What is Political Economy?

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Professor Arndt wishes me to take up once more the cudgels with him on the meaning of political economy. We did this in a friendly manner in the mid-1980s (Arndt, 1984, 1985; Groenewegen, 1985) while I also developed my position on this issue at some length in my entry for the New Palgrave (1987, Vol. 3, pp. 904-6). I believe it is best to treat economics and political economy as synonyms. Even Marshall (1961, p. 1 for example) sometimes treats them as synonyms despite being one of the major popularisers of the new term, ‘economics’ from using it in the titles of his major texts. Contrary to Arndt, he saw ‘economics’ as the wider, political economy as the narrower term (Marshall, 1961, p.43). As I pointed out in my earlier article (Groenewegen, 1985) adoption of the new terminology had little to do with the positive/normative distinction, contrary to what Professor Arndt suggests, nor with an interest in economic discussion about power, institutions and the state, to use the other handle with which he wants to adorn his separate branch of political economy. Again, this can be illustrated from the economics of Alfred Marshall, the person who, as early as 1879. combined forces on the issue of nomenclature with McLeod and Jevons, by using The Economics of Industry as the title for the primer written with his wife.

Alfred Marshall, the pioneer in the use of ‘economics’ as the new name for the science, is a strong case with which to combat Professor Arndt’s notion of some key identifying factors with which to distinguish his “four kinds of political economists”. His ‘political economists’ of all persuasions share the “fact that they are committed fighters in one good cause or another” and “have, at the back of their minds, some vision of a better society which they would help to bring about” [Arndt, 1991, pp. 115-6]. The reader does not have to go beyond the pages of the Principles of Economics to see that this quality neatly fits the practice of Professor Marshall. Marshall’s position is most clearly put in the final chapter of first Book. ‘The Order and Aims of Economic Studies’ to give the title used for this concluding chapter of the introductory Book from the fifth edition onwards. This defines the purposes of economics simply in terms of acquiring knowledge for its own sake, and secondly, “to throw light on practical issues” (Marshall, 1961, p. 39). Economic laws are defined as statements of “tendencies of man’s actions under certain conditions” with the raison d’être of economics as a separate science predicated on the ground “that it deals chiefly with that part of man’s action which is most under the control of measurable motives” (Marshall, 1961, p. 38). Economics therefore means “a study of the economic aspects of man’s political, social and private life; but more especially of his social life.” (Marshall, 1961, p. 42). Economics therefore avoids “as far as possible” issues like “the exigencies of party organization” and “diplomacies of home and foreign policies” and is “therefore a science, pure and applied”. (Marshall, 1961, p. 48).

The economist, Marshall adds, needs three great intellectual faculties, “perception, imagination and reason, and most of all he needs imagination” (Marshall, 1961, p. 43). The last quality is especially important for the economist. “in order that he may develop his ideals” (Marshall, 1961, p. 46). The latter are most clearly illustrated by Marshall in the list of questions to which the economist inquires while a second set of questions “supply a chief motive in the background to the work of the economist” (Marshall, 1961, pp. 40, 41) or, to put it in other words, part of the vision of the better society they would like to see as reality:

What are the causes which, especially in the modern world, affect the consumption and production, the distribution and exchange of wealth; the organisation of industry and trade; the money market; wholesale and retail dealing; foreign trade, and the relations between employers and employed? How do all these movements act and react upon one another? How do their ultimate differ from their immediate tendencies? Subject to what limitations is the price of anything a measure of its desirability?
What increase of wellbeing is \textit{prima facie} likely to result from a given increase in the wealth of any class of society? How far is the industrial efficiency of any class impaired by the insufficiency of its income? How far would an increase of the income of any class, if once effected, be likely to sustain itself through its effects in increasing their efficiency and earning power?

How far does, as a matter of fact, the influence of economic freedom reach (or how far has it reached at any particular time) in any place, in any rank of society, or in any particular branch of industry? What other influences are most powerful there; and how is the action of all these influences combined? In particular, how far does economic freedom tend of its own action to build up combinations and monopolies, and what are their effects? How are the various classes of society likely to be affected by its action in the long run; what will be the intermediate effects while its ultimate results are being worked out; and, account being taken of the time over which they will spread, what is the relative importance of these two classes of ultimate and intermediate effects? What will be the incidence of any system of taxes? What burdens will it impose on the community, and what revenue will it afford to the State?

(Marshall, 1961, pp. 40-41)

The second set of questions is as follows:

How should we act so as increase the good and diminish the evil influences of economic freedom, both in the ultimate results and in the course of its progress? If the first are good and the latter evil, but those who suffer the evil, do not reap the good; how far is it right that they should suffer for the benefit of others? Taking for granted that a more equal distribution of wealth is to be desired, how far would this justify changes in the institutions of property, or limitations of free enterprise even when they would be likely to diminish the aggregate of wealth? In other words, how far should an increase in the income of the poorer classes and a diminution of their work be aimed at, even if it involved some lessening of national material wealth? How far could this be done without injustice, and without slackening the energies of the leaders of progress? How ought the burdens of taxation to be distributed among the different classes of society?

Ought we to rest content with the existing forms of division of labour? Is it necessary that large numbers of the people should be exclusively occupied with work that has no elevating character? Is it possible to educate gradually among the great mass of workers a new capacity for the higher kinds of work; and in particular for undertaking cooperatively the management of the business in which they are themselves employed?

What are the proper relations of individual and collective action in a stage of civilization such as ours? How far ought voluntary association in its various forms, old and new, to be left to supply collective action for those purposes for which such action has special advantages? What business affairs should be undertaken by society itself acting through its government, imperial or local? Have we, for instance, carried as far as we should the plan of collective ownership and use of open spaces, of works of art, of the means of instruction and amusement, as well as of those material requisites of a civilised life, the supply of which requires united action, such as gas and water, and railways?

When government does not itself directly intervene, how far should it allow individuals and corporations to conduct their own affairs as they please? How far should it regulate the management of railways and other concerns which are to some extent in a position of monopoly, and again of land and other things the quantity of which cannot be increased by man? Is it necessary to retain in their full force all the existing rights of property: or have the original necessities for which they were meant to provide, in some measure passed away?

Are the prevailing methods of using wealth entirely justifiable? What scope is there for the moral pressure of social opinion in which the rigidity and
violence of government interference would be likely to do more harm than good? In what respect do the duties of one nation to another in economic matters differ from those of members of the same nation to one another?

(Marshall, 1961, pp. 41-2)

Given these questions for the economist to answer, does that make Marshall, the man who put "economics" on the covers of the textbooks, a political economist on Professor Arndt's criteria? The terminology of economics and political economy, irrespective of preferences for its use which some practitioners may express, remains largely synonymous, and continues to cover the variety of schools of thought which seek shelter under it.

References