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THE MODERN POLITICAL ECONOMY: TRADITIONAL APPROACHES AND NEW DIRECTIONS

This paper examines the revival of political economy in various forms in the last decades. The first part is dedicated to the evolution of the definition of the economic science to lay the foundation of a better understanding of the current use of the term “political economy”. The second part sets out a typology of the different theories and schools of political economy and relates them to certain characterization of the present day mainstream neoclassical economics. The last part of the paper focuses on one of the latest developments, the theory of public choice as a “new political economy”: methodology, analytical apparatus, major themes and findings.

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What is political economy? This question, having been asked in class or on the pages of a scholarly journal fifteen years ago, would have seemed irrelevant as the answer was simple and unequivocal. It would have been the answer given by the only theory studied and known then, the Marxist theory. However, the question is much more difficult and problematic to address today. This mainly is due to the ambiguity of the concept, as well as the variety of trends and schools claiming to be called “political economy”. Moreover, these schools often have very different methodologies, fundamental assumptions and analytical tools.¹

The occasion for asking this particular question came from two discussions in academic communities different in their institutional setting and environment. The first discussion took place in one of our academic committees and touched only indirectly upon the concept of “political economy”. The question under discussion² was the formal assignment of the research in a specific theory (outside the neoclassical mainstream) to the “political economy” category.³ The second discussion took place at the department of economics of a US liberal arts college. The purpose of that conversation was to put forward criteria for selecting a replacement of a respected faculty, recently deceased, who had taught courses in political economy. What became apparent in both discussions was that the concept of “political economy” did mean different things to different people.

¹ Although this question has not been open and addressed by the academic circles in this country, a number of researchers have discussed specific issues and conceptions, e.g. K. Grigorov, T. Trendafilov, K. Mirkovich, At. Leonidov, M. Kunev, S. Toshkova, etc.

² The opinions expressed were to a certain degree indicative of the confusion or at least the underestimation of the rich variety of ideas and trends in the present-day economics. Some participants preferred to classify this type of research in the “History of Economic Thought” category.

³ This was not necessarily an open debate on the nature and scope of political economy, but the arguments were implicitly present in the opinions in favor or against a tenure promotion.

The purpose of this essay is to examine the revival of political economy in various forms in the last decades as well as to outline the basic theories, classified in the “political economy” category, and to discuss one of the latest developments - “public choice” - as a distinct modern school of political economy. The essay is organized as follows. *The first part* provides a retrospective review of the evolution of the term “political economy” to get a better understanding of its current use. *The second part* lays out a typology of the different theories and schools of political economy and relates them to present day mainstream neoclassical economics. *The last part* of the essay focuses on the public choice theory as a “new political economy” and discusses its methodology, analytical apparatus, major themes and findings.

Sketches of the history of the term “political economy”

The rise of economic science is most often attributed to Adam Smith’s “An Inquiry into the Nature and Causes of the Wealth of Nations”. However, the term “political economy” was used before that. Every standard text in the history of economic analysis shows that seeds of the ideas in Smith’s masterpiece had been sown a long time before 1776. The reference literature⁴ usually mentions the origins of the term,⁵ relating it to the etymology and use by the *Ancient Greeks* – *oikonomike*, meaning “management of the household budget” and later by *Romans*, as *oeconomia*, with a slightly broader meaning. The French economists are believed to have adopted an even broader meaning, adding public administration and government policies. Accordingly, the term *économie politique* first appeared in France and is usually attributed to *Antoine de Montchrétien* and his treatise *Traité d’économie politique*, written in 1615. The physiocrats offered more insights into the content of the discipline. They preserved the original meaning of “management” but developed the concept of wealth, its nature, production and distribution.⁶

Meanwhile, the British economic theory was undergoing a process of advancement and refinement, becoming more articulated and self-conscious. This is the period when we find one of the most interesting definitions of the discipline that predated Smith. *James Steuart* is generally recognized as the first economist who used the term “political economy” in an essay, written in English, *An Inquiry into the Principles of Political Economy*. It was published in 1767, preceding by ten years Smith’s *The Wealth of Nations*. In the introductory chapter Steuart explicitly

⁴ The survey on “Political Economy and Economics” in *The New Palgrave* has proved to be an excellent initial source and reference to the original texts (*Groenewegen, P. Political Economy and Economics*. - In: Eatwell, M. Milgate and P. Newman (eds.). *The New Palgrave: A Dictionary of Economics*. Vol. 3., The Macmillan Press, 1987, p. 905).

⁵ *Ibid.*, p. 905.

⁶ In 1760 *Marquis de Mirabeau* discussed the “political economy” as related to “agriculture and public administration, as well as ... the wealth and the means to provide it” (as quoted by *Groenewegen, P.*, *Op. cit.*, p. 905).

made the connection between households and the government.⁷ If we summarize his ideas, we can conclude that even at this early stage political economy encompassed the following ideas. *First*, it was already concerned with the government and its goal is to ensure the prudent governance of the economy similarly to the prudent management of the individual household. *Second*, political economy was focused on individuals, their wants and interests but went beyond that, taking into account market relationships and their ability to make the reciprocity of benefits possible. *Third*, it incorporated institutional characteristics such as manners, habits, and customs, allowed for their changes and recognized that they could be modeled. *Fourth*, the theory was “political” in the sense that the government was assigned the task to select the best possible means for achieving its goals. It is apparent that from the very beginning political economy contained both descriptive and prescriptive elements.

A. Smith did not use the term in the title of his book but he gave one of the most well-known and original definitions of the political economy. “Political oeconomy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign”.⁸

Obviously, Smith shared Steuart’s concept but enriched it with an important new element, one of the most important innovations in the history of economic thought. He considered the political component as *intrinsic* to the definition and viewed the two interests, individual and public, as *compatible and complementary*. However, he did not entrust the provision of this union to the political class (i.e. the paternalistic government). Instead, it is the sovereign and free people who create the wealth of the nation. One of Smith’s most popular theses is the “invisible hand” which directs the private interest so that it will satisfy public needs. Here is another quotation which further develops this thesis:

⁷ We will cite a rather long passage from Steuart’s text here as we think it contains all the elements of the initial, very broad and rich content of the discipline. “What oeconomy is in a family, political oeconomy is in a state... The great art therefore of political oeconomy is, first to adapt the different operations of it to the spirit, manners, habits, and customs of the people; and afterwards to model these circumstances so, as to be able to introduce a set of new and more useful institutions. The principal object of this science is to secure a certain fund of subsistence for all the inhabitants, to obviate every circumstance which may render it precarious; to provide every thing necessary for supplying the wants of the society, and to employ the inhabitants (supposing them to be free-men) in such a manner as naturally to create reciprocal relations and dependencies between them... It is the business of a statesman to judge of the expediency of different schemes of oeconomy, and by degrees to model the minds of his subjects so as to induce them, from the allurements of private interest, to concur in the execution of his plan” (*Steuart, Sir James, An Inquiry into the Principle of Political Economy*. Vol. I., “A. Miller and T. Cadell”, 1767, p. 2-3).

⁸ *Smith, A. An Inquiry into the Nature and Causes of the Wealth of Nations*. Vol. II, Oxford, Clarendon Press, 1869, p. 1.

“The uniform, constant, and uninterrupted effort of every man to better his condition... is frequently powerful enough to maintain the natural progress of things towards improvement, *in spite* both of the extravagance of government and of the greatest errors of administration” (italic added – S.K.).⁹

For Smith the desired synthesis, the compatibility of the political sphere (the government) and the economic sphere (the market) is secured by the “the obvious and simple system of natural liberty”.

After Smith, throughout the nineteenth century the term “political economy” established itself as the legitimate name of the discipline and was unalterably used in the title of practically every significant text.¹⁰ A few general characteristics need to be pointed out. *First*, there was a strong tendency among economists from the classical school to center on *wealth*: its nature, origin, laws of production and distribution. *Second*, the approach was *interdisciplinary*. The analysis of the factors determining well-being and prosperity was much richer and broader than the standard economic analysis of today. In addition to the invariable political element, economists widely used sociological, historical, ethical and cultural material in their models. *Third*, “political economy” was the name of the whole discipline, which included the analytical tools and methods, their application to the practical problems as well as the normative recommendations in favor or against certain government decisions (“the art of legislation”). Thus the discipline included economics, politics, and ethics. It was simultaneously an “art” and a “science”, discovered laws and gave prescriptions concerning the relationship between the market and the state. *Fourth*, although both positive and normative elements were usually present, their inclusion in the definition was a matter of *disagreement*.¹¹

⁹ Smith, A. Op. cit., p. 346.

¹⁰ E.g. Malthus's *Principles of Political Economy: Considered with a View to Their Practical Application* (1820); Ricardo's *On the Principles of Political Economy and Taxation* (1817); Bentham's *Manual of Political Economy* (1793-95); McCulloch's *The Principles of Political Economy, with a Sketch of the Rise and Progress of the Science* (1825); James Mill's *Elements of Political Economy*, (1821); Senior's *An Outline of the Science of Political Economy* (1836); John Stuart Mill's *Principles of Political Economy with some of their Applications to Social Philosophy* (1848).

¹¹ Bentham, for example, defines political economy as “art and science” at the same time. (Bentham, J. *Manual of Political Economy* [1793-95]. - In: W. Stark (ed.). *Jeremy Bentham's Economic Writings*. Vol. I, “George Allen and Unwin”, 1951, p. 223). Senior objects to such contention. He is one of the first to insist that the normative judgments should be kept apart from the positive analysis. J.S. Mill is also very explicit: “Political Economy is a science and not an art”. He takes pains at defining the discipline as a science built on a set of simplifying assumptions: “Political Economy considers mankind as occupied solely in acquiring and consuming wealth...It predicts only such of the phenomena of the social state as take place in consequence of the pursuit of wealth. It makes entire abstraction of every other human passion or motive...Not that any political economist was ever so absurd as to suppose that mankind are really thus constituted, but because this is the mode in which *science must necessarily proceed*” (italic added – S.K.) (Mill, J. S. *On the Definition of Political Economy; And the Method of Investigation Proper to It*. - In: *Essays on Some Unsettled Questions of Political Economy* [1844] New York, “A. M. Kelley”, 1974, p. 139).

Despite the appearance of some heterodox schools,¹² the overall body of the economic science during most of the nineteenth century was relatively homogeneous. However, during the last three decades of the century, a new trend was set into motion, with significant implications for the development of economic thought. The discipline underwent major transformations in its scope, methodology, analytical tools, and even its name. The changes were brought about primarily by the desire to make the study more scientific. Accordingly, economists started to narrow its scope, and abstracted from political and institutional factors. The pursuit of methodological sophistication and analytical rigor motivated the separation of the economic part of the studies from the political factors, which seemed much more amorphous and unsusceptible to formalization. In 1875 *MacLeod* introduced the new name, “economics”, defining it as the science of laws “which govern the relations of exchangeable quantities”.¹³ A few years later *A. Marshall* published (coauthored with his wife) the first economic text, which used the term in the title, *Economics of Industry*. Although *Jevons*, one of the three founders of neoclassical theory, used the old term “political economy” in the title of his own study (*The Theory of Political Economy*), he was one of the most passionate advocates of the change in the name and we can find his arguments in the *Preface* to the second edition of his book.¹⁴ Marshall made a new important step in the transformation in his next and best-known work, *The Principles of Economics*, although he was rather moderate in the substitution in the text and did not show explicit preference for any of the terms, using them interchangeably, even in the definition he gave: “Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of

¹² One of these is the *German Historical School*, whose essence can be fully grasped if it is viewed as a reaction to the British classical political economy. Unlike Smith and Ricardo, who argued that the economic science is a set of fundamental laws, universal and irrefutable, the German scholars held that the discipline is evolutionary, predominantly prescriptive, must use a historically based inductive methodology, and its major purpose is to formulate recommendations for moderate reforms

The second deviation from the orthodoxy is *Marxism*, which adopts the term but broadens the subject matter even further, as an “anatomy of the civil society” and radicalizes some of the major assumptions. The Marxist political economy preserves important characteristics of the classical economics – scope, interdependence of the totality of social institutions – economic, political, cultural, ideological, legal, etc. At the same time, it is based on a principally different methodology, dialectical materialism, which leads to final conclusions very different from those of classical economic analysis.

¹³ As quoted by *Groenwegen*, *P. Op. cit.*, p. 907.

¹⁴ “Among minor alterations, I may mention the substitution for the name Political Economy of the single convenient term *Economics*. I cannot help thinking that it would be well to discard, as quickly as possible, the old troublesome double-worded name of our Science. ... why do we need anything better than Economics?... It is thus to be hoped that *Economics* will become the recognized name of a science, which nearly a century ago was known to the French Economists as *la science économique*” (*Jevons*, *W. Stanley*. *The Theory of Political Economy*, Macmillan, 1888, pp. xiii-xiv).

wellbeing”.¹⁵ He took a stand and expressed an opinion on a number of the debatable issues: 1) economic study should be scientific and based on facts; 2) it should abstract from politics; 3) although economics is a science, and not an art, it can include normative elements and contribute to the making of the best policy decisions.

Marshall actually started a tendency towards narrowing the approach and abandoning the political elements of the inquiry, including the name of the discipline. Neoclassicism became a mainstream theory throughout the twentieth century and gained a hegemonic status. Although there were variations in the definition, the most popular one was the concept of economics as a price mechanism for the allocation of scarce resources in the context of choice among alternative uses. This was actually a paraphrase of L. Robbins' classical definition used in many – perhaps – most textbooks.¹⁶ Robbins's definition gave meaning to the new term, rejecting the classical interpretation. The economic science had been set out onto a highly deductive track, starting from a limited set of general simplifying assumptions and applying them to particular cases. This was a method which necessarily required abstraction from all other factors. The development of the new methodology gave an impetus to the further professionalization of the discipline. Later the problem of the optimal allocation of resources was complemented by the new macroeconomic aspects of employment, inflation and growth. This is how the present-day mainstream theory came into being. As for the political economy, it fell into disgrace and the term was rarely used.¹⁷

The Revival of Political Economy

The last few decades of the twentieth century have witnessed an unexpected and rather impressive comeback of the use of the term “political

¹⁵ Marshall, A. *Principles of Economics* [1890]. 4th ed. Macmillan, 1898, p. 1. If we share Keynes's appraisal: “Marshall was the first great economist per se that there ever was; the first who devoted his life to building up the subject as a separate science, standing on its own foundation with as high standards of scientific accuracy as the physical or biological sciences... He was the first to take up the professional scientific attitude to the subject, as something above and outside current controversy, as far from politics as physiology is from the general practitioner (Keynes, J. M. Alfred Marshall. - In: *Essays in Biography*. Vol. X. *Collected Writings of John Maynard Keynes*. The Macmillan Press Ltd. [1933], 1972, p. 222).

¹⁶ “Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses (Robbins, L. *An Essay on the Nature and Significance of Economic Science*. L.: Macmillan, [1932] 1962, p. 16). What is less known is that Robbins took a very clear-cut position on the separation of positive and normative: “Economics is entirely neutral between ends....It is fundamentally distinct from Ethics. Economics is in no way to be concerned, as we may conceive Ethics or Aesthetics, as being concerned with ends as such” (Ibid., p. 35).

¹⁷ According to Whyne, in the middle of the century, in five years (1953-1957) only three books with the term “political economy” in the title-page were published in English (Whyne, D. (ed.). *What is Political Economy*. Oxford, Oxford University Press, 1984, p. 1).

economy".¹⁸ The abundance and diversity of its use invariably raise a series of questions about: (i) the status of the political economy inquiry and its relation to the mainstream; (ii) the relevance of the present-day meaning of the term compared to the classical one; (iii) the various schools and trends and, possibly, the characteristics that can be labeled as unifying (assuming we are not dealing with similar labels to diametrically opposed intellectual products). These are questions too challenging to answer in one essay. What we will try to do from the outset is put some order in the confusing and amorphous diversity of uses of the term.

An appropriate starting point is Schumpeter's contention that "political economy means different things to different writers, and in some cases it meant what is known as economic theory or pure "economics".¹⁹ It gives ground to the formulation of *the first use of the term* "political economy", the one most widely accepted and shared by the majority of economists trained in the tradition of the mainstream. The idea is that political economy is simply an *older and more comprehensive version of the discipline*.²⁰ The methodological base of this type of attitude is very explicit as it is an integral part of the orthodoxy taught at most graduate programs. In a nutshell, the subject-matter of the discipline, in the spirit of Robbins, is the allocation of resources extended with the problems of employment, inflation, stability and growth; the science is value-free; the positive analysis is the only legitimate part of the study; mathematics and statistics are the most appropriate techniques to reveal the regularities in economic reality.

¹⁸ In one year only, 1983, 50 books bearing the term "political economy" in the title appeared in English (Ibid.). A brief and unrepresentative bibliographical reference in the college library catalog produced a list of 82 such books, published in a five year period (2000-2005) only. Topics and titles vary as follows: the political economy of the living wage; the political economy of education; the political economy of European integration; the political economy of race in Indianapolis; analytical political economy; the political economy of Polish transition; political economy and the moral; the political economy of Stalinism; the political economy of new slavery; toward a political economy of culture; the political economy of corruption; global political economy; political economy from below; the political economy of drug industry; the political economy of skills; greening global political economy; the political economy of rule evasion and policy reforms; the political economy of armed conflicts; Greece's new political economy; the political economy of a plural world; a comparative political economy of industrial capitalism; Ukrainian political economy; Ancient Maya political economies; the ABC of political economy; the political economy of work and family; normative political economy; Piero Sraffa's political economy; the political economy of Japanese globalization; the political economy of development; the political economy of health care reforms; political economy in macroeconomics; theories of comparative political economy, etc., to mention but a few.

¹⁹ Schumpeter, J. A. *History of Economic Analysis*. New York, Oxford University Press [1954], 1986, p. 21.

²⁰ A good illustration of a similar lack of interest in the specific meaning of the concept is the definition in the MIT Dictionary of Modern Economics "Until recent times the common name for the study of the economic process. The term has connotations of the relationship between the practical aspects of political action and the pure theory of economics. It is sometimes argued that classical political economy was concerned with this aspect of the economy and that modern economists have tended to be more restricted in the range of their studies" (Pearce, D. W. (ed.). *The MIT Dictionary of Modern Economics*, 4th edition. Cambridge, Mass., The MIT Press, 1992, p. 334).

Traditionally, the economics mainstream has taken the institutional structure – economic, political, and social – as given. At the same time, there is a growing appreciation of the importance of the institutional setting. This is actually one of the main directions in the development of the orthodoxy. Therefore, the political element becomes an ingredient of the economic study. The growing involvement of the state in the economy is reflected in the incorporation of the government policy in the studies and prompts interest in examining the interdependence of market and government policy.²¹ Economists apply the well-known analytical tools of economics and model the political choices as equilibrium outcomes of rational individuals' actions.²² In other words, a large and prevailing part of the profession is trying to revive the union of the once separated parts of political economy – economics and politics – by applying the analytical tools and theoretical framework of economics. Thus defined, this trend involves the theory of public choice, which will be discussed in the last section.

In its *second basic meaning* "political economy" can be viewed as *an umbrella concept*, which covers a large variety of non-orthodox theories. It is

²¹ The Blackwell Dictionary calls this tendency a "modern neoclassical theory of public economics" (Outhwaite, W. (ed.). The Blackwell Dictionary of Modern Social Thought, Second edition. Blackwell Publishing, 2003, p. 491).

²² A few examples will help understand this tendency in the mainstream. When explaining their research goals, the authors of *Political Economics* Persson and Tabellini write: "We want to explain economic policy in modern democracy ... when searching for an answer ... we reach the boundary between political science and economics... It is popular to refer to research in this area as "political economy". Sometimes that term is used to suggest an alternative analytical approach, as if the traditional tools of analysis in economics were not appropriate to study political phenomena. This is definitely not our view and not our approach.... On the contrary, we borrow the main tools of analysis from economics, modeling policy choices as the equilibrium outcomes of a well specified strategic interaction among rational individuals" (Persson, T., G. Tabellini. *Political Economics: Explaining Economic Policy*. Cambridge, Mass., MIT Press, 2000, p. 2). This passage is interesting from another point of view, too. As a rule, the mainstream economists avoid the term "political economy", and when they do adopt it, they tend to modify it, "political economics", with an emphasis on the positive analysis. This is how A. Drazen discusses the revival of political economy: "Though characterized by a strong interest in the question of how politics affects economic outcomes, the new political economy is defined in large by its way of approaching this question. Specifically, it is defined in large part by its use of the formal and technical tools of modern economic analysis to look at the importance of politics for economics. Modern economic analysis is used not just in the formal sense of a mathematics approach; it is also conceptual, viewing political phenomena in terms of optimization, incentives, constraints, etc." (Drazen, A. *Political Economy and Macroeconomics*. Princeton University Press, 2000, p. 20). Put differently, political economy is defined as a science of rational decision-making in a political institutional environment. The political economy graduate program at Princeton is announced to be designed for students, who seek to engage in scholarship at the intersection of the two disciplines, economics and politics. "Work in political economy aims to develop theoretical and empirical understanding of the connections between economics and politics. Methodologically, recent research in both economics and political science has drawn on a common set of tools. Both disciplines have emphasized the strategic interaction of agents in political and market environments. Both have relied on the paradigm of the optimizing agent, with game theory and equilibrium analysis providing a common theoretical framework. Empirical work in both disciplines relies on similar statistical and econometric methods" (<http://www.princeton.edu/~pegrod/descript.html>).

definitely a highly challenging task to classify the existing schools and groups. Some of them are relatively easy to identify because of the impressive theoretical legacy and well-established methodology (e.g. Marxism and neo-Marxism). Others are rather ambiguous in their theoretical framework and developed more as a reaction to the mainstream. Usually, their strongest characteristics are the intellectual discontent with the status-quo and claims for the need of a new research agenda. We will only sketch the unsettled classification issue by a few examples. K. Rothschild (quoting B. Frey) categorizes the political economy thought into five groups: 1) Marxist and neo-Marxist approaches (new left, radical economics, Cambridge capital theory); 2) System-theoretical approaches (methodological orientation, quantity-oriented, policy science); 3) Traditional approaches (descriptive-empirical, historical school, etc.); 4) "Unorthodox" approaches (critical-sociological-innovative; institutionalists; Galbraith, Myrdal, Perroux, Hirschman, Kornai); 5) Economic theory of politics (Schumpeter, Down, Black, Buchanan, Olson)²³. The Encyclopedia of Political Economy²⁴ suggests the following schools: Marxist, neo-institutional, Schumpeterian, post-Keynesian, Sraffian, social and feminist. Without calling them explicitly "political economy", Lendreth and Colander discuss five traditional "dissident" groups: radicals, institutionalists, post-Keynesians, public choice advocates and neo-Austrians.²⁵

These classifications suffice to give an idea of the problems associated with the formulation of an all-embracing definition of the concept, even in the second and narrower sense as a counterpoint to the mainstream. Once again Schumpeter seems relevant: "If we realize that it is hopeless and, moreover, pointless to try to frame a definition that will fit all the activities of the economic profession, we shall not feel inclined to judge hastily any of the obvious inadequacies of these and other definitions".²⁶ Certain unifying features of the various trends are worth noting, however.

The *most prominent characteristic* of the prevailing number of schools is the *criticism*, sometimes very passionate, of the orthodoxy. Various groups manifest different objections in different ways, but we will discuss only the dissent in: i) scope; ii) methodology; iii) analytical tools; and iv) the division of positive versus normative.

The dissatisfaction with the *narrowed scope of study* can be considered one of the most important causes for the revival of political economy in its unorthodox version. For many non-mainstream economists economic science is much broader than the concept of resource allocation and market exchange. It also includes institutions, technology, ideology, economic power, culture, etc. From such a perspective neoclassical economics is only a *partial theory*, dealing with markets

²³ Rothschild, K. Political Economy or Economics. Some Terminological and Normative Considerations. - European Journal of Political Economy, 1989, 5, p. 3.

²⁴ O'Hara, P. A. (ed.). Encyclopedia of Political Economy. Routledge, 1999, Vol. 2, p. 868.

²⁵ Lendreth, H., D. Colander. History of Economic Thought, 4th ed. Boston, "Houghton Mifflin", 2002, p. 469.

²⁶ Schumpeter, J. A. History of Economic Analysis. New York, Oxford University Press [1954], 1986, p. 535.

and their functioning. Because of the breadth of the problems, the suggested approach is *interdisciplinary*. Moreover, political economy does not consider itself merely an extension of economics. It is believed to study *the totality* of social phenomena. This approach to examining the complex reality assigns role to history, empirical data, institutions and change.

Another essential characteristic of many schools is the *rejection* of one of the pillars of neoclassicism, *methodological individualism*, and the focus on individual choice. Schools like Marxism and neo-institutionalism tend to emphasize the collective action, embracing the collectivist and holistic methodology. Individuals are approached as *social creatures*, belonging to various groups – families, corporations, classes, sexes, which are characterized by tensions, conflicts, and contradictions.

Parallel with this, under assault are the fundamental assumptions about individual behavior and motives, as well as the analytical tools to model the individual as a rational agent that maximizes his utility. Almost all modern political economists evaluate critically one of the organizing principles of the mainstream, the equilibrium concept. This was a central idea in classical political economy. Some of the modern schools (Sraffians) accept it, others (Marxians) question its relevance, and some (post-Keynesians and neo-institutionalists) reject it.²⁷ Instead, they introduce various circumstances that can lead to disequilibria (and the resulting unemployment, poverty, destruction of local culture, etc.). In connection with this, an important unifying link among many of the unorthodox political economic schools – Marxist, neo-institutional, social – is the *critical attitude towards capitalism in general*. They analyze it as a dynamic, historically evolving system of institutions, with some of the changes being of a destructive nature.

Many heterodox schools exhibit *another general feature – objection to the “positive-normative” dichotomy*. They treat the division as artificial and counterproductive and allege that economic analysis at each level integrates much more than knowledge and analytical techniques. It is inevitably loaded with values and judgments and reflects the personality, motives and interests of the economist. Arguments to this effect are typical of the Marxist, institutional and social schools, which usually quote G. Myrdal’s unambiguous and clearly stated idea that “political economy is a grandiose attempt to translate with scientific means what ought to be”.²⁸

²⁷ An interesting example of such critical attitude is F. Hayek, who is considered to be one of the most passionate advocates of free markets. Breaking with the neoclassical conception of the central problem of the science and the general equilibrium thesis, Hayek conceptualized the market as a dynamic process, based on the division of knowledge and a spontaneous order with a specific institutional framework. He also incorporated time, change and discovery in the model of competition (See Koeva, S. The Market as a Spontaneous Order: The Contribution of F. Hayek. Varna, Steno, 2002).

²⁸ Myrdal, G. The Political Element in the Development of Economic Theory. New York, “Simon and Schuster”, 1954, p. 195. The degree of assertion of the legitimacy of the normative analysis varies. Myrdal, for example, holds that the two roles of the economist – as a scholar and an advocate – should

If we go back to the questions concerning the status of modern political economy, obviously the diversity in the background, methodology and analytical tools of the various schools and trends makes it highly problematic to draw a clear-cut line between political economy and economics.

On the one hand, as it has been demonstrated, many schools draw energy exclusively from the intentional and sometimes, fierce criticism of neoclassical economics and its scope, tools and techniques.²⁹ Without any exception they suggest an extension of the subject matter, scope, methodology and analytical apparatus. In this sense they can be considered a *continuation* of the classical political economy.

On the other hand, some schools dissent from certain features common to the non-mainstream political economy. They find their mission in restoring the synthesis of “economics’ and “politics”, but do not share the aggressive criticism of the core of the neoclassical theory and its fundamental premises. Furthermore, they develop and apply all the well-known microeconomic assumptions to the political and social sphere. From this perspective *there hardly is any continuity* between them and the political economy of the eighteenth and nineteenth centuries. This is what makes public choice theory, known as a “new political economy”, so interesting. In a certain sense it has a dual status. It belongs simultaneously to both groups of theories, discussed above, providing a natural link between them.

Public Choice as a New Political Economy³⁰

Classical political economy, as discussed above, does not explicitly differentiate between the economic and political sphere. The method of investigation is a balanced mix of inductive and deductive elements, positive theoretical analysis and applications with value judgments. The arguments are predominantly verbal with many prescriptions. The emergence of neoclassicism marks the division between the two components, even in the name, and a

be strictly separated. He can provide the politicians with the appropriate information and help clarify the spectrum of decisions. For the radical economists, on the other hand, each theory contains explicitly the normative elements – ideas, values, ideology.

²⁹ It is a well-known fact that T. Veblen introduced the term “neoclassical economics” and heterodox economists use it actively to assault their opponents. In this sense Veblen provided them with “an easy target to shoot at” (*Landreth, H. D. Colander. Op. cit., p. 469*).

³⁰ The emergence of a new field of scholarship is always an intriguing outcome of the interaction of different forces, including the development of social reality, the events in the world, and the internal logic of the discipline itself. A more systematic and in-depth study of the public choice theory should definitely include the historical antecedents and intellectual forbears; the evolution of definition and the boundaries of its content; the specifics of its methodology, conceptual apparatus and analytics; its relations with the existing fields of research, as well as the process its professionalization, (i.e. the development of a distinct scholarly community, which comes to gain a recognition and occupy an established place in the profession), etc. In this paper we will touch on only a small subset of these themes.

growing gap between the science of the economy (economics) and that of politics (political science).³¹ This tendency continued for many decades until the appearance of the public choice theory.³² The new discipline represents an explicit reunification of the two components of the former political economy, addressing “the mythical, and mystical, borderline between these two prodigal offsprings of political economy”.³³

Let us assume from the outset that public choice is an application of the methodology, conceptual and analytical apparatus of economics to the study of politics. Given that a brief outline of its intellectual history follows.

Among the important, yet sporadic precursors of public choice are a number of investigations on voting and voting procedures from the end of the eighteenth and beginning of nineteenth centuries by French mathematicians – *Borda*, *Condorcet*, *LaPlace*. The theme reappeared half a century later in the work of British mathematicians, *C. Dodgson* (known in the literary circles also as Lewis Carroll, author of “Alice in the Wonderland”) being one of the most prominent. Among the early contributions worth mentioning, are *J. Schumpeter*, *H. Hotelling*, as well as the investigations by the Swedish economist *Knut Wicksell*, who analyzed the decision-making of budget revenues and spending and integrated the political process into the theory of public finance. His approach to the study of political phenomena was already marginalist and market-oriented.³⁴

Present-day interest to the application of this way of thinking to the democratic processes and government dates back in the late forties and early fifties of the twentieth century. A number of essays and books by *Duncan Black*, *James Buchanan* and *Kenneth Arrow* appeared then.³⁵ *A. Downs* was

³¹ The two disciplines set out on diverging paths. The differences are not merely in the subject matter (the market and price system versus the political sphere and government), but also (and more importantly) in the analytical tools and methods applied. Economics chose the path of a science, based on a set of premises; formulating hypotheses which describe and predict the outcome of the relations studied; testing the validity of the hypotheses logically and empirically. It became abstract, deductive, and formal. Political science focused on the public sector, the political sphere, institutional framework, power and the history of political theories. The research methodology remained practically unchanged – verbal arguments, collection and processing of data, surveys and case-studies. It remained inductive and normative. The purpose was to uncover and recommend the “correct” government policies aimed at the “public interest” (*Miller, G. The Impact of Economics on Contemporary Political Science. - Journal of Economic Literature*, Sep. 1997, Vol. 35, N 3, p. 1173).

³² Synonyms of “public choice” or “public choice theory” in the literature are “economic theory of politics”, “new political economy” or “individualistic theory of politics”.

³³ *Buchanan, J. M., G. Tullock. The Calculus of Consent. Logical Foundations of Constitutional Democracy. Ann Arbor, University of Michigan Press [1962], 1965, p. v.*

³⁴ Wicksell became known to the English speaking academia largely due to his exceptional influence on James Buchanan.

³⁵ Black is considered to be the pioneer of the theory of voting in the twentieth century with his studies on the rationale of group decision-making, history of the voting analysis and the efficiency of different voting procedures. He examined the cycling problem in majority voting and came up with a

the first to apply the economic approach to all aspects of political life and launch an ambitious overall research agenda.³⁶ *Calculus of Consent* is the work, universally considered classical in public choice literature. It was published in 1962 by James Buchanan and Gordon Tullock, laying the methodological foundation of the new field.³⁷ M. Olson complemented the themes with a missing link, the theory of interest groups. His approach to group collective choice was again based on rational choice theory.³⁸ The economic theory of politics started developing and gaining recognition as a new and promising academic specialty. Buchanan and Tullock were instrumental in this process of establishment and professionalization.

In 1976 D. Mueller offered a *definition* of public choice which is now generally accepted as “an economic study of non-market decision-making or simply, the application of economics to political science”.³⁹ This definition already exhibits some of the important features of the discipline. *First*, its *subject matter* is politics, the collective action, and political markets which are discussed as parallel and similar to private markets and in a certain sense, complementary to them. The new theory restores the integration of economic and political problems of social organization and becomes a “new political economy”. *Second*, the new theory is a *subfield of positive economics*. It applies the economic methodology and analytics to politics in a sharp contrast to the traditional political science.

The methodology of public choice is grounded in *two premises*. The first one is *methodological individualism*. The analysis of political and private markets begins with the rational and self-interested individuals as *ultimate*

proof of what has become known as “the median voter theorem”. Black demonstrated that under certain conditions, at most, only one motion before a committee or election, can secure a simple majority over every other motion. More specifically, under a certain type of voter’s preferences (if they are single-peaked over a policy issue), the median voter’s choice of a motion represents a unique point of equilibrium. For Black this is the political equivalent of the competitive market equilibrium (*Black, D.* On the Rationale of Group Decision-Making. - *Econometrica*, 1948, 16, p. 245-261; *Black, D.* The Theory of Committees and Elections. Cambridge, Cambridge University Press, 1958). Arrow published a paper (1950) and a year later (1951) – a book – on the aggregation of individual preferences into a social utility function. He offered a proof of a hypothesis, now known as “the Arrow impossibility theorem” that under a minimal set of axioms no construction of a social welfare function out of the individual utility functions is possible (*Arrow, K.* Social Choice and Individual Values. New York, “John Wiley”, 1951).

³⁶ Downs constructed a comprehensive and sophisticated theory of democratic decision-making and representative government, grounded in the assumption of rational self-interested political agents – voters, politicians, and party leaders (*Downs, A.* An Economic Theory of Democracy. New York, “Harper and Row”, 1957).

³⁷ *Buchanan, J. M., G. Tullock*, The Calculus of Consent. Logical Foundations of Constitutional Democracy. Ann Arbor. University of Michigan Press [1962], 1965.

³⁸ *Olson, M.* *The Logic of Collective Action*. Cambridge: Harvard University Press, 1965.

³⁹ *Mueller, D.* Public Choice: A Survey. - *Journal of Economic Literature*, 1976, June, Vol. 14, N 2, p. 395.

decision-makers. Conventional political science conceives the state as an entity independent from and above the individuals who compose it, as an embodiment of “good will” and benevolence. Public choice theorists postulate that the individuals are the only meaningful decision-making units. They are consistent and true to their nature, guided by self-interest, independent of the institutional setting – economic or political.⁴⁰ In this way they overcome the bewildering duality in human motivation, present in the political science and vocabulary, where the self-interest dominates the private transactions and sacrifice is prevailing on the political arena. The illusionary and romantic representation of government and politicians is replaced by a much more skeptical attitude to what is achievable in the political reality.⁴¹

The second methodological premise is the *concept of exchange* and its relevance in the political arena. Political action is viewed as a particular form of exchange, as a means for interaction and cooperation through which reciprocal gains are achieved.

The *basic themes and models* of the public choice theory are related to the behavior of the different agents in the political market: voters, politicians, bureaucrats.

In his study of voter’s behavior A. Downs pays special attention to the fact that individuals are ignorant about many issues concerning the voting process and the positions of the candidates, even of the preferred one. What is more important, this voters’ ignorance is *rational*. In private markets decision-making is a function of the relevant information possesses by the agent. The more informed the consumer, the larger the benefit of his purchase. In political markets this connection is missing. Even if the voter is fully aware of the situation, the probability of influencing the election outcome, that is, of casting the decisive vote, is so infinitely low, that the cost of acquiring the relevant information will likely be higher than the benefit. This is the reason why many voters prefer to stay consciously ignorant and abstain from voting. In addition, ignorance is asymmetrical. The individual will be more inclined to search for information on issues which personally interest him. This gives opportunity to interest groups and lobbies to influence the process. As a whole, the model provides a fairly good explanation of the paradoxical discrepancy between individual rationality and social (in)efficiency. Unfavorable phenomena –such as citizen apathy and systemic policy biases – are consistent with reasonable and logical individual behavior.

⁴⁰ The individuals who seek to maximize utility through the consumption of luxury goods on the market are basically the same individuals who pursue personal benefit through the political action (Buchanan, J. M., G. Tullock. Op. cit., p. 306).

⁴¹ Buchanan, J. M. Politics without Romance. A Sketch of Positive Public Choice Theory and Its Normative Implications. - In: The Logical Foundations of Constitutional Liberty. Collected Works of James M. Buchanan. Vol. 1. Indianapolis, Liberty Fund, 1999.

Closely related to the model of rational ignorance is the *theory of voting*. Unlike in the competitive markets, where costs and benefits of each action are directly internalized by the decision-maker, in the political sphere they are separated. The individual who enjoys the gains is different from the one who incurs the costs. The voter casts his vote and the collective decision is taken according to a rule, which is independent of his choice. Politicians fail to bear full responsibility for their actions and take the costs into account. Majorities exploit minorities; aggressive minorities take advantage of indifferent or divided majorities.⁴² The inferences of the public choice theorists challenge the political theory of democracy: the individual self-interest and totally logical behavior can lead to unexpected and not necessarily socially beneficial outcomes.

Another important model is that of the *politician's behavior*. Because of the duality of the individual calculus, the cost and benefit sides, it is not always subjugated to the public interest. Politicians are expected and elected to perform according to the will of the citizens, but they usually dispose of resources that do not belong to them. Even if the decision taken is reasonable and efficient, there is not an immediate reward, which weakens the motivation for sound policies. This makes politicians vulnerable to pressure by various interest groups, which provide financial and logistical support.⁴³

The theory of bureaucracy is another interesting sub-area that is being revolutionized by the new political economy. Public choice economists⁴⁴ question the traditional image of the bureaucrat as an impartial and loyal servant of the public interest. Applying the rational choice approach, they model him as a maximizer of utility under the conditions of institutional constraints. Some private motives that guide the bureaucrats are larger budgets, economy of efforts and time, better benefits, etc.

Finally, one more question needs to be addressed: the ambivalent status of the public choice school. It is simultaneously a *part* of the mainstream and its *alternative*.

On the one hand, public choice exemplifies the tendency of spreading the neoclassical tools and methods to new spheres of social life, in this case, to politics. From this perspective, it contributes to the logical extension and enrichment of the mainstream with much deeper understanding of the

⁴² Mitchell, W. C. The Old and New Public Choice: Chicago v/s Virginia. - In: W. F. Shughart II and L. Razzolini (eds.). The Elgar Companion to Public Choice. "Edward Elgar", 2001, p. 5.

⁴³ Olson's findings in *The Logic of Collective Action* challenge fundamentally the conventional political theory of interest groups. Olson's model predicts that the competition among interest groups can break the political balance in favor of projects providing concentrated benefits to a small number of well organized and efficient groups at the expense of taxes collected from many and dispersed taxpayers (Olson, M. *The Logic of Collective Action*. Cambridge, Harvard University Press, 1965).

⁴⁴ W. Niskanen and his *Bureaucracy and Representative Government* had a immensely influential role in this subfield (Niskanen, W. A. Jr. *Bureaucracy and Representative Government*. Chicago, "Aldine-Atherton", 1971).

individual's political behavior and roles, public goods, government policies, etc. On the other hand, the new political economy poses a challenge to some of the essential postulates of the orthodoxy (welfare economics, social choice theory, public finance, etc.). The existing microeconomic theory of market failures analyzes a range of phenomena – monopoly power, externalities, public goods, asymmetric information– where competitive markets fail to achieve Pareto efficiency. The solution recommended is government intervention. The assumption of the state underlying the welfare economics is that it is an impartial and omniscient servant to the “public good”, an expression of “good will”. Questioning this, the new political economy shifts the attention from what an *ideal government should do* to the *dangers and flaws of majority politics in a democratic setting*. It helps overcome an obvious asymmetry of economic knowledge: the theory of *market* failures is being complemented by the theory of *government* failures.⁴⁵

The public choice theory has not been free from certain ambiguities and criticisms. One of the points of dissent (traditionally typical of all the opponents of the mainstream) has to do with the basic behavioral assumptions and their alleged limitations. Many of the criticisms are leveled by political scientists, who find the rational agent model too naive and simplistic, too ignorant of the institutional richness of political life. Some of the critics blame the public choice approach of being one-sided: instead of offering a balanced theory, reflecting the mutual influence and interdependence of economics and political science, public choice theorists simply apply the language of the former to the latter. A possible objection to such criticism is that the application of the well-known and tested theoretical structure of economics to new spheres allows the school to avoid one of the major weaknesses of alternative political economy schools, the eclectic methodology. Public choice grounds its analysis in a methodological and conceptual apparatus with an internal consistency and logic. This allows it to fulfill fairly well its prognostic function. The test of relevance of any theoretical system is usually related to its explanatory and predictive power. Judged by such a criterion the number of studies employing the approach and models of the new political economy is impressive.⁴⁶ The Nobel prize of James

⁴⁵ “[W]ith consistent assumptions about human behavior in both market and political institutions, any attempt to replace or to modify an existing market situation, admitted to be characterized by serious externalities, will produce solutions that embody externalities which are different, but precisely analogous, to those previously existing” (*Buchanan, J. M. Politics, Policy and the Pigovian Margins*. - In: *The Logical Foundations of Constitutional Liberty*. Collected Works of James M. Buchanan. Vol. 1. Indianapolis, Liberty Fund, 1999, p. 63).

⁴⁶ There is another, no less interesting indication of the potential of a school – whether and to what extent it is being presented in standard textbooks. Judged from such an angle, public choice is the most successful of all the heterodox schools. Many popular texts integrate and incorporate the theory of government failures as a complement to the theory of market failures. (See, for example, *Arnold, R. A. (2005). Economics, 7th ed., Thompson: South Western, Part 9: Market Failure and Public Choice, Chapter 30: Public Choice; Arnold, R. A. (2007). Economics, Concise Edition, 1st ed., Thompson: South*

Buchanan can be viewed as an expression of recognition by the scholarly community.

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In conclusion, the economic science originated as a political economy. In the course of a century, its subject matter was too broad, and its approach became interdisciplinary, with an interesting blend of positive and normative elements. In recent decades there has been a revival of political economy in the form of various, schools and strands. Some of them have become part of the neoclassical mainstream, while others have rejected it.

At this point a phrase by J. S. Mill comes to mind: "The definition of a science has almost invariably not preceded, but followed, the creation of the science itself. Like the wall of a city, it has usually been erected, not to be a receptacle for such edifices as might afterwards spring up, but to circumscribe an aggregation already in existence"⁴⁷. If we develop this metaphor, modern political economy resembles contemporary big cities. Instead of distinct entities with clear-cut boundaries, modern urban centers are conglomerates of a multitude of separate neighborhoods, some independent, yet merging into each other, others looking like extensions from the center. Similarly, modern political economy is multifaceted and hard to embrace by a "common wall". Against this background, public choice seems to be a successful enterprise, reviving the union of economics and politics. With the consistency and coherence in its approach and construction of arguments, single methodological paradigm and comparatively good explanatory and predictive power it promises a high potential for favorably influencing economics, political science and social sciences in general.

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Western, Part 9: Market Failure and Public Choice, Chapter 23: Public Choice; *Byrus, R.T., G.W. Stone* (1995). Economics. 6th ed. Addison-Wesley, Chapter 33: Public Choice; *McConnel, C.R., S. L. Brue* (2005). Economics, 16th ed. McGraw-Hill, Chapter 31: Public Choice and the Economics of Taxation; *Holt, J.* (2007). Principles of Economics, 3rd ed. McGraw-Hill, Chapter 28: Public Choice and Government Failure; *O'Sullivan, A., S. Sheffrin.* (2006). Economics: Principles and Tools, 4th ed. Prentice Hall, Chapter 10: Public Goods and Public Choice; *Ayers, R., R. Colligne* (2005). Economics: Explore and Apply, Enhanced ed., Prentice Hall, Chapter 26: Public Choice; *Miller, R. R.* (2006). Economics Today. Addison-Wesley, Chapter 5: The Public Sector and Public Choice; *Ruffin, R. J., P. R. Gregory* (2001). Principles of Economics, 7th ed. Addison-Wesley, Chapter 22: Public Choice. Some of the textbooks have even included private and public choices in the title; *Gwartney, J. D, R. L. Stroup, R. S. Sobel, D. Mcpherson.* (2006). Economics: Private and Public Choice, 11th ed. Thompson: South Western; *Ekelund, R. B., R. W. Ressler, R. D. Tollison* (2006). Economics: Private Markets and Public Choice, 7th ed. Addison-Wesley).

⁴⁷ *Mill, J. S.* On the Definition of Political Economy; And the Method of Investigation Proper to It. - In: Essays on Some Unsettled Questions of Political Economy [1844]. New York, "A. M. Kelley", 1974, p. 120.