

de Almeida, Rafael Galvão

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From "what is new political economy" to "why is everything new political economy?"

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FROM 'WHAT IS NEW POLITICAL ECONOMY' TO 'WHY IS
EVERYTHING NEW POLITICAL ECONOMY?'

BY

RAFAEL GALVÃO DE ALMEIDA

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HISTORY OF POLITICAL ECONOMY
AT DUKE UNIVERSITY

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

*Rafael Galvão de Almeida
rga1605@gmail.com*

Federal University of Minas Gerais

Center for the History of Political Economy

Abstract: In this paper I aim to try defining New Political Economy (NEP) as 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 understandings of what it 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 economics; political macroeconomics; theory of economic policy; political business cycles; economics and politics; positive political economy.

1. Introduction

“New Political Economy” (NPE) is, in its simplest definition, the economic study of politics. It is somewhat a branch of the “new kiosk economics of everything” (Mäki, 2012) specialized on the polity. 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” (Acemoglu, 2016; Drazen, 2000; Hibbs, Fassbender, 1981; Weingast and Wittman, 2006; Whiteley, 1980). However, just as its semi-synonymic predecessor term “political economy”, New Political Economy can mean different things to different writers¹. For example, 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, ch. 23). Wikipedia (Wikipedia contributors, 2016)², as of this writing, 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.

All definitions of NPE seem to include at least some degree of interdisciplinarity. In one of the earliest uses of the term that resembles this paper’s thesis, the political scientist William Mitchell, himself a public choice theorist, used the term “New Political Economy” to define the approach that would be later called “public choice³” (Mitchell, 1968). This same approach guided the methodology of a report commissioned by the Department of Health, Education and Work, published in 1969, about social indicators; the report came from a panel involving 41 social scientists, including economists, sociologists and political scientists. The panel itself was led by the sociologist Daniel Bell

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 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.

³ According to his obituary (Simmons, 2006, p. 1), it was Mitchell who suggested the name “Public Choice” to title the society and its journal.

and the economist Mancur Olson, who was himself an important figure in public choice theory. (Fleury, 2010, p. 321-322).

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.” These disciplines are usually associated with microeconomics. Meanwhile, Snowden 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 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.” Even though the relation between economics and politics was a great concern of classical political economy⁴, it remained of secondary

⁴ For example, Adam Smith wrote that “Political œconomy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence

importance afterwards. The predominance of the term “political economy” lasted until the marginal revolution, in the English-speaking literature⁵ (see Figure 1). Alfred Marshall began his *Principles of Economics* writing that “Political Economy or Economics is a study of mankind in the ordinary business of life” (Marshall, 1920 [1890], n. p.). 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).



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

Following John N. Keynes’ distinction, 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 an influence from sociology (Schumpeter, 1954, p. 1141). The term “political economy” thus survived, even though restricted to specific contexts (Figure 1).

Internationally, the term continued to be used to designate Marxist and other similar approaches based in an objective value theory (Mohun, 1996; Groenewegen, 2008). It was later coopted to refer to heterodox approaches, usually adding the qualifier “radical” (Bowles, Edwards, 1990; Lee, 2011). For this reason, Gordon Tullock discarded the title

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.” (Smith, 1904 [1776], n. p.).

⁵ The trend should be different for other languages. As a personal anecdote, in Brazil the term “political economy” is related to courses in Marxist political economy (Almeida, 2015). 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 had nothing to do with it. For another example, Bonilla and Gattica (2005), writing in Spanish, use the term “economía política neoclásica” (literally “neoclassical political economy”) to refer to the political economy of this paper, and, while writing in English (Bonilla, Coyoumdjian and Gatica, 2012), they just call it “political economy”, without the “neoclassical” adjective. Also, see Schefold (2014) for a German-speaking perspective.

“Political Economy” to the journal that would become *Public Choice* (cf. Munger, Vanberg, 2016, p. 205).

Although there is this resemblance, there are some differences⁶ (see Groenewegen, 2008; Waterman, 2002) that is alien to non-economists. For example, the journal *New Political Economy*⁷ is 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 it. 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 institutionalist current 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” NPE⁸.

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 scientists⁹ (e.g. Adorno, 2000 [1968]; Lukács, 1968; Kalecki, 1943).

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 (especially from the Virginia School tradition) 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) was important in this respect for proposing a model in which

⁶ Within the literature, only De Mendonça and Araújo (2003) analyze the relation between Marxist political economy and NPE (and it is telling that it is an article written in Portuguese rather than in English).

⁷ From its page on “Aims and Scope”: “***New Political Economy*** aims to create a forum for work which combines the breadth of vision which characterised the classical political economy of the nineteenth century with the analytical advances of twentieth century social science. It seeks to represent the terrain of political economy scholarship across different disciplines, emphasising original and innovative work which explores new approaches and methodologies, and addresses core debates and issues of historical and contemporary relevance.” Source: <https://www.tandfonline.com/action/journalInformation?show=aimsScope&journalCode=cnpe20>.

⁸ 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, and political economy was a prime candidate to it (Olson, Clague, 1971). Their reaction to criticism is also similar: Adorno (2000 [1968]) also accused economists of trying to suppress Marxist political economy using a similar reasoning to Rowley (2008) accuses mainstream economists of suppressing public choice.

⁹ In fact, some consider that conflating “political economy” with “heterodox economics” is harmful to both (Chester, Schroeder, 2015).

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 proposed that 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 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 the establishment of NPE as a distinct sub-discipline inside economics.

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”. For this paper, 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 family of approaches”- or rather yet, a confederation of disciplines.

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*

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; Malgrange, 2012; De Vroey; Duarte, 2013; Kogut; Macpherson, 2011). Both Keynes' *General Theory* (1996 [1936]) and Tinbergen's *Statistical Testing of Business-Cycle Theories* (1939) displayed such concerns, in spite of using completely different methods of analysis and exposition.

Economists started to elaborate what would be called the theory of economic policy, along with the development of planning techniques. Tanzi (2011, ch. 9) called it the Nordic European theory of economic policy, alluding to the fact that it guided the establishment of welfare states in the Nordic and Northern European countries: "The economic theory of fiscal policy borrowed from Frisch and 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)¹⁰.

Jan Tinbergen and Ragnar Frisch were not only amongst the main pioneers of econometrics, but also were the main initial influences in the establishment of a theory of economic policy (TEP). For Tinbergen, 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). He saw the presence of planning techniques as necessary to economic policy (Tinbergen, 1964). 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.

Frisch intended to give economics a scientific meaning, subjecting abstract laws to verification through numbers and experiments (Bjerkholt, Dupont, 2010). Amongst the mental activities in which the econometrician had to engage, one of them was social engineering (using the econometric results to build the desired society) (idem, p. 35). After his work on econometric theory, he became interested in applied work, consulting with governments of different nations. Later, in his Nobel acceptance speech, he praised econometrics for providing means for actual influence of economics in the world (Frisch, 1970).

¹⁰ It should be noted that both Frisch and Tinbergen were deeply influenced by socialism (Alberts, 1994; Louçã, 2007).

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).

Challenges to the role of State in economic theory came from theoretical and practical venues. Planning started to receive heavy criticism due to lack of results (e.g. Hirschman, 1967). However, the most important influence for NPE came from the criticism of the idea that policymakers worked for the “greater good”, present in TEP models.

Baumol (1952) argued that there should be an economic theory of the State, showing that, using standard economic theory, it could be proved that the problem of the State was the same of any rational actor: incomplete economic knowledge¹¹. Anthony Downs, in *An economic theory of democracy* (1957), proposed studying political behavior with economic tools. He argued that politicians should be considered just as any other economic agent, interested in maximizing their wellbeing. The politician in Downs’ model wanted to maximize his electoral capital, i.e. to perpetuate his rule in government. Downs’ self-interested politician represented a break with current thought in economic theory. To this followed further seminal works in public choice theory and economic analyses of politics from Buchanan and Tullock (1999 [1962]), Riker (1962), Frey and Lau (1968), Nordhaus (1975) and others.

3. *Political business cycles*¹²

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

¹¹ 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. The impression is definitely not intended.” (Baumol, 1952, p. 142).

¹² This section borrows from Almeida (2017).

and economics is recognized by its practitioners, such as Alesina (1988), Snowdon (1997), Olters (2004), Țigănaș and Peptine (2012), 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 political business cycles is intuitive and gave way to empirical studies (Ben-Porath, 1975; Lindbeck, 1975; MacRae, 1977; Tufte, 1978; Fiorina, 1981) 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 political business cycles 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, political business cycles 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 have adapted the political business cycle and the partisan theory to fit into the rational expectations framework. Alesina and Cohen (1997, p. 16) wrote that “applying the idea of rational expectations to the Phillips curve and macroeconomics in general yields striking results in interpreting the effects of policy”, and rational business cycle models emphasized the 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. The first conditional political business cycle was proposed by Shi and Svensson (2000), but the most important initial papers were Brender and Drazen (2005) and Alt and Lassen (2006a,b). The first focused on the maturity of democracies - manipulation that creates political business cycles is more present in young democracies because the voters do not have enough experience to recognize them - and the second in transparency issues.

The political business cycle research was important because it managed to overcome barriers between micro and macroeconomists. Earlier seminal works by Downs (1957), Buchanan and Tullock (1999 [1962]), Riker (1962) and Olson (1965) had already demonstrated how political problems could be approached using economic tools. 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. Some public choice theorists such as Tullock and Spindler considered that not giving public choice its own heading among the JEL codes was a way to downgrade 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 heavy empirical treatment through mathematical-econometric models.

4. *Public choice*

Public choice theory 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)¹³. Among all the disciplines that helped constitute NPE, scholarship on Public Choice Theory is the one that has produced most historiographical content (e.g. Amadae, 2003; Backhaus, Wagner, 2005; Boettke, Marciano, 2015; McLean, 2015; MacLean, 2017; Medema, 2009; Rowley, Schneider, 2008; Wagner, 2016a,b)¹⁴.

Its main authors emphasize the formation of groups and their interests, in which agents act in a self-interested manner (Borsani, 2005; 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

¹³ 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.

¹⁴ 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.

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 the neoclassical-Keynesian models discussed above (Boettke; Marciano, 2015), but with a different focus than Nordhaus' and 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 (for that reason I direct the reader to the bibliography mentioned above), 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 (2016b) admitted (just as "new political economy" is, might I add).

The reason for such generalness in public choice might be in the way it was initially organized. The Public Choice Society was at first called "Committee for Non-Market Decision Making" and 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) identifies a few different NIE currents, each emphasizing: i) property rights and common law (Demsetz, Alchian and Posner); ii) public choice processes, rent-seeking and coalitions (Olson, Mueller and public choice theorists in general); and iii) transaction costs (Coase and Williamson). Besides these, there are authors who work with game theory to explain institutional formation and even economic history (Shubik, Sugden and Schotter), and others who defend the inclusion of Austrian and neo-Schumpeterian spontaneous order and evolutionary economics tenets to the NIE instrumental (Hayek, Nelson, Winter and Langlois). Rutherford argues that, among NIE authors, Douglass North was the one who managed to combine better the first three currents into an analysis that earned him the Nobel 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, Douglass North was the one who became most directly involved with NPE. He wrote for Alt and Shepsle (1990) and Barnett, Hinich and Schofield (1992) on how transaction costs theory can explain both economic and political exchanges, and also on how institutions change. Drazen (2000a) 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. In a letter to Thráinn

Eggertsson (dated 04/29/1983), he explained he was moving to St. Louis to study political economy and institutional change with economists and political scientists (Douglass North's Papers, box 2). 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 others¹⁵.

Thus, NIE started in the microeconomic level and then to macroeconomics. Coase (1997, p. 72) wrote that his focus was microeconomic: "Whether my structures apply also to macroeconomics I leave to others". The "others" introduced institutions in NPE 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 made possible a resurgence of the importance of economic history (Colistete, 2002; Mejía, 2015).

NIE also takes a stand against the benevolent politician of the neoclassical-Keynesian 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 (idem, 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." (Douglass North's Papers, box 1). Though he also rejected Peltzman's theory of predatory state as unbalanced and not rational enough (North and Wallis, 1982).

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. Campbell (1997) emphasized that NIE transaction costs logic has its origin

¹⁵ The archival evidence also shows the importance of scholars from the Business School, Seth Norton, Ken Lehn, Bill Marshall, and the philosopher Ned McClennen (Douglass North's Papers, box 2).

in the rational actor theory of neoclassical economics, and that it is enough to create institutions that minimize transaction costs and determine property rights in order to foster development. 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 the New Political Economy approach.

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 term¹⁶. As we saw before, different schools, ranging from Marxism to Public Choice, dispute the label “(new) political economy”. Writing a history of NPE is thus a rather difficult enterprise, considering the many interpretations, distinctions, internal conflicts, and external criticism the field elicits (e.g. Blankart, Koester, 2006; Lohmann, 2006¹⁷; Saint-Paul, 2000). The events that led to its development have not developed in a smooth way.

As we have said before, New Political Economy can mean different things for different people. Mancur Olson, for example, was an important name in the beginnings of public choice theory with *The logic of collective action* (Olson, 1965). He later went through institutional economics with *The rise and decline of nations* (Olson, 1982), and his last published book was *Power and prosperity: outgrowing communist and capitalist dictatorships* (Olson, 2000), in which he analyzed the political economy of socialist transition, democracy and dictatorship. To Rutherford, as we have seen, public choice theory is a part of NIE. North, for instance, criticized Olson (1982) for ignoring the role of the State and of ideological convictions (North, 1983, p. 164). He was also critical of the rational choice political economy models, for attributing “absolutely ridiculous”

¹⁶ Adorno (2000 [1968]) claimed that losing the interdisciplinarity of classical political economy blinded social scientists from a holistic view of social sciences. Lukács (1968, p. 68) criticized economics for its “petty specialization” and ignoring lessons from classical and Marxist political economy on politics. Buchanan (1988), on the other hand, claimed that the Public Choice is a reborn approach in the integration between economics and politics and it continues a long tradition that started in the classical political economy of Smith, Hume and the American Founding Fathers. The history of the classification D7 of JEL codes also shows how disputes for labels can be important (Cherrier, 2017).

¹⁷ Due to lack of results, Lohmann pronounced NPE dead in 2006 (Lohmann, 2006, p. 525).

feedback capacity from the voters and representatives (letter to Barry Eichengreen, 10/2/1990, Douglas North's Papers, Box 8).

North also showed, in private correspondence, how public choice theorists influenced him. In a letter dated 8/10/1986, 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." (Douglas North's Papers, Box 4). In a letter to Charles Rowley, dated 1/22/1985, North corroborated the influence of Tullock in his own thinking, calling himself "a fan" of Tullock (Douglas North's Papers, Box 2). Amongst his papers (Douglas North's Papers, Box 10), the 1991 Report of the Public Choice Society was there, indicating he followed the society's updates.

Concerning the relation between NPE and public choice, they are intimate yet somewhat confusing since, depending on the context, one can easily morph into the other. 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," a definition shared by Ekelund and Hébert (2007). 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 public choice many times in the book (see citation in section 4).

Blankart and Koester (2006) criticized the authors associated with NPE for not recognizing the importance of the public choice literature, claiming public choice theorists were 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, when analyzing Blankart and Koester's treatment about political business cycles, they ask "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 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], 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 his prior definition of “public choice” can be very unhelpful, and further study should aim to separate public choice from New Political Economy, 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 political business cycles: 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 the public choice literature 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 public choice was becoming less and less ideological than it was in its earlier years. In the introduction of their book on the uses of public choice on Law, Farber and Frickey (1991, p. 11) claim to “steer a middle course between romanticism and cynicism” towards government, which cynicism they associate with Riker and Buchanan.

Mueller (2015, p. 386) argued that public choice is open for left-leaning researchers, claiming that earlier important figures like Anthony Downs, Mancur Olson¹⁸ and Elinor 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 public choice 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

¹⁸ 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 and that 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.

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’.

Thus, what started as an analysis about political business cycles evolved to encompass the economics of everything that involves politics, directly or indirectly. Accusations of economic imperialism are inevitable at this point. However, supporters of New Political Economy do not consider themselves imperialistic, they consider they are merely trying to “put back” economics and politics together (Ordershook, 1990) or propose a unified approach to social sciences (Olson, 1990¹⁹). However, Riker (1995) had a more imperialistic view and claimed that rational choice to be the only scientific way to see social sciences. NPE “occasionally engages in debates about grand issues such as the role of states versus markets and the differences between democracy and autocracy... The aim is to generate new, policy-relevant insights, particularly in areas where economists may have a comparative advantage” (Besley, 2007, p. 585). When giving an active role to the government, in Besley’s view, NPE acts as a counterpoint to the influence of the Lucas critique²⁰, by incorporating elements that lacked to this last one, such as public choice theory and new institutional economics. And yet, there is still no comprehensive study trying to tie the knots between the different strands that combined to turn NPE into the scholarly approach that it is today.

7. Conclusion

The article showed how that NPE emerged from a critique of postwar theory of economic policy, taking inspiration from the earlier public choice theory, but with focus on macroeconomic issues, starting from the political business cycle model. Afterwards, NPE had theoretical input from new institutional economics 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

¹⁹ It is important to notice that this was more or less Olson’s objective in the 1969 report (Fleury, 2010). Fleury (e-mail, 10/8/2018) argued that Olson “definitely believed that there was one and only social science: economics,” thus his objective was still to propagate the rational choice theory through economics and other social sciences.

²⁰ Although Lucas himself had little influence on the political debate, his ideas reached relevant influence in policymakers (Goutsmedt, Guizzo, Sergi, 2018). Ideas from Kydland, Prescott, Sargent, Wallace and other are more related to the ideas Besley had in mind.

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 polity²¹.

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 that guarantees some sort 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 economy²², when social sciences were one, always referencing the ‘founding fathers’ (see note 16). Not only that, but they also claim to update the classical political economy with the latest tools, like rational choice theory, transaction costs, and mathematical-econometric models for the neoclassical political economy, and critical theory for the Marxist political economy.

However, not all economists place that much emphasis on these labels. As mentioned before, Alesina argued that the rational expectations revolution dissipated interest away from these political models, making NPE to become, borrowing Paldam’s (1993) definition for public choice, both a branch and a sect within the economic science. Kydland, Prescott, Lucas, among others, never referred to themselves as political economists, even though they published a lot on the relationship between economics and the polity. It does raise the question of exactly how different they are from NPE and public choice, using the approaches’ own definitions²³.

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 NEP 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 sciences, if not for unification, perhaps for dialogue.

²¹ 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).

²² “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).

²³ Carlin and Soskice (2005), in their macroeconomics manual, have a chapter on “Political Economy”, that put the Kydland-Prescott dynamic inconsistency and the Nordhaus’s political business cycle model under the same rubric, as economic models of political behavior.

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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