Two Concepts of Political Economy

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In his famous Oxford lecture of some thirty years ago Isaiah Berlin, summarising, in effect, the two volumes of Karl Popper's *The Open Society and its Enemies*, spoke of "Two concepts of Liberty". One type of "Liberty" was that to be found in the "Peoples' Democratic Republic" States wherein ruled despotism; this "Liberty" stemmed, via Rousseau's "General Will", from Plato's Republic. The other type of Liberty was that enjoyed by citizens living under the "rule of law" (emphasized earlier by Hayek as the *sine qua non* of freedom) in the pragmatic Anglo-American-type liberal democracies. The failure to understand the difference between the two opposing meanings of the word "Liberty" has been the source of much of the world's political, social, economic and personal miseries since 1789.

Whilst it might be argued that H.W. Arndt's failure to distinguish adequately between the "two sorts of political economy" (Arndt, 1991) is as fundamentally important as the failure to distinguish between the "two sorts of democracy", his reluctance to do so leads the reader to condemn all forms indiscriminately. This is unfortunately for I would contend that some forms of political economy are "good" and others "bad". In this context, "good" means that the type of political economy under discussion in some way helps or is conducive to the emergence or enlargement of a market economy and "bad" means just the opposite - that this type leads to or is associated with a command economy organized by "The State".

It is true that in Arndt's taxonomy one finds fifteen variants of the term political economy which he groups into five categories. But, useful as his examples are, taxonomy is only as valuable as the genus and species are correctly matched. Furthermore, as we know from the natural sciences, advances are made when we find the simplest explanation which fits the facts. It is contended here that a simpler and more appropriate allocation of the fifteen examples would be to divide them into just two groups: Category I would encompass those variants of the term which are essentially anti free markets and capitalism; Category II would be reserved for those whose aim in adopting a political economy approach was to stimulate and assist the market and capitalism.

Some of the extracts used by Arndt do not lend themselves easily to allocation between these two Groups. For instance, his authors 1-4 might be put into either Group; it all depends on the overall thrust of their work. Extracts 5 and 6, as Arndt himself acknowledges, are "unashamedly market-oriented" and so fit easily into Category II. Arndt's 7-9 groups also easily fall into Category II; 10-11 have to be carefully considered for their overall approach and 12-15 fall unambiguously into Category I.

The virtue of the proposed simpler classification is that the promarketeters "know their friends". Those who are aware of the virtues of classical economics are also forced to realize that there may be impediments to the operation of the market which ought to be considered and, ideally, "dealt with" and removed.

It is not conducive to *effective* economic analysis to *ignore* the existence of certain political forces, interests or pressure groups. Surely, to possess "predictive value" (p.114) economics *must* attempt to feed into its models as *many* of the important variables as it can - difficult or not. It is merely naive to write that "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 ........" This writer believes with Brennan and Tullock and with Anderson-Hayami and Findlay-Garnaut that the forces and interests iminal to the operation of the market ought to be exposed *so that* positive, economics may more closely reflect reality.1

In like manner, policies followed by the governments of some developing countries (in particular, those Asian NIE's mentioned by Arndt) which stimulate or work through national or international market forces *should* be drawn into an economist's full understanding of why some countries have succeeded in developing. To ignore "appropriate" policies in our analysis would be to ignore a major part of the
explanation for the success of Japan after Meiji in 1868 and, e.g., the success of Taiwan.

Likewise, to ignore many of the national cultural characteristics which may enhance or retard the development effort of developing countries would be leave out a crucial component. It is true that we cannot plan for all of Rostow’s “prerequisites” but economists ought to be aware of them and be prepared to admit that, on occasion, a country is just not “ripe” for development. A clear example of the value of looking at the cultural background is surely to be found in the Confucian ethic in some Asian countries:

“Hard work and frugality are two outstanding Chinese national characteristics that stem from tradition” (Wang, 1991).

One day the Chinese government may be moved to take advantage of this tradition – as has the government of Taiwan (Taiwan is a perfect example of some political economy’s being “good”).

“All ...... kinds of political economists are more than mere social scientists pursuing truth for its own sake. All are committed fighters in one good cause or another? (Arndt, p.115).

This “a-plague-on-both-your-houses” approach by Arndt is an unfortunate result of his taxonomy; the remark appears to have him saying, sarcastically, that all are equivalent. Yet the writer cannot believe he really thinks they are!

The fact that the illiberal States of Eastern Europe, for so long regarded as patterns to follow by leftist political economists (cf. Johnson 1980) have now collapsed will not quieten their siren songs. These political economists, although perhaps no longer calling themselves after their discredited leader, Marx, will continue to deride the benefits to all of liberal democratic capitalism. But let not those of us who cherish economics fail to realize that we have an ally, not an enemy, in some forms of political economy. Vive la différence!

Notes

* Edited by H.W. Arndt with author’s concurrence.
1. Arndt, en passant, asks the rhetorical question of whether, in effect, “there is a trade-off between rapid economic development and a democratic political system?” There probably is! But the more important point is that development which has been linked with the market has led to growing democracy whilst development which