
COMMENTS ON
‘The Decline and Rise of Political Economy’, by Bruce Yandle*

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The first part of the argument is a reformulation of Yandle’s problem and a sketch of the current apologetics of Public Choice Theory and its pitfalls. In the second part it is argued that Yandle’s thesis on the connection between the social value of political economy and the size of the state displays identical flaws. An improved specification is needed to save this challenging thesis.

1. Introduction

My comment on Bruce Yandle’s provocative article is fourfold. First, I will define some basic terms that may be useful to the formulation of the problem that Yandle is concerned with. Second, I will reconstruct the conventional defence of the entrance of Public Choice Theory in the history of economic thought. Third, I point out some flaws in this apologetic argument. Fourth, I try to show that Yandle’s explanation of the success-story of Public Choice is rather weak, owing to comparable flaws. In its present form it is actually not an explanatory sketch. I conclude, however, that a major correction of misspecification in Yandle’s thesis may contribute to its reinforcement through further research.

2. The problem

Let us define political political economy (PPE) as political economy with an economic approach to the political order, especially to the behaviour of the state (economic policy). PPE differs from political economy (PE) when and because politics is conceived as an endogenous phenomenon. It is evident that the approach itself, that is, the exercise of endogenization, is closely related to more or less stable and accepted professional conceptions of (i) politics and political association, and (ii) the scope and method of

*See Yandle (1990).

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economics. PPE cannot be satisfactorily defined when our conceptualization of the political order is unclear. A hypothetical example is a legitimacy crisis of liberalism in the academic world during which we cannot distinguish between the political order and other social systems of rule-guided behaviour, between political organization and spontaneous political development, between forms of the state and other allocation mechanisms or households, between public and private issues, between rights and commodities, between policy-making within the constitutional context and meta- or nonconstitutional policies, between rules and values, between reasons and desires or between corporate actors and individuals [cf. Habermas (1973), Unger (1975), Bell (1976) and Ball (1989)]. PPE is also undefinable when we do not know what our scope is (wealth? material welfare? relative scarcity? exchange?) and/or what our method is (conjectural history? logical positivism? optimal control? story-telling? politometrics? rhetoric?). Adherents of PPE get closer to undefinability during periods of manifest Methodenstreit or unconstrained methodological pluralism.

Let us also confine ourselves to modern political economy (MPE) by disregarding antique political economy (Kautilya, Aristotle), English Mercantilism (Petty's arithmetic advice), French Mercantilism (e.g., Montchrétien, who coined the word 'political economy' in 1615), Dutch Liberalism (Grotius, Spinoza, De la Court) and German Cameralism [cf. Sen (1987, pp. 2–7) and Backhaus and Wagner (1987, p. 7)]. MPE contains the Scottish Enlightenment (Hume, Ferguson, Steuart, Smith); English Classicism (from Bentham to Cairnes); Marxism; German Historicism; English welfare economics; Anglo-American Institutionalism (Hobson, Veblen); Public Finance, vintage Italy (from Pantaleoni to Pareto), Sweden (Wicksell, Lindahl) or Austria (Goldscheid, Schumpeter); and, in the period after the Second World War, policy-oriented macro-economics (Tinbergen), Neo-Institutionalism (Galbraith; Myrdal), Neo-Marxism, Neo-Austrianism, Normative Economics (Rawls, Nozick), and New Political Economy (Public Choice Theory and Social Choice Theory).

The idea of decline and rise of political economy can easily become trivial, empty or ideological. Trivial, when we introduce very broad notions of both endogenous politics and modernity: PPE becomes MPE, or vice versa. Empty, when we claim that a certain framework of contemporary economic analysis of politics is the completely new and true format of PE (for instance the game-theoretical framework). Ideological, when we try to impress our

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1Sen states that the modern dichotomy between ethical economy and engineering economy dates back to antiquity. Backhaus and Wagner argue that German Cameralism (1550–1800) was based upon a positive and rather realistic notion of the enlightened ruler. The survival, if any, of this notion during the transition from Cameralism to Nationalökonomie is a topic that is relevant to the Yandle thesis [cf. Tribe (1988)]. It is also relevant to examine the similarities between the cameralist model of economic policy and the contemporary economic models of autocracy (Levi, North, Tullock, Usher, Wildavsky).
colleagues or opponents with easy-going and one-sided references to the authoritative books of the founding fathers (Hobbes, Mandeville, Montesquieu, Quesnay, Malthus and many others), just cooking up the fiction of classical science in order to leave a modern political message for or against Laissez-Faire, the welfare state, etc.

However, the history of economic and political thought demands a plausible account of the fluctuating status of currents of PPE within mainstream MPE. Such an account identifies both a cycle in a certain period and a set of causal factors outside and inside the community of economists, without anachronism (the understanding of past economic thinking in terms of present thinking) or teleology (the understanding of past economic thinking as a stepping-stone to present thinking).

3. The apologetics of public choice

A well-known recent definition of PPE is Mueller's description of New Political Economy as political science, based upon the behavioural postulate of men as egoistic and rational utility-maximizers [Mueller (1989, pp. 1-2)]. The apologetics of New Political Economy, especially of Public Choice Theory (gradually deviating from Social Choice Theory), usually includes an appeal to the history of MPE along the following five lines.

(1) Against Government House welfarism²

The idea of a perfect (benevolent, competent and powerful) political elite that corrects market failure and brings the population to a socially optimal end-state by means of governmental intervention is rejected on the level of both positive political theory and normative political theory. On the first level, approaches like Millian or Keynesian utilitarianism and Pigovian or Bergsonian welfare economics provide an analysis of state behaviour in democratic and bureaucratic settings which is empirically indeterminate or inadequate, and incompatible with methodological individualism and the optimizing behaviour of political agents. On the second level, these welfarist approaches are morally indeterminate or inadequate, and incompatible with ethical and political individualism and, again, the optimizing behaviour of political agents.

²The term ‘Government House utilitarianism’ is introduced by Williams (1985, pp. 108–110) in order to describe the elitist justification of human action at the everyday level in terms of public utility. The term ‘welfarism’ is introduced by Sen (1979) in order to describe a family of normative theories, including classical utilitarianism and Paretianism.
(2) Against narrow neoclassicism

Standard neoclassical theory, in the sense of a purely scientific approach to markets within a given political setting, is rejected. This approach is incomplete as long as its conceptual tools (self-interested optimizing, free interaction on and between demand and supply sides, equilibrium, evolutionary change) are not applied likewise to policy-making and interventionism with respect to the market order and the market process. The development from PE to economics tout court during the Marginal Revolution is seen as a half-hearted and mainly British movement, guided by Jevons and Marshall (not by Menger, Walras or Pareto on the Continent). The objection is not that neoclassical theorists did not face the challenge of the socialist criticism of capitalism, but that they abstracted from politics in general [cf. Collini et al. (1983) and Deane (1989, ch. 7)].

(3) Against rival traditions in PPE

Other traditions in PPE like marxism, institutionalism or political science (elitism, pluralism, systems theory) are largely neglected, rejected or, in the best case, graciously referred to as complementary intellectual trends. The familiar objections to these rivals relate to lack of recognition of the meaning of self-interest; methodological collectivism; absence of rigorous arguments, general models or empirical tests, or even partisan-political bias [cf. a classic like Buchanan and Tullock (1962, ch. 1–3) or a textbook like Riker and Ordeshook (1973)].

(4) For precursors

If there are precursors, they are honoured and critically studied. The theory of party competition was founded by James Mill (Essay on Government (1820)), the Italian elitists (De Viti de Marco), Max Weber and Schumpeter [cf. Schumpeter (1943)]. The theory of voting cycles was founded by Condorcet, Borda and Laplace [cf. Black (1958)]. The theory of the invisible hand in politics was founded by Millar, Ferguson and Tocqueville [cf. Ferguson (1767, part III, section II, p. 128)]. The theory of agenda control was founded by Pliny [Riker (1986)]. The apologetic upshot of these kinds of illustrations is the demonstration of the thesis that new PPE differs from classical PPE, in the sense that its body of knowledge is more radically based upon the notions of rational envy or egoism and opportunism (exclusion of moral incentives) and the twin ideas of equilibrium and disequilibrium, is more systematic and is mathematically more sophisticated (the application of marginalism to politics).
(5) **For Smith**

If it is true that ‘it’s all in Adam Smith’, then new political economy should be present in Smith’s works too. Strong claims are made here, sometimes on the verge of anachronism or teleology [cf. Anderson (1989) with Stigler (1982, ch. 12) and Stigler (1989)]. Close reading tells us that Smith noticed the ill effects of unconstrained interventionism (Mercantilist regulation) and rent-seeking on the maximization of opulence, the contradiction between producers’ particularism and semi-utopian free trade, the bad motivation and reputation of leaders of political factions as public agents (‘that insidious and crafty animal vulgarly called a statesman’), the financial irresponsibility and political instability of democratic republics (especially large and populous democracies) and the constitutional nature of his system of natural (economic) liberty [West (1976, 1990)]. Smith even anticipated the political business cycle in parliamentary democracy [Smith (1762–1763, p. 273)]. All this suggests that Smith deserves to be seen, in Buchanan’s terminology, as one of the pioneers of constitutional and postconstitutional PE.

4. **Apologetics revisited**

Apologetics is, of course, the art of hiding troublesome interpretative arguments. Such arguments come up very easily, however.

(1') There are politico-economic systems in which the political elite has no other choice, taking into account its relative bargaining power, the transaction costs of its policies and its discount rate, but to pursue Government House welfarism, in order to have an impact on political communication (ideology) and the politically legitimate distribution of costs and benefits (implementation) [cf. Raz (1986, pp. 137–145) and Levi (1988)]. Marshall claimed that the English tone of the time anno 1907 showed

‘a vast increase in the probity, the strength, the unselfishness, and the resources of government. (...) And the people are now able to rule their rulers, and to check class abuse of power and privilege, in a way which was impossible before the days of general education and a general surplus of energy over that required for earning a living’ [quoted in Pigou (1929, p. 333)].

The technocratic notion of an *Ideal Executive* may correspond better with this system than the comparable notions of an Ideal Judge, an Ideal Representative or an Ideal Social Contractor [cf. Griffin (1986), ch. IX]. I think that this kind of argument buttressed the policy prescriptions of Marshall and Pigou. But one should always bear in mind that these prominent political economists opposed full state socialism (they knew the limits of state action), took into account the social costs of correcting market
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failure by intervention and feared politicization [Aslanbeigui (1989)]. Pigou himself writes that direct controls and taxation policies of public authorities are liable to ignorance, sectional pressure and personal corruption by private interest [Pigou (1929, p. 332)].

(2') Nineteenth century depoliticization of economic science never was global or complete. The Enlightenment project of unified moral sciences was followed by a proliferation of academic disciplines, like sociology [cf. Brewer (1986)]. Some British neoclassicists followed Marshall’s example and combined pure market theory with interdisciplinary work on the interdependence between the state and society. Neoclassicists on the Continent studied the role of politics in the just society (Walras) or turned to sociology (Pareto).

(3') The rejection of rival traditions appears to belong to the take-off period of New Political Economy (1950–1970). In the period 1970–1990 its drive to maturity became clear. This drive was accompanied by a process of convergence in social science. On the one hand, the rational choice approach penetrated into political science, (economic) history, law and even (analytical) marxism and sociology [cf. Radnitzky and Bernholz (1987), Almond (1990) and Swedberg (1990)]. On the other hand, New Political Economy started to reevaluate other disciplines, like political science [cf. Mitchell (1988) and Riker (1988)], and started to learn something from disciplines like experimental psychology [Hogarth and Reder (1986)]. The strong notion of economic imperialism may apply to Chicago political economy (Becker, Posner, Stigler) and to the Mandevillians (Tullock, Tollison), but it is certainly not a correct typification of the central meaning of convergence in recent PE. We witness the rise of institutional economics, featured by open models which include rich notions of non-Tuism, altruism, ideological commitment, emotions, public interest and all kinds of rules (moral principles; legal, political and organizational precepts; conventions for coordination, cooperation and distribution; internal rules for prudent decision-making; characteristic rules (like neuroses) and social norms) [Williamson (1985), Frank (1988), Hodgson (1988), Bromley (1989) and Rowe (1989)].

(4') The existence of forerunners suggests continuity in PPE. But it is important to stress that the twin ideas of institutional comparability of markets and democratic procedures and the market analogy (democracy = political market) are very revolutionary. While De Viti de Marco and Weber were merely precursors, Hotelling and Schumpeter may be seen as

3All this does not imply that utilitarian economics (Marshall, Pigou, Keynes) is superior to contractarianism on the level of normative political theory. Buchanan has argued that contractarianism is superior and uniquely linked with Public Choice Theory. That is good news for the supporters of apologetic point 1. But it is neutralized by the bad news that the whole question is largely unsettled, since (i) neo-contractarianism itself is highly differentiated (on a continuum between Gauthier and Rawls), and (ii) the adherents of Social Choice Theory show that both Government House welfarism and ethical constitutionalism have serious shortcomings [cf. Hamlin and Pettit (1989)].
leaders of a revolution. The first idea is the model-based and quantitative comparison of market performance and democratic performance in terms of static or dynamic efficiency [cf. Wittman (1989)]. Such comparisons usually clear up some differences, for instance with respect to the registration of intense preferences, rational ignorance in large, non-compound groups and the noncontractual nature of majority rule. The second idea is the conceptualization of liberal democracy as a political market, featured by political specialization, political competition, pseudopublic property rights and political polycentrism. Now, it is true that the leading classical political economists studied the politics of corruption (clientelism, bribed votes). But to equate this with the modern formal analysis of different allocation mechanisms and of political market failure would be anachronistic.

(5') The current humanist reinterpretation of Adam Smith is very controversial [cf. Winch (1978), Teichgraeber (1986) and McNally (1989)]. But there is no doubt that Smith not only observed the economic effects of commercialization but also the political effects. In fact, the maintenance of the commercial society, featured by the demarcation of economic and political practices, as a community of citizens, is one of the central issues in Smith's work. He discussed the transition from the militia to the production of defence by a central nation-state, the dangers of privatization (keeping aloof from matters of public interest), the effects of specialization and wage-labour on political ignorance and stupidity ('the Dutch vulgar are eminently so') and the complementary tasks of government in a commercial society (e.g., education policy). In the humanist vision of politics

(i) the political conflict concerns the formulation of public goals (the common good),
(ii) the moral sentiments and judgements with respect to social optimality are revealed in the political arena,
(iii) the political participation has an intrinsic value,
(iv) the solution of interdependency problems is a permanent issue in rational public decision-making,
(v) the ideals of justice and efficiency are not byproducts but political intentions, and
(vi) the transformation of political preferences is as important as their aggregation.

This particular vision of the politico-economic system was partly supported by the Scottish Enlightenment. It is, however, crowded out by standard Public Choice Theory.

5. Yandle's thesis: The connection between the social value of political economy and the size of the state

Yandle's explanandum can be summarized as follows. Classical PE is
characterized by an integrated vision of the public and the private sector, an open acceptance of the value of liberty and the positive notion of the pursuit of private interests at both the market place and the forum of parliament. During the nineteenth century classical PE has been replaced by neoclassical PE (with Pigovian welfare economics 'by 1920' as its climax). Neoclassical PE is characterized by a fragmented vision of the public sector as the realm of general interests and the private sector as the realm of special interests, a decreasing instrumental (and intrinsic?) valuation of liberty and the normative notion of Government House utilitarianism. The movement from classical to neoclassical PE is a process of depoliticization.

Yandle's *explanans* can be summarized as follows. There are E-periods (E stands for expansion), in which state activism, regulation and even excess demand for interventions are dominant, or are expected to become dominant. The expectations with respect to collectivism are presumably irrelevant to the strong version of Yandle's thesis, but relevant to the weak version. There are also C-periods (C stands for contraction), in which opposite trends become visible. In an E-period economic science will be dominated by its integral function within the social sciences, its unified effort to endogenize politics (political realism) and its solidarity with liberalism. In a C-period economic science will be dominated by its segregation from the other social sciences (specialization), its combination of exogenous politics and political idealism, and its 'étatiste' ideology. The explanation of this cycle is supplied by evolution theory. There is always a demand for competent economists, who supply superior theories (that is, theories that describe, explain and predict the politico-economic system better than other theories do). The demand for PPE will increase during E-periods and decrease during C-periods.

Yandle's *explanandum* contains some misspecification. There is a tension between Yandle's denunciation of Cambridge and his description of the rise of Pigovian welfare economics as a demand-lead process [see my points (1) and (1')]]. The Victorian scene is not fully representative of American and Continental PE during the same period [see my points (2) and (2')]]. The PPE-dissidents in PE – Marx, etc. – are neglected [see my points (3) and (3')]]. The existence of authoritative precursors does not fit in with Yandle's simple scheme, unless this is seen as a phenomenon on the supply side of the production of ideas [see my points (4) and (4')]]. The so-called classical liberals (from Smith to J.S. Mill) did not see a world without a public sector/private sector demarcation, but studied economic, political, legal and moral prerequisites to this liberal demarcation in commercial and industrial societies [see my points (5) and (5')]].

Yandle's *explanans* leads to similar problems. In the first place, Yandle's analysis needs a more refined classification of periods (with small, increasing,
big and decreasing public sectors). In the best case, the decreasing demand for PPE is correlated with a small or decreasing state, or the increasing demand for PE is correlated with a big or increasing state. Actually, Yandle provides only one best case, namely, the take-off period of New Political Economy. (Pigovian and Keynesian economics are connected with increasing and big states, which is a rather illusionary connection in Yandle's scheme.) But how does he account for the recent drive to maturity: is it correlated with a contraction of welfare states?

In the second place, Yandle should pay attention to the worse case, that is, the correlation between the rise of PPE and a small or decreasing state or the decline of PPE and a big or increasing state. It is conceptually and empirically possible, and even probable, that 'Laissez-Faire' is connected with a rise of PPE. Political economists have worried about the evils of capitalism, colonialism, industrialism, plutocracy, class-justice, etc. This has led to the rise of PPE (Marxism, American Institutionalism, Fiscal Sociology) in times when the public sector was relatively small or decreasing, which is an anomaly in Yandle's scheme.

In the third place, Yandle's theory of scientific evolution is weak. He does not discuss the well-known distinctions between production (invention) and acceptance of economic ideas (diffusion) and between internal factors (like the pursuit of internal consistency) and external factors (like the interests of a ruling class). He does not elaborate the model or the mechanism [cf. Elster (1985, pp. 470, 473) on filter models and credibility mechanisms]. No wonder that obvious questions can be raised. Are all or almost all economists competitive and hirable prize-fighters for special interest-groups within the market economy or within the state? Are the internal factors in PE (academic or intellectual traditionalism, power politics between economists, scientific break-throughs, etc.) part and parcel of the supply side and, as such, irrelevant to the spontaneous outcome of scientific rivalry? Are idiosyncratic motives (Marshall's empiricism and reformism, Walras's socialism and Pareto's Newtonian positivism and disaffected liberalism) irrelevant to this outcome, or caused by the development of the public sector (in England, France and Italy)? How does Yandle explain the innovation by, and lagged imitation of, precursors to PPE? Moreover, Yandle's predictions are soft. He should predict the irreversible disappearance of certain currents in economic science, but he talks about the coexistence of PPE-schools and other schools in PE within a fluctuating social status hierarchy.

I conclude that the plausibility of Yandle's claims will depend on an improved specification of both the explanandum and the explanans. On his present showing, he adds yet another riddle to the history of economic and political thought.
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