I do not regard this strand of “political economy” as the only strand, or even the predominant strand. However, this is the strand I know best and what I say will focus on it almost exclusively. Proponents of other methodologies and understandings will have to speak for themselves.

First, a little intellectual history. “Constitutional political economy” (or “normative public choice as it might equally be termed, issued out of the welfare economics of
the 1930s, 1940s and 1950s and the public economics/policy analysis that went with it. The centrepiece of that welfare economics was a normative theory of state activity — an answer to the question: what should government do? That normative theory of the state was constituted by a theory of “market failure”, offered in its most elegant form by Samuelson and Musgrave in the guise of the theory of public goods. Taking as its point of departure familiar theorems about the optimality of competitive market processes, Samuelson’s express purpose in developing the public goods concept was to show that markets did not always secure optimality — and specifically did so only for goods that had certain technical characteristics (so-called “private goods”). Samuelson succeeded in showing that public goods, (goods that are equally and totally consumed by all members of an appropriately large community), cannot be provided in optimal quantities by freely operating competitive markets. The obvious conclusion is that, whereas markets can be left to operate freely in the provision of private goods, the government would have to intervene to provide public goods in anything like optimal quantities. At the level of practical policy, this theory translated into an attempt to discern in any particular area of policy the elements of Samuelsonian publicness: the proper grammar of normative economic argument became identified with the rule — “cherchez les externalités”. Thus the whole range of traditional state activities — defence, law and order, public health, social welfare provision, even macro-management — had to run in turn the gauntlet of this chercuez-les-externalités test, Failure to demonstrate significant elements of publicness (or externalités) was taken to imply that no case for government activity in that area could be mounted. Equally, however, identification of a plausible externality was taken to constitute a clear case for government action.

Enter public choice. The challenge that public choice scholars put to this line was simple and direct: how could demonstration of market failure be taken as an argument for government intervention unless it could be first shown that government could succeed where the market failed? Simply to assume “government success” was, surely, totally inadmissible” it was, to use a now familiar aphorism, equivalent to awarding a prize to the second singer in the eisteddfod after one had only heard the first. Alternatively put, public choice scholars were insisting that the standard market failure orientation served to locate the domain of normative enquiry at the wrong place. To set as the central normative question, “what should government do?”, is to presuppose that government is an independent moral agent. It is to invoke a “benevolent despot” model of government. It is to treat government as a deus ex machina, bound only by the presumably compelling normative advice proffered by the economist/policy adviser. But neither the deus nor the ex machina elements seem at all plausible. “Government” is not a single moral agent but a network of agents all with somewhat differing purposes connected via the institutions of democratic political process. And the assumption that this process generates decisions that are reliably in the public interest seems to assume exactly what needs to be proved. What is required here is an analysis of democratic political process on all fours with the normative analysis of markets. And in conducting any such analysis, we need to make the same assumptions about the motivations of political actors as we make about the motivations of market actors: those actors are, after all, in many cases precisely the same people, acting either as consumers or voters. To do otherwise — to assume in particular that the politician “wants to make a better world and stay in power” and that the bureaucrat “acts from a sense of duty and concern for the public weal” as well as a concern for keeping his job (Arndt p. 115) without making identical motivational assumptions about agents in their market roles — is to bias the course of the enquiry. Motivational asymmetry of this particular kind must undermine the neutrality of institutional comparison: put another way, the onus must lie with those who claim radically different behavior across the two institutional forms, and not least with those who take political behavior to be naturally more virtuous.

The requirement of motivational neutrality does not of course require us to assume that agents act as homo economicus in their political and market roles, I agree with Arndt that motives are mixed. But note the implication — that the standard analysis of monopoly is defective because monopolists will be motivated in part by concern for their consumers, and will refuse to set the full profit-maximizing price. Equally, the standard analysis of externalities is defective because smoky factories will be motivated in part by concern for the nearby laundry and its customers, as well as a concern for profit. And given this motivational assumption, the extent of
market failure and the corresponding presumption against reliance on market arrangements must be moderated.

In fact, however, there is an analytical if not a descriptive reason for assuming that all agents will have purposes other than the promotion of public interest. The virtue of the invisible hand mechanism of the market, as perceived by Adam Smith, was that that mechanism avoided reliance on the benevolence of the actors; the well-worn quotation about what we depend on for our bread makes exactly that point. Smith does not deny that benevolence may be an operative motive (he had much to say about benevolence elsewhere); but he surely regarded it a virtue of the market that it did not require benevolence to secure benign consequences. And since Smith, (perhaps since Mandeville) the quest has been for institutional arrangements that have this "invisible hand" property - this capacity to "economize on benevolence", as Dennis Robertson puts it in a famous essay. The critical question then in exploring the normative properties of political processes is whether those processes also exhibit an invisible hand character. Do, for example, the constraints of political competition, characteristic of democracy, serve to induce rival parties to offer policy platforms that are in the public interest? What other aspects of our political institutional array might serve to "bend interest to the service of duty", as Hamilton states the issue in the Federalist Papers?

As "constitutional political economists" see it, these questions are the central normative questions. Constitutional political economy is concerned with comparative institutional analysis - the same kind of comparison as that of monopoly with competition (one totally familiar to economists) but extended over the entire array of market and political institutional possibilities. In posing such questions, in asking whether the institutional framework does "bend interests to the service of duty", it does not make much sense to assume that everyone will act as duty requires anyway. Better, as Hume remarks, "to assume every man a knave and to have no other purpose in all his actions than private interest-not because it always is so, but rather because this is the case against which it is the special purpose of constitutional arrangements to guard".

Time to take stock. What I have been arguing in the foregoing is that "constitutional political economy" or normative public choice theory is the natural heir of an Enlightenment tradition that begins with Hume and Smith (and to some extent Hobbes and Mandeville), that is articulated in the writings of the American Founding Fathers, and lies as one important strand of normative economics through its utilitarian phase and down to the present day. The central feature of that tradition is the searching out of invisible hand institutions, arrangements that achieve benign results without undue reliance on benevolent motivations. To test out whether such institutions are present or not, one must assume non-benevolent motivations: one does not test whether a plate is oven-proof by placing it in the cupboard.

I hope that this account will help to explain certain features of political economy (or at least the Virginia school variant) that Arndt apparently finds deeply puzzling. In particular, the account should explain: first, why the analysis of political arrangements (and of markets) is typically conducted with a more "dismal" account of human motivations than either Arndt's idealistic yearnings or even empirical observation would support; second, why the insistence on a proper descriptive analysis of political processes does not rule out the possibility of a normative commitment in the analysis; and third, why as Frank Stillwell observes (from a very different methodological perspective from my own) "political economists are less inclined than more orthodox economists to prescription of particular policies". A quick word on the latter two points. Political economists are disinclined to make policy prescriptions in the same way and for the same reason that conventional economists are disinclined to say what price should be in a freely operating market - namely, because policy (like price) is something that is to be explained, that emerges from the interplay of the participants in the process. In this sense, public choice is to politics what demand-supply analysis is to markets: and orthodox policy-economists (like Heinz Arndt) are, in the public choice view, operating at a level of just-price theory in their assumptions about how politics really works.

As to the normative purposes of public choice analysis, Arndt is essentially correct when he conjectures that political economists' "ultimate objectives" are no different from those of orthodox economists. What distinguishes the just-price theorist from the modern microeconomist is not different ends but a different view of the proper domain of normative evaluation. The just-price theorist seeks to evaluate particular prices; the microeconomist
seeks to evaluate the whole price system. The orthodox economist wants to evaluate particular policies; the public choice theorist seeks to evaluate the whole policy-determination process.

One question naturally arises here (and has indeed been put to me by Professor Arndt in private discussions): namely, does the political economist ever make policy recommendations? The answer is yes, but the issue deserves more elaboration than this answer provides. First, note the policy-determination process is itself bound by rules and conventions, and that some of these "institutions" promote better decision-making than others. Furthermore, we should note that the distinction between the processes of collective decision-making and the outcomes of collective decision-making is, in practice, one of degree rather than one of kind. Constitutional political economists are inclined to draw a sharp conceptual distinction between the two levels of decision-making — the level concerning the rules, and the level of 'plays' of the game set by those rules. But in politics, since the rules are often enough determined by the process for which the rules are designed, the distinction between levels is often a subtle and complex one. And policies that might be justified by appeal to their virtues as policies will often have effects on the rules for policy-determination; and it is these latter effects that are the particular focus of normative concern for the public choice economist.

An example might help here. The most obvious example to consider is tax policy. There is an elaborate literature in public finance dealing with the incidence (distributional effects) and efficiency different taxes and tax systems. This literature is in the standard tradition of evaluating policies by reference to their normatively relevant consequences. There is, however, another way of looking at taxes: as an input into collective decisions concerning the level and scope of public spending. Because taxes determine the way in which the costs of public spending are spread across different taxpayer-voters, any tax regime embodies a set of 'tax-prices' for public goods. Changing that set of tax prices will, in general, have consequences for the level of public spending and more generally for how the political process works to reflect citizen demands. For this reason, constitutional political economists are more likely to be interested in things like the overtness of taxation and its prospectivity — more generally, in those aspects of taxes that made it easier for individual taxpayers to estimate the cost to themselves of additional spending (rather than the extent to which taxes induce more or less substitution away from more heavily taxed items, which is the predominant concern of standard efficiency analysis). Constitutional political economists are also likely to be more concerned than others about how tax policy changes are made: they will want institutional arrangements to reflect the quasi-constitutional nature of the tax system; they will want tax changes to be made relatively infrequently and such changes as are made to be protected against ready reversal.

Of course, constitutional political economists will also make policy recommendations in their capacities as citizens — as players in the political/fiscal game. There is nothing in public choice theory that necessarily demands of its practitioners that they be political eunuchs. But, as citizens, public choice economists can claim no special status. They are unlikely to be any more benevolent or public-spirited than other citizens and there is no presumption that their values (or, equally, their votes) should count more than anyone else's. To recall the market analogy, the microeconomist does not see herself to be precluded from buying and selling on the same basis as everyone else. Her recommendations about markets (say, as to the relative virtues of monopoly and competition) are at quite a different level — at the level of the rules of the market game, where she does indeed claim a particular expertise. The constitutional political economist draws an analogous distinction between the role of political participant and the role of advisor on rules.

I come finally to the one aspect of Arndt's discussion where I think his reading of political economy, as I understand it, is seriously misconceived. This misconception surrounds the claim, embodied in his final two paragraphs, to the effect that political economy focuses on the zero-sum rather than the positive sum aspects of social interaction. Whether interactions are in general positive-sum, zero-sum or indeed negative-sum is not a matter of the analyst's focus so much as it is of the institutional arrangements within which those interactions take place. If interactions within political institutions are zero-sum, this is a proposition to be derived from the analysis, not an artifact of the method of the method of analysis used. And because it is a matter to be proved, the public choice economist ought to have no a priori judgments on the issue.

I want finally to say something about
disciplinary boundaries. Such boundaries seem to be an object of concern to Professor Arndt. Apparently, there is a clearly defined piece of territory that belongs to economics: at some point political economy slips off the edge and becomes "simply a branch of sociology or political science. (p.114). Political science and sociology may, it seems, be indistinguishable from each other but economics is different and the difference is something that it is important to preserve. Or at least if political economy in some variants does turn out to be a branch of political science, then it can be safely dismissed as something else — something beyond the economist's proper professional purview.

It seems clear, however, that disciplinary boundaries are a phenomenon that political economy draws into question. My own view is that disciplinary boundaries (at least within the social sciences) are significant institutionally: they help to define the professional community whose appraisal "disciplines" the work of its members. However, the intellectual significance of disciplinary boundaries can easily be overdrawn. One thing, for example, that economists agree on is that they share a particular "way of thinking", and that this common way of thinking is a more significant dimension of what is shared professionally than a common interest in a particular subject-matter. If we define intellectual boundaries by reference to common intellectual methods and analytic techniques rather than to particular subject-matter, then there seems no obvious reason why the "economic" method cannot be applied across the whole range of social interactions including, but not restricted to, market interactions. I say "no obvious reason" here deliberately. There may be some non-obvious reasons. It may, for example, be the case (as I have argued elsewhere) that what the axioms of rationality imply about behavior in markets is significantly different from what those axioms imply about behavior in large-scale electoral contexts, where the individual does not determine outcomes unilaterally by virtue of her own acts of "choice" (she is not causally efficacious). I certainly would not want to downplay the consequent differences between consumer and voter behavior. But I would insist that those differences are part of the result of applying the methods of rational-actor decision theory, rather than a refusal to apply those methods generally.

It is widely acknowledged that the last twenty years or so has seen a major exercise in "economic imperialism" — the application of the economist's method to a whole range of non-traditional areas (crime and punishment; the law; politics; the organization of the family; social interactions generally). Such imperialism can be pursued with more or less grace, and with more or less intellectual respect for traditional analytic methods. Economists have not necessarily always scored well on these counts (to put it mildly). But the enterprise of attempting to erect a single unified theory of social phenomena on rational-actor foundations should not surprise us. It is, after all, by no means a new enterprise. It was, specifically, an important part of the Enlightenment project from which economics as a discipline emerged. And in particular the recent growth of "rational-actor political science" and "rational-actor sociology" involves the recovery of that earlier ambition. The very generality and abstractness of the "economic method" invites application across the whole terrain of social behavior. If "no entry" signs are to be erected at various points across that terrain, the onus is surely on those who erect them to show why migration is inappropriate. And in particular meeting that onus will require serious argument; gestures towards "traditional" disciplinary boundaries are not sufficient.

Notes
1. An excellent reference is Dennis Mueller: Public Choice II C.U.P. 1990. The earlier edition is also a fine introduction, but is a quite different book and does not include the results of a decade of extensive and energetic scholarship.