

FROM ‘WHAT NEW POLITICAL ECONOMY IS’ TO ‘WHY IS EVERYTHING NEW POLITICAL ECONOMY?’

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Abstract: In this paper I aim to try to explore the definition that New Political Economy (NPE) is the economic study of politics, with a macroeconomic focus. It emerged from the influences mainly from the criticism of theory of economic policy, political business cycle research, public choice theory and new institutional economics. Due to its ample nature, different economists have different definitions of what NPE is, and their definitions may clash against each other. This article aims to be a contribution to dissipate this confusion.

JEL Codes: B22; B25; D7.

Keywords: political economy; new political economy; public choice; new institutional economics; political business cycles

Área 1 - História Econômica, do Pensamento Econômico e Demografia Histórica

From ‘what new political economy is’ to ‘why is everything new political economy?’

1. Introduction

“New Political Economy” (NPE) is, in its simplest definition, the economic study of politics. The term is used, for example, by Sayer (1999; 2000), Gamble (1995), Besley (2007) and Screpanti and Zamagni (2003). It is also referred to by other similar names, such as “political economics” (Persson, Tabellini, 2000), “political macroeconomics” (Snowdon, Vane, 2005; Gärtner, 2000), “macro political economy” (Lohmann, 2006), “positive political economy” (Alt, Shepsle, 1990) or just “political economy” (Drazen, 2000; Hibbs, Fassbender, 1981; Weingast and Wittman, 2006), and, just as its semi-synonymic predecessor term “political economy”, NPE can mean different things to different writers¹.

It is important to single out these differences from the NPE I intend to present. In probably the earliest use of the term (circa 1942), the theologian and philosopher Bernard Lonergan, influenced by the Catholic Social Doctrine, argued that economics had lost the democratic spirit of the old political economy and can only achieve its objectives through totalitarians means. “The more economics endeavors to be an exact science, the more incapable it becomes to speak to men.” (Lonergan, 1998, p. 7). For that reason, we need a “new political economy” capable of fostering the democratic spirit, allied with accurate tools. Lonergan’s NPE was more of a political-humanistic endeavor instead of a proper economic analysis of politics.

Another relevant example is the journal *New Political Economy*, a political science journal that, due to its editorial line, few economists outside of a specific branch of heterodox economics have ever thought of submitting a paper to it². Its aim is to combine “the breadth of vision of the classical political economy of the 19th century with the analytical advances of twentieth-century social science” (Gamble et al, 1996, p. 5). However, one of the original editors of *New Political Economy* praised the new institutionalist approach for keeping alive the “torch of political economy” in the neoclassical context (Payne, 2006, p. 3-4). This admission emphasizes that “their” NPE is different from “our” NPE³. This point is furthered by Wikipedia (Wikipedia contributors, 2016)⁴, which, as of this writing,

¹ Schumpeter offered the following *caveat* to the definition of ‘political economy’: “...political economy meant different things to different writers, and in *some cases* it meant what is now known as economic theory or ‘pure’ economics.” (Schumpeter, 1954, p. 21, emphasis added). The *caveat* also *definitely* applies to NPE.

² It should be noted that lack of actual concern with how politicians behave and *realpolitik* in economics (in other words, the lack of a political economy) has long been a point of criticism from Marxist and Marxist-inspired social scientists (e.g. Adorno, 2000 [1968]; Lukács, 1968; Kalecki, 1943).

³ In earlier debates, some authors claimed that there was “convergence of extremes” that allowed the New Right and the New Left to have similar research programs, that could cooperate through political economy (Olson, Clague, 1971).

⁴ I am citing Wikipedia because the online encyclopedia is one of the main sources of *initial* knowledge (and thus has an important role in shaping the direction of knowledge, especially to laymen) and to indicate how it is not very useful to capture the definition of the “New Political Economy” that this paper discusses.

defines “new political economy” as the study of ideologies in the economy and derived from the field of International Political Economy, with little direct relation to the subject explored in this paper.

However, this lack of concern has also been a source of criticism from other economic approaches that still used the same methodology anchored on the rational economic agent. Public choice theorists (PCT) and other economic analysts of politics criticized the dominant economic view for not treating politicians as self-interested agents, like any other economic agent (Buchanan and Tullock, 1962; Downs, 1957; Frey, Lau, 1968; Olson, 1965; Riker, 1962). Downs’s *An economic theory of democracy* (1957) proposed a model in which incumbent politicians act in a self-interested fashion, concerned solely with maximizing “electoral capital”, i.e. being reelected or electing their successors. Lindbeck (1973, 1976) also argued the greatest problem with the theory of economic policy was that it did not consider politicians as part of the economic problem, i.e. as endogenous to the issue, they were “treated as ‘exogenous variables’ in the analysis” (Lindbeck, 1973, p. 1). Nordhaus (1975) formulated a political business cycle (PBC) model in which incumbent politicians actively manipulated the economy to increase their probability of being reelected. Criticism from these authors, and the directions their research subsequently took, led to NPE becoming a distinct sub-discipline inside economics, and this leads to different definitions of NPE for different branches in economics.

In spite of these issues, all definitions of NPE seem to include at least some degree of interdisciplinarity related to politics, which means some believe there is no difference between PCT and NPE. In one of the earliest uses of the term that resembles this paper’s argument, the political scientist William Mitchell, himself a public choice theorist, used the term “New Political Economy” to define the approach that would be called “public choice⁵” (Mitchell, 1968). Besley (2006, p. 29, emphasis added) wrote that “in some circles the term ‘public choice’ is used to refer to *any* analysis that links economics and politics,” instead of the term New Political Economy, a definition shared by Ekelund and Hébert (2007).

In an even more generalist approach, Screpanti and Zamagni (2005, p. 475) consider that the term New Political Economy refers to a family or confederation of disciplines that consolidated during the 1970s, “from public choice to new institutional economics and from behavioural economics to the economics of property rights.” Incidentally, these disciplines are usually associated with microeconomics. Meanwhile, Snowdon and Vane (2005, p. 517) wrote that the domain of political macroeconomics (that some of the authors equate with NPE) encompasses “business cycles, inflation, unemployment, the conduct and implementation of stabilization policies, the relationship between

⁵ According to his obituary (Simmons, 2006, p. 1), it was Mitchell who suggested the name “Public Choice” to title the society and its journal.

dictatorship, democracy, inequality and economic growth, instability and conflict, the origin of persistent budget deficits, international integration and the size of nations”. Drazen argues that NPE

is not, however, just a resurrection of an earlier approach to economics. Though characterized by a strong interest in the question of how politics affects economic outcomes, the new political economy is defined more 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. (Drazen, 2000, p. 4).

The reason why NPE is characterized using so many different names and definitions is the exceedingly great number of cross-references between disciplines, no doubt related to the ample scope of the topics investigated. This is aggravated by the absence of historical accounts of the development of this field, which is why this project tackles this problem: how could these different disciplines combine to give way to another?

It should be noted that NPE emerged from what many perceived to be a blind spot in economic theory: the lack of an endogenous treatment to how politicians behaved; in other words, models in the first half of the twentieth century considered politicians and political issues to be exogenous to their approach. As Besley (2006, p. 27) wrote, “there is little evidence, however, that studying the art of political economy as described here [as analysis of economic policy] was of great interest to mainstream economists in the first half of the twentieth century.” The predominance of the term “political economy” lasted until the marginal revolution, in the English-speaking economic literature⁶ (see Figure 1). John N. Keynes wrote that “Political economy or economics is a body of doctrine relating to economic phenomena” (Keynes, 1904, p. 2), but in the same book he separated the definition of political economy as an art, related to economic policy (idem, p. 34-36).

This distinction would be used by Lionel Robbins argued that economists should separate the older name to applied issues, such as monopolies, protectionism, planning and policies (Groenewegen, 2008), a view shared by Schumpeter, who uses the term to refer to the “practical questions” of the economy, with influence from sociology (Schumpeter, 1954, p. 1141). The term “political economy” thus survived, even though restricted to specific contexts (Figure 1).

⁶ The trend should be different for other languages. As an anecdote, in Brazil the term “political economy” is related to courses in Marxist political economy (Almeida, 2015). As an anecdote, a friend of mine who studies Marxist political economy was surprised to see courses titled “political economy” in MIT and Yale syllabi, before realizing they were something different. Bonilla and Gattica (2005), writing in Spanish, use the term “economía política neoclásica” (literally “neoclassical political economy”) to refer NPE, and, while writing in English (Bonilla, Coyoundjian and Gatica, 2012), they just call it “political economy”, without the “neoclassical” adjective. Also, see Schefold (2014) for a German-speaking perspective.

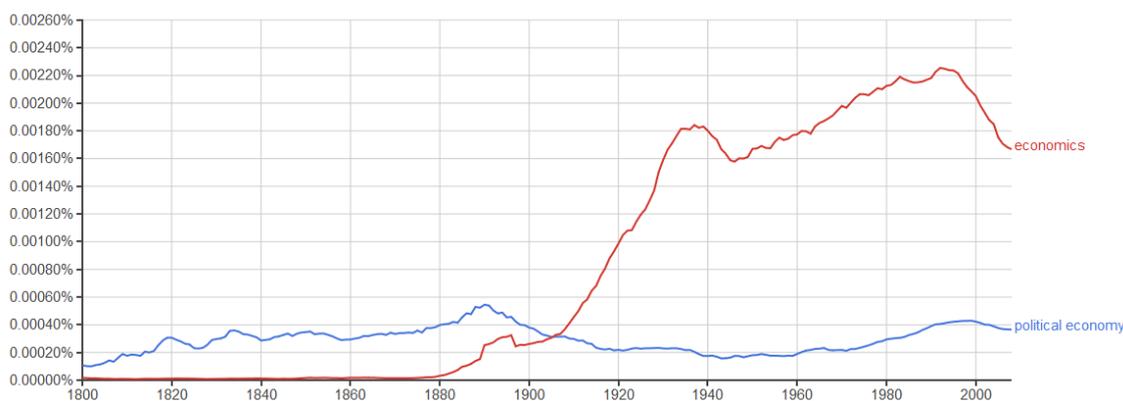


Figure 1 - Comparing the uses of "economics" and "political economy" through the years. Source: Google.

Returning to the first line of this paper, I reinforce that NPE is the economic study of politics. However, as Drazen (2000, p. 5) pointed out, “such a vague definition may have the virtue of being all-inclusive, it gives no real sense of what is being studied”. I will use, for benchmark purposes, Weingast and Wittman’s (2006, p. 3) definition of (new) political economy as a grand yet imperfect synthesis of various approaches: “in our view, political economy is the methodology of economics applied to the analysis of political behavior and institutions. As such, it is not a single, unified approach, but a family⁷ of approaches.”

From this family of disciplines, there are four different strands that I consider the most important to define NPE: 1) the theory of economic policy, and related perceptions about the role of the State in economic theory, which criticism helped to form a new understanding of the politician in the economic theory; 2) political business cycle models, which I argue to be fundamental for the establishment of NPE, because it muddled the line between macro and microeconomics (up to there, economic analysis of politics was considered to be a purely microeconomic issue); 3) public choice theory, with its economic theory of politics and overlapping relations with NPE; 4) new institutional economics, which contributed to expanding the range of NPE applications. We will now turn to a more detailed discussion of each of these strands and, at a later point of this paper, to compare how they relate to each other and why there is such a competition for the terms.

2. Theory of economic policy and its criticisms

The history of macroeconomics shows that the discipline always had a political vocation, i.e., that it could influence and select economic policies that would bring development to a country (e.g. Acocella, Di Bartolomeo, Hughes Hallet, 2016; De Vroey; Duarte, 2013; Kogut; Macpherson, 2011). Both Keynes’ *General Theory* and Tinbergen’s *Statistical Testing of Business-Cycle Theories* displayed such concerns, in spite of using completely different methods of analysis and exposition.

⁷ A dysfunctional family, might I add.

Economists started to elaborate what would be called the theory of economic policy (TEP), along with the development of planning techniques. “The economic theory of fiscal policy borrowed from Ragnar Frisch and Jan Tinbergen the view that there are ends that governments want to achieve and there are policies or tools (the means) that can help them achieve those ends. It applied this view to the fiscal area” (Tanzi, 2011, p. 194).

Tinbergen and Frisch were not only amongst the main pioneers of econometrics, but also were the main initial influences in the establishment of a TEP. TEP would be an application of decision models that could describe the process of policymaking according to the consistency between methods and objectives, in a scientific way, to find the best policy (Tinbergen, 1986 [1967], p. 121). For years, this was the prevailing paradigm: economic development was regarded as a mechanical process that would happen with the correct planning, helped by mathematical tools.

By the 1940s, Durbin (1949, p. 41) wrote “we are all planners now”, and they were for a long time. Planning and economic policy were seen as tools of development for the Third World (e.g. United Nations, 1963). Nevertheless, the situation started to change in the late 1960s. Buchanan wrote that the mindset of the academy in the 1950s was “dirigiste or anti-libertarian socialist” (apud McLean, 1991, p. 760). W. Arthur Lewis and John Jewkes, though writers themselves of treatises on economic planning, wondered if the euphoria of planning would be transitory - whether it was just a fad (Jewkes, 1950, p. 3), or part of a cycle wherein the importance given to the powers of the state in economic theory oscillated (Lewis, 1952, p. 21). Planning started to receive heavy criticism due to lack of results (e.g. Hirschman, 1967). The idea of that policymakers worked for the “greater good”, present in TEP models, started to be more and more contested.

The issue, according to Baumol (1952) was that it could be proved that the problem of the State was the same of any rational actor: incomplete economic knowledge⁸. As mentioned before, Downs (1957) argued that politicians should be considered just as any other economic agent, interested in maximizing their wellbeing. The analysis of the politician in Downs’ model represented a break with current thought in economic theory. Further seminal works in public choice theory and economic analyses of politics came from Buchanan and Tullock (1999 [1962]), Riker (1962), Frey and Lau (1968), Nordhaus (1975) and others, and they also represented a criticism of idea of planning itself.

3. *Political business cycles*⁹

⁸ In his thesis (advised by Lionel Robbins), he wrote the following passage, that seems odd to a modern economist, in terms of the placement of the emphasis: “To bring out their point more sharply some of the arguments have been so stated that they may seem to involve the implication that in a democratic government economic legislation can or even must *always* be advantageous to *all* members of the community.” (Baumol, 1952, p. 142).

⁹ This section borrows from Almeida (2017).

The theory of political business cycles was first proposed by Nordhaus (1975), with antecedents in Kalecki (1943), Åkerman (1947), Frey and Lau (1968) among others. Nordhaus' importance for the establishment of a research program that combined politics and economics is recognized by its practitioners, such as Alesina (1988), Snowdon (1997), Olters (2004), and Dubois (2016).

Nordhaus (1975) developed a model in which, with myopic voters, the incumbent government manipulates the economy to ensure a reelection. In other words, the government will increase fiscal/monetary expenditures in election years; these policies are costly in terms of future inflation, but they temporarily increase the popularity of the government by transferring income to the electorate, which in turn increases the chances of reelection. The government, however, has to enact austerity policies to curb this inflation and, when there is a new election, the cycle begins anew. Nordhaus's greatest advancement was to include a Phillips curve in his analysis, transforming what many regarded as a microeconomic problem into a macroeconomic one, and thus opening the way to discussions and criticism from an entirely new point of view.

The idea of PBCs is intuitive and gave way to empirical studies (Ben-Porath, 1975; Lindbeck, 1975; MacRae, 1977; Tufte, 1978) and important modifications, such as the partisan model (Hibbs, 1977). Nevertheless, empirical studies have cast doubts on the actual existence of this phenomenon, while papers supporting PBCs could not give definitive proofs of their existence (Paldam, 1981; Dubois, 2016). The political business cycle literature suffered from the breakdown of the Phillips curve relationship (Olters, 2004), and received decisive criticism from new-classical theorists (McCallum, 1978). According to the rational expectations hypothesis, political business cycles should not exist, since voters would adjust their expectations every time policy changed, which meant the government could not exploit the cycle. Practitioners, such as Alesina (1988; Snowdon, Vane, 2006, p. 571), claim that the rational expectations revolution contributed to a decline of interest in these models in the earlier 1980s.

During the first half of the 1980s, PBCs remained in the periphery of the mainstream, receiving little attention from economists. However, this would change with Rogoff and Siebert (1988), Alesina (1987), Rogoff (1990) and Persson and Tabellini (1990), who adapted the political business cycle and the partisan theory to fit into the rational expectations framework. The references cited in the previous line argued that rational business cycle models emerged from information asymmetry between voters and politicians – competent politicians would be able to show off their competence, according to the new models. Even if the models were theoretically improved, however, empirical evidence remained vague (Franzese, 2002).

The solution was to look for political business cycles according to their contexts. Franzese and Jusko (2006, p. 548-549) wondered whether the source of discrepancies between theory and data was due to the previous “one-size-fits-all” approach, and argued that context should play a bigger part in evaluating those cycles. Thus, Brender and Drazen (2005) and Alt and Lassen (2006a,b) argued that political business cycles are present in young democracies because the voters do not have enough experience to recognize them.

The PBC research was important because it managed to overcome barriers between micro and macroeconomists. Public choice and related areas were seen by other economists, however, as a subfield of microeconomics. The issues that arose when assigning a JEL code for what we know today as code D7 for “Collective Decision-Making” are reported by Cherrier (2017) and Cherrier and Fleury (2017). D7 is a subfield of code D, for “Microeconomics”, even though it encompasses macroeconomic analysis of the Tabellini-Alesina type, for example. Their decision suffered backlash from public choice theorists, who claimed it downgraded the field (cf. Cherrier, 2017, p. 576). Thus, when Nordhaus included not only the Philips curve, but also long-run analysis in his model, he turned what many considered a microeconomic problem into a macroeconomic one.

If up to this point collective decision-making was considered a concern of microeconomists, Nordhaus found a way to introduce these issues to macroeconomists, to frame it in a language they could discuss, approve and/or even reject his work. More than that, he showed how political problems could be approached by both micro and macroeconomists, with empirical treatment through mathematical-econometric models.

4. Public choice

Public choice theory (PCT) emerged as a recovery of the Italian public finance tradition, Wicksell’s work on public policies, Knight’s skepticism concerning the capacity of democracy to promote choices that increase welfare, and the idea of government failure (Amadae, 2003; Backhaus, Wagner, 2005; Burgin, 2012; Medema, 2009). In this project, public choice is usually associated with the Virginia School of Political Economy, in reference to the State of Virginia (through the migration of the main public choice cadre through the University of Virginia, the Virginia Polytechnic Institute and the George Mason University), which became a center of irradiation of its ideas and the creation of a creative community (Boettke, Marciano, 2015; Medema, 2011)¹⁰. Among all the disciplines that helped constitute NPE, scholarship on PCT has produced most historiographical content (e.g.

¹⁰ McLean (2015) considered that public choice has four traditions: the Virginia school, the Bloomington school, social choice theory and experimental economics. The most common nominal association is with the Virginia School.

Amadae, 2003; Backhaus, Wagner, 2005; Boettke, Marciano, 2015; McLean, 2015; MacLean, 2017; Medema, 2009; Rowley, Schneider, 2008; Wagner, 2016a,b)¹¹.

Its main authors emphasize the formation of groups and their interests, in which agents act in a self-interested manner (Butler, 2012; Mueller, 2003; Olson, 1965). Butler (2012, p. 1, emphasis in the original) wrote that “Public Choice uses the *methods* and *tools* of economics to explore how *politics and government* works”. Thus, it treats politics as if it was entangled in society, blurring the line between State and the market (Wagner, 2016b).

It is important to emphasize that public choice emerged as a critique of the concept of altruistic politicians from TEP discussed above (Boettke; Marciano, 2015), but with a different focus than the political business cycle literature. In the words of Butler, “we should not assume that people behave differently in the marketplace for goods and services from how they behave when influencing government decisions” (Butler, 2012, p. 25). Their physical location created opportunities for exchanges between sympathizers, and the possibility of establishing a support network. They saw themselves as part of “a rebellion against a profession that they believed was overemphasizing the limits of markets and the prospects for welfare-enhancing government intervention” (Medema, 2011, p. 242). Thus, public choice research focused on “government failures” (Keech, Munger, 2015), arguing that most market failures were actually brought about by the government itself (Marciano, 2013).

This is by no means an exhaustive account of the history of public choice, but to show its basic tenets and how wide the field of application of public choice is. And, due to its wideness, the term “public choice” can be a generic one, as Wagner (2016a) admitted (just as “new political economy”).

The reason for such generalness in public choice might be in the way it was initially organized. The Public Choice Society was initially called “Committee for Non-Market Decision Making” and

¹¹ However, I argue much of the historical research on Public Choice has been unbalanced. Pro-public choice authors like Rowley (2008) claim there was a conspiracy of mainstream economics against public choice. Medema (2004) points out that many supporters of public choice tend to oversell how deviant public choice was from economic orthodoxy and omit their sources of funding in order to bolster an “underdog narrative”. Later, Medema (2011, p. 232) would argue that the acceptance of their ideas, through publications, “seems to call into question the assertions of Tullock and others regarding the lack of receptivity to this work within traditional professional outlets”. For example, Wagner’s (2016b) claimed that Italian public finance theorists would be perfect public choice theorists is what Marc Bloch (2002 [1949], position 854) called “obsession with origins”, usually not considered a good historiographical practice since it ignores the context in which authors wrote their treatises, while serving to promote a narrative independent of factual historical work. For this reason, when *Democracy in Chains*, a book written by an outsider to the history of economic thought, and a clear negative portrayal of public choice founding fathers, caused such noise in the community, even in spite issues noticed by historians of thought for things they consider wrongful interpretations (Burns, 2018; Fleury, Marciano, forthcoming). I disagree with Burns (2018, p. 648) assessment that MacLean’s book will not stand the test of time, instead it might force public choice theorists to take a more critical view of their own history and founders - for example, Rowley and Houser (2012) interpreted Buchanan and Tullock’s exit from University of Virginia as a conspiracy against them, while MacLean (2017, p. 100) argued it was a departmental dispute between pragmatic conservatives and zealous libertarians.

became “the hub for scholars of disparate academic fields who met yearly to discuss academic papers...the fields represented in the society included economics, political science, public policy, sociology, mathematics, and philosophy.” (Amadae, 2003, p. 145-146). Thus, it evinces public choice as field that is both wide in applications and as a “place” for economists who were outside the main research topics of the economists of its time. As Paldam (1993, p. 177) wrote that public choice is *both* a branch and a sect of economics, in the sense that it is a branch because it uses the same tools of the economic orthodoxy (e.g. rational choice theory), but it is also a sect because it was developed outside the main centers of the orthodoxy of its time, distant enough from its “core”.

On the other hand, NPE authors see public choice as a fundamental step in the formation of their discipline, but distinctive from them. Gamble (1995) saw it as fundamental for providing NPE with microfoundations. Drazen similarly wrote:

In political economy, our interest is in the effects of different policy choices mechanisms on economic outcomes, rather than in the decision-making mechanisms *per se*. The latter question is more the province of political science or of public choice; in the latter choice mechanisms are studied using tools of economic analysis. Public choice theory considers not simply the positive and normative aspects of different ways of making collective choices, but also the question of how a society can choose over the set of possible choice mechanisms. (Drazen, 2000, p. 60).

5. *New institutional economics*

New institutional economics (NIE) is another important source of support for NPE. Rutherford (1994, p. 2-3) identified three main NIE currents: i) property rights and common law (Demsetz, Alchian and Posner); ii) public choice processes, rent-seeking and coalitions (Olson, Mueller and PCT in general); and iii) transaction costs (Coase and Williamson). He, then, argued that Douglass North was the one who managed to combine better the first three currents into an analysis that earned him the Nobel memorial prize in 1993.

NIE became important to NPE because it followed the premise that history and institutions are “made” by rational, self-interested agents. Among the most important writers of NIE, North was the one who became most directly involved with NPE. Drazen (2000) mentioned North as an author who explored the concepts of constitutional political economy and clear rules. Persson and Tabellini (2000) mentioned North’s work to show how there is potential for modelling and empirical studies on institutions and political economy.

Institutionally, he was involved with the creation and management of the Center for Political Economy at the Washington University at St. Louis. The fellows of the center included Barry Weingast (although he is more known as a political scientist, he was listed as a member of the economics department), Kenneth Shepsle, William Riker, James Alt, Randy Calvert (political

scientists who made important contributions following the rational agent methodology), among others¹².

Thus, NIE started at the microeconomic level, before moving to macroeconomics. Coase (1997, p. 72) wrote that his focus was microeconomic: “Whether my structures apply also to macroeconomics I leave to others”. NPE practitioners were some of “others” who institutions through two paths: the institutional analysis of political mechanisms and economic performance (e.g. Helpman, 2008); and empirical research, helped by cliometrics and other tools (e.g. Acemoglu, Robinson, 2006, 2012). Collective action and economic history are thus combined and can be inserted into NPE, which allowed a resurgence of the importance of economic history (Colistete, 2002; Mejía, 2015).

NIE also takes a stand against the benevolent politician of the TEP paradigm from a historical point of view: North (1979, p. 251, emphasis added) wrote that “the State becomes the field on which the battle for control of its *decision-making* power is fought.” The State is unstable due to changes in information costs, technologies, population, factor prices, mortality of politicians, and yet it remains indispensable to economic growth (p. 257). An economic theory of the state was an important objective of his research. In a letter to George Stigler (dated 09/10/79), he wrote that one of his aims was to revolutionize economic history with a “neoclassical theory of the state.” (DCNP, box 1).

The rational agent theory is the methodological basis that allows NIE to become popular. Rutherford (1994) noted the rational agent theory is a source of great controversy between new and original institutionalists. Dequech (2006) wrote that NIE practitioners adopt either the standard hypothesis of neoclassical rationality, or else a limited rationality hypothesis. NIE opens a backdoor to NPE when adopting rational economic agent theory to explain the history and institutions of a country in a framework capable of being absorbed by NPE models. Thus, institutions become yet another relevant variable. Lohmann (2006, p. 525) argued that comparative political economy, or the political economy of development, would become “the Next Big Thing” in political economy, and this was achieved thanks to the application of institutional research to NPE.

6. *Discussions and disputes amongst the disciplines*

Even though “political economy” may have ceased to be the favored term economists use to refer to their own discipline, it became nonetheless an honorable term. As we saw before, different schools, ranging from Marxism to PCT, dispute the label “(new) political economy”. Writing a history of NPE is thus a rather difficult enterprise, considering the many interpretations, distinctions, internal

¹² The archival evidence also shows the importance of scholars from the Business School, Seth Norton, Ken Lehn, Bill Marshall, and the philosopher Ned McClennen (DCNP, box 2).

conflicts, and external criticism the field elicits (e.g. Blankart, Koester, 2006; Lohmann, 2006¹³; Saint-Paul, 2000).

As we have said before, NPE can mean different things for different people. Mancur Olson, for example, was an important name in the beginnings of PCT, with Olson (1965). He later went through NIE with Olson (1982). To Rutherford, as we have seen, PCT is a part of NIE. In contrast, North criticized Olson (1982) for ignoring the role of the State and of ideological convictions (North, 1983, p. 164). He was also critical of rational choice-based political economy models, for attributing “absolutely ridiculous” feedback capacity to voters and representatives (letter to Barry Eichengreen, 10/2/1990, DCNP, Box 8).

North also showed, in private correspondence, how PCT influenced him. In a letter dated 8/10/1986 to Gordon Tullock, North wrote that “indeed over the years I learned enormous amounts from you with respect to the state, and I probably...got the term mafia-state from you.” (DCNP, Box 4). In the third edition of his textbook on American economic history (North, Anderson, Hill, 1983), there was a change in tone from previous editions, with an emphasis in the political economy of the historical developments, arguing that economic development cannot ignore politics (p. 12). Rent-seeking was mentioned at least 16 times, according to the index (p. 189) as an important barrier to economic growth. They also accepted the Virginia public choice narrative that Keynes’s “suggested policies for expansion served to erode that part of the unwritten constitution that required a balanced budget. No longer was there a fiscal constitution that limited the deficit spending of the government.” (p. 162).

Concerning the relation between NPE and PCT, they are intimate yet somewhat confusing since, depending on the context, one can easily morph into the other. As mentioned before, Besley (2006, p. 29) wrote that “in some circles the term ‘public choice’ is used to refer to *any* analysis that links economics and politics.” Mueller (2003, p. 471), commenting on Drazen (2000), wrote that it “is an excellent introduction to and overview of the literature, although the book is somewhat mistitled, since it discusses virtually all topics from the public choice literature,” even though Drazen detailed the difference between NPE and PCT many times in the book (see citation in page 11).

Blankart and Koester (2006) criticized NPE authors for not paying tribute to the importance of PCT, claiming PCT was researching the issues dear to NPE long before them. In their reply to Blankart and Koester’s article, Alesina, Persson and Tabellini (2006) considered that “public choice and political economics are more labels than competing paradigms” (p. 201) and they asked: “Do Blankart and Koester classify anybody who was writing on the interaction between economics and politics before the mid-1980s as a member of the public choice school?” (p. 203). The authors may have asked this

¹³ Due to lack of results, Lohmann pronounced NPE dead in 2006 (Lohmann, 2006, p. 525).

question rhetorically, but given Mueller's preceding citation and his claim that "if [political economy] is defined as Weingast and Wittman define it [the same definition used as a benchmark in this paper, in page 5], then it is not only encompassed by public choice, it is indistinguishable from it." (Mueller, 2015, p. 387), the answer to Alesina, Persson and Tabellini's question seems to be a "yes!"

Due to these differences, Besley concluded that a wide definition of "public choice" can be unhelpful, and further study should aim to separate PCT from NPE, using the former term "to represent the work beginning in the Virginia School in the 1950s" (Besley, 2006, p. 29). We return to the same question of PBCs: even though *Public Choice* has published literature on them (e.g. Dubois, 2016 for a list), is it correct to call William Nordhaus a public choice theorist (or even a political economist)? One should ask if such a question is even a relevant and who benefits from it, but it can be argued that the macroeconomic emphasis in Nordhaus's article is enough to make it distinctive from PCT of its time.

There are other reasons for this separation: Mueller (2015, p. 386) lamented that researchers avoided the term "public choice" due to political correctness, because its founders were often associated with the libertarian ideology. The editors of the *Journal of Economic Literature* refused to adopt the name "public choice" fearing an association with Tullock and Buchanan's ideology (Cherrier, Fleury, 2017). Gamble (1995, p. 530), on the other hand, wrote that "the liberation of public choice from a laissez-faire straitjacket has important implications for political economy, since rational choice techniques can supply the microfoundations which many schools of political economy have lacked in the past." McLean (1991, p. 776) celebrated the fact that PCT was becoming less and less ideological than it was in its earlier years.

In a different view from some of its founders, Mueller (2015, p. 386) argued that PCT is open for leftist scholars, claiming that earlier important figures like Downs, Olson¹⁴ and Ostrom were liberals in the American sense. In fact, there are alternative non-libertarian views of public choice (Self, 1993, p. 16-20), but the issue with Mueller's claim is that the rhetorical intensity of the libertarian wing of PCT is stronger than its liberal wing. For example, Rowley and Houser (2012), in an article published in the peer-reviewed main journal of the field, go as far as calling their opponents of Keynesian socialists and claim that the economics academy was "red" (p. 18), in an almost McCarthyist rhetoric (also, see note 14). For these reasons, some authors might want to avoid to be associated with the term 'public choice' and NPE becomes an attractive alternative term.

¹⁴ Adelman (2013, p. 448), in his biography of Albert Hirschman, mentioned an episode that Olson wrote to Hirschman, apologizing for Tullock's negative and dismissive review of his *Exit, Voice and Loyalty*, explaining that Tullock was at the far right of the spectrum, while he was a Democrat instead, and urged Hirschman to not ignore the activities of the Public Choice Society; Hirschman replied the he understood his request, but he did not want to have anything to do with the society anymore.

7. Conclusion

The article showed how that NPE emerged from a critique of postwar theory of economic policy, taking inspiration from the earlier PCT, but with focus on macroeconomic issues, starting from the PBC model. Afterwards, NPE had theoretical input from NIE and has diversified ever since.

The idiosyncratic title of this paper is a personal summary of how my research changed through time. When I first started researching, I realized that, since nobody had written a “History of New Political Economy”, I could focus my thesis on this direction. I needed a delimitating definition of NPE, but I realized that, due to all issues presented in the paper, strictly defining NPE is a hard task. Economics has been trying to become a “science of everything” (or *almost* everything if we trust Frank (2011)), while applying the economic methodology to social phenomena, and this is clear in the study of polity¹⁵.

Bruce Caldwell (e-mail, 09/14/2018) suggested that the problem of defining NPE might be the same as defining “neoliberalism” - due to the abundance of personal and specific definitions, so much that scholars might resist defining in first place. But, unlike neoliberalism, in which the ones labeled “neoliberals” refuse the term (Mirowski, 2014), NPE is usually considered a term of status. Whoever claims the term seems to claim not only the term, but also to be an heir of a long lost tradition, the classical political economy¹⁶, when social sciences were one, and with updated tools like the rational actor theory.

However, not all economists place that much emphasis on these labels. I have cited Alesina arguing that the rational expectations revolution dissipated interest from politico-economic models, turning NPE to become, borrowing Paldam’s (1993) definition, both a branch and a sect within economics; but Kydland, Prescott, Lucas, among others, never referred to themselves as political economists, even though they researched a lot on the relationship between economics and the polity. It does raise the question of exactly how different they are from NPE and PCT, using the approaches’ own definitions.

Even in spite of these issues, we can say that *labels matter*, or, at least, they matter *for some people*. But I would argue that NPE has succeeded in at least one thing: it invited economists to question the limits between macro and microeconomics and the limits between economics and other social

¹⁵ Non-rational choice political scientists did not watch the “takeover” passively, rather they also developed alternative approaches through historical and sociological institutionalism (e.g. Hall, Taylor, 1996).

¹⁶ “Economics used to be called political economy. In a few staunchly traditional universities, it still is. If students of politics and economics would once again learn how to be political economists, both subjects would gain. They might even have more to contribute to the sum of useful knowledge.” (McLean, 1991, p. 777).

sciences, if not for unification, perhaps for dialogue. Thus, this paper aimed to contribute to a better definition of the terms, but it also to expose labelling problems in economics itself.

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