The Psychology of Political Economy

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The rights to the ownership of the term "political economy" have been the subject of a bitter contest between Marxists and public choice theorists (Arndt 1984, 1985 see also Groenewegen 1985). Despite the sharp divergences between the political and economic systems advocated by these groups, the concept of 'political economy' they advance is fundamentally identical. The surface manifestations of politics, the politicians' chatter of ideals and of the good of the nation, are stripped away to reveal the clash of economic interests that, in reality, drives the entire process¹. Both Marxists and public choice theorists dismiss with scorn those who share their political and economic preferences, but rely on a process of persuasion and open debate to advance them. The roots of this style of analysis may be traced through Pareto and Marx to Hobbes and ultimately to Machiavelli.

The object of the present essay is not to consider the empirical validity of theories that reduce politics to a clash of material interests², but rather to consider the psychological basis for the appeal of theories of this kind, especially to intellectuals. This line of inquiry was first pursued by George Orwell in this critique of The Machiavellians, the work of the first great theorist of managerialism, James Burnham. Orwell pointed out the central role of power-worship in Machiavellian theories. Once ideas are dismissed as mere rationalisations for self-seeking, there is nothing left but power.

The intellectual advocate of a Machiavellian theory is in a curious position. All of his intellectual analysis goes to prove the point that ideas have no effect, and hence that criticism of the political order is a waste of ink. Yet such intellectuals are rarely satisfied defenders of the status quo, for reasons that will be discussed below. Hence the appeal of the man on horseback³, who can, by ruthless force of will, break the hypocrisy of the existing order and achieve the true ends of government. For Machiavelli, this man was Césare Borgia, destined to unite Italy, but cheated by untimely death. Hobbes represented him in abstract as Leviathan: the accidents of history prevented him from throwing in his lot with Oliver Cromwell. Turning to modern times it is unsurprising to observe James Burnham's fascination with Stalin. It is perhaps more of a shock to see Pareto, the apostle of the free market, in the train of Il Duce, Benito Mussolini. Contemporary political economists of both right and left have continued this pattern - Mao Zedong, Fidel Castro, and Augusto Pinochet have all received enthusiastic support. Within the limits of democracy, the palm has gone to the authoritarian Margaret Thatcher⁴.

The natural development from interest-based theories to the pure rule of force may be summed up in two short questions. The interest group theorist (Sieper 1982) asks cui bono (whose good?), As Lenin perceived, the correct formulation of the question is Ko Svvo (who, and to whom?)

Thus, Orwell is correct to point out the power-worship inherent in interest-based theories of politics. Yet his analysis ignores a critical point. The proponents of interest group theories are hardly ever apologists for the existing order, concerned to prove that fundamental change is impossible. Rather, the cynical appeal of such theories is greatest to the intellectual in exile⁵. Indeed, The Prince, Leviathan and the Communist Manifesto were all written in exile and Pareto grew up as an exile.

The fundamental appeal of interest-based theories for intellectuals is that they provide a rationalisation for defeats in the battle of ideas. Rather than concluding that one's ideas are wrong, or, worse still, that they have been put forward with insufficient skill, it is comforting to conclude that political decisions are independent of ideas. As the old saying has it, 'scratch a cynic and you'll find a disappointed idealist'. From Machiavelli's fruitless attempts to organize a citizen army in place of the mercenaries who parasitized the Italian states of his day to the Marxist reaction against utopian socialism, failures in persuasion have been followed by the conclusion that power is the only thing that counts.
From the viewpoint of the intellectual, the interest-based analysis is a counsel of despair or, at best, a consolation in defeat. As long as there is any prospect of success, it is far more appealing to accept Keynes’ (1936, Ch 24) dictum that “the role of ideas is far greater than is commonly believed... Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back”.

The growth of public choice theory from around 1970, along with its decline in the 1980s, fits this pattern perfectly. In increasing numbers after 1970, economists reacted against the mixed economy that had emerged from the Depression and World War II and in favor of the laissez-faire traditions of economic theory. In Australia, the central battleground was tariff policy. In the US it was regulation and deregulation. In the UK, the key issues were Keynesian macro-economic stabilization and public ownership of the means of production. In all of these cases, free-market theories had little initial impact.

There was, therefore, a ready market for models which explained the initial defeats of laissez-faire economics in terms of the workings of the political process. Because of natural susceptibility to quantification, tariff policy was a key area of analysis (Anderson 1980, Caves 1976, Pincus 1975). Despite the fact that the empirical results invalidated the central predictions of public choice theory, these exercises were proclaimed as an unqualified success (Quiggin 1987). The public choice critique of Keynesian macro stabilization policy took the form of political business cycle theory (Nordhaus 1975). Similar analyses were provided for a variety of forms of regulation and public ownership.

During the 1980s, free-market policies have triumphed, at least in the English-speaking countries. Keynesian demand management has been abandoned, publicly owned industries have been privatised, and government intervention in industry, through tariff protection and ‘industry policy’ has been discredited. The intellectual advocates of the free market are now at the centre of the policy establishment. The appeal of the public choice formulation of political economy has correspondingly waned. One looks in vain for a public choice analysis of Mrs. Thatcher’s assault on the public sector, or even of the relatively incrementalist reforms of the Reagan Administration.

At the other end of the political spectrum, the appeal of the Marxian version of political economy has been compromised, perhaps fatally, by the collapse of Communism. Despite this, the political eclipse of socialism in the West, Combined with the failure of free market ideas to capture the hearts and minds of large sections of the intellectual class, creates propitious conditions for the revival of some left-wing variant of political economy. Given the central role of financial deregulation in the experience of the 1980s, some more or less sophisticated version of the ‘money power’ theories popular in the 1930s is an obvious candidate.

The tension between materialist and idealist conceptions of history and politics is an ancient one and unlikely to be resolved in the near future. Perhaps by virtue of an optimistic temperament, I am naturally attracted to the idealist side of the debate. In this essay, I have tried to draw out some of the psychological bases of support for the materialist viewpoint. Symmetry would suggest the desirability of an interest-based analysis of the idealist position, but this is a task that must be left to another author.

Notes
1. There are differences in terminology and in the details of the analysis. Most notably, the Marxian analysis is based on the idea of ‘class’ whereas public choice analysis uses the idea of ‘interest groups’. Classes are presented as very broad and mutually exclusive groupings whereas interest groups are small and potentially overlapping. Nevertheless, the similarities outweigh the differences. In particular, the critical problem for each of these theories is the absence of any clear motive for individuals to act in the interests of the group as a whole (the Marxian problem of the transformation of the ‘class-in-itself’ into the ‘class-for-itself’ reappears as the ‘free rider’ problem). In Olson’s (1965) Logic of Collective Action. The apparent differences between classes and interest groups tend to break down in more sophisticated presentations (for example, Olson’s 1982 treatment of ‘encompassing’ interest groups and the late Marxian analyses of ‘fractions of capital’).
2. The literature on the empirical successes and failures of Marxian analysis is vast. For a debate on the empirical performance of public choice theory, see Quiggin (1987) and Brennan and Pincus (1987).
3. Until very recent times, the idea of a woman on horseback was not seriously entertained.
5. Orwell himself, in 1984, puts Pareto’s theory of the circulation of elites into the mouth of the renegade Goldstein (=Trotsky).
6. Given the date of Keynes’ observation it seems natural to identify Hitler and Nietzsche as the immediate exemplars of this truth.
References
Anderson, K., (1980), 'The political market for assistance to Australian manufacturing industries', Economic Record 56(153), 132-44.
Quiggin, J. (1991a) 'The private interest theory-liberal or authoritarian ?', Policy, Autumn.