The Meaning of Political Economy: A Note

George Rosen
University of Illinois at Chicago

I would like to elaborate one aspect of Heinz Arndt's perceptive classification of various interpretations of the term "Political Economy." The particular aspect I will be developing is based on my own research on the process of economic reform in India and China during the past decade. But the movement from centralized planning toward a more market-oriented economy that is taking place in the formerly Communist economies of Eastern Europe throws further light on this same topic.

Orthodox neo-classical theory in this context of economic reform outlines the goals of economic policy in terms of an ideal system that achieves a maximum degree of economic efficiency and consumer satisfactions within the framework of a given set of assumptions as to motivations of the actors and the narrow economic relationships among them within a perfectly competitive system. Political economy seeks to examine the alternative policy actions within policy makers within a particular country may take to move from the previous system of economic governance to the presumably more efficient system.

To carry out such analysis the political economist must look at the country going through such a process of major reform within a much broader framework of analysis than the conventional economist. A major element of such a framework is the ideological system which determines how policy makers, intellectuals and influential groups within the society operate. This ideological system, combined with the expectations of a traditional society, determines economic goals of, and attitudes in, society. Among such goals are equality of income and full employment; among such attitudes are those towards traders, businessmen and government officials and the appropriate role of the latter in the economy.

In addition to ideologies and traditional attitudes the institutional structure of the economy being reformed is a key factor in determining what may or may not be possible. If there is no system of contracts or private property or of functioning markets obviously such an institutional framework must be set up before those markets can operate. This would also require education of the actors to acquire the appropriate technical competence to function in the new environment and to effectively operate the new institutions.

To carry out the appropriate reforms and establish the new institutions that replace the older ones, a policy maker must have a degree of public support. For this the political leadership must be aware of the groups that will benefit from and support the reforms and those groups that will lose from the reforms. It is essential to mobilize the support of the former and to compensate or at least cushion the losses of the latter, if that is a large group. In a democracy the political leadership must also convince the larger public that the reforms will benefit them and not only a small group within the society; and that the reforms are compatible with popular benefit and expectations.

It is obvious that these ideological, historical, institutional and political factors will vary from country to country, which makes prescription by outsiders extremely difficult. At the same time external problems and resulting pressures may be factors forcing policy changes by the governments of weakened economies. Political economy in the above sense is thus a branch neither of logic nor mathematics, with a theory that can be applied indiscriminately to guide the process of reform or to predict results of any particular steps within a given time period.

While I have presented this view of political economy within the current context of efforts at economic reform in developing countries of Asia, and in the former Communist countries of Eastern Europe similar problems may arise in market economies as they seek to develop new, or change old, policies to deal with their own economic problems. Examples of such past and current problems are cyclical crises with mass unemployment, and technical retardation with declining international competitive position. Economic historians have examined the difficulties that the United States and Great Britain have faced in dealing with those
problems.

References