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Title:

Economics as a political economy? Theoretical and policy constraints on the comprehension of political institutions

Long summary

The 20th century witnessed the increasing dominance of the neoclassical framework on the understanding by economics of political phenomena, in contrast with the 'political economy' of preceding centuries. Similarly, the relationships between economics and other social sciences, including political science and its concepts, have increasingly taken the form of an explicitly proclaimed 'economic imperialism' (Lazear, 1999). In the course of the 20th century, what is now coined as 'political economy' has thus become in fact neoclassical political economy. The understanding by economics of political phenomena is here usually narrowed down to, for example, the macroeconomics of business cycles (Persson and Tabellini, 2000), and analyses of the impacts of public policy on the economy (via, e.g., methodologies such as the 'median voter') or to rational choice or public choice theories and their assumptions of politicians as maximising their individual interest. Likewise, in growth or development economics, this understanding is narrowed down to political institutions reduced to variables in econometric models, typically growth regressions, with the relationship between economic outcomes and political entities being most often reduced to comments on coefficients and their signs within the regression. These approaches exhibit the common problem of the inconclusiveness of results when models are econometrically tested. This is particularly the case of analyses of a political institution such as democracy and its economic impacts – the focus usually being its impacts on growth: in an abundant literature, many papers fail to detect a positive impact on growth while others do, and a negative impact of autocracy on growth can be found; the reverse causality has also been argued, i.e. the positive impact of growth on democracy (Przeworski et al., 2000; Lipset, 1959).

The paper refers to the perspective of economics of development and the related literature on growth and development. It argues that it is impossible for current mainstream economics to fully integrate political phenomena and therefore the various modalities of impacts of these political phenomena on economic processes and outcomes, as well as, symmetrically, the impact of economic processes on political phenomena. It demonstrates this argument via two points: firstly, a theoretical impossibility due to the inherent non-quantifiability, instability, pluridimensionality and polysemy of institutional (political) concepts, and secondly, in terms of policy, the irrelevance of political institutions for policies inspired by the neoclassical framework (or its 'Washington consensus', or 'neoliberal', variants). These two points of the argument are developed in two sections of the paper.

Firstly, in theoretical terms, what could be a genuine political economy is made impossible by the views of the concepts at stake in mainstream economics, notably of (political and economic) institutions and of the complex causalities that link them, these views being characterised by their simplicity and inexactitude. This is the case even in studies that are considered as the most sophisticated, such as those by Acemoglu and Robinson (e.g., Acemoglu and Robinson, 2012), as, despite the wide use of the concept of power, their conceptual framework still relies on a limited set of concepts from mainstream economics and rational or public choice – e.g., incentives, elites, among others. Political and economic processes are formalised in models and therefore the related institutions (‘democracy’, ‘dictatorship’, ‘authoritarianism’) or concepts (‘interest’, ‘delegation’, ‘rights’, ‘trust’, and the like) are necessarily subsumed in variables that must be circumscribed, be they discrete or continuous. Yet institutions are composite entities that involve a plurality of levels, simultaneously cognitive (as they are individual, ‘mental’, representations that have a deontic value, ruling reasoning and behaviour) and social (as these representations are disseminated and, at the same time, are outcomes of social interactions and feedback processes). Moreover, institutions include ‘forms’ (e.g., the words that denote them, public rules, objects, symbols, a written legal apparatus), which must be distinguished from ‘contents’ (the mental representations that individuals may have of these institutions). Hence institutions do not necessarily have the properties required by modelling, i.e. referring to objects that are stable in time and space, as their meanings and references vary with contexts (e.g., ‘democracy’ in the 5th century BC Athens, in Tocquevillian 19th century America or in a newly independent 20th century Sub-Saharan African country). ‘Contents’ are individual and collective representations, they may be stable while ‘forms’ vary, and ‘forms’ may be stable while ‘contents’ vary. Forms of institutions may be quantifiable (e.g., elections, coups, numbers of political parties, decisions by regulatory bodies, votes in parliaments, percentages of participation, etc.) but in essence this cannot be the case of ‘contents’ - contents are not a ‘thing’ (as the concept of dog does not bark). Therefore, contents of institutions (economic, political, social) do not enter into simple causalities that could be uttered as, e.g. “this given (political or economic) institution causes growth’. Similarly, the causal links that institutional forms and contents may have with other concepts, such as economic outcomes, are composite and vary with contexts: they cannot thus be predicted ex ante, and they can be observed only ex post (Sindzingre, 2007). What models and regressions apprehend are forms and attributes of political entities that may be quantifiable (e.g., numbers of elections), not their ‘content’. Quantification of political economy and its causal processes is therefore by definition impossible (as well as full predictability): this explains the inconclusiveness of modelling and econometric exercises as soon as they include concepts that are no longer strictly economic quantities (such as prices); this also explains why, even if it would wish it, mainstream economics - model-based, empirically tested via datasets and econometrics - cannot conceptualise political economy. The latter can be understood via theoretical frameworks that radically differ from the objectives of robustness and precision that characterise mainstream economics – ‘excessive ambitions’, as coined by Elster (2009), which became particularly flagrant with the 2008 financial crisis.

In addition, current mainstream economics has an inherently limited understanding of the relationships between economic phenomena and political ones because of its exclusion of the consideration of the historical building of concepts, although the latter are shaped by time, contexts and political and economic processes over the long-run: the meanings of economic concepts, such as markets, capital, prices, money, debt, are in the course of history constructed and 'loaded' by multiple political and social phenomena: the denial by mainstream economics of such construction makes it difficult for it to apprehend the polysemy of concepts and consequently the exact relationships between them. The analysis goes one-way, e.g., political institutions are conceived via economic concepts taken from the neoclassical framework (such as incentives) – completed by a few other concepts (such as, for example, reputation or trust, as is the case on neoinstitutionalist approaches, e.g. Greif, 2006; Dixit, 2004). This prevents analyses that go the other way, i.e. that political concepts shape economic ones - markets being a well-known example, as they may be viewed as the historical outcomes of class struggles (Fontaine, 2014, going beyond Fernand Braudel); similarly, the emergence of (paradigmatic) markets such as the Champagne fairs may have been in fact determined more by state power than self-reinforcing reputation mechanisms (in particular regulation, Edward and Ogilvie, 2012), as is also the case of many other economic institutions (e.g. taxation, Tilly, 1985; Slivinski and Sussman, 2009).

Finally, in terms of policy, the above arguments weaken the view that there could be ex ante causalities and regularities applicable everywhere, notably regarding public policies and institutional design: no specific institutions cause growth (Engerman and Sokoloff, 2003; Rodrik, 2004) and as underscored by Elster (2013), the design of democratic institutions that will track independently defined good outcomes is bound to fail. Moreover, it may be argued that the impossible building of a genuine political economy that would fully consider political processes and institutions is supported by the policies associated with mainstream economics - both reinforcing each other: here political institutions appear to be in fact irrelevant, and sometimes even a 'nuisance', for the policies that support mainstream economics ('Washington consensus'). At the same time these policies are self-contradictory as democracy ('accountability', 'good governance' and the like) is claimed to be one of their key pillar. Examples of political institutions (democracy) that are irrelevant or even obstacles when not subservient to policy goals have been the obligation to vote again until the expected result is reached (as for the Lisbon treaty) (or the European Commission's anger at democratic votes in Switzerland), as well as the stabilisation and adjustment reforms that are conditional to financing in developing countries since the 1980s as well as in Eurozone countries (Greece, Portugal): they often require the bypassing of domestic political institutions (e.g., parliaments) of recipient countries in order to be implemented while all reform programmes claim to promote them, and in particular democracy. *In fine*, case studies, as they enable the use of alternative conceptual frameworks, appear to be the privileged way for apprehending the interactions between economic and politics in their multiple layers and causal directions, and contributing to the building of a genuine political economy.

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Short CV

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Short summary

The paper argues that it is impossible for current mainstream economics to fully integrate political phenomena and therefore the various modalities of impacts of these political phenomena on economic processes and outcomes, as well as, symmetrically, the impact of economic processes on political phenomena. The paper refers to the perspective of economics of development. It demonstrates this argument via two points: firstly a theoretical impossibility due to the inherent non quantifiability, instability, pluridimensionality and polysemy of institutional (political) concepts, and secondly, in terms of policy, the irrelevance of political institutions for policies inspired by the neoclassical framework (or its 'Washington consensus' variants).

Résumé court en français

L'article a pour argument que l'économie 'mainstream' est dans l'impossibilité d'intégrer les phénomènes politiques et donc les différentes modalités des impacts de ces phénomènes politiques sur les processus économiques, de même que, symétriquement, les impacts des processus économiques sur les phénomènes politiques. L'article a pour arrière-plan la perspective de l'économie du développement. Il montre cette argumentation via deux points : d'abord une impossibilité théorique due à la non-quantifiabilité, instabilité, pluridimensionnalité et polysémie inhérentes aux concepts institutionnels (politiques) ; et ensuite, en termes de politique économique, la non-pertinence des institutions politiques pour les politiques économiques inspirées par le cadre conceptuel néoclassique (ou ses variantes du 'consensus de Washington').

Keywords: Political economy; theory of institutions; democracy; economic development; mainstream economics.