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Dreaming of unity: essays on the history of new political economy

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Dreaming of unity: essays on the history of new political economy

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"Your eye is the lamp of your body. When your eyes are healthy, your whole body also is full of light. But when they are unhealthy, your body also is full of darkness. See to it, then, that the light within you is not darkness." – Luke 11:34-35, New International Version

"The error of Niccolò Machiavelli was to write for public consumption the cynical advice on how to conduct government that should normally be whispered into a ruler's ear. History has rewarded him by regarding him as both the symbol of political ruthlessness and the founder of the rational analysis of political action – not that there is any necessary contradiction in that." –

CROUCH, 2011, p. 146

LIST OF ACRONYMS

AEA	American Economic Association
AER	American Economic Review
DCNP	Douglass Cecil North Papers
DiD	*Democracy in Deficit*
DSGE	Dynamic stochastic general equilibrium (model)
GTP	Gordon Tullock Papers
JEL	*Journal of Economic Literature*
NEH	New Economic History
NPE	New Political Economy
NIE	New Institutional Economics
NPM	New Political Macroeconomics
NSF	National Science Foundation
PBC	Political Business Cycle
PCS	Public Choice Society
PCT	Public Choice Theory
TEP	Theory of Economic Policy
URPE	Union of Radical Political Economics
UW	University of Washington
VSPE	Virginia School of Political Economy
WUStL	Washington University in St. Louis

RESUMO

Esta tese de doutorado estuda o desenvolvimento do estudo da política com ferramentas econômicas, que pode ser chamado de "nova economia política". A nova economia política usa em particular a teoria da escolha racional para estudar fenômenos políticos. Devido ao grande escopo da disciplina, existem diferentes definições específicas de "nova economia política" e muitas delas podem entrar em confronto uma com a outra, mas todas elas implicam em um estudo econômico da política, que potencialmente pode ser expandido para outras ciências sociais. Os ensaios desta tese cobrem o desenvolvimento do modelo de ciclo político econômico, primeiramente formalizado por William Nordhaus, em que o modelo implica que flutuações econômicas podem ter origens políticas; a nova macroeconomia política, que se refere à tradição de análise de decisão coletiva com um foco macroeconômico, o que a distancia de outras tradições de escolha pública; a economia política de Douglass North, que é um desenvolvimento do seu trabalho em história econômica e instituições, com o objetivo de estudar as instituições de um ponto vista tanto político quanto econômico; a economia política de Albert Hirschman, que elaborou seu projeto de economia política a fim de explicar a participação política, com o objetivo de propor uma alternativa à teoria da escolha racional. Os autores analisados nesta tese procuraram expandir as aplicações da teoria econômica de forma interdisciplinar e estavam insatisfeitos com abordagens como a teoria da escolha pública; porém as outras ciências sociais se mostraram resistentes a tentativas de unificação devido a suspeitas em relação ao método econômico, apesar do sonho destes novos economistas políticos de uma ciência social cada vez mais unificada.

Palavras-chave: nova economia política; escolha pública; ciclo político-econômico; nova economia institucional; nova macroeconomia política; Douglass North; Albert Hirschman; ciência social; interdisciplinaridade; imperialismo econômico

Código JEL: A12; B21; B25; D7; E6; N01

ABSTRACT

This Ph.D. dissertation studies the development of the study of politics with economic tools, which can be labeled "new political economy." New political economy uses rational choice theory to study political phenomena. Due to the great scope of the discipline, there are different specific definitions of "new political economy" that may clash with each other, but all of them imply in an economic study of politics, that can be potentially expanded to other social sciences. The essays in this dissertation cover the development of the political business cycle model, firstly formalized by William Nordhaus, in which the model implies that economic fluctuations may have political origins; the new political macroeconomics, which refers to the tradition of analysis of collective decision making with a macroeconomic focus, which distances it from other traditions of public choice; Douglass North's political economy, which is a development of his work on economic history and institutions, with the objective of studying institutions from both an economic and a political point of view; Albert Hirschman's political economy, who elaborated his project of political economy in order to explain political participation, with the objective of proposing an alternative to rational choice theory. The authors analyzed in this dissertation sought to expand the applications of economic theory in an interdisciplinary way and were dissatisfied with approaches such as public choice theory; however, other social sciences resisted the attempt of unification due to suspicion towards the economic method, in spite of the dream of a more unified social science.

Keywords: new political economy; public choice; political business cycle; new institutional economics; new political macroeconomics; Douglass North; Albert Hirschman; social science; interdisciplinarity; economics imperialism

JEL code: A12; B21; B25; D7; E6; N01

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1. INTRODUCTION: FROM "WHAT NEW POLITICAL ECONOMY IS" TO "WHY IS EVERYTHING NEW POLITICAL ECONOMY?"

1.1. THE POLITICAL ECONOMY OF MANY NAMES (AND MEANINGS)

The title of the introduction to this dissertation reflects the evolution of my own research on the definition of "New Political Economy", since it was my intention to write a history of the new political economy, a.k.a. the modern economic study of politics[1]. Already early in my bibliographical survey, I learned that the economic study of politics has had many names: "political economy[2]", "new political economy[3]", "political economics[4]", "(new) political macroeconomics[5]", "positive political economy[6]", "macro political economy[7]", "neoclassical political economy[8]" and "public choice[9]". Such a variety of examples means that, just as its semi-synonymic predecessor term "political economy" in the classical sense, the term New Political Economy (NPE) can mean different things to different writers[10]. All the definitions, however, seem to include some degree of interdisciplinarity (CARDINALE; SCAZZIERI, 2018, p. 2), therefore we must be alert to the nuances when using the term.

---

[1] This is how I decided to take upon this topic: when I was looking for a dissertation theme, I found Allan Drazen's *Political Economy in Macroeconomics* in the department's library and realized nobody had written a history of this yet. The theme gradually changed to essays on the boundaries of economics, in an attempt to understand the development of how economists approached political economy.

[2] (HIBBS; FASSBENDER, 1981); (STIGLER, 1988); (DRAZEN, 2000a); (WEINGAST; WITTMAN, 2006).

[3] (WHITELEY, 1980); (LINDEBERGER, 1985); (GAMBLE, 1995); (SAYER, 1999; 2000); (DE MENDONÇA; ARAÚJO, 2003); (SCREPANTI; ZAMAGNI, 2003); (BESLEY, 2007).

[4] (HEILBRONER, 1970); (HIRSCHMAN, 1971); (PERSSON: TABELLINI, 2000); (ALESINA; PERSSON; TABELLINI, 2006); (MYERSON, 2017); (NOLL, 2019).

[5] (NAGATANI, 1988); (GARRAT, 1998); (AL-NOWAIHI; GARRAT, 1998); (SNOWDON; VANE, 1999); (GÄRTNER, 2000); (CORNWALL, 2002); (SNOWDON; VANE, 2005)

[6] (ALT, SHEPSLE, 1990). The term "positive political economy" is more associated with the Rochester School (AMADAE; BUENO DE MESQUITA, 1999; MCLEAN, 2002).

[7] (LOHMANN, 2006); (FORTE, 2012).

[8] (BONILLA; GATICA, 2005).

[9] (MUELLER, 2003). Differentiating "political economy" from "public choice" demands its own discussion, as we will see in a later section.

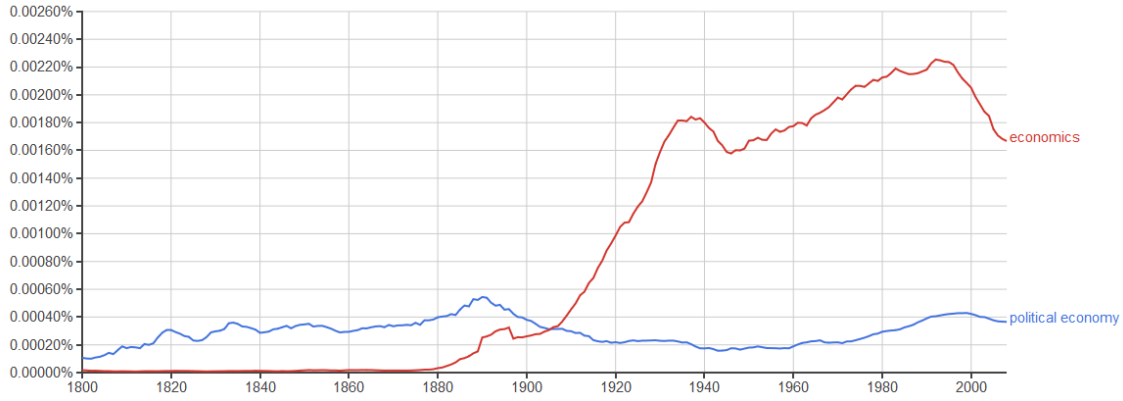
[10] Schumpeter offered the following *caveat* to the definition of 'political economy': "[…] political economy meant different things to different writers, and in *some cases* it meant what is now known as economic theory or 'pure' economics." (SCHUMPETER, 1954, p. 21, emphasis added). The caveat also definitely applies to NPE and its many synonyms; the term "political economics" means something different to Hirschman (1971) than to Persson and Tabellini (2000), and yet they were both related to the relationship between economics and politics. The National Bureau of Economic Research has a program in Political Economy, whose focus, besides politics, has been on producing research on culture, institutions and identity, using an economic approach (ALESINA, 2013). A dissertation in philosophy, for example, defines "political economy" as a "style of thought driven, at least in part, by an existential need to justify the world, to reconcile us with its imperfections, and to explain how to obtain good things in life" (ENGLAND, 2016, p. 5).

Defining (new) political economy as the economic study of politics has the problem of running into a truism: "such a vague definition may have the virtue of being all-inclusive, it gives no real sense of what is being studied" (DRAZEN, 2000a, p. 5). It should be remembered that, in spite of many different definitions, economists once referred to their discipline as "political economy". The preference for the term "political economy" lasted until the marginal revolution, in the English-speaking economic literature[11] (see Figure 1). Alfred Marshall's definition that "Political Economy or Economics is a study of mankind in the ordinary business of life" (MARSHALL, 1920 [1890], n. p.) would become one of the most known definitions, but, at this point, both terms were still interchangeable. The situation started to change at the turn of the 20th century with the popularization of the dichotomy of economics as a science and economics as art, raised by William Nassau Senior and John Stuart Mill in the 1830s-1840s. For example, this distinction is clear in John N. Keynes's work: while he wrote that "Political economy or economics is a body of doctrine relating to economic phenomena" (KEYNES, 1904, p. 2), he then separated the definition of economics as the science and political economy as an art, related to economic policy (*ibid.*, p. 34-36).

This distinction would be used by Lionel Robbins to argue that economists should adopt the definition of economics as "the science which studies human behavior as a relationship between ends and scarce means which have alternative uses" (ROBBINS, 1932, p. 15), while reserving the older name to applied issues, such as monopolies, protectionism, planning and policies (cf. GROENEWEGEN, 2008). To Robbins (1961, p. 23), the ideas of political philosophers are *as important* to political economy as those of economists. This view was shared by Schumpeter (1954, p. 1141), who uses the term "political economy" to refer to the "practical questions" of the economy, crossing over into sociology. The term "political economy" thus survived, even though restricted to specific contexts (Figure 1).

[11] 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), and a friend of mine who studies Marxist political economy was surprised to see courses titled "political economy" among the syllabi for the MIT and Yale graduate program in economics, before realizing they meant something different than what he thought. Bonilla and Gattica (2005), writing in Spanish, use the term "economía política neoclásica" (literally "neoclassical political economy") to refer to NPE, and, while writing in English (BONILLA; COYOUMDJIAN; GATICA, 2012), they just call it "political economy", without the "neoclassical" adjective. See Schefold (2014) for a German-speaking perspective.

Figure 1 – Comparing the uses of "economics" and "political economy", 1800-2000.



Source: NGram|Google/made by the author.

Internationally, the term continued to be used to designate Marxist and other similar approaches based on an objective value theory (MOHUN, 1996; GROENEWEGEN, 2008). It was later coopted to refer to modern heterodox approaches, usually adding the qualifier "radical" (BOWLES; EDWARDS, 1990; LEE, 2011)[12]. For this reason, Gordon Tullock discarded the title "Political Economy" to the journal that would become *Public Choice* (cf. MUNGER; VANBERG, 2016, p. 205), and the referees of the *Journal Economic Literature* discarded the term "political economy" to label the code for "Analysis of Collective Decision-Making" (CHERRIER, 2017, p. 583; NOLL, 2019). Thus, "political economy" was not a term associated with mainstream economists during the first half of the 20th century, a situation that would be contested in the 1960s by economists linked to both public choice theory and radical political economics, besides independent scholars such as Albert Hirschman[13]. They all agreed that, while classical political economy had the advantage of combining both economic and political analysis, it needed to be updated with the recent methods of social science. Therefore, economics would need a *new political economy*.

[12] The term "radical political economics" was intended to label the approach and to avoid conflation with Marxism, whose "traditional" form was out of fashion, but a new perspective on economics, including "Marxist analysis, institutional, left Keynesian and social economics" (MATA, 2005, p. 45).

[13] The use of the term in English language has controversies: for example, in Australia, "political economy" is usually the term reserved to heterodox economics, and these Australian heterodox economists consider it would be a better label to oppose mainstream economics, and it should be applied to designate an area of economic knowledge encompassing heterodox economics, economic history, history of economic thought and development economics (STILWELL, 2016; 2019; THORNTON, 2017). The conflation of "political economy" with "heterodox economics" has been criticized as being harmful to both (CHESTER; SCHROEDER, 2015). This criticism has merit because conflating both terms has the disadvantage of being too parochial and removing the focus of political economy as a discipline in the boundary of politics and economics.

In probably the earliest use of the term "new political economy" with the intention of singling out a new approach to economics (circa 1942), the Canadian theologian and philosopher Bernard Lonergan, influenced by the Catholic Social Doctrine[14], argued that economics had lost the democratic spirit of the old political economy[15] and could only achieve its objective of an efficient society through totalitarians means. "The more economics endeavors to be an exact science," said Lonergan (1988, p. 7), "the more incapable it becomes to speak to men." For that reason, Lonergan argued we need a "new political economy" capable of fostering the democratic spirit, with the improved tools developed by modern economics. Lonergan's NPE was a reaction to economic *and* moral issues of his time, and his macrodynamic model was "a serious intellectual effort to contribute to the development of economic theory" (ORMEROD; OSLINGTON; KONING, 2012, p. 392), embracing a concern with political economy.

Economists showed little interest in Lonergan's models and ideas, prompting him to turn to philosophy and theology, but his example does show that some scholars were dissatisfied with how economics had ignored issues of political economy. Similar dissatisfaction was present in the writings of Marxist and Marxist-inspired scholars, for whom political concerns were important. Theodor Adorno (2000 [1968]), a member of the Frankfurt School of Critical Theory, claimed that losing the interdisciplinarity of classical political economy blinded social scientists from a holistic view of their subject. György Lukács (1968, p. 68), one of the most important Marxist literary critics of the 20th century, criticized economics for its "petty specialization" and ignoring lessons from classical and Marxist political economy on politics.

Another relevant example of how the term "new political economy" can mean different things to different people is the journal *New Political Economy*, a political science publication that attracts very few submissions from mainstream economists due to its editorial line. 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). 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

[14] The Catholic Social Doctrine is a school of economic thought focused on ordering a market economy in conjunction with the Catholic doctrine, looking for a balance between liberty and free entrepreneurship with assistance to the poor and the disenfranchised (see LEO XIII, 1891).
[15] However, he also claimed that the 19th century "asinine confidence in political economists […] has landed the twentieth century in an earthly hell" (*apud* ORMEROD; OSLINGTON; KONING, 2012, p. 395).

(PAYNE, 2006, p. 3-4). This admission emphasizes that there is a different understanding of the term: "their" new political economy is slightly different from "ours". Nowhere this is more visible than in Wikipedia (2019a)[16], which, as of this writing, defines "new political economy" as the study of ideologies in the economy, derived from the field of International Political Economy[17], and thus with unclear direct relation to the definition explored in this dissertation, that is the economic study of politics and the relationship between economics and the boundary disciplines of political economy.

The dissatisfaction was present among economists closer to the orthodoxy of its time as well. From another perspective, public choice theorists were also concerned with the lack of an interdisciplinary view of economics and politics. Remembering that economics used to be called political economy, Ian McLean (1991, p. 777) wrote that "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". For James Buchanan, one of the founding fathers of both the Virginia School of Political Economy (VSPE) and constitutional political economy, public choice answered this demand, by being a renewed attempt to integrate economics and politics, continuing a long tradition that started with the classical political economy of Smith, Hume and the American Founding Fathers (BUCHANAN, 1988). Public choice thus recovered, according to its supporters, the holistic view of the world present in classical political economy "that included politics, philosophy, law, and ethics" – in other words, "a return to roots" (YANDLE, 1990, p. 178).

We can see that, even if there is no unanimity on the definition of new political economy, there are important researchers working on it. This dissertation tries to understand why there are so many different definitions and how a few of them relate to each other, with a focus on the rational choice-based approaches and their attempts to work on the boundary between economics and political science. Such boundaries were relatively unexplored until the early 1960s, as evidenced by the prevalence of the Theory of Economic Policy (TEP) in economics, a purely economic and, arguably, technocratic view of policymaking. This approach

[16] 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 laypeople (when people write "new political economy" in the search engine, chances are they usually go to Wikipedia, instead of academic sources). The information available on Wikipedia is thus not very useful to capture the definition of "New Political Economy" that this dissertation discusses.

[17] International political economy is a well-established disciplinary field focused on bringing together not only political science and economics, but also international relations, into an integrated social science (for an intellectual history of the field, see COHEN, 2008).

would become a favorite target for the criticism of scholars who worked on this boundary. The next section will present how TEP shaped the understanding of the relationship between politics and economics held by most economists during the immediate post-war era.

1.2. THE RISE AND FALL OF THE THEORY OF ECONOMIC POLICY AND ECONOMIC PLANNING

Before the Great Depression, the art of economic policy was a "collection of examples" (cf. ACOCCELLA, 2017) [18]. Only with the establishment of macroeconomics there was a definitive attempt to transform economic policy from art to theory. Macroeconomics always had a political vocation, i.e., that it could influence and select economic policies that would bring development to a country (e.g. DE VROEY; MALGRANGE, 2012; DE VROEY; DUARTE, 2013; ACOCELLA; DI BARTOLOMEO; HUGHES HALLET, 2016). This is clear in *The General Theory of Employment, Interest and Money* (KEYNES, 1996 [1936]), the foundational work of macroeconomics, in which Keynes argued the problem of economic depression consisted of insufficient effective demand, and the government thus could (and needed to) step in to reverse the slump.

Although his influence is important, some scholars argued he is not the figure who should be associated with the postwar transformations in economic policy. To Patinkin (1972, p. 142), Keynes's work did not cause a revolution in economic policy, but only in economic theory. By then, the doctrine of the balanced budget was already being repelled due to the severity of the depression (Patinkin mentioned the examples of Henry Simons and Arthur Pigou), and interventionism was becoming the norm. However, Keynes is still associated with this change because, according to Adelman and Mack (2018, p. 78), his service at Cambridge and in the British government transformed him from an outlier into the model of a "professional, expert civil service"[19]. Furthermore, his work allowed macroeconomics to "grow beyond studies of business cycles and money into a full-scale technical management of prices and

[18] In a book on economic policy initially written before the Great Depression, inspired by the German Historical School, wrote that "national economic policy is the set of measures by which the Power of the State can influence in an immediate way in the economic life of its people, to guarantee the collective welfare." (VAN DER BORGHT, 1932, p. 9, translated). The earlier practices of economic policy were quite different from the ones that came before, but the interventionist bias is still present.

[19] This is famously reflected on his obituary of Alfred Marshall, on the qualities of a good economist, who must be a "mathematician, historian, statesman, philosopher – in some degree" (KEYNES, 1924, p. 322).

output" at the cost of creating "an increasing distance of economic thought from other intellectual domains. Economic analysis, even as it became more engaged in policymaking, got hived off from sibling social sciences" (*ibid*.).

Meanwhile, econometrics flourished (MORGAN, 1990; LOUÇÃ, 2007), and Oskar Lange (1936) published the first part of his article on economic planning in the same year Keynes published the *General Theory*. Lange effectively tipped the socialist calculation debate in favor of the socialists at that moment, showing there was no difference between a planned and a market economy in the general equilibrium model[20] – a planned economy should be therefore preferable for being easier to manipulate in pursuit of the intended macroeconomic results.

The environment was ripe for the development of a theory of economic policy, along with planning techniques. After the Second World War was over, the European countries needed to reconstruct their economies, many times almost from scratch. From that point on, planning in both capitalist and socialist economies would become the standard way of doing economic policy (KLEIN, 1947). Both Tanzi (2011) and Acoccella, Di Bartolomeo and Hughes Hallet (2016) recognize that Northern Europe provided the perfect climate for the emergence of a theory of economic policy (TEP)[21].

Jan Tinbergen is usually associated with the development of TEP, along with Arthur Pigou, Ragnar Frisch, Erik Lindhal, Gunnar Myrdal, James Meade and others. First published in 1952, *On the theory of economic policy* became the first monograph to give a theoretical treatment of the subject. Tinbergen proposed the fundamental concepts that "the choice of instruments cannot be separated from the targets and hence from the form of the

[20] The socialist economic calculation debate pitted Austrians (Mises, Hayek), who argued that without a proper price system, it was impossible to calculate prices and, therefore a centrally planned economy was impossible, against socialists (Lange, Marschak, Taylor), who argued a centrally planned economy was possible. Socialists managed to show, with Lange (1936), that there was no difference between a market economy and a planned economy in the general equilibrium model, therefore a planned economy should be preferred. Due to the prevalence of interventionism at the time, the socialist position would be considered the "winner" for a long time, until developments in Hayek's idea of spontaneous order, the information problem and the fall of the Soviet Union would change the situation. See Levy and Peart (2008).

[21] Tanzi (2011, c. 9) called it the "Nordic European theory of economic policy" for this reason. Acoccella (2017) argued that the emergence of TEP is due to the openness of Scandinavia and the Netherlands to theoretical innovations by Wicksell, Ohlin, Myrdal, among others, the influence from Keynes' *General Theory*, the geographical proximity with the Soviet Union that allowed them having access to its planning techniques, experts and policymakers interacted through the inter-Scandinavian Marstrand Meeting and the meetings of the Dutch Economic Association. Therefore, there is evidence there was a creative community that allowed this theory to develop (see MEDEMA, 2011, for another example of creative communities being important in the development of public choice theory, and MATA, 2009, for radical political economics).

indicator" (1952, p. 4), and that the number of target variables must be equal to the number of instruments, so that their sum with the number of irrelevant variables is equal to the number of structural relations (p. 27).

Later, Tinbergen (1985 [1967]) would consider his theory of economic policy important to the elaboration of development policies, with the intention of both creating an environment favorable to active intervention in the economy in order to facilitate development, and offering the indispensable quantitative techniques for "scientific planning". He was blunt on the interventionist character of TEP: "economic policy consists of the *deliberate manipulation* of a number of means in order to attain certain aims" (1956, p. 6, emphasis added). To intervene, therefore, is to be scientific[22].

It should be noted that the *theory* of economic policy was something different from the planning techniques that emerged at the time, though they tended to be connected. Since they were perceived as a form of technology (SCARANO, 2015), propagation of planning techniques was encouraged by the United Nations as a way to develop Third World countries (e.g. UNITED NATIONS, 1963), serving, for instance, as an inspiration for Latin American structuralism (BOIANOVSKY, 2019). The Indian prime-minister Jawaharlal Nehru proclaimed that "planning for development in independent India was supposed to lift the population from misery *and* build a new democratic spirit (*apud* ADELMAN; MACK, 2018, p, 80, emphasis in the original). Coats thus summarized the achievements of the era:

> […] during the so-called Keynesian hegemony, the economics profession enjoyed a phase of rare consensus and confidence […] fears of a post war slump faded in the 1940s and early 1950s, many economists displayed what now appears as a naïve and unwarranted faith in the efficacy of their professional ideas and equipment, and concomitant confidence in the efficacy of economic management in the modernized economics and economic planning in the underdeveloped countries. (COATS, 1994, p. 16)

[22] The reason why these economists placed such emphasis on the scientific aspect was because planning was invariably associated with the "left" and, potentially, with socialism and communism. As Acoccella (2017, p. 668) mentioned, "the weight and the left-wing orientation of the 'intelligentsia', as well as of the political parties supporting the governments or of some strong opposition parties and institutions (such as trade unions), together with the widespread idea that public happiness should be served by a visible hand" created this stigma. The defenders of TEP aimed to establish a 'neutral' scientific planning, in spite of their early socialistic leanings and the association of planning with socialism during the economic calculation debate. Tinbergen himself had concrete examples of this dilemma. Although influenced by socialism (ALBERTS, 1991), he experienced conflicts during his time in the Dutch Central Planning Office, between those who wanted a Soviet-style economic planning (with yearly plans) and those who wanted policy guidelines (HUGHES HALLET, 1988). He had to rephrase "emotionally charged words, such as 'planning' and 'National Welfare Plan', redrafting them into 'organized foresight' and 'Central Economic Plan'. Tinbergen also put considerable effort into promoting 'The Third Road', showing the alternative between no planning at all and Soviet-style planning." (JOLINK, 2009, p. 395).

Sir Eric Roll (1968, p. 57), commenting on the widespread use of these techniques, wrote that "it is however, by no means clear that the next twenty years will produce so radical a change in basic approach as did the last twenty in comparison with the preceding prewar period". Roll wrote in 1968. Economic theory would indeed undergo a radical change, though not in the direction he expected.

Even though contemporaries such as Durbin (1949, p. 41) could claim that "we are all planners now", the acceptance of this paradigm was not unanimous. Buchanan regarded the mindset of the academy in the 1950s as "dirigiste or anti-libertarian socialist" (*apud* MCLEAN, 1991, p. 760). W. Arthur Lewis, future Nobel memorial prize winner, and John Jewkes, a president of the Mont Pèlerin Society, themselves writers 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 where the importance given to the powers of the state in economic theory oscillated (LEWIS, 1952, p. 21; also YANDLE, 1990, p. 170-172).

Planning came under heavy criticism due to lack of results, especially in Third World countries (e.g. HIRSCHMAN, 1967; KILLICK, 1976)[23], and free-market ideologies hostile to interventionism started to become popular again, in what would be termed the rise of neoliberalism (e.g. MIROWSKI; PLEHWE, 20009; BURGIN, 2012; MIROWSKI, 2014; SCARANO, 2015). The idea of policymakers working for the "greater good" or the "public interest", present in TEP models, became more and more contested.

In the original policy models, the policymaker was merely someone who enacted the policies proposed by the economist. Lange's 1936 general equilibrium model envisioned the economy as a huge factory, where government could make production expand or retract to emulate the efficiency of the market economy, and policymakers were only needed to "order" the economy toward the desired point, in the name of rational "public interest" (see BURCZAK, 2006, p. 31-33)[24]. This approach became untenable, as more and more economists began to realize the lack of concern with political economy inherent in this economic treatment of the government. According to Acocella, Di Bartolomeo and Hughes Hallet (2016, p. 7), Arrow's impossibility theorem and the rational expectations-based Lucas critique proved to be the most

[23] Both Hirschman and Killick noticed how economic planning could fail in least developed countries due to a variety of factors, such as corruption and inability to follow the original plans straight. This led Hirschman to coin the term "visiting economist syndrome", to refer to the capable visiting economists but ultimately clueless about the country they are supposed to help (BIANCHI, 2011).

[24] Lange considered the general equilibrium model to be "an appropriate description of the market economy" (BURCZAK, 2006, p. 32) and therefore open to manipulation.

powerful criticism any theory of economic policy could receive. The crucial point was that policy models were treating politicians and statesmen as entities different from their subjects. Writing during the heyday of TEP, Baumol (1952) argued that the problem of the State was the same as that of any rational actor: incomplete economic knowledge[25]. Therefore, self-interested agents could exploit this incompleteness.

Similarly, Anthony Downs (1957) argued that policymakers should be considered just like any other economic agent, interested in maximizing their *own* wellbeing. The analysis of the politician in Downs' model represented a break with current economic thought: the "public interest", as a guiding concept, became meaningless. Downs ended up being associated with the Public Choice Theory (PCT) paradigm (e.g. DOWNS, 1998). Downs (1957) would influence an entire generation of scholars, along with James M. Buchanan, Duncan Black, Kenneth Arrow and others writing in the 1950s. In macroeconomics, Downs inspired William Nordhaus (1975) to elaborate a formal political business cycle model.

Outside the rational choice paradigm, one should remember that inadequate concern with how politicians actually behave, the absence of *realpolitik* in economics – in other words, the lack of a political economy – had long been a point of criticism from Marxist and Marx-inspired social scientists (e.g. KALECKI, 1943; LUKÁCS, 1968; ADORNO, 2000 [1968]). In the 1960s, radical economists, comprising primarily such left-wing scholars, congregated themselves into the Union of Radical Political Economics (URPE). The history of URPE has been told by many authors (e.g. MATA, 2005; 2009; LEE, 2011; BARKER, 2018; REVIEW OF RADICAL POLITICAL ECONOMICS, 2018) and will not be a focus of attention in this dissertation. It is important to recognize, however, that PCT, radical political economics and others were similarly concerned with the ignorance of political economy exhibited by orthodox economists. In this dissertation, we will concentrate on rational choice-based approaches to political economy, including public choice theory, new political macroeconomics, and new institutional economics.

[25] 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, emphasis added).

1.3. A BRIEF SUMMARY OF THE HISTORY OF PUBLIC CHOICE THEORY AND THE DISPUTE FOR THE TERM "POLITICAL ECONOMY"

Public choice theory emerged from the combined influence of different sources: 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; BORSANI, 2005; MEDEMA, 2009; BURGIN, 2012). Mercuro and Medema (2006, p. 158-159) listed the following advancements that played an important role in the development of the field and, essentially, constitute the foundations of the rational analysis of collective decision-making:

- Earlier work from the eighteenth century to the first half of the twentieth century on the analysis of voting rules (Charles de Borda, Marquis de Condorcet, Charles Dodgson, a.k.a. Lewis Caroll), analysis of tax and expenditure policies (Knut Wicksell), public goods (Erik Lindahl), and the Italian public finance tradition;
- A series of articles by Duncan Black in the late 1940s[26], culminating with his path-breaking book *The Theory of Committees and Elections* (1958), which probes the question of how committees reach decisions when agreement among all members is not possible;
- Anthony Downs's *Economic Theory of Democracy* (1957), which recasts political parties as acting analogously to profit-maximizing firms;
- Mancur Olson's *The Logic of Collective Action* (1965), which sets forth various theories of interest group behavior, describing the factors that enable one interest group to prevail over another;
- The Rochester School of Political Economy[27], especially political scientist William Riker's *The Theory of Political Coalitions* (1962), which suggested that groups act to ensure minimally winning coalitions;

[26] Duncan Black arguably produced the earliest studies on an explicit economic theory of politics. Ronald Coase, who had been his department colleague, wrote that Black started to work on his economic theory of politics as early as 1935, and only did not publish earlier because of lack of interest of the profession (COASE, 1994).
[27] For a discussion on Riker and the Rochester tradition, see Amadae and Bueno de Mesquita (1999), and McLean (2002).

- Gordon Tullock's *The Politics of Bureaucracy* (1965), Anthony Downs's *Inside Bureaucracy* (1967) and William Niskanen's *Bureaucracy and Representative Government* (1971), which looked at the bureaucrat as another utility maximizer;
- Kenneth Arrow's *Social Choice and Individual Values* (1951), which explored the impact of voting rules on social welfare; and
- Paul Samuelson's many contributions to the theory of public goods (1955), which set out the conditions for efficient provision of collectively consumed goods and indicated circumstances under which provision below the optimal could occur in the market.

Public choice thus had a polygenic source. The term "public choice" itself, however, is sometimes associated with the Virginia School of Political Economy (VSPE), in reference to a handful of academic institutions located in the State of Virginia (the University of Virginia, the Virginia Polytechnic Institute and George Mason University) that became a center of irradiation for its ideas and the creation of a creative community (MEDEMA, 2011; BOETTKE; MARCIANO, 2015). The VSPE is also responsible for building a network of scholars, with Buchanan and Tullock being the main nodes connecting a host of co-authors and graduate students (FARVAQUE; GANNON, 2018). It would be incorrect, however, to conflate "public choice" with the VSPE[28], a common mistake. McLean (2015), for instance, counts four main traditions of public choice: the Virginia school, the Bloomington school, social choice theory, and experimental economics. As I will argue in a later chapter, one could add "new political macroeconomics" as a separate tradition to this list.

The one thing that unites all these separate traditions is the emphasis on the formation of groups and their interests, adopting the postulate that agents, *including* policymakers, act in a self-interested manner (OLSON, 1965; MUELLER, 2003; BUTLER, 2012). "Public Choice," according to Butler (2012, p. 1), "uses the methods and tools of economics to explore how politics and government works". It thus treats politics as if it were entangled in society, blurring the line between the state and the market (WAGNER, 2016a).

It is important to emphasize that public choice emerged as a critique of the concept of altruistic politicians implicit in the theory of economic policy discussed above

[28] According to a scholar associated with the Public Choice Society, the term "public choice" itself is now associated with the Bloomington school of public choice, from which two of the most important figures are Vincent and Elinor Ostrom, the latter winner of the Nobel memorial prize of 2009 for her studies on the commons (ALIGICA; BOETTKE, 2009). For this reason, while the dissertation does *not* conflate the VSPE with public choice (a common feature in the literature, as a later chapter will show), it analyzes them as closer than other traditions.

(BOETTKE; MARCIANO, 2015). Again, in the words of Butler (2012, p. 25), "we should not assume that people behave differently in the marketplace for goods and services from how they behave when influencing government decisions". 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). Public choice research thus focused on "government failures" (KEECH; MUNGER, 2015), arguing that most of the so-called 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 it will suffice to show its basic tenets and illustrate how wide the field of applications of public choice is, giving public choice a near ubiquitous character in the context of new political economy. Precisely due to its wideness, the term "public choice" can have a generic meaning, as admitted by Wagner (2016b) himself. The reasons for such generality in the use of the term "public choice" might have to do with the way the field was initially organized. The Public Choice Society (PCS) was originally 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). This evinces public choice both as a wide field in its applications and as a "place" for economists who were outside the main research topics in economics at the time. The PCT critique of economic theory remained an "internal" critique of economics, since it did not abandon the rational economic agent model; on the contrary, rational choice lay in its very foundations, extending this concept to analyze the behavior of policymakers. PCT worked at the boundaries between economics and political science, helping to establish the rational choice approach in political science, which became one of the most important methods in the discipline (ADCOCK; BEVIR, 2010)[29].

Ever since the 1950s, there have been calls for cooperation between political scientists and economists, calls that public choice theory had been answering. Being one of the founders of PCT, Duncan Black (1950) claimed that political science could reach the same level of formalism as economics, which meant both disciplines would *return* to being one. Eldersveld et al (1952, p. 1005) wrote that research in political behavior could use "new theories, concepts,

[29] There is a lot of discussion within political science on the role of rational choice, and its conflicts with other approaches. See, for instance, Hall and Taylor (1996).

and research techniques developed in other fields of social science", having economics in mind. Downs (1957, p. 294) stressed the importance of developing models to unify politics and economics, a constant concern in the PCT and new political economy literature (OLSON, 1990; ORDESHOOK, 1990).

Though complying with the rational choice approach, public choice is not considered part of the economic orthodoxy, due to its focus on issues that did not attract the attention of mainstream economists, i.e. the study of collective decision making, which invites non-economic concerns, and the lack of robustness of its empirical results (HILLMAN, 1998). As Paldam (1993, p. 177) wrote, public choice is both a branch and a sect of economics: it is a branch because it uses the same tools of mainstream economics (e.g. rational choice theory), but it is also a sect since it developed outside the institutional mainstream, distant enough from its "core" – at the periphery of the mainstream, so to speak.

Among all the disciplines that claim the title "political economy", scholarship on PCT has produced the largest amount of historiographical content, in the sense of both histories of public choice and histories of histories of public choice (e.g. MITCHELL, 1988; AMADAE, 2003; BACKHAUS; WAGNER, 2005; ROWLEY; SCHNEIDER, 2008; THOMPSON, 2008; MEDEMA, 2009; BOETTKE; MARCIANO, 2015; MCLEAN, 2015; MACLEAN, 2017; WAGNER, 2016a,b; 2017; FLEURY; MARCIANO, 2018a; LEVY; PEART, 2020). We have seen that some of its founders considered it a continuation of classical liberal political economy (BUCHANAN, 1988), and the term "new political economy" was accordingly considered amid discussions on how to label the discipline.

In the 1960s, political scientist William Mitchell is an early example of a scholar who equated "public choice" with "new political economy" (MITCHELL, 1968). The same Mitchell, along with James Coleman, would later suggest the adoption of the term "public choice" to name both the journal *Public Choice* and the Public Choice Society, over alternatives such as "social choice", "new political economy" and "economics of politics" (cf. MITCHELL, 1988, p. 117). David Johnson's public choice textbook exhibits the subtitle "An introduction to the new political economy", to emphasize how PCT aimed to use market theory to analyze political economy (JOHNSON, 1991).

The idea of public choice as new political economy still appears in certain works. In their handbook on the history of economic thought, Ekelund and Hébert (2007) consider that any economic analysis of politics can be equated with "public choice", while Coats (1994) and

Yandle (1990) also equate "public choice" and "new political economy". A similar reasoning is adopted by Dennis Mueller, author of one of the most important PCT textbooks, who portrays himself as an ecumenist who does not care about labels (MUELLER, 2015, p. 387). He defines public choice as "the economic study of nonmarket decision making, or *simply* the application of economics to political science" (MUELLER, 2003, p. 1, emphasis added). This is indeed a very broad definition, encompassing different traditions such as Virginia, Olson's Maryland, Riker's Rochester, the European traditions (KURRILD-KLITGAARD, 2018), and the new political macroeconomics literature - not to mention, of course, the other traditions of "neoclassical" political economy that are not necessarily affiliated with public choice, such as Chicago (STIGLER, 1988) and Caltech-Stanford (see Annex 2). In contrast, Alesina defined "new political economy" as a research agenda that started with the "application of game theory to macroeconomics", that, unlike public choice, is "very connected with 'mainstream economic theory'" (USABIAGA IBÁÑEZ, 1999, p. 8).

There are other views on the meaning of the term 'new political economy', not necessarily focused solely on the boundary between economics and political science or the economic analysis of politics. In an even more generalist definition, Screpanti and Zamagni (2005, p. 475) consider that the term 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". In common, all the research fields mentioned involve some boundary work with other disciplines, such as political science, psychology and law. The lack of further interdisciplinary work had led Albert Hirschman to reject the term "new political economy", for considering that these economists were simply applying economic tools to analyze politics, instead of working in a truly integrative way (HIRSCHMAN, 1971, p. 3).

Even though "political economy" may have ceased to be the favored term used by economists to refer to their own discipline, it became nonetheless an honorable label, that is sought for "marketing" purposes (cf. STILWELL, 2016). As we saw before, different schools, ranging from Marxism to PCT, dispute the label "(new) political economy" [30]. Writing a history of NPE is thus a rather difficult enterprise, considering the many interpretations, distinctions,

[30] Within the literature, only De Araújo and Mendonça (2003) try to make a direct comparison between the Marxist and neoclassical views of political economy, and it is telling this is a paper written in Portuguese.

internal conflicts, and external criticism the field elicits (e.g. SAINT-PAUL, 2000; ALESINA, PERSSON, TABELLINI, 2006; BLANKART; KOESTER, 2006; LOHMANN, 2006).

1.4. PLAN OF THE DISSERTATION

The goal of this dissertation is to understand what economists mean by the term "new political economy" and how different definitions have clashed with each other, thus providing different visions of what political economy is and exploring their historical development. Its focus is on the relationship between economics and the economic analysis of politics, as seen against the background of the mainstream of economics in the English-speaking literature.

The second chapter is a recapitulation of one of the most important models of political economy: the political business cycle model, first formalized by William Nordhaus. The political business cycle (PBC) model was the first formal macroeconomic model that included variables representing political action. In other words, Nordhaus's argument was that the business cycle, one of the most important macroeconomic phenomena, could have its origins also in political practices: the attempt of politicians to manipulate the economy.

The chapter presents a comprehensive history of the model, recovering how attempts to fit it into the mainstream of economics did not succeed at first, due to noncompliance with the rational expectations paradigm, and how its practitioners later defended the model, adapting it to the conceptual language associated with rational expectations. The model was also important for work at the boundaries between political science and macroeconomics, with contributors coming not only from an economics background, but also from political science. It also invited macroeconomists to consider the effect of political economy in macroeconomics, helping to establish the tradition of new political macroeconomics in the analysis of collective decision making.

Although the PBC model may have introduced questions of political economy to macroeconomists in the 1970s, these questions were then already present in microeconomics, especially due to developments associated with public choice theory. As new political macroeconomics (NPM), however, failed to recognize the contributions of PCT besides a handful of canonical references, the two traditions entered a collision course.

The third chapter deals with this issue, characterizing NPM as a separate tradition of PCT. NPM claims to be a way to understand collective decision making using inputs from current macroeconomic theory, and de-emphasizing ideological concerns. They do not consider themselves as public choice theorists, even if they overlap in research topics, they choose to not publish in journals like *Public Choice* or participate in the meetings of the Public Choice Society – an attitude considered harmful by other practitioners of PCT.

The chapter, therefore, also tries to explain why this happens, arguing this is due to both fundamental differences in method and the conflation, common within the economics profession, of PCT with the Virginia libertarian tradition. Relations between both camps have not improved ever since, but, due to NPM research on collective decision making in spite of its macroeconomic (and even Keynesian) focus, it is possible to consider NPM as a *separate* tradition of public choice.

Issues of political economy were not limited to public choice. The reintroduction of institutional analysis marked a new step forward in this direction, adding elements that had not been covered by traditional economic theory. One of the most important names associated with the new institutional economics, Douglass North, started his career as a researcher on economic history. After realizing this field did not offer satisfactory explanations to the problems of economic development, North went on to study political economy.

The fourth chapter investigates how Douglass North's ideas about political economy evolved. From his early contributions to new economic history, he understood the importance of history in economic analysis. The neoclassical approach did not yield good results, in his opinion, which led him in turn to institutional analysis. He resorted to both Marxism and PCT to inform his views on political economy, and later worked with political scientists, economists and other social scientists at the Center in Political Economy at the Washington University in St. Louis.

The developments mentioned above dealt mostly with the boundaries between economics and political science. Their point of contact was the rational choice model, i.e. the use of the *homo oeconomicus* assumption as an analytical foundation. We have seen that not all scholars who advocate a return to political economy support the use of rational choice theory.

Just as PCT, New Institutionalists and URPE scholars, Albert Hirschman was also dissatisfied with how mainstream economics treated politics, and his approach to political

economy is the theme of the fifth chapter. While his name is not attached to any school or tradition, he dedicated his research in the 1970s and 1980s to propose a unified approach to the social sciences, especially economics and political science (not unlike North). His most important contribution was the exit-voice-loyalty model (EVL).

The EVL model is one of the most cited frameworks for the analysis of social interaction. It received criticism from PCT scholars, and Hirschman saw the incompatibility between his approach and rational choice-based public choice theory. He thus worked on his own interdisciplinary version of political economics, envisioned as an alternative to public choice itself.

The sixth chapter covers issues that had been in the subtext of the dissertation so far, exploring them in more explicit terms: interdisciplinarity and ideology. The interdisciplinarity issue refers to whether NPE truly has the capacity of opening the way to a greater cooperation between the social sciences, or if it is, contrariwise, just another example of economics imperialism. We will argue that NPE's potential to be a social "theory of everything" is hampered by the many different possible ways of interpreting the work developed in the field. The ideology issue refers to the observation that many of the authors and traditions mentioned in this dissertation refused association with the label "public choice" due to ideological concerns, an aspect denied by supporters of public choice. The dissertation argues this is a credible charge, especially due to unbalanced historiographical practices and selective cynicism in the history of public choice, finally discussing the presence of ideology in political economy models.

The dissertation concludes with a reaffirmation of the vastness and resilience of (new) political economy, and a reflection on its contribution and ambitions. The new political economy proposes a dream of an integrated approach in which the boundaries between the social sciences do not stand in the way of a free exchange of ideas, methods and insight. The obstacles, however, are still too important.

2. REHABILITATING THE ECONOMICS OF POLITICS: THE FORMATION AND STRUGGLE OF POLITICAL BUSINESS CYCLE THEORY

"In the course of my career, both as a student and as a public official, I have found it necessary to revise my ideas about the proper role of government in specific economic matters. Experience is a demanding teacher, and my respect for it has led me at times to favor governmental actions that I abhorred in my youth. My confidence in the basic advantages of free enterprise remains, however, unshaken." Arthur F. Burns, chairman of the Federal Reserve during Nixon's administration and during the development of the PBC model[31]

2.1. INTRODUCTION

For some authors, the political business cycle is "the most classical problem of political economy" (AMABLE, 2018, p. 443). In its simplest definition, a political business cycle (PBC) occurs when, in an electoral year, the incumbent government will try to manipulate the economy, through a looser fiscal and/or monetary policy, in order to boost its popularity and increase the chances of continuing in power. Independently of being elected or not, the consequences of such looser policy are felt later. To deal with ensuing inflation, austerity policies must be enacted until the next election approaches, when the cycle repeats again.

The study of political business cycles follows a very intuitive and common-sense observation of political behavior, on politicians searching victory in short-run elections leading the economic problems in the medium-run (PALDAM, 1981). Its empirical verification, however, has been ambiguous and indecisive (FRANZESE, 2002; DUBOIS, 2016). Ever since Nordhaus's 1975 model, the literature on political business cycles has grown steadily, even though it suffered severe criticism from the rational expectations framework. The purpose of this chapter is to recount the development of this approach from its first propositions to its current iterations. Locksley (1980, p. 181) wrote that "body of literature on PBCs can trace its lineage from Hotelling, Downs, Black, Buchanan and Tullock, all of whom point to, varying degree, the interrelationship between the polity and the economy."

This chapter has five sections besides this introduction. Section 2 details the antecedents of the political business cycle research in Kaleckian and Institutionalist literature

[31] (BURNS, 1973, p. 33)

(KALECKI, 1943; ÅKERMAN, 1947). Section 3 presents the Nordhaus (1975) model, which is considered the first theoretical development of political business cycle research; its main merit was that, while there existed a budging literature on the economic analysis of politics by the time of its publication, the model allowed macroeconomists to analyze a problem that was previously thought to be exclusively microeconomic. Section 4 details other similar models (MACRAE, 1977; LINDBECK, 1973, 1976), and immediate reactions to Nordhaus's model, plus alternate models such as partisan theory (HIBBS, 1977). Section 5 details the challenges and criticism the model faced from the breakdown of the Phillips curve relationship and from rational expectations theorists, who claimed the existence of agents that could be fooled by the government to be inconsistent with theory and empirical evidence (MCCALLUM, 1978); it took years until the political business cycle literature adapted to accommodate agents with rational expectations, turning it into a problem of competence (ROGOFF, SIBERT, 1988; TABELLINI, PERSSON, 1990) and conditional to the electoral context (SHI, SVENSSON, 2000; BRENDER, DRAZEN, 2005; ALT, LASSEN, 2006a,b). Lastly, the chapter concludes reaffirming the importance of political business cycles to the new political economy and macro political economy.

2.2. EARLIER POLITICAL BUSINESS CYCLES: KALECKI AND ÅKERMAN

Though passing references to this phenomenon had occurred in earlier literature[32], according to Velupillai (1987), the earliest reference to "political business cycles" came from the writings of the Swedish political scientist Herbert Tingsten, in the book *Political Behaviour: Studies in Election Statistics*, published in 1937. In this work, Tingsten (1937, p. 150) wrote that "the political importance of economic factors must be admitted" through studies of the relationship between class and party and the strength of the electorate, thus having a role in economic fluctuations.

Practitioners of new political macroeconomics trace the origins of the PBC literature to Michał Kalecki's 1943 article "Political Aspects of the Full Employment"

[32] Nordhaus (1989, p. 1) opened with a citation from 19th century Tocqueville's *Democracy in America*: "It is impossible to consider the ordinary course of affairs in the United States without perceiving that the desire to be re-elected is the chief aim of the President; . . . and that especially as [the election] approaches, his personal interest takes the place of his interest in the public good."

(KALECKI, 1943; SNOWDON; VANE, 1999). He developed this piece during his stay at Cambridge, after being in contact with many of the famous Cambridge economists, such as Keynes, Robinson and Sraffa, and after developing a skeptical view of the policies proposed by them (LÓPEZ; ASSOUS, 2010, p. 10).

Kalecki followed a distinct methodological approach, combining Keynesian-inspired economic policy and Marxist class struggle[33]. According to him, most economists admitted that full employment was possible and that the governments should take action to guide the economy towards it. However, there were *political* obstacles to full employment. When the economy is under full employment, the bargain power of the capitalist class diminishes because there is a high demand of labor, and workers will not submit to whatever conditions capitalists impose on them (in terms of wages and work conditions).

In order to keep its power, the capitalist class will oppose full employment policies and pressure the government "to return to the orthodox policy of cutting down the budget deficit. A slump would follow in which Government spending policy would come again into its own" (KALECKI, 1943, p. 330). This is what Kalecki called a "political business cycle". He claimed to have verified this for the United States in 1937-1938, which explained a reduction of the budget deficit, followed by a slump.

Independently from Kalecki and using a different, but still relatively heterodox methodology, Johan Henrik Åkerman also proposed the notion of "political economic cycles" in an article published in 1947, in the first volume of *Kyklos* (ÅKERMAN, 1947). Building on his research into economic fluctuations and earlier writings in Swedish[34], Åkerman sought to show there was a direct correlation between "cycles of prosperity and depression on the one hand and the duration of the different cabinets on the other" (ÅKERMAN, 1947, p. 107).

Åkerman spent years studying in the United States, where he was deeply influenced by the original Institutionalist Movement, especially Veblen and Mitchell (CARLSSON, 1999). Inspired by the methodology of the National Bureau of Economic Research, Åkerman proposed an empirical analysis using time series from England (1855-

[33] Due to Kalecki's unique methodology for economics, it is hard to call him a "Marxist" or a "Keynesian", since he had influences from them and other authors. Some would just consider him "Kaleckian" (DIXON; TOPOROWSKI, 2013).

[34] His book *Ekonomiskt Skeende och Politiska Förändringar*, published in 1946 (Åkerman, 1962 [1946]), contained a citation to political economic cycles, in which the depreciation of the franc and loss of reserves are related to the constant changes in the French government (Åkerman, 1962 [1946], p. 102-103). His other influence, according to Velupillai (1987), was Tingsten (1937).

1945), the United States (1865-1945), Germany (1871-1945) and Sweden (1866-1945). In all the time series, Åkerman found a correlation, strong in many occasions, between political and economic crises.

Although Kalecki and Åkerman proposed political business cycles as a research topic, their research remained relatively obscure. Kalecki used a model that incorporated class struggle as a primary component, something that was frowned upon in the United States, thus alienating himself from the economic mainstream (VILLAMARÍN, 2008), and the original Kaleckian model is not much studied currently[35]. His objective with the model was to show how absurd capitalism was, unable "to secure the rational use of resources because of the blocking political, social and financial power of the capitalist class" (TOPOROWSKI, 2014, p. 7). Åkerman, on the other hand, followed an Institutionalist methodology, at a time when data collection was too rough to produce robust empirical evidence. Neither work adopted a proper rational economic agent framework. These factors contributed to the lack of interest in political business cycles at the time. Aside from a few articles (e.g. FREY; LAU, 1968; LAU; FREY, 1971), it would take almost 30 years until the research on political business cycles returned to the economists' agenda.

2.3. NORDHAUS AND HIS 1975 MODEL

Alesina (1988), Snowdon (1997), Drazen (2000b), Olters (2004), Țigănaș and Peptine (2012) and Dubois (2016) all stress the importance of William Nordhaus for political business cycle research, establishing a tradition that combined politics and macroeconomics. Dubois (2016) listed five reasons, political and economic, why the 1970s context gave momentum to Nordhaus's model:

i. Through the Cowles Foundation, researchers Ray Fair[36] and Gerald Kramer[37] had published important papers on how economic conditions affect the political climate (viz. KRAMER, 1971; FAIR, 1975) and had discussed with Nordhaus the ideas that would lead to his research on political business cycles. The working paper version of

[35] See Fisher (2018) for a current example of a Kaleckian PBC.
[36] Fair was also influenced by Downs (1957), Kramer (1971), and Stigler (1973), and by Orley Ashenfelter's prediction that Nixon would win, with Kramer's model (FAIR, 1996, p. 89). This led him to developed the Fair Model, which would become one of the most important economic models in forecasting election results.
[37] Rosenthal (2006) mentioned that Kramer studied under William Riker at Rochester, before going to the Cowles Commission, thus it is safe to say that he was influenced by the Rochester tradition of public choice.

Nordhaus' article was published in 1972 by the Cowles Foundation itself (NORDHAUS, 1972);

ii. The works of Kalecki had received a reprint in the early 1970s, sparking renewed interest in his research topics, including the PBC model[38];

iii. Nordhaus managed to "complete" the models of both Åkerman (1947) and Downs (1957), with the inclusion of the Phillips curve, thus adding a macroeconomic dimension to the problem;

iv. The macroeconomic situation exhibited high instability. and Nordhaus's model proposed a reason for that instability: electoral manipulations;

v. The United States had been caught by the Watergate scandal, and the cynical atmosphere, considering politicians as manipulators, was captured by Nordhaus's article[39].

Unlike Kalecki and Åkerman's models, Nordhaus's model followed the rational agent theory as portrayed by Downs (1957), which considered that politicians are self-interested and only care about being elected. Nordhaus adapted this framework for both politicians and voters: individuals prefer stable prices and low unemployment rates; while they are rational in their preferences, they are ignorant of the macroeconomic tradeoff between inflation and unemployment – this is an important assumption of the model. They have adaptive expectations, which means they use references from past events (elections) to form their expectations.

In addition, voters are myopic, in the sense that they only care about economic results, even if they do not know how the economy works. Thus, parties and their candidates will try to maximize "political profit", i.e. the majority in the next elections. In the model, political ideology does not matter – at best, it is a means to an end. Voters will base their vote

[38] Dubois does not consider Kalecki's 1943 article to be the true predecessor to political business cycle research, claiming that, although Kalecki created the term, he did not use it in the same context as Nordhaus, besides using a very different methodology. Instead, he situated Åkerman's work as the antecessor to Nordhaus's model.

[39] Abrams and Butkiewicz (2012) show, through analysis of declassified tapes, how Nixon manipulated the then FED chairman Arthur F. Burns to follow a looser fiscal policy in order to be elected. Rogoff (1988, p. 53) called Nixon "the all-time hero of political business cycles." Drazen (2000a, p. 231) thus summarizes Nixon's manipulation of the economy: "The full-employment budget deficit, in balance in 1970, rose to $10 billion in 1971 and $12 billion in 1972. In 1971, Social Security benefits and personal tax exemptions were increased, while the investment tax credit was restored. Manipulation in 1972 appears even more striking: two weeks prior to the election, there was a 20% increase in Social Security benefits, announced in a letter from President Nixon to 24,760,000 Social Security recipients."

on economic performance: if the incumbent manages to produce good economic results, the voters will reelect him, if not they will vote for the opposition.

In the long run, the model gives the following result: “Under conditions where voting is an appropriate mechanism for social choice, democratic systems will choose a policy on the long-run trade-off that has lower unemployment and higher inflation than is optimal.” (NORDHAUS, 1975, p. 178). Thus, decisions in the long run might be biased against future generations, but its source lies in the short run, where political business cycles happen.

In sum, the cycle proceeds as follows: after the election, the victor will raise unemployment to a relatively higher level to combat inflation. Then, when elections approach, the fight against inflation will become looser, adopting policies that increase the employment level at the cost of increasing inflation, supposing that the economy can “wing it”. There is thus a cycle of austerity and expansion, derived from the idea that there is a menu of choices that politicians can manipulate in order to better serve economic growth, according to Phelps (1967) and Friedman (1968) (or a popular interpretation of their work, as we will see in the next section).

The simplified model has two important predictions: i) that the politically-determined policy choice will produce lower unemployment and higher inflation than optimal, and ii) that the optimal partisan policy will lead to a political business cycle, with unemployment and deflation in the early years followed by an inflationary boom as elections approach. Nordhaus focused on testing proposition (ii) for nine OECD countries, finding promising evidence of a political business cycle for Germany, New Zealand and the US. Figure 2 shows the relation for US data, where we can see the political business cycle in the saw-tooth graph.

Figure 2 – The political business cycle

Source: NORDHAUS (1975, p. 185).

Thus Nordhaus managed to elaborate a simple and yet elegant and formal model of the political business cycle, that appeared in a propitious moment of the American economy. As stressed by Dubois (2016), Nordhaus's article harped on a distrust of the government, while the rational expectations counterrevolution was under way. Nordhaus provided a framework in which criticism of State intervention could be done from both a macroeconomic and a decision-making point of view, thus connecting groups that rarely talked to each other before. Public choice was seen as an exclusively microeconomic field, with little attention from macroeconomists, and Nordhaus was the first to formalize a macroeconomic approach to public choice, in a language open to macroeconomists.

2.4. OTHER POLITICAL BUSINESS CYCLE MODELS AND DEBATES SURROUNDING THE EARLIER LITERATURE

Along with Nordhaus's model, there were two other earlier articles on political business cycles: one written by Assar Lindbeck, the other by C. Duncan MacRae. Paldam (1981) referenced the model as the "Nordhaus-MacRae model" and Alesina and Cohen (1997)

as the “Nordhaus-Lindbeck model”, although recent literature only mentions the “Nordhaus model” (DUBOIS, 2016).

Concerning Lindbeck (1973), he argued that new theories of economic policy must assume that politicians are “endogenous” to the system, that their behavior depends on a series of variables. Since not all politicians are the same, a theory of the economic effects of politicians on the political body is incomplete without a theory of how a policymaker influences others, and how they establish relations at different levels of policy (e.g. between politicians working at the municipal, state, and federal levels).

Just as Nordhaus, Lindbeck (1973, 1976) treated the political business cycle as one of the results of political manipulation. The incumbent politician’s main objective was to accommodate the timing of the elections with a cycle when the rate of inflation is relatively small and unemployment is falling (LINDBECK, 1973, p. 25). It is a different conclusion from Nordhaus’s model, whose working paper is referenced in the article:

> The two main reasons for the difference in conclusion are perhaps that Nordhaus assumes rather small resentments among voters about inflation, relative to unemployment, *and* that he does not seem to include the rate of *change* in unemployment among the important considerations of the general public. (LINDBECK, 1973, p. 26-27, emphasis in the original).

One reason why Lindbeck’s name is not currently associated with the political business cycle literature might be because this subject was only a secondary concern to his project of revising the theory of economic policy. In Lindbeck (1976), he listed three main problems for stabilization policies: (I) the open economy problem, (II) the limitations of aggregate demand management, and (III) tensions of the political process. While the first two had heavy technical writing, the last one offered a discussion of possible problems and future research, remaining a “literary” model. Also, unlike Nordhaus, Lindbeck proposed a synthesis of the idealistic Tinbergen-like politician and the self-interested Downs-like alternative. Lindbeck’s article belongs to a greater project on the revision of the theory of economic policy, whose rise and fall was mentioned in the introduction.

Concerning MacRae, his contribution was published as a working paper in 1971, and then as an article in 1977. It also studies the tradeoff between inflation and unemployment but, instead of a nominal Phillips curve, MacRae uses a quadratic loss function and dynamic programming to calculate the political business cycle. He arrived at a similar conclusion, that

politicians will spend more in periods close to elections. MacRae went beyond Nordhaus's model, however, by introducing two different types of voters: myopic and strategic.

Myopic voters behave just as in Nordhaus's model, ignorant of how the economy works. But strategic voters can notice the cycle and punish the government accordingly, by changing their vote. His empirical analysis concentrated only in the United States and found that the myopic-voter configuration predicted better the behavior of voters in the Kennedy-Johnson administration, while the strategic-voter configuration predicted better the behavior of the Eisenhower and Nixon's administrations. These results were corroborated by MacRae (1981).

In many aspects, MacRae's model is more robust than Nordhaus's. In fact, MacRae cited Nordhaus (1975) twice to criticize it for not analyzing the stability of the cycle (MACRAE, 1977, p. 240) and for ignoring voters' capacity of shifting their preferences (*ibid.*, p. 262). Even though his working paper is earlier than Nordhaus's by a year, it was only published two years after the latter, thus making the later date of publication a reason why it did not enjoy the same exposure. Another hypothesis, however, relates to MacRae's choice of a quadratic loss function of the Theil-Tinbergen type, instead of the more recent expectations-augmented Phillips curve used by Nordhaus.

According to Forder (2014a), in the 1970s the Phillips curve was being increasingly used for applied research and policy evaluation, especially income and regional policy. Nordhaus (1975)'s PBC model "hypothesized a Phillips curve which became steeper but not vertical during inflation, vote maximizing governments, and voters who were averse to both inflation and unemployment", and his role in introducing political economy concerns is emphasized by the fact that "the exposition is mainly theoretical and is certainly the *source* of many conventional ideas on that theme" (FORDER, 2014a, p. 12, emphasis added).

As mentioned above, the introduction of the Phillips curve bridged earlier semi-theoretical work on political business cycle into a theory that could be tested. Fiorina (1981) argued that the accumulation of literature was moving to combine a demand side that analyzed the voters' reactions (e.g. KRAMER, 1971) with a supply side that focused on the governments' actions (e.g. NORDHAUS, 1975). It was expected that both approaches would eventually converge into a general equilibrium model of the political business cycle (e.g. FAIR, 1975; FREY; SCHNEIDER, 1978).

With the theoretical research in tow, the applied research followed through. Two examples are worth of notice. In 1978, the political scientist Edward Tufte published *The Political Control of the Economy*. It was an extensive study for political business cycles in the American economy finding a "four-year presidential cycle in the unemployment rate, with downturns in unemployment in the months before the presidential election and upturns in the unemployment rate usually beginning from twelve to eighteen months after the election" (TUFTE, 1978, p. 27). The other example is Ben-Porath (1975), a short but important empirical study of the political business cycle in Israel, explaining the reasoning behind "stop-and-go" policies.

As indicated before, Nordhaus's approach had its own problems. Drazen (2000a) summarized the main criticism in three points: 1) the model assumes that incumbents control monetary policy, violating central bank independence[40]; 2) it relies too much on irrational behavior by voters – while voters *do* get fooled, "a far better approach would be to ask whether political business cycles can be consistent with rational behavior" (*ibid.*, p. 237); and 3) ambiguous empirical support. Besides, articles as early as Frey and Ramser (1976) proposed that the fundamental long-run result of having purely myopic agents is not consistent with how actual governments behave.

The most restrictive hypothesis of the model seemed to be the one concerning the rationality of voters. Thinking of this flaw, Hibbs (1977) wrote the article "Political parties and macroeconomic policy", formalizing the "partisan theory". The intention of Hibbs was to show how ideology was an important variable in the political business cycle, differently from Nordhaus's approach of ignoring the ideology of policymakers. Its main result was that "the macroeconomic policies pursued by left- and right-wing governments are broadly in accordance with the objective economic interests and subjective preferences of their class-defined core political constituencies." (*ibid.*, p. 1468)

Hibbs argued for the existence of an ideological political business cycle, by making a distinction between policies pursued by the right (with emphasis on austerity and fiscal responsibility) and the left (with emphasis on full employment). In other words, supporters of left-wing parties "tend to occupy unsheltered, lower status jobs" that are most sensible to changes in unemployment, while supporters of right-wing parties "hold the lion's

[40] Alesina, Cohen and Roubini (1992, p. 254) commented on how puzzling it was that their panel data analysis did not reject Nordhaus's results for Germany and New Zealand, two of the countries that had the most independent central banks.

share of financial capital in the household sector, and they tend to occupy higher status, and more secure jobs" (HIBBS, 1992, pp. 362-3). Hibbs was aware that parties were not so black-and-white, but he sought to identify "empirically meaningful differences on the margin". Empirically, he identified the Eisenhower and Nixon-Ford administrations with austerity cycles and restrictive fiscal policies, and the Kennedy-Johnson administration with full employment cycles and looser fiscal policies. Hibbs's model, however, can be criticized in the same way as Nordhaus's, due to reliance on "mistaken expectations of what policy will be in order to get real effects" (DRAZEN, 2000a, p. 249).

By proposing ideological differences to explain the origin of the business cycle, Hibbs inaugurated a new line of research called "partisan theory", in contrast to Nordhaus's opportunistic politician model, thus splitting political business cycle research in two main research lines[41]. There were early attempts of synthetizing both types of approaches to PBCs, such as Frey and Schneider (1978), who proposed to start a research program focusing on the general treatment of the relationship between the economy and the polity, in a model called "contingent partisanship" (DRAZEN, 2000a, p. 250).

Up to that point, empirical evidence for political business cycles was not as solid as its supporters would like, but not as damning as its critics would wish. As Paldam (1981, p. 291-293) mentioned, the idea of political business cycles is quite intuitive and it fits in the common sense of politics, even if "no one could read the [PBC] literature without being struck by the lack of supporting evidence" (ALT; CHRYSTAL, 1983, p. 125). And yet, there were defenses of the PBC models, claiming they existed, and that they were important to understand political fluctuations in the economy (e.g. HAYNES; STONE, 1990). As Dubois (2016, p. 242) showed, there were articles providing positive and negative evidence of political business cycles, but recent empirical work failed to find any *systematic* evidence of fiscal manipulation for reelection purposes (e.g. MANDON; CAZALS, 2019).

This ambiguity meant that the theory of political business cycles remained in some sort of verification limbo, without unambiguous support or refutation. And the requirements of theoretical robustness (or impatience) demanded by the majority of economists makes them turn towards less ambiguous topics. As mentioned before, perhaps Nordhaus's greatest contribution was to turn a traditionally microeconomic problem into a macroeconomic

[41] Most textbooks consider the term "political business cycles" referring to the opportunistic variant. It should be reminded that this is also the line of this dissertation.

one, thus attracting the attention of macroeconomists to the economics of politics. It raised questions: not only support and amendments to the model, but also heavy criticism, as we will see in the next section.

2.5. THE IMPACT OF RATIONAL EXPECTATIONS

The initially positive reception of political business cycle theory was reverted specially due to two important criticisms that led to a loss of interest: one regarding the use of an old version of the Phillips curve, the other coming from the rational expectations field.

The breakdown of the Phillips curve relationship is considered a reason for the decline of PBC models (OLTERS, 2004, p. 111). The PBC model was associated with the Phillips curve at the moment a "myth of the Phillips curve" started to take form. Forder (2014b) summarizes this "myth": first A. W. Phillips published his breakthrough article (PHILLIPS, 1958) detailing an inverse relationship between unemployment and inflation; then Samuelson and Solow published their co-authored article (SAMUELSON; SOLOW, 1960) advocating that the Phillips curve should be an instrument of policy, that governments could accept slightly higher levels of inflation to boost unemployment; then Phelps (1967) and Friedman (1968) criticized the idea that governments have a "menu of policies" and, upon proposing the expectations-augmented curve, claimed that the idea of a menu gave leeway for inflationist policies that would eventually make the economy lose control, advocating the monetarist solution of controlling the money supply.

This has been a standard macroeconomic narrative (including in an earlier version of this dissertation). As Forder (2014b) showed, however, it does not survive scrutiny. Phillips (1958) was a rushed job, not new due to early references to this tradeoff dating as far back as the writings of David Hume, and later thoroughly criticized and eventually disowned by its author. Samuelson and Solow (1960) intended to study approaches on how to understand inflation, and did not have any intention of providing policy recommendation. Phelps (1967) and Friedman (1968) admitted that the idea of how wages adjust to inflation was common knowledge in the economics profession at the time.

Due to degeneration of its original meaning, the expression "Phillips curve" could refer to different things loosely related to a tradeoff between inflation and unemployment

– this might be a reason why MacRae (1977) did not use the term "Phillips curve" in his article. Different authors then started associating the term with the idea of a tradeoff between inflation and unemployment that could be exploited. Many individuals helped create and propagate the myth[42], but their intentions ranged from mere misunderstanding of the aforementioned articles to an actual ideological agenda of associating Keynesianism to inflationary policies (e.g. BUCHANAN; WAGNER 2000 [1977], see section 3.2 of this dissertation). Research based on this version of the Phillips curve, such as Nordhaus's PBC model, thus suffered a loss of prestige.

The adoption of the Phillips curve in this shifting moment was a minor inconvenience compared to the new classical criticism, which impact is much more decisive. Alesina, in various occasions (ALESINA, 1988, p. 15; SNOWDON; VANE, 2005, p. 571), considered that the rational expectations revolution had a direct impact on the decline of both opportunistic and partisan political business cycle models. One of the model's most controversial hypotheses was the idea of myopic voters. While it was hotly contested among those who agreed with Nordhaus's method, it also did not fit within the rational expectations framework.

The idea that economic models of voter behavior are inconsistent with economic theory started with Stigler's criticism of Kramer (1971). In Stigler (1973, p. 166), he defended "strong nihilistic conclusions" about the influence of economic conditions on voting behavior. The policy ineffectiveness proposition (SARGENT; WALLACE, 1975) meant that rational agents could expect and prepare themselves to any change in policy if it was communicated. In one of the first empirical criticism of PBCs from a purely rational expectations perspective, McCallum (1978) argued his tests showed no evidence of political business cycle of the Nordhaus's type, while providing positive evidence for behavior predicted by new classical theory.

In one of the earliest surveys of the PBC literature, Paldam (1981) found little evidence of political business cycles in the way proposed by Nordhaus (1975) and MacRae (1977). Instead, Paldam found empirical verification for the "post-election euphoria" phenomenon, proposed by Goodhart and Bhansali (1970), in which the economy grows right after elections, as if there was a "honeymoon" period between the electorate and the

[42] See sections 6.3 and 6.4 of Forder (2014b), where he provides a more accurate description of how some authors helped to propagate the myth.

government. He also challenged the view that both politicians and voters are myopic, concluding it is likely that "it is the politicians who react very myopically, but presume that the voters remember well" (PALDAM, 1981, p. 300). Paldam also observed that, because the vote function may easily turn into a target function for economic policymaking, what was observed was "a theory of *popularity profiles of policies*: i.e., we note that almost all policies may be said to lead to a set of popularity gains and losses distributed over time and population groups." (*ibid.,* p. 289, emphasis in the original). Thus, the success would be in the implementation and results of a policy. In other words, the competence of the policymaker stood to question.

The preference for rational expectations in macroeconomics meant that research programs that did not fully comply with it, like political business cycle research, remained in the periphery of the mainstream throughout the beginning of the 1980s. Dubois's (2016) complete list shows that articles on PBCs remained outside the main economics journals during the period 1980-1985, available mostly in political science journals and *Public Choice*.

Reactions to the rational expectations criticism were mixed. Nordhaus (1989), defending his 14-year-old approach, criticized what he termed the "ultrarrationality" assumption, viz. rational expectations. According to him, empirical testing rejects the ultrarrationality hypothesis and the presence of "post-election euphoria" is an indication against the rational expectations of voters[43]. However, others preferred to adapt the theory to fit within the mainstream approach, leading to the elaboration of the rational political business cycle models.

As Alesina, Roubini and Cohen (1997, p. 16) wrote, "applying the idea of rational expectations to the Phillips curve and macroeconomics in general yields striking results in interpreting the effects of policy." The rational PBC models emphasized the asymmetry of information between voters and the government. The electorate would lack enough information to determine the incumbent competence at first, while the politician knew privately the amount of public goods he could supply. The question would then concern the competence of a politician; as time passes, competent politicians would show off their capacities. For their model, they relied on a budget function, instead of a Phillips curve.

[43] Nordhaus himself was critical of new classical economics. In a discussion on the state of macroeconomics (NORDHAUS, 1984), he announced his skepticism of the Lucasian approach, preferring theories of contractual incompleteness and stickiness in non-clearing markets (incidentally, he did not mention political business cycles).

Although Cukierman and Meltzer (1986) were the first to extensively apply rational expectations to the relation between the economy and the polity, Rogoff and Sibert (1988) are credited as having introduced rational expectations to the study of political business cycles. Just as in earlier models, they focused on the availability of information about the workings of the government – in this case the competence of a government.

The model presumes that distortions in macroeconomic policy variables happen due to temporary information asymmetries, due to the government possessing private information on the state of the economy that voters do not possess. Thus, the government can mask its actual competence by increasing expenditure in social transferences and other public services.

One important distinction is that, while the policymaker is still opportunistic, voters are aware of how the economy works. The monitoring costs, however, are too high for them to dedicate enough attention to see if the "competency shock" is real or just a way to mask the government's incompetence.

Their results indicate that a political business cycle can emerge when the government, in an attempt to look competent, increases the level of investment and social transfers in election years. Voters will only learn of its actual competency after the elections. It should be noted that the model implies there are specific conditions for the cycle to emerge, such as low popularity (if the popularity of a government is high, the likelihood of a political business cycle decreases). Thus, they also tend to be much shorter-lived.

Along with Alesina's rational partisan theory[44], based on extensive use of game theory (ALESINA, 1987), Rogoff and Sibert reignited the interest in political business cycles, from a mainstream point of view. In a subsequent article, Rogoff (1990) would focus on the study of political business cycles in specific variables, such as the budget, instead of a generalized view of the economy. Persson and Tabellini (1990) proposed a rational expectations model more in line with Nordhaus's original model, predicting a rational manipulation of the economy but having the unpleasant feature that, loosely speaking, the more competent politicians are the ones who distort the economy, rather than the incompetent ones (see ALESINA; ROUBINI; COHEN, 1997, p. 32). The reason is that competent politicians must distort the equilibrium to signal how good they are. However, as Franzese (2002) showed, even

[44] The rational partisan theory applied rational expectations to Hibbs's theory. Due to my focus on the opportunistic type of political business cycles, I will not explore this further.

with theoretical improvements, the evidence for political business cycles remained elusive, with studies reporting cycles while others showed no evidence of them, to the point that some authors considered the research program degenerative, or simply "dead" (LOHMANN, 2006, p. 525).

The issues posed by the rational political business cycles models were still prominent, namely, lack of empirical verification and inability of fitting properly into the prevailing macroeconomic paradigm. In reply to these issues, PBCs adopted a new form, by abandoning the "one-size-fits-all" approach for a view of political business cycles as subject to specific conditions. Although this was first proposed by Shi and Svensson (2000), Reiner Dinkel, in 1981, had already noticed that

> for a political business cycle to occur, however, it is only necessary that the government *believes* that it could win votes from such a policy. Since no one can know in advance how people will vote, a government will use all possible policy instruments to ensure its re-election, even if economic conditions only have a weak impact on voting behavior. (DINKEL, 1981, p. 226, emphasis in the original).

Thus, the *context* in which the political business cycle emerged plays an important role. Shi and Svensson (2000) stressed the importance of the political business cycle as a moral hazard, due to the voters' lack of information about the politicians – this was named the *conditional political business cycle*.

The importance of the context might be the source of the gap between the common-sense wisdom concerning the political business cycle and the ambiguity of the empirical evidence. Franzese and Jusko (2006) wrote that differences in context can explain the discrepancies observed ever since Nordhaus (1975):

> […] the relative significance across countries suggest that closely contested elections, strong, unified executives, and domestic policy autonomy induce the strongest cycles. That is, empirical evidence hinted the importance of *context conditionality* for electoral cycles *ab initio*. Some of the inconsistencies in empirical evidence for electoral cycles likely emerged also from the implicit assumptions throughout these studies that all incumbents seek reelection equally in all elections and that all equally control policies equally effective toward that goal. Re-election incentives, control over policies, and political-economic policy efficacy are not constant, however; they vary considerable across *contexts*. (FRANZESE; JUSKO, 2006, p. 548-549, emphasis in the original).

Although Shi and Svensson first proposed conditional PBCs, the formal and empirical work was developed in the area of political budget cycles. Brender and Drazen (2005, p. 1292, emphasis in the original) proposed that "the question of *whether* such a cycle exists on the macroeconomic level across countries turns out to be a question of *where* it exists, that is,

in which types of countries." They discussed how governmental deficit, especially in election years, is related to the maturity of democracies. The less mature the democracy, the less used the electorate will be toward these practices (and thus less fiscally conservative), thus the greater the probability of having a political budget cycle. Alt and Lassen (2006a,b) focused on transparency issues related to the political budget cycle in developed economies, showing they can be present in these as well.

Conditional political business cycles are considered the latest evolution of the PBCs literature (e.g. DE HAAN; KLOMP, 2013). Figure 3 summarizes the evolution of research in the field.

Figure 3 - Four general movements in the study of political cycles

	Expectations-Augmented Phillips Curve	**Partisan Cycles**	**Rational-PCs/Competency Models**	**Conditional Political Cycles**
Characterized by	Pre-election booms and post-election busts	Heterogeneous Partisan Preferences	Informational asymmetry between incumbent and public	Contexts make political cycles more or less likely
Examples	Nordhaus (1975)	Hibbs (1977)	Alesina (1987); Rogoff and Sibert (1988)	Alt and Lassen (2006*b*); Brender and Drazen (2005)
	Time ⟹			

Source: PHILIPS (2017, p. 5).

With the appearance of conditional PBCs, the model showed once again its resilience. Estimations of PBCs and their derived models can be seen in recent academic articles (e.g. MANDON; CAZALS, 2019 for a recent literature survey[45]), occupying a research niche in academia, in the crossing of boundaries that is political economy. This chapter tried to understand why, even with ambiguous empirical verification, the model was not forgotten or eliminated as an object of research from economics. On the contrary, it incentivized more research in the boundaries between macroeconomics and political economy, as we shall see in the next chapter.

[45] A search in Google Scholar of the term "political business cycle" returns 12,900 results, with 517 results in 2019, applied to development, environmental policy, monetary policy, among others. Mandon and Cazals' article is the most recent literature survey, as of this writing.

2.6. CONCLUSION

Political business cycles remain as one of the most elusive phenomena involving economics and politics. The model contains one of the simplest, most intuitive examples of how political manipulation of the economy can happen, and yet it fails to muster *decisive* empirical evidence, to the point that practitioners prefer to see Nordhaus's original model as a "thought experiment" (GÄRTNER, 1994, p. 86). Nevertheless, it sparked debates on the influence of politicians in the economy and called attention to problems of political economy within macroeconomics. The models have been diversified enough to say that there is no *unique* definition of a PBC (PRICE, 1997, p. 407).

The questions the model created, however, helped bridge the gap between groups that formerly had little interaction, such as economists and political scientists. Following Dubois's (2016) database of almost 530 papers and books on the issue, we can see that political business cycles remain mostly an economic issue, although they managed to capture the interest of political scientists (90 economic journals had PBC-related articles, while in political science journals this number was 25). Many important articles in this tradition were published in political science journals (e.g. KRAMER, 1971; HIBBS, 1977; FRANZESE, 2002; ALT; LASSEN, 2006a).

PBCs also managed to bridge the gap between microeconomists and macroeconomists. Before Nordhaus (1975), the study of the economic determinants of voting behavior and other politics-related issues was seen as a purely microeconomic topic. By showing that these issues could be studied from a macroeconomic point of view, Nordhaus invited authors to apply macroeconomic tools to a political problem. If the 1970s PBC research had not existed, would rational expectations theorists ever have been as interested in the economic analysis of politics as they were? PBC models moved the literature in a specific direction, especially since macroeconomics was seen as an approach that "visualizes the economy as a collection of resources generated by savings and leading to final consumer goods", that could be acted upon through policies, focused on the sustenance of effective demand and the degree of capacity utilization (CARDINALE; SCAZZIERI, 2018, p. 6). Nordhaus added an explicit political economy view to macroeconomics.

Ultimately, political business cycle models deal with problems related to institutions, and would benefit from research along the lines of other forms of political

economy, such as new institutional economics. Galbács (2017, p. 7) argued that Nordhaus (1975) managed to highlight the influence of institutions in the economy, pointing that the theory of political business cycles summarizes "both the shared interests of neoclassical orthodoxy and institutional economics on one hand and the institutionalist influences on mainstream economics on the other hand." The new focus of the conditional political business cycle models brought forward the importance of the institutional context and a potential topic of study for new institutional economics.

The PBC model helped macroeconomics and collective decision-making (a.k.a. public choice) coalesce into a new, synthetic approach: a tradition of macroeconomic political economy, embracing a slightly different focus from mainstream macroeconomics, which can be labeled "(New) Political Macroeconomics". The political business cycle model became its paradigm, or the closest thing to it. The next chapter will explore how this new tradition created its own space alongside mainstream macroeconomics and public choice theory.

3. A MACROECONOMIC VIEW OF PUBLIC CHOICE: NEW POLITICAL MACROECONOMICS AS A SEPARATE TRADITION OF PUBLIC CHOICE

"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?" Alberto Alesina, Torsten Persson and Guido Tabellini[46]

"Trying to separate the two research fields or to assess the superiority of one over the other is a futile enterprise." Fabio Padovano[47]

3.1. INTRODUCTION

Public choice is a microeconomic affair. Its rubric in the JEL classification is "D7 – Analysis of Collective Decision-Making", with the code D being reserved for Microeconomics. The title was chosen after a search for a term believed to be "rare" and "neutral" enough (CHERRIER, 2017, p. 576). It was supposed to have its own rubric, but Roger Noll suggested that it should be placed under Microeconomics in order to cover "social choice theory, the theory of teams, economic models of political processes, bureaucracy, and policy analysis of the 'Tabellini-Alesina' type" to encompass, in Noll's words, "*everything* published that looks at political aspects of policy or at collective choice processes" (*apud* CHERRIER; FLEURY, 2017, p. 24, emphasis in the original)[48].

However, as mentioned in the introduction to this dissertation, starting in the 1970s, when macroeconomics underwent a massive crisis and transformation (see DE VROEY, 2016), macroeconomists have started to study issues of public choice and public choice scholars have analyzed macroeconomics under the tenets of public choice theory (PCT), in a way that would challenge the strict classification of the field as microeconomics. Two of these sub-disciplinary crossings are worthy of mention in this introduction: the article "Political Business Cycles", by William Nordhaus (1975), and the book *Democracy in Deficit*, by James Buchanan and Richard Wagner (2000 [1977]). Parallel to the influence of Lucas's policy inefficiency

[46] (ALESINA; PERSSON; TABELLINI, 2006, p. 203)
[47] (PADOVANO, 2004, p. 418)
[48] D7's subdivisions are D70 (General), D71 (social choice, clubs, committees and associations), D72 (political processes, rent-seeking, lobbying, elections, legislative and voting behavior), D73 (bureaucracy, administrative processes and corruption), D74 (Conflict and its resolution, alliances and revolutions), D78 (positive analysis of policy formulation and implementation) and D79 (other). Source: https://www.aeaweb.org/econlit/jelCod.php?view=jel. See Annex 2 for an insider's account of the process. See Appendix 2 for an insider view.

proposition, it was "a logical extension of the public choice 'movement' dating from the mid-sixties, in macroeconomics" (KEECH, 1998, p. 294).

What singles out these two works is that they were among the first that studied collective decision-making from a macroeconomic perspective. Nordhaus proposed a formal model to explain how macroeconomic fluctuations in business cycles might have origins in political issues, originating to an alternative literature of political economy. Buchanan and Wagner produced a heavy criticism of the Keynesian policymaking doctrine that called for the reestablishment of a fiscal constitution, thus opening a dialogue with macroeconomists. They had different objectives, however: Nordhaus aimed at elaborating a formal macroeconomic model, while Buchanan and Wagner analyzed macroeconomics from a microeconomic public choice perspective, never intending to create macroeconomic models.

The contentions start here. Nordhaus and the PBC model helped establish a branch of public choice with a macroeconomic focus that, following Nagatani (1988), Garrat (1998), al-Nowaihi and Garrat (1998), Snowdon and Vane (1999; 2006, c. 10), Gärtner (2000) and Cornwall (2002), can be labelled "(New) Political Macroeconomics" (NPM)[49] – though it has been alternatively named "political economics" or just "(new) political economy[50]." It uses "the conceptual and analytical tools of economics to examine the interactions of politics and economics in democratic systems, emphasizing the choice of policies as well as how (and how effectively) they influence economic outcomes" (CORNWALL, 2002, p. 546).

NPM is also a discipline with a massive scope. In a partial list, it includes the interaction of economic and political factors in

> 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 (SNOWDON; VANE, 2006, p. 517).

NPM scholars differ from their PCT counterparts in terms of method, adopting a general equilibrium approach, in contrast to the partial equilibrium approach typical of most PCT (PADOVANO, 2004). They have attempted to distance themselves from PCT, claiming to have a different scope (DRAZEN, 2000a), to offer improvements over the flaws of PCT

[49] al-Nowaihi and Garrat (1998) consider the research on PBCs pre-rational expectations to be the "old political macroeconomics".
[50] These terms might include non-macroeconomic topics (e.g. MYERSON, 2017), which is why NPM is preferred here.

(USABIAGA IBÁÑEZ, 1999; PERSSON; TABELLINI, 2000), or to dispel the libertarian caricature of the Leviathan State propagated by PCT (PERSSON; ROLAND; TABELLINI; 1998). This is reflected in their networks, as NPM scholars typically do not publish in *Public Choice* or go to PCT-related conferences (PADOVANO, 2004, p. 415). They understand that "public choice and political economics are more labels than competing paradigms" (ALESINA; PERSSON; TABELLINI, 2006, p. 201) and see themselves as taking what PCT started to a macroeconomic level, with better theoretical tools, better practices and less ideology.

Their apparent dismissal of PCT as a secondary concern provoked the reaction of PCT scholars, who claimed that this dismissal is harmful to scientific research on political economy (PADOVANO, 2004; BLANKART; KOESTER, 2006), failing to defend the ideals of liberty inherent in PCT (BLANKART; KOESTER, 2007) and serving political correctness (MUELLER, 2015). Such complaints apparently fell on deaf NPM ears: there have been little attempts of debate, and NPM and PCT scholars continue each to do their own things.

In spite of these issues, some NPM scholars recognize that NPM is "in many respects indistinguishable from public choice," differing subtly in the object of study (SAYER, 2000, p. 514-515). In order to understand this issue, this chapter has two objectives: to situate NPM as a separate tradition of public choice, and to understand why scholars associated with the former would rather be seen as macroeconomists instead.

This chapter has four sections, besides this introduction. Section 2 studies how PCT scholars analyzed macroeconomics, using Buchanan and Wagner (2000 [1977]) as one of the most important forays into macroeconomics from a Virginian public choice perspective, and how this helped shape perceptions of how PCT approached macroeconomics. Section 3 studies how the political business cycle model started a discussion of macroeconomic analysis that took matters of public choice seriously, though led by scholars alien to the PCT networks, which gave rise to a "Keynesian" tradition of public choice, in spite of this apparently oxymoronic term[51]. Section 4 explores in more detail the divergences between PCT and NPM, stressing how important it is for the identity of NPM scholars to separate themselves from PCT and, conversely, how important it is for the PCT identity to deny that this separation exists. The

[51] The only case in the literature of the term "Keynesian public choice" comes from Hislop (1990, p. 225), to refer to the benevolent policymaker paradigm criticized by PCT. Public choice is usually seen as incompatible with Keynesian political economy (FORTE, 2012, p. 422). Few attempts have been made to approximate Keynes and public choice. One exception is Parsons (2012), who argued that public choice theory would benefit from Keynes's insights on rationality of public policy.

article concludes attempting to understand where NPM and PCT are headed, and speculating that their problem might be one of scientific language: in spite of overlapping, the two fields have not managed to find a unified language.

3.2. PUBLIC CHOICE OF MACROECONOMICS: THE PERCEPTION OF A DEMOCRACY IN DEFICIT

Searching at *Public Choice*'s website shows PCT researchers studying macroeconomic issues[52]. The focus of this section, however, is on how earlier works shaped academic perceptions of how they approached macroeconomics. The pioneers of PCT did not concentrate their attention on macroeconomic issues, due to their focus on collective decision-making. Mancur Olson was supposed to write a book named *Regulation, Deregulation and Macroeconomics*, but a negative review from Douglass North stopped it from receiving a grant from the National Science Foundation (NORTH, 1985c-DCNP), which led to its shelving[53]. Some PCT scholars claimed that Milton Friedman had a fundamental role in propagating the approach (ROWLEY; RATHBONE, 2004)[54]. An important exception is *Democracy in Deficit* (BUCHANAN; WAGNER 2000 [1977], henceforth *DiD*), which played an important role shaping economists' perception of how PCT scholars approach macroeconomics.

Although DiD may not be the most important of Buchanan's works, it aimed at an audience wider than fellow PCT scholars, also including macroeconomists, thus establishing its importance as a channel of communication with the latter. According to Wagner (2017), the ideas presented in the book had already been developed in the 1950s, with Buchanan's writings on government deficits. In the foreword to the 2000's edition, Robert Tollison argued the book "led the way in economics in endogeinizing the role of government in discussions of macroeconomic theory and policy," while Buchanan himself wrote that "the argument is

[52] 249 results for "macroeconomics" in a simple search at its site, as of June 30, 2019.
[53] North's review focused on how unoriginal the book was to be worthy of a grant, not mentioning anything about macroeconomics. A copy of the proposal is present at the Olson Archives, in the University of Maryland, but the author did not have access to it before the completion of this chapter. However, if we follow an article he wrote in the late 1980s, he would have argued that "in contrast to both new-classical and Keynesian views, the argument here implies that the single most important determinant of the macroeconomic performance of a society is the quality of its microeconomic policies and institutions", in a pure microeconomic-public choice framework (OLSON, 1989, p. 381).
[54] Burgin (2012, p. 191) mentioned that Friedman "frequently referred to [Buchanan and Tullock's] insight as the 'invisible hand in politics'."

perhaps the single most persuasive application of the elementary theory of public choice" (DiD, pp. xi, xv).

The book is an analysis of the consequences of the application of Keynes's and his successors' economic policies for American political economy. Keynes is framed as an outsider to American political economy, who replaced the "old-time fiscal religion" – an informal politico-economic doctrine in which the states had a commitment not to spend more than they collected in taxes and to curb the growth of the public sector – for a looser fiscal/monetary policy that was supposedly used to fight the Great Depression. Keynesianism secured "a permanent shift in the policies of governments and […] the conversion of the academic scribblers, in this case the economists, was a necessary first step" (DiD, p. 25). As one commenter observed, they present "Keynesian Economics, if not perhaps the Economics of Keynes, as a doctrine of public debt" (GORDON, 1978, p. 583), while another argued that it "certainly [had] a clear agenda of arguing that inflationary policy was an essential aspect of Keynesianism" (FORDER, 2014b, p. 160).

Keynesianism followed the "presuppositions of the Harvey Road[55]", which included the belief that economic policy should be guided by a small group of enlightened and wise people, through a national planning board. It failed to recognize politicians as self-interested individuals, just as any other economic agent, one of the main points of PCT itself (DiD, p. 80). This led to three negative economic consequences: permanent budget deficits, inflation and expansion of the public sector (DiD, p. 71). Not only that, they also attributed to "the abject failure of the Keynesian economic forecasters in the immediate postwar years" (DiD, p. 40) a hand in the *zeitgeist* of the 1960s and 1970s,

> evidenced by what appears as a generalized erosion in public and private manners, increasingly liberalized attitudes toward sexual activities, a declining vitality of the Puritan work ethic, deterioration in product quality,

[55] Keynes himself had the view that economic planning was necessary for the establishment of a better society and the process of planning should not necessarily enter in conflict with his liberal convictions (cf. LOPES; GALVÃO DE ALMEIDA, forthcoming). Roy Harrod, his first biographer, named these beliefs as the "presuppositions of Harvey Road" (HARROD, 1951, p. 4, 80, 192-193) as a reference to Keynes's childhood address, where he received one of the best upbringings the British could provide. It consisted of a "stable British empire and assured material progress" (p. 183) and "really important decisions being reached by a small group of intelligent people, like the group that fashioned the Bretton Woods plan" (p. 193). Bateman (2010, p. 20) considers that the use of the expression is a derogatory term to accuse Keynes of having "a simplistic and unrealistic understanding of the economy and the human nature". However, Cristiano (2014, p. 61) argued that, while the term was indeed vaguely represented by Harrod, it reflected a *zeitgeist* of the British Empire, that Adelman and Mack (2018, p. 65) called "civic imperialism". This interpretation is corroborated by Waterman (2002, p. 40): "Secure in the selfless devotion of a noble army of upper-class statesmen, bureaucrats and colonial administrators, British economists from Jevons to Joan Robinson – almost all of whom were themselves drawn from that class – ignored the problems of political process and political agency."

> explosion of the welfare rolls, widespread corruption in both the private and the governmental sector, and, finally, observed increases in the alienation of voters from the political process. (DiD, p. 66-67).

Keynesian economics would be incompatible with a democratic society, because it required a command economy, with little regard to economic and personal freedoms. The Keynesian legacy was the introduction of conditions (by political and economic means) that created an underperforming economy with worse values than before (DiD, p. 131)[56]. Its lack of awareness about political economy burdened future generations with lower economic development.

In order to combat these problems, Buchanan and Wagner advocate a return to the precepts of the old-time fiscal religion, with an independent monetary authority insulated from political pressures. Constitutional rules should guide economic policy and accountability mechanisms, such as public hearings, must be enacted (DiD, 187-189)[57].

DiD produced mixed reactions. It is still considered an important book for the Virginian tradition (cf. WAGNER, 2017), and has amassed an impressive number of citations[58], meaning it was read by many economists. Its intention was to polemicize; the authors knew it "would arouse antagonism from many camps" (BUCHANAN; WAGNER, 1978, p. 627). However, it may have done little to influence mainstream economic theory, if we take the symposium organized by the *Journal of Monetary Economics* to discuss the book (JOURNAL OF MONETARY ECONOMICS, 1978) as a sample of mainstream economists' reactions.

The book was criticized for many reasons, both technical and non-technical: confusing nominal with real debt and ignorance of the Ricardian equivalence and rational expectations (BARRO, 1978); lack of empirical evidence and a formal model (NISKANEN, 1978; TOBIN, 1978, p. 618); not recognizing that their target was the Keynesian doctrine of sticky wages (GORDON, 1978, p. 587); and logical inconsistencies[59] that come from

[56] Values, both economic and moral, are a concern of the authors: "At this point, values cannot be left aside." (DiD, p. 5). Romani (2018, p. 22) observed that DiD was a work that "tapped Americans' traditional values, taking advantage of anxieties about work and rewards, planning for the future, and social stability."

[57] The last chapter of the book incorporates material presented at a congressional hearing on budget balancing (BUCHANAN; WAGNER, 1975). It would explain why there are so many references to American patriotism (or jingoism, depending on the reader) in the text: the beginning of the book's last paragraph reads as "We remain firm in our faith that Americans can shape their own destiny." (DiD, p. 192).

[58] 2274 citations, as of May 2019, according to Google Scholar.

[59] "[…] it is hard to explain why politicians adhered for so long to something that is against their interests" (ROBERTS, 1978, p. 608).

"hardboiled sentimentalism" in their view of the old-time fiscal religion in the United States untainted by Keynesian economics (ROBERTS, 1978, p. 605).

James Tobin offered the harshest criticism, accusing the book of impoverishing economic research because of the authors' aggressive ideological stance:

> Controversy and reasoned debate are part of [the struggle of economists to find the truth]. Labelling 'schools' is not. The BW book is one more symptom of the increasing doctrinal and, yes, ideological polarization of the economics profession in recent years. It is a shame, and it should stop. (TOBIN, 1978, p. 618)[60].

The question of whether DiD made any contribution to macroeconomics was raised by Barro, who claimed the authors "seem to be suggesting the substitution of a political theory of aggregate policy that omits serious consideration of macroeconomic theory" and that the interventionist bias was not as great as the authors claimed (BARRO, 1978, p. 579-580). In their reply, the authors explained that their aim was not to make a direct contribution to macroeconomics, but rather to treat "seriously the straightforward observation that politicians, not economists, make economic policy." (BUCHANAN; WAGNER, 1978, p. 635).

In other words, the book was an analysis of macroeconomic doctrines through a VSPE framework, not a contribution to macroeconomics *per se*. As one commentator wrote, DiD was an exposé of the fiscal malpractices whose sources lay in Keynes's policy recommendations following the publication of the *General Theory* (SUBRICK, 2007, p. 739)[61]. Therefore, it did not directly help to create a distinctive tradition, only to show that the Virginian approach could comment on current events from a Virginian point of view.

Nevertheless, DiD earned its place in the rules vs. discretion debate. Just as new classical theory, Buchanan (and presumably the rest of the Virginia tradition) believed that a market economy was stable (DiD, p. 192; BUCHANAN; WAGNER, 1978, p. 635) and defended the constitutionalization of money to protect the market order from political interests

[60] Tobin was among the few economists who were mentioned by name in DiD (p. 82), on how he failed to recognize the importance of political factors in economic policy, a charge that is repeated recently (EUSEPI; WAGNER, 2016, p. 18). In their reply, Buchanan and Wagner (1978, p. 627-628) urged him not to take it personally.

[61] Subrick's article is a reply to an article by Bateman (2005), who claimed that Buchanan and Wagner intentionally misrepresented Keynes's works to make their argument and that Subrick's reply continued the same vices of Buchanan and Wagner (BATEMAN, 2007). The idea that the General Theory is a manifesto for deficit spending is considered a wrongful interpretation of Keynes by Keynesian scholars (e.g. MARCUZZO, 2018). Johnson (2018), however, argued that Buchanan and Wagner's concerns were others, and therefore they were not interested in a fully accurate picture of Keynes.

(BUCHANAN, 2010). Its staunch defense of constitutional limits to public spending would be used by other economists as a political argument for rules (e.g. LUCAS, 1980, p. 209).

While DiD was important for Buchanan to reaffirm economics as a public science, and to argue that politicians are self-interested rather than neutral (ANGELI, 2019, p. 63), it was inserted into a context of attrition between libertarian and reformist economists, on the side of the free-market narrative, along with Friedman and others (ROMANI, 2018). Therefore, the perception of PCT as a libertarian endeavor became stronger. Its lack of formal modelling, however, may have been a greater obstacle to a further penetration in the mainstream of economics.

In the end, it can be argued the book was somewhat successful, since "little, if anything remains of 'the presuppositions of Harvey Road'" (WATERMAN, 2002, p. 41) and any current economic policy textbook has incorporated issues raised by public choice into its contents (e.g. TANZI, 2011; ACOCELLA; DI BARTOLOMEO; HUGHES HALLET, 2016). Interestingly, DiD made no reference to another contemporary approach that attempted to formally model macroeconomics with public choice: the political business cycle literature[62].

3.3. POLITICAL BUSINESS CYCLES AND NEW POLITICAL MACROECONOMICS: A KEYNESIAN PUBLIC CHOICE?

In the last chapter, we have already performed an extensive recapitulation of the political business cycle models from a technical point of view, and we saw how they brought macroeconomics and the analysis of collective decision making closer to each other. The objective of this section is to understand the place of the PBC models in the public choice canon, and how they helped to create the rift between public choice and new political macroeconomics.

Although Nordhaus did not use the term 'public choice' in any part of his seminal paper, preferring the term 'political choices' to refer to issues of collective choice within an economic model, he was aware of the PCT literature at the time. Nordhaus (1975) mentioned two important works: Downs (1957) and Kramer (1971). He saw them as important

[62] Vane and Mulhearn (2005, p. 155) argued that DiD "has acted as catalyst for much subsequent research on political business cycles", a claim that I consider to be questionable for reasons to be developed in the following pages.

to characterize voting choices as a "menu of alternatives, each alternative representing the position of a party or candidate" (NORDHAUS, 1975, p. 172)[63].

The debate on the relevance of PBCs continued to draw interest from many strands of PCT scholarship, while being discarded by macroeconomists due to bad timing (GÄRTNER, 2004, p. 160). The list of 530 articles compiled by Dubois (2016) shows that *Public Choice* had published 60 PBC-related papers until 2014, being the single most frequent outlet for content on PBCs. PCT textbooks and encyclopedias have relevant discussions on the topic (SHUGART; RAZZOLINI, 2001, p. 427-433; MUELLER, 2003, p. 467ff; ROWLEY; SCHNEIDER, 2004, v. 2, p. 411-415). PBCs can thus be considered part of the PCT "canon".

This contrasts with the fact none of the three economists that developed the model were PCT scholars[64]. Mitchell (1988, p. 110), in his review of the first 25 years of PCT, wrote that the PBC authors had not been associated with public choice, and one of them, Douglas Hibbs, who formalized partisan theory, being "distinctively unfriendly to public choice". As mentioned before, their focus was on creating a macroeconomic rather than a public choice model, even though they did use PCT to inform their analysis[65].

Perhaps due to its scope, DiD makes no reference to the PBC literature, neither to validate nor to deny its conclusions. One of its co-authors, Richard Wagner, went on to write about PBCs, a model he claimed to be "Keynesianesque" (EUSEPI; WAGNER, 2016, p. 20). In Wagner (1977, p. 403), he argued the PBC model "hardly conforms to economic experience" and ignores the contractual nature of the economy. In what can be considered a preemptive critique of future developments of NPM, Wagner claimed that "macroeconomic consequences

[63] As a matter of comparison, other PBC models show similar citation patterns: MacRae (1977) did not mention Downs (1957), but it did mention Kramer (1971), with the additional citation of Black (1958), in order to model strategic behavior of voters in a PBC, something absent from Nordhaus's model. Lindbeck (1976) also mentioned both Downs (1957) and Kramer (1971).

[64] Using data from RePec (http://repec.org/), we see that Nordhaus is a macroeconomist and environmental economist (which earned him the Nobel memorial prize), MacRae is an urban economist and Lindbeck is a macroeconomist and public economist. None of them seemed to be affiliated to the Public Choice Society or similar organizations at any point of their careers. Lindbeck published two articles in *Public Choice* in the 1980s, though (https://www.ifn.se/eng/people/research-faculty/assarl).

[65] Public choice literature had dabbled into how macroeconomic fluctuations could have political origins. Bruno Frey, one important earlier PCT scholar, developed with Laurence Lau a model of how ideology could influence political alternation, adding a quadratic loss function to represent the political goal of a good macroeconomic performance (FREY; LAU, 1968, p. 365). Giving importance to ideology would appease the more hardline members of the incumbent party, but it could alienate moderate ones. According to Olters (2004), the problem was that their model was purely theoretical and could not be easily quantifiable, so it remained as a theoretical exercise, though it does resemble Hibbs's partisan model more closely. Frey and Lau (1968) is only mentioned by Lindbeck (1976).

may result *ex post*, but the *ex ante* impetus for the policy is microeconomic or micropolitical in orientation" (*ibid.*, p. 407).

Faithful to the libertarian position of the Virginia tradition, Wagner went on to support the statement that a market economy was inherently stable (DiD, p. 192) and that business cycles come from the attempts of politicians to manipulate the economy to their own benefit (WAGNER, 1980, p. 33). Although he conceded that "the idea of a political business cycle stands this traditional claim [of benevolence of politicians] on its head" (WAGNER, 2001, p. 430), he also argued that "the actions described by the PBC violate ordinary canons of rationality, unless rapid and significant loss of memory is assumed to plague citizens" (EUSEPI; WAGNER, 2016, p. 21). In a critical review of Alesina, Roubini and Cohen (1997), he criticized the authors for ignoring matters of spontaneous order and attempts to "intervene" in the economy (WAGNER, 1999).

The differences on treating macroeconomic tenets are fundamental to their separation. Unlike most of the PCT literature, which adopted a bounded rationality framework, PBC models would later be updated to incorporate the insights arising from the rational expectations program. Alesina, Rogoff and Sibert, among others, tried to make the PBC framework more appealing to mainstream macroeconomists.

Rational expectations are not considered part of most public choice traditions due to the idea of fiscal illusion. Buchanan and Wagner (1978, p. 631), for example, "do not accept the thesis that the implications of rationality are the same for both private choice and public choice". Rational expectations limit the analysis of strategic interactions of the government with its electorship (BRENNAN; BUCHANAN, 2000 [1980], p. 140). According to Congleton (2001), rational ignorance should be preferred to strict rational choice theory, a concept that Willet and Keil (2004, p. 413-414) argued would have benefitted PBC models if their advocates were aware of this concept, and focused more on microeconomic rather than macroeconomic issues.

Although a few authors equated political macroeconomics to PBCs, they soon realized that there are topics other than the political origins of business cycles to study in the intersection between the analysis of collective decision making and macroeconomics[66]. Some

[66] There are "alternative" NPMs, such as Nagatani's political macroeconomics with influence from Japanese organization theory (NAGATANI, 1988) and the neo-corporatist approach from political science (IVERSEN; SOSKICE, 2006).

NPM authors consider the Kydland-Prescott model of dynamic inconsistency part of the studies of political macroeconomics (GÄRTNER, 1994), claiming it helped launch "a new research programme, at the frontier between economics and political science, that seeks to explain observed government behaviour with the standard tools of economics" (TABELLINI, 2006, p. 214)[67]. Nevertheless, the idea of "endogenous treatment of policy makers has become a frequently encountered, if not standard, feature of macroeconomic policy analyses" (GÄRTNER, 2000, p. 554).

This Keynesian public choice, therefore, saw ways to expand its scope. Already in the earlier textbooks on NPM, such as Alt and Chrystal (1983), there are discussions about the macroeconomic consequences of policies and how they are elaborated by self-interested policymakers, coupled with the claim that "the subject of political economics [i.e. NPM] is the economic role of the government" (*ibid.,* p. 239). If we take Drazen (2000a), Persson and Tabellini (2000) and Snowdon and Vane (2005, c. 10) and judge by their summaries, we see they are interested in, besides PBCs, topics of inflation, central bank independence, political regimes and public debt.

This is clear in the case of Alberto Alesina. Some authors consider him to be "*the* leader of a new school of macroeconomic political economy", focused on macro instead of microeconomic public choice (FORTE, 2012, p. 417-418, emphasis added). He began his research on rational partisan PBCs, and then moved on to other macroeconomic topics, such as the size of nations and the division of national responsibilities in an international bloc (FORTE, 2012; HUGHES HALLET, 2012). Throughout his work, one finds a constant concern with intersecting the fields of political economy and macroeconomics, to the point where he became one of the standard references when someone asks for an example of an NPM scholar[68].

There is yet another aspect worth considering. Although the PBC model also emerged from criticism of the exogenous policymaker, its Keynesian influence meant it was something *slightly* different from standard public choice. Even if the previous theory of economic policy is gone, it would be premature to decree its complete extinction. A recent textbook on economic policy considers that critiques of "political economy", presumably

[67] For example, Carlin and Soskice (2006, c. 16) lump PBCs and dynamic inconsistency in the same rubric of "Political Economy" in their macroeconomics textbook.

[68] Even though he denied identifying himself with any specific school of thought (SNOWDON; VANE, 1999, p. 25). In 1997, when asked if he identified as an "institutionalist", Alesina replied: "I hate that word, I don't know what it means, and, in general, I hate labels." (USABIAGA IBÁÑEZ, 1999, p. 7).

including the PCT critique, which "refer to the existence of agency problems in the relationship between politicians and their constituencies," were of minor importance and could be incorporated into the discipline without much problem; the greatest challenge came from the major critiques posited by Arrow's impossibility theorem and Lucas's policy inefficiency proposition (ACOCELLA, DI BARTOLOMEO, HUGHES HALLET, 2016, p. 7). While the PBC had a "rationale for central bank independence", an idea associated with a conservative macroeconomic approach, "it does not support conservatism in the sense of a more powerful anti-inflationary attitude than that in society as a whole" (*ibid.*, p. 140)[69].

In fact, both Tanzi (2011) and Amable (2018) place NPM scholars as related to the new theory of economic policy. Tanzi (2011, p. 202) identified "the positive theory of fiscal policy […] developed by economists such as Alberto Alesina, Guido Tabellini, Allan Drazen, Torsten Persson, J. von Hagen, and a few others" to be the intellectual successor to the earlier theory of economic policy, after absorbing recent developments in macroeconomics:

> This school seems to conclude that with better institutions and better institutional arrangements good policies can be pursued and can deliver better results. In other words, the positive theory of fiscal policy does not necessarily invalidate the theory of fiscal policy, but it argues that the latter will be more successful if given institutions are in place. (*ibid.*)

As we will see in the next section, NPM scholars wanted to move away from the strongly ideological explanations associated with PCT, and they saw their own models as not inherently libertarian or reformist. Nordhaus was counted among the "new economists" of the 1970s who "sought the middle ground" between libertarians and radicals. Along with Tobin, he started developing his research on environmental economics parallel to his work on PBCs, as a reaction to the statement that growth should not be an end in itself (ROMANI, 2018, p. 16-17). Forte (2012, p. 419) wondered whether Alesina might be a Keynesian, right before making the sensationalist claim that Alesina actually "destroys" Keynesianism. On reviewing the impact of central bank independence research, Alesina wrote that the NPM literature showed that "political competition may generate a deficit bias and accumulation of government debt above the *'social planner' optimum*" (ALESINA, 1988, p. 44, emphasis added) – an expression that would look odd in a PCT work.

[69] May (1987, p. 721), however, argued that "the study of the political business cycle is significant in that the orthodox approach merely provides another rationale for limiting the role of government in the area of stabilization policy."

The issues brought about by PBC models exposed a rift between PCT and NPM. Even if we consider NPM a tradition of PCT in general, its authors sought to distance themselves from the label 'public choice'. In the next section, we will try to understand why.

3.4. NPM VS. PCT: A DISPUTE FOR SCOPE, NARRATIVE AND IDEOLOGY

The question then remains: what makes NPM and PCT different? The conflation of public choice and the Virginia tradition presented in MacLean (2017), which motivated a special issue of *Œconomia* (ŒCONOMIA, forthcoming), is actually a recurrent phenomenon in the literature – it became a relevant problem because Nancy MacLean introduced this issue to a larger, non-academic audience.

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. But here, I am using it more narrowly to represent the work beginning in the Virginia School in the 1950s." Legal scholar Mark Kelman called public choice "democracy bashing" (KELMAN, 1988), in a heavily critical review of the literature from a legal standpoint, using the term as an umbrella for all of its traditions. The conflation is also present in other critical volumes, such as Stretton and Orchard (1994).

From the supporter's side, Dennis Mueller's ecumenical definition was already mentioned, being "the economic study of nonmarket decision making, or simply the application of economics to political science" (MUELLER, 2003, p. 1). In Mueller (2015), he concludes that, if political economists and public choice theorists are doing the same thing, they should be labelled the same. Congleton (2018) includes NPM authors in his survey of PCT literature and digressions on the future of the field.

Again, it should be kept in mind that the three main early PBC authors (Nordhaus, MacRae and Lindbeck) were not explicitly affiliated with PCT and its organizations. Not only that, PCT authors have identified PBC models as the work of "Keynesian oriented economists" (WILLET; KEIL, 2004, p. 412; EUSEPI; WAGNER, 2016, p. 20). PCT emerged from a criticism of the Keynesian theory of economic policy, with DiD was a heavy criticism of Keynesian policymaking for example, making the PBC/NPM characterization of "Keynesian public choice" controversial to say the least. Even if PBC

models were informed by PCT authors and have been researched by them, the latter also recognize them as something *slightly* different from what they understand as "usual" public choice.

As mentioned in the previous chapter, one of the main features of the PBC model was that it included a Phillips curve to "complete" the works of Åkerman (1947) and Downs (1957), just as the "myth of the Phillips curve" started to gain traction by the 1970s. Forder (2014b, p. 160) identified Buchanan and Wagner's *DiD* as a work that had an agenda to associate Keynesianism with inflation, thus intentionally propagating the myth. Due to the Phillips curve's focus on the politician as an exogenous agent, one could expect opposition from PCT scholars. Wagner (1977) argued that the Phillips curve cannot be used to study the real economy because it does not cover all relevant distortions introduced by government activity in the economy. Public choice theorists thus showed little resistance to adopt the myth of the Phillips curve as another example of government failure (and, incidentally, provided little incentive to PCT scholars to adopt a macroeconomic framework).

The separation of NPM authors, who identify themselves as macroeconomists rather than public choice scholars, is also perceived by latter themselves. Although they share entire fields of interest, "very few political economists participate to meetings of the public choice societies [and] publish in journals such as *Public Choice* and quite seldom refer to [PCT] contributions" (PADOVANO, 2004, p. 415-416).

The attempt to distance themselves from PCT is evident in the works of NPM scholars. Drazen considers public choice and new political macroeconomics to have different scopes: while NPM is concerned with using "formal and technical tools of modern economic analysis to look at the importance of politics for economics", PCT "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, 2000a, pp. 4, 60). Drazen thus delimits a difference between both approaches and considers public choice essential to the development of NPM, since it provides microfoundations to political economy – an opinion shared by Gamble (1995, p. 530).

A similar reasoning is offered by Persson and Tabellini (2000, p. 3), who see PCT as an earlier tradition in the positive analysis of political economy that serves as a stepping-stone for NPM. After observing that initial PCT work "sometimes relied on weaker theoretical or microeconomic foundations," their own contributions to NPM adopted "the equilibrium

approach of the macroeconomic theory of policy" and exploited "the tools of rational choice in analyzing some of the classic problems in public choice" (*ibid.*, p. 4). At Stanford, practitioners of political economics intended their approach to be as apolitical as possible, to differentiate themselves from concurrent public choice approaches (NOLL, 2019). Finally, Persson, Roland and Tabellini (1998, p. 686) criticized the caricature made by PCT of the "malevolent Leviathan policymaker that replaces the benevolent Pigovian planner" of earlier Keynesianism.

However, many within the PCT field criticize NPM scholars for trying to distance themselves from PCT. Mueller dismissed Drazen's textbook by writing 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" (MUELLER, 2003, p. 471). He also observes that themes and authors of public choice and political economy overlap: there were several past presidents of the Public Choice Society among the contributors to *The Oxford Handbook of Political Economy* (WEINGAST; WITTMAN, 2006), which means there is no reason for them to be treated as different fields (MUELLER, 2015, p. 386).

In an even more critical view, Blankart and Koester (2006) accused practitioners of NPM of ignoring the importance of public choice in the development of the discipline, claiming that public choice had been researching the same issues long before. Padovano (2004, p. 418) argued that the only relevant difference between PCT and NPM is that the first adopts partial-equilibrium models and the second general-equilibrium models[70]. In his conclusion, "trying to separate the two research fields or to assess the superiority of one over the other is a futile enterprise." Therefore, one part of their criticism is how NPM scholars treat their discipline as if it was a hierarchy above public choice, but their reply would make a similar argument.

In their reply to Blankart and Koester, Alesina, Persson and Tabellini (2006) ask rhetorically:

> By their argument, Hibbs, Nordhaus and Lindbeck must be members of the public choice school. Do Blankart and Koester [and Mueller] classify anybody who was writing on the interaction between economics and politics before the mid-1980s as a member of the public choice school?[71] (ALESINA; PERSSON; TABELLINI, 2006, p. 203).

[70] It might be argued that it resembles the "Marshallian" and "Walrasian" divide in macroeconomics proposed by some historians of thought (e.g. DE VROEY, 2016), reflected in analysis of collective decision making instead.
[71] Mitchell (1988, p. 116) claimed that scholars such as James Q. Wilson, Aaron Wildavsky, Edward Banfield, Robert Dahl, Terry Moe, Robert Salisbury, and Theodore Low can be labelled "'closeted' public choice analysts".

Considering Mueller's definition of public choice and his comments on Drazen (2000a) and Weingast and Wittman (2006), I dare say the answer seems to be "yes".

Given the state of the debate, there is evidence that NPM scholars do not want to be recognized as PCT scholars, which explains their lack of involvement with the other traditions of PCT, besides canonical references. The use of rational expectations and general equilibrium models to analyze issues of collective decision-making and their economic consequences is enough, *at least*, to classify NPM as its own tradition of public choice. It seems, however, that these scholars want to be recognized as macroeconomists, people "doing" macroeconomics instead of public choice.

There is still another issue that makes NPM scholars want to avoid associations with the PCT label. Mentioning personal communications with Persson, Roland and Tabellini, Mueller complains that other scholars shy away from using the term "public choice" due to association with the "right wing". He dismisses this attitude as "political correctness", defending that PCT is also open to "liberals in the American sense", citing examples of important liberal figures working in the PCT tradition, such as Elinor Ostrom, Mancur Olson and Anthony Downs (MUELLER, 2015, p. 386)[72].

As mentioned in the introduction, and following Colander (2009, p. 438), while Lionel Robbins defended that economic science "should avoid value judgements", he believed that political economy "should not only include, but should necessarily embrace" them. A history of public choice would be incomplete without discussing the value judgements of its most important figures. Johnson (2018) shows how Buchanan's critical views towards Keynesianism were formed during his tutelage under Henry Simons in Chicago, and how important they were to shape his theoretical thought. The trajectory of the Virginia tradition is characterized, by its supporters, as the fight of trailblazers against "the tyranny of intellectual establishment" (ROWLEY, 2008), against the "red academy" (ROWLEY; HOUSER, 2012). The opposition they suffered from the establishment was important in building this identity (e.g. FLEURY; MARCIANO, 2018a), and some authors see its critique of social democratic values as a *fundamental* part of its tenets (THOMPSON, 2008).

As the chapter shows, there might be a reason why they would want to be "closeted". It is hard to tell if these authors would be happy to hear they are actually "closeted public choice analysts".

[72] Mueller's argument can be seen as a fallacy named "some of my best friends" (PLUMER, 2011), because he used it to deflect criticism, without properly addressing it. As we will see in a later chapter, this might be a reason why Hirschman did not accept Olson's apology, despite Olson himself being a Democrat.

As mentioned in section 2, economically libertarian and (somewhat) morally conservative values guide the Virginia tradition[73]. Buchanan believed the economist had a public role, to influence the nations' policy, and for this reason he urged the establishment of constitutional limits to economic policies – the economist could not stay silent when the world changed (ANGELI, 2019).

On the other hand, other PCT scholars were aware of the zeal of their fellow founders and tried to downplay its relevance. Olson tried unsuccessfully to mediate a dispute between Gordon Tullock and Albert Hirschman in the 1970s – a matter to be discussed in a later chapter – but in the previous decade he had reviewed Buchanan and Tullock's *Calculus of Consent* (1962). Olson warned about the book's "ideological emphasis". "The somewhat eccentric ideological quality that characterizes their writing," he argued, "unfortunately narrows their appeal and perhaps obscures the objective importance of some of their theories" (OLSON, 1962, p. 1217). Olson tried to induce others to read the book for its theoretical advancements and not mind the ideology, arguing that "in scholarship it is not perhaps necessity, but prejudice, that is the mother of invention". Buchanan reacted to his review, claiming that Olson had a prejudiced view of his research (cf. MEDEMA, 2009)[74]. Paul Samuelson, in a letter to the Ford Foundation[75], thus summarized the issue:

> Buchanan is a person of strong ideological conviction. This is not merely my opinion; it is the opinion of *most* of our profession. There is nothing wrong with this. However, in the area of his research interest this leads, it seems to me after studying a sample of his writings, to a definite twist to his findings. I do not mean that he is consciously or even unconsciously unscientific. But rather his preconceptions are strong enough to serve as an inhibitor of conclusions that are basically repugnant to them. This does not mean that his research is doomed to be unfruitful. But it does mean that his readers have to

[73] While Buchanan did not consider himself a conservative (BUCHANAN, 2006), defending instead that the classical liberal position is superior to the modern liberal and conservative positions, his defense of traditional American values and notions of family in DiD is enough to put him close to the conservatives. These affinities make alliances and conflation of libertarians and conservatives against the left almost inevitable, as in the case of conservative figurehead Irving Kristol, who started as anti-libertarian, but evolved to embrace it (cf. HAMBURGER; STEINMETZ-JENKINS, 2018).

[74] "In a letter to Olson subsequent to the publication of this review, Buchanan took issue with the imputation of 'right-wing prejudice.' He argued that 'the book was devoted to deriving a simple logic of political choice from a position of methodological individualism' and wondered whether Olson was actually suggesting that 'anyone who tries to derive logical basis for democratic government from a consideration of individual choice is guilty of right-wing prejudice.' Buchanan thought that Olson's interpretation was, 'fundamentally a reaction of a strong emotional nature to the ideas,' rather than a 'reasoned position that is based on careful examination of the arguments themselves.' He did allow that the book that the book stimulated in others, especially political scientists, reactions similar to those expressed by Olson, but he believed that these reactions actually derived from the inability of the readers to distinguish between methodology and ideology" (MEDEMA, 2009, p. 142).

[75] Paul A. Samuelson Papers at Duke University, Box 31, Ford Foundation 1955–1969. Letter dated November 19, 1964.

> regard him as "nominating" rather than demonstrating theorems and ideas. (*apud* LEVY; PEART, 2020, p. 55, emphasis added).

There are more examples in the literature of the libertarian reputation of PCT being an issue that turned away many scholars. Gamble (1995, p. 530, emphasis added), a political scientist, 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), a PCT scholar, celebrated the fact that public choice was becoming less and less ideological than it was in its earlier years. William Mitchell is more direct in his lament:

> many political scientists disdain economics and view the Virginians as arrogant, parochial, right-wing economists with imperialistic designs on their discipline - political science. Unlike Rochester, Virginia suffers from the role and fate of the brusque outsider attempting to impose alien ways and values on the home population. (MITCHELL, 1988, p. 115)

This was written in the 1980s. Years later, new institutional economics became more popular amongst political scientists. Bates (2014) argued this shift happened because it facilitated a less hostile attitude towards the government, which created better research potential in treating the state not as inherently good or bad, but as a potential vehicle for human action (also see LEVI; WEINGAST, 2019). In Legal Studies, moreover, Kelman's criticism may have molded the opinion held by legal scholars of PCT. In the introduction to their book on the uses of PCT in Law, Farber and Frickey (1991, p. 11) claim to "steer a middle course between romanticism and cynicism" towards government, associating said cynicism with Riker and Buchanan.

Just as Price (1997, p. 20) wrote that there is no unique definition of PBCs, there is also no unique definition of public choice – but ideology seems to be an important trait in at least some of its definitions. Reactions tended to be dismissive, as in the case of Mueller blaming political correctness and Olson trying to downplay the libertarian ideology of his fellows. However, the discussion of values in Buchanan and Wagner's DiD seems to corroborate Robbins's belief that values cannot be separated from political economy. In their rejoinder to NPM critics, Koester and Gerrit (2007, p. 179-180) invoked the fact that PCT scholars, like the American Founders, "assign great importance to individual liberty as a criterion to evaluate political decisions and institutions" and lamented that such concerns were absent from the works of NPM scholars. They thus attempted to provide a moral high ground to their criticism – a criticism that NPM scholars considered "not easy to respond, […] bold, and […] ideologically loaded" (ALESINA; PERSSON; TABELLINI, 2006, p. 205).

3.5. CONCLUSION

Kenneth Shepsle, one of the most important rational choice-based political scientists, commented that "macro-efforts to model politico-economic phenomena" are like seeing a talking dog: "its remarkableness is not so much that it is done well, but that it is done at all" (SHEPSLE, 1988, p. 57). The NPM effort to include political institutions is part of the expansion in the scope of macroeconomics. Coase (1994, p. 72) wrote that his research was essentially microeconomic and "whether my strictures [on new institutional economics] apply also to macroeconomics I leave to others". One could say that NPM scholars took Coase's reflection seriously (e.g. HELPMAN, 2008). The method of NPM may have an affinity to the New Keynesian approach[76], with its emphasis on macroeconomic market failures, and acceptance of rational expectations and general equilibrium. Given its application to collective decision making, however, NPM can be classified at least as one tradition of public choice. In fact, its subject is the study of "the economic *role* of the government" (ALT; CHRYSTAL, 1983, p. 239, emphasis added), which implies a more proactive/interventionist view of government as an economic institution, not necessarily at odds with social democracy, but in potential conflict with some strands of PCT, such as the one found in *DiD* (e.g. WAGNER, 1999). This also generated affinities with the adapted theory of economic policy.

Although NPM has managed to create important research and attract talented scholars, as Gilles Saint-Paul wrote, mainstream economists are still skeptical of it, because it has not yet succeeded in creating "something comparable in scientific status to the life-cycle theory of savings or the Heckscher-Ohlin theory of international trade" (SAINT-PAUL, 2000, p. 917), in addition to not having specific societies or journals that provide a proper hub for its practitioners. It can thus be argued that, just as public choice theory, NPM remains both a branch and a sect of economics (cf. PALDAM, 1993).

Nevertheless, NPM and PCT remain distant from each other, even if they overlap a lot. Padovano's (2004) diagnosis of a lack of cooperation between the two traditions needs to be properly verified with scientometric studies, but at a first glance, each tradition continues to develop separately from the other. Will they ever solve their issues? In their criticism of Blankart and Koester, the NPM authors wrote that they "do not really understand why some

[76] See Milani (2010) for an example of a New Keynesian PBC model.

researchers who claim to belong to the public choice tradition try to set themselves apart from the rest of economics" (ALESINA; PERSSON; TABELLINI, 2006, p. 207). In other words, while NPM scholars see themselves bringing collective decision making closer to the mainstream, PCT goes a different direction – in their view, *PCT scholars* are the ones who are trying to separate themselves from economics[77]. Table 1 indicates how publications in the five main economics journals reflect this state of affairs: NPM scholars published a slightly larger number of papers in these journals in the period analyzed, which might indicate a higher interest by the mainstream, but after removing the *Papers and Proceedings* of AER, the number of public choice articles is slightly higher, which might indicate a more solid foundation of PCT.

Table 1 – Evolution of publications of both New Political Macroeconomics and Public Choice Theory in the Top 5 economics journals, 1986-2000

	AER	AER - P&P	EC	JPE	QJE	RES
NPM	25	12	3	6	6	6
PCT	15	13	6	5	10	2
						NPM: 46 (33) PCT: 38 (36)

Source: Elaborated by the author, by analyzing the abstracts of all articles published in the American Economic Review (AER), Econometrica (EC), Journal of Political Economy (JPE), Quarterly Journal of Economics (QJE), and Review of Economic Studies (RES), from 1986 to 2000. The column AER - P&P consists of the AER articles without the issue "Papers and Proceedings", usually published in the second volume of the review and consisting of short papers presented at the annual meeting, with a less rigid peer review, allowing research that is usually outside the mainstream to be more easily published.

The issue of what language economists use is important, as Azariadis (2018) concluded in his review of De Vroey (2016): as long as macroeconomics does not unify its languages, progress will be slow. This chapter showed how NPM and PCT are different, in part, precisely due to their languages: macroeconomics vs. microeconomics; Walrasian vs. Marshallian; Keynesian vs. libertarian. When languages converge, good results often follow. When asked about his greatest contribution to economic theory, Alesina said that it was his research on government behavior and its effects on the economy" in ways which are consistent and use the same tools and *language* as economic theory in general" (USABIAGA IBÁÑEZ, 1999, p. 19, emphasis added) – in other words, he intended to present issues of political

[77] One might argue that PCT (at least its Virginian strand) has more in common with the project of "mainline economics" than with either the mainstream or heterodoxy (ANGELI, 2014). Thus, the relationship between NPM and mainline economics should be a topic for future research.

economy in a way that (macro)economists could understand and replicate. As Congleton (2018, p. 241) wrote, “some of the most interesting and important results in public choice ‘simply’ made connections among the various research programs of public choice”. The kinds of possible connections between these programs are an open question, but cooperation will be less likely under different languages, as different languages in science usually imply different objectives and values – which may prevent political economy from becoming an integrated institutional social science.

4. TOWARDS A NEW INSTITUTIONAL SOCIAL SCIENCE: DOUGLASS NORTH AND THE BOUNDARIES OF ECONOMICS

When Ronald Coase and I started the new institutional economics, I proposed that we call it the "the new institutional social science," but Ronald said, "if you do, I will not be a part of it." And so I said, "OK, I withdraw." Obviously I want Ronald to be with me on it, but I think it was a mistake. And as I get on in life, I think it's a bigger and bigger mistake, because it is confining our discussion much too narrowly… I think Ronald is a traditional economist, and for him, economics is economics. For me, it never was.

Douglass North[78]

4.1. INTRODUCTION

Due to its focus on institutions, political economy is usually counted as a field of interest to New Institutional Economics (NIE), and this is clear in the work of Douglass Cecil North. He will be remembered for being one of the most influential economists of the 20th century, through his work on New Economic History (NEH), NIE, and for seeking an interdisciplinary relationship between economics and other social sciences, a "new institutional social science", as the epigraph to this text mentions.

One of his main issues with the economics of the 1980s was how it did not have the tools to properly approach the role of the state and government, i.e., to analyze the political economy[79]. This paper attempts to understand how North changed his views on political economy, and to which sources he resorted in order to better understand the role of government and institutions in society. His views on these issues also tie in with his view on economics: while he wanted to change the way economics approached political economy, he wanted to preserve the main tenets of economics, which are price theory and individual choice within constraints (KRUL, 2018, p. 4).

[78] (KLING, SCHULZ, 2011, p. 176).

[79] His dissatisfaction showed in his earlier career, as in this excerpt from an article published in 1950, commenting on R. A. Gordon's theory of decision making in large corporations: "[The idea that the political-economic power of some groups is significant enough to exert influence on government and other firms] is certainly an incomplete and unsatisfactory conclusion. Perhaps [… Gordon] has reached the limits of an economic analysis and has arrived at the borders of other disciplines. Gordon himself admits that 'the crude tools of the political scientist as well as the more precise tools of the economist, need to be utilized'. (The political scientist might complain that the pot and kettle analogy was appropriate here)." (NORTH, 1950, p. 81).

This chapter has five sections: section 2 is about how North's dissatisfaction with NEH and neoclassical economics made him look for alternatives to their results; section 3 discusses his ambivalent relationship with Marx and Marxism, and Public Choice Theory, and how he used their insights to construct his own approach to political economy; section 4 deals with his time as the director of the Center in Political Economy at the Washington University in St. Louis, where he developed interdisciplinary work with political scientists, economists and other social and cognitive scientists; section 5 concludes, reaffirming North's role in trespassing boundaries in social science.

4.2. NORTH'S APPARENT BETRAYAL OF THE NEW ECONOMIC HISTORY

During his later career, North always considered economic history an important part of institutional economics and political economy. Therefore, we must understand his relationship with NEH/cliometrics in the 1960s. NEH was the application of the rational choice theory of economics to history and North was one of its most important figures. North's most important writings for this movement covered the historical-regional development of the American South in the antebellum period (NORTH, 1961b), a general textbook on American economic history to introduce undergraduates to NEH (NORTH, 1966), and an article estimating changes in the U. S. balance of payments for the American Pre-Civil War period (NORTH, 1960)[80].

North's most important organizational contributions to the spread of cliometrics happened during 1961-1966, when he was co-editor of the *Journal of Economic History*, with William Parker. Together, they increased the acceptance of papers using the NEH approach, making their number grow impressively (HAUPERT, 2016, p. 23), and eventually becoming the dominant method of research in the journal itself (DIEBOLT; HAUPERT, 2018). Some would thus claim economic history *de facto* became cliometrics starting from this moment (GOLDIN, 1995, p. 192).

[80] This paper was first presented at the joint meeting of the Economic History Association and National Bureau of Economic Research's Conference on Research in Income and Wealth, in 1957, that established NEH as a distinctive field in economics (DIEBOLT; HAUPERT, 2018, p. 411).

Many practitioners of cliometrics recognized North's importance. Richard Sutch (1982, p. 24) considered his key role in NEH to be that of "an articulator, a missionary, and a militant partisan for the new methodology." Goldin (1995, p. 195) called him "the grand theorist" of NEH. La Croix (2018, p. 2) compiled an extensive list of important economic historians who were advised by him at some point of their formation, either as undergraduates or graduates at the University of Washington (UW) and Washington University in St. Louis (WUStL)[81]. Ultimately, he received the Nobel memorial prize for his contributions to economic history (PRESS RELEASE, 1993).

The success during the first half of the 1960s did not last. After this, cliometrics

> lost some of its significance with economists, who [did] not see it as anything more than another application of economic theory. While applied economics [was] not seen as a bad thing, cliometrics [was] not seen as *anything special*, just applying theory and the latest quantitative techniques to old data instead of contemporary data. (HAUPERT, 2016, p. 23, emphasis added).

Thus, by the 1970s, economics departments saw no incentive to hire an economic historian compared to an economist who could run the same regressions[82]. And since it became difficult to distinguish between an economic historian and an economist, few history departments saw incentives to keep them, due to their "heterodox" approach[83]. As the historian Pierre Vilar commented, economic history became retrospective economics (cf. GRANDI, 2009, p. 216)[84].

Supporters of NEH also had self-criticism of their own, as discussed by Haupert (2016, p. 24). Douglass North himself was among them. In an article published in 1965 in the *American Economic Review* (NORTH, 1965), he complained that the quality of economic history research was not acceptable and that, in spite of its quantitative advances, NEH's

[81] The list includes Lance Davis, Jonathan Hughes, Richard Sutch, Terry Anderson, Lee Alston, Ben Baack, Richard Bean, Gordon Bjork, Philip Coelho, Rodgers Taylor Dennen, Price Fishback, Gerald Gunderson, Sumner La Croix, Robert McGuire, Lloyd Mercer, Ramon Myers, Roger Ransom, Clyde Reed, Gaston Rimlinger, James Shepherd, John Tomaske, Richard Tretheway, Irwin Unger, John Joseph Wallis, Gary Walton, Robert Willis, Lorena Alcazar, Eliana Balla, Mary Ann Boose, Art Carden, Hugo Eyzaguirre, Tawni Hunt Ferrarini, Daniel C. Giedeman, Peter Z. Grossman, Bradley Hansen, Michael Haupert, Shawn Humphrey, Mansor Haji Ibrahim, Iacovos Ioannou, Shilpi Kapur, Philip Keefer, Janice Rye Kinghorn, Jeanine Koenig, Felix Kwan, Noel Johnson, Ruey-Hua Liu, Jeremy Meiners, Michael Munger, Randall Nielsen, Michael J. Orlando, Brian Roberts, Andrew Rutten, Werner Troesken, Mark David Vaughan, and Timothy Yeager.

[82] In an interview, North said that "economics departments have largely reverted to thinking of economic historians as marginal to department needs. The reason, I believe, is that we do not add any particular dimension to economics. We just use their tools to explain the past." (LYONS; CAIN; WILLIAMSON, 2008, p. 197).

[83] The cliometricians' insistence on a rational choice-based approach to history caused them to be rejected from history departments. Goldin (1995, p. 206) lamented: "the intention was to proselytize, not obliterate".

[84] For this reason, economic historians still struggle with identity concerns. See Shanahan (2015).

contributions were limited, especially due to the lack of a satisfactory growth theory to explain long-run development.

It should be observed that the AER article was aimed at a general audience, its objective being to report progress in NEH and stimulate the interest of more economists. The change in tone from his earlier article in the same journal (NORTH, 1963) is clear. However, North's feelings on the inadequateness of NEH continued to grow as he went to Geneva, on a Ford Fellowship, to study European economic history.

In his view, the cliometric method was useful to study American economic history but not its European counterpart, since the United States never followed the same developmental path as Europe. After being founded at the dawn of capitalism, it did not experience certain phases such as feudalism and the manorial system – phases that neoclassical theory could not explain due to the absence of data and institutional research. Although he criticized the state of European studies in economic history for not being up-to-date with price theory and statistical work, he admitted that "even modern developments in economic theory will not alone be sufficient for the enormous task of reconstructing an explanation of the economic growth of the Western World" (NORTH, 1968a, p. 146).

According to North himself, the catalyst to the change in his ideas on the relevance of institutions came from a visit to a maritime museum in the Netherlands. Since he had experience from the time spent in the merchant navy during World War II, he knew how important technical specifications such as ship weight and crew costs were. Thus, he realized that while ship technology did not display much improvements in the first half of the 19th century, insurance price and quantity of onboard armaments diminished (MENÁRD; SHIRLEY, 2014, p. 19). Technology alone, he concluded, could not be responsible for development, as the Solow model predicted. This culminated in his 1968 *Journal of Political Economy* article (NORTH, 1968b), in which he analyzed the historical sources of productivity change in ocean shipping, emphasizing the role of institutions. Geloso (2018) argues that productivity in shipping was a neglected feature that changed North's views, shifting the direction of his research from a macro-historical to a micro-historical perspective, focused on organizations and institutions.

The institutional turn in North's research came with Davis and North (1971) and North and Thomas (1973), which applied this institutional framework to American and European history, embracing the view that institutions were efficient – a view he would later

abandon, starting with North (1981). This coincided with North's increasing criticism of NEH: many of his articles from the 1970s (NORTH, 1971; 1974; 1976; 1977; 1978) show that, while North saw the importance of cliometrics for the promise it once held, he grew to develop "a dismal view of most of what passes for economic history these days" that "just reinforces [economists'] own prejudices" (NORTH, 1989-DCNP).

His main criticism to NEH comes from the diagnosis that "the tools that the new economic historian inherited from the economist were not intended to deal with long-run economic change" (NORTH, 1971, p. 118). While NEH contributed to dispel some equivocal statements in economic history[85], it did not find actual causal relationships that could legitimize cliometrics as a study of economic development. There were additional criticisms, such as that long-run economic growth had been ignored; there was no role for governments and nonmarket decision-making; it was unteachable to undergraduates (NORTH, 1974); it was incapable of analyzing the Pre-Industrial Revolution world (NORTH, 1976); and NEH practitioners were not fully aware of the limits and weaknesses of their datasets (NORTH, 1977). North used even harsher language than Vilar:

> But the reason [the other economists] are not buying [the NHE] is not ignorance or market failure; it is simply that the new economic historians are doing the same things that economists are doing but the economic historians deal with dead issues rather than live ones and with data of generally poorer quality. (NORTH, 1977, p. 197)

Its study of economic growth, moreover, "has been an exercise in applied arithmetic or simply employed bad economics, and has remained a dull and sterile field." (NORTH, 1976, p. 462). He contrasted the situation of NEH, which "gained in rigor and scientific pretension, but at the expense of exploring a much more fundamental set of questions about the evolving structure of economies that underlies performance" (NORTH, 1978, p. 963), with other schools of economic history, such as the Marxist and the Annales[86]. Even if the

[85] In accordance with Goldin's (1995) claim that NEH was controversial because it went against publicly held historical beliefs like the importance of railroads.

[86] The Annales School is a school of historiography of French origin, associated with historians such as Marc Bloch, Lucien Febvre, Fernand Braudel and others, first appearing in 1929. Its main draw was that it tried to fuse "*economic*, social and cultural history" into an interdisciplinary study of history, in the words of Emmanuel Le Roy Ladurie, a synthesis of social science looking at the past (HARSGOR, 1978, p. 2, emphasis added) and its effort to build a *historical* social science (BARROS, 2018). Harsgor (1978, p. 5) even mentioned how Le Roy Ladurie moved to fields outside the social sciences to explain history, such as climatology, zoogeography, meteorology and phytogeography. One of the main criticisms towards economics is that it is ahistorical (ANKARLOO, 2002; BADEEN, 2015), something North did not seem unaware of. He recognized that the Marxist and the Annales approaches avoided the charge of being ahistorical, while being atheoretical, while cliometrics was theoretical but ahistorical, besides being concerned with performance instead of structure (NORTH, 1984b-DCNP) – this allowed these alternative approaches to be superior in a few ways to the economic approach.

Annales, in the hands of its best practitioners, was more of an art form than a proper science of history, it still had a "significant advantage of telling a sequential story and dealing with a much broader spectrum of past economic experience" and thus had the potential to tell a more fruitful story of history (NORTH, 1977, pp. 191-192).

In his later interviews, he still corroborated this low opinion of cliometrics, claiming that "until economic historians break out of the strictures imposed by neoclassical theory, cliometrics will remain a relatively uninteresting field" (LYONS; CAIN; WILLIAMSON, 2008, p. 197)[87]. To become relevant, multidisciplinarity was needed: "You cannot possibly make sense of the world unless you try and integrate political, social and economic theory" (SNOWDON, 2016, p. 19).

In his attempt to find something that was lost in the cliometric revolution, besides (re)turning to institutions, North turned to other traditions: Marxism, for long-run secular change theory, and public choice, for an economic analysis of politics[88].

4.3. NORTH BETWEEN TWO EXTREMES OF POLITICAL ECONOMY: MARXISM AND PUBLIC CHOICE

The anecdote of North's relationship with Marxism in his Berkeley years is recounted in many of his interviews, of how Marx "had all the right questions but not very good answers" (HORN, 2009, p. 159). His militancy cost him better grades as an undergraduate, but he had abandoned Marxism by the mid-1950s in order to become, in his own words, a "very rigorous" neoclassical economist (*ibid.*, p. 164) – a Chicago economist, according to his department colleague at UW Yoram Barzel (2015).

As mentioned in the previous section, his neoclassical rigor started to wane in the late 1960s. Even during this earlier phase, however, he considered Marx an important scholar. Writing for Latin American audiences, he gave moderate praise to Marx for having called attention to long-run analysis, which he regarded as a deficiency of neoclassical theory

[87] North, in the same interview, claimed he still considered himself a neoclassical economist, wanting to improve the neoclassical method, even if other cliometricians considered him a traitor (LYONS; CAIN; WILLIAMSON, 2008, p. 203, 204).
[88] Matthijs Krul also includes Polanyian anthropology as an important ingredient for this turn in North's thought, which is beyond the scope of this work. The reader can refer to Krul (2018) for further discussion.

(NORTH, 1961b)[89]. In the 1970s, he started to (re)read Marx, along with Margaret Levi, then an assistant professor in political science at UW. She had been referred to him by Samuel Bowles[90] (LEVI, 2018), and together they worked on Marxism and transaction cost theory.

His non-hostile treatment of Marx sparked some curiosity. Wisman, Willoughby and Sawers (1988) commented on how odd it was that a neoclassical economist would be so receptive to Marx, even in spite of North's association with libertarian and conservative organizations (KRUL, 2018, p. x)[91]. In a letter, he mentioned that Bowles had called him the "leading closet Marxist in the United States" (cf. NORTH, 1992b-DCNP).

North saw Marx as important to understand long-run secular change. "In contrast to current neoclassical economists," North (1986, p. 58) argued, "Marx had an integrated perception of the totality of societal relations," in addition to incorporating "institutions, property rights and ideology," things missing from the neoclassical framework (NORTH, 1982, p. 41). Not only that, he considered that Marxism had a lot to learn from neoclassical economics and encouraged Marxist and Dependency Theory authors to produce more empirical work, with potential of partnership (NORTH, 1991b-DCNP). He defended that "a theory of exploitation that does not comprehend the paradoxical dilemma that the state is both the mainstay of exploitation and, equally, the mainstay for any economic order cannot adequately explain the existence of exploitation" (LEVI; NORTH, 1982, p. 319)[92].

[89] North wrote this article for Latin American audiences during one of his visiting scholar trips (BOIANOVSKY, 2018). An unpublished English version of North's article is available at the DCNP (NORTH, undated-DCNP).
[90] It should be noted that Levi identified herself as a Marxist in the 1970s, and North still identified her as Marxist in much later interviews (SPENCER; MACPHERSON, 2014, p. 168), even though she no longer considers herself as such (LEVI, 2018).
[91] The grant proposal submitted by WUStL's to the Henry R. Luce Foundation focused on the role of liberty in history and might be associated with a conservative position (WASHINGTON UNIVERSITY IN ST. LOUIS, undated-DCNP) – the Henry R. Luce Foundation itself is considered a conservative organization, due to the fact Henry Luce's editorship at *Time* magazine helped to defend *laissez-faire* and "traditional American values", and opposed the New Deal during the 1940s (KERSCH, 2019, p. 140). The WUStL hosted J. H. Hexler's Center for the History of Freedom, as part of a collaboration with the libertarian Liberty Fund (HEXLER, undated-DCNP) under Hexler's direction, someone with whom North manifested interest in cooperating (NORTH, 1983b-DCNP). His archives are replete of correspondence with libertarian organizations and their "ambassadors" (e.g. MANNE, 1987-DCNP). After accepting serving as a board member of the Austrian Economics Program at New York University, he wrote that "While I do not agree with all aspects of Austrian Economics, I am in broad sympathy with it's [sic] program and research and find myself much more in agreement with it than disagreement" (NORTH, 1997-DCNP).
[92] However, Galípolo, Gala and Fernandes (2008) claimed that the use of Marx by North was more in the nature of a rhetorical device, since one of North's strengths was adapting his discourse to different audiences and avoiding accusations of imperialism (GALA, 2003). North himself wrote that "when stripped of all the rhetoric [Marxist theories] have some similarity to a neoclassical approach to the state" (NORTH, 1982, p. 22-23), meaning he saw some value in them and attempted to convince readers that Marxism could be a topic of discussion.

Thus, in his main works, North considered Marx worthy of mention because he "attempted to integrate technological change with institutional change," and made "a pioneering effort to integrate the limits and constraints of technology with those of human organization" (NORTH, 1990, p. 132). Accordingly, he engaged Analytical Marxists such as Roemer and Elster (LEVI; NORTH, 1982; NORTH, 1986), and wrote to the MacArthur Foundation recommending a grant for Jon Elster (NORTH, 1991-DCNP). Nevertheless, Galípolo, Gala and Fernandes (2008, p. 209) noted that references to Marx diminished in his later works. In fact, they pale in comparison with his productive relationship with PCT scholars.

The relationship between the different traditions of NIE and PCT is somewhat intimate and yet unexplored in the literature. In one of the few direct comparisons between the two approaches, Rutherford (1994, p. 4) considered PCT to be a branch of institutional economics, focused on the polity. Due to this focus, North saw in PCT a way to improve NEH and institutional research, since it covered one of the problems mentioned in section 2: the issue of nonmarket decision. "The work of Baumol, Buchanan and Tullock, and Anthony Downs," North (1974, p. 5) argued, "provides us with a promising starting point," and the inclusion of PCT literature in his writings was an indication that his own research had started to change (cf. BROWNLOW, 2010). Krul (2018, p. 2) observed that much of North's work converged with PCT and argued that his "transaction cost theory of politics" remained in the PCT tradition, incorporating a contractarian approach (*ibid.*, p. 51).

In his main books from the 1980s – *Structure and change in economic history* (1981) and *Institutions, institutional change and economic performance* (1990) – North paid tribute to PCT and understood its importance for discussing the role of the State and how politicians make their decisions. Nevertheless, due to having built its foundations on rational choice theory, just like NEH, public choice had similar limitations. It had "only a modest success in explaining political decision making" and was not able to explain the origins of property rights, in spite of being useful to explain the organization of property rights (NORTH, 1981, p. 21). He recognized the importance of Buchanan and Tullock's theory of interest groups for being a simple framework to analyze the political game; but its simplicity was also a weakness because it could not explain more complex and real-life political interactions (NORTH, 1990, p. 50).

Tullock's influence is emphasized in North's personal correspondence. In a letter dated August 10, 1986, North wrote him 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." (NORTH, 1986b-DCNP). In a letter to Charles Rowley, dated January 22, 1985, North corroborated the influence of Tullock in his own thinking, calling himself "a fan" of Tullock (NORTH, 1985a-DCNP). He also had a friendly relationship with James Buchanan, and they discussed how close their theories were from each other (BUCHANAN, 1978-DCNP; NORTH, 1991-DCNP).

Another personal relationship with PCT theorists can be observed with Mancur Olson. Although he recognized his writings as important, he criticized Olson (1982) for ignoring the role of the State and of ideological convictions (NORTH, 1983, p. 164). In a report to the National Science Foundation (NSF), he claimed that Olson (1982) "is no way comparable" with *The Logic of Collective Action* and that Olson's proposed follow-up *Regulation, Deregulation and Macroeconomics* should not receive an NSF grant (NORTH, 1985c-DCNP). In a letter dated October 11, 1988 to Geoffrey Huck, then editor of the University of Chicago Press, North recommended that Olson's book *The Measure Rod of Money* should not be published, due to being outdated and not relevant to current issues (NORTH, 1988-DCNP). He still claimed, however, to hold Olson in "high regard" (NORTH, 2000-DCNP) and used Olson (1982) in a few of his economic history courses (e.g. NORTH, 1983-DCNP).

The influence of PCT literature is quite evident in the 3rd edition of his textbook on American economic history (NORTH; ANDERSON; HILL, 1983), where the tone changed from previous editions to make the focus on economic growth more prominent, with an emphasis in the political economy of American history. Rent-seeking is mentioned at least 16 times as an important barrier to economic growth. He also accepted the VSPE narrative (BUCHANAN; WAGNER, 2000 [1977]) 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." (NORTH; ANDERSON; HILL, 1983, p. 162).

Drawing on PCT literature, North concluded that one of the most important things a legislative body could do to benefit long-term economic development was to curb rent-seeking at the beginning of its development. However, North was opposed to considering rent-seeking *as* a theory of state, "because by looking at the government as a gigantic process of income redistribution and legalized theft, we have been largely diverted from our exploring, in

an analytical and non-pejorative fashion, the political process" (NORTH, 1987, p. 164). North considered rent-seeking as a manifestation, a consequence of poor institutions, not the endgame *per se* of the economic analysis of politics, and saw it at odds with the property rights literature because. His issue with rent-seeking literature was that "even though it never really states it," it considers "that anything above a zero transaction cost world of government is in fact inefficient" (NORTH, 1985b-DCNP).

This illustrates another point of tension between NIE and PCT[93]: as mentioned in the last chapter, a cynical and libertarian view of the State is frequently associated with PCT itself, due to conflation with the Virginia tradition. Bates considered this as one reason why PCT did not live up to its full potential:

> North's work was well-received in part because he mobilized data at the macro level that appeared to confirm the implications of the reasoning that others were developing at the micro level. Had these advances in micro theory not taken place, contemporary political economy might well have remained the provenance of public choice theory; instead, 'institutions rule' (BATES, 2014, p. 54).

For him, NIE provided a less hostile attitude towards the government that made it easier to be adopted by political scientists, focusing on the potential of the state to be an instrument for development or stagnation (LEVI; WEINGAST, 2019), free of ideological concerns[94]. North himself was dissatisfied with the VSPE for treating the State as "little more than a giant theft machine" (SPENCER; MACPHERSON, 2014, p. 168), and claimed that if PCT wanted to improve, it had to go beyond rational choice (NORTH, 1993).

Thus, although North recognized the importance of PCT, especially of its Virginian tradition, and collaborated with some of its authors, he considered it "one extreme" of the literature in political economy (NORTH, 1986, p. 62), while Marxism was the other. North himself wrote that

> the more interesting literature of the *new political economy* seeks to blend modeling the political process with the transactions-cost literature to explain the diverse patterns of property rights and enforcement that have evolved to produce successful economies of the past century, as well as to explore the reasons for failure in the Third World. (*ibid.*, emphasis added)

[93] For some reason, whenever North received correspondence from George Mason University's staff, they always wrote Public Choice Institute for a few years, instead of the correct term Center in Political Economy (e.g. TOLLISON, 1985-DCNP; ROBACK, 1986-DCNP).
[94] However, critics of North claim that it is impossible to separate his theory from a neoliberal worldview (e.g. MILONAKIS; FINE, 2007).

North is considered an important figure in the new political macroeconomics, who helped establish a new form of interdisciplinary economic analysis of politics, with a focus on macroeconomic issues (SNOWDON; VANE, 2005, p. 517). Already in North (1990, p. 112), he argued that "the polity and the economy are inextricably interlinked in any understanding of the performance of an economy and therefore we must develop a true political economy discipline" that integrates both micro and macro aspects in a truly interdisciplinary social science, with definite applications for practical problems (NORTH; ANDERSON; HILL, 1983, p. 172). North developed this project of political economy in St. Louis.

4.4. POLITICAL ECONOMY AT THE WASHINGTON UNIVERSITY IN ST. LOUIS

By the beginning of the 1980s, North was about to retire from UW. He was already dissatisfied with what the university's political science department could provide[95] and was losing influence in the economics department (cf. BARZEL, 2015). According to Levi (2018), UW "did something very silly" by giving all kinds of benefits to retiring senior faculty without any penalty if they chose to go to other places. He chose the Washington University in St. Louis (WUStL)[96] because it was one of the most important centers of rational choice-based political science, and also because of the successful request of a grant from the Henry Luce Foundation, which would turn him into the first Henry R. Luce Professor of Law and Liberty (MORROW, 1983-DCNP; WASHINGTON UNIVERSITY IN ST. LOUIS, undated-DCNP).

After accepting the position at WUStL, North organized the Committee on Political Economy, of which he became the director from 1983 to 1990. In the first year, they proposed an undergraduate major in political economy, with courses in economic history, theory of property rights, and game theory (NORTH, 1983c-DCNP). They also completed a

[95] North had attempted to create an undergraduate program in political economy at UW. Besides area electives such as microeconomics and political science, the program offered a course in property rights with Yoram Barzel, another in Marxist political economy with Margaret Levi, and a seminar co-taught by Levi and North (LEVI, 2018).

[96] Levi (2018) recollected her influence in his decision: "I told him that, for his purposes, [WUStL had] one of the best, if not the best political science department in the country, because there were people like Barry Weingast, Kenneth Shepsle and Jim Alt. But they were really thinking about how to use neoclassical economics to inform political science and to transform both neoclassical economics and political science, which they did." Shepsle and Weingast are directly associated with popularizing the use of formal rational models in political science (ADCOCK; BEVIR, 2010, p. 92). He also received a proposal from the University of South California (AIGNER, 1983-DCNP), which he rejected.

graduate program in political economy, with seminars in history and development, and on the American constitution (NORTH, 1984a-DCNP).

The luncheons in the first year were important to discuss the fellows' research, focused on the boundaries between the social sciences and their applications in political economy. They mention the presence not only of the economists affiliated to the center, such as Arthur Denzau, Lee and Alexandra Benham and Barry Weingast, but also political scientists such as Kenneth Shepsle, Randall Calvert, James Alt, and William Riker – the latter founder of the positive political science school of Rochester and a visiting professor. They also attracted members of WUStL's Business School[97], such as Seth Norton, Ken Lehn, Bill Marshall and John Binder, plus the philosopher Ned McClennen, an important figure in establishing a philosophical foundation for rational choice theory (WASHINGTON UNIVERSITY IN ST. LOUIS, 1983-DCNP).

In January 1984, the Graduate Program in Political Economy was a reality, and its objective was to "provide an interdisciplinary field of concentration for graduate students interested in studying the causes and effects of political decision making from rational choice perspective." (NORTH, 1984a-DCNP). The program was a joint effort between the economics and political science departments, with courses in economic history, macroeconomics and American politics.

By the end of 1984, the committee became a "full-blown" Center for Political Economy (DANFORTH, 1985-DCNP). In 1987, the center extended its interdisciplinary activities to the anthropology and law departments, inviting anthropologist Keith Hart to be a fellow and Chicago law scholar Victor Goldberg to be a visiting scholar (MILFORD, 1987-DCNP), besides having the law scholar John Drobak co-teach a course with North on property rights (DANFORTH, 1989-DCNP).

After leaving the directorship of the center in 1990 (ISRAEL, 1990-DCNP), North continued to be a fellow and to promote interdisciplinary research, this time with cognitive science, helping to create a program on Philosophy, Neurosciences and Psychology, co-teaching some courses in cognitive science and economics (HORN, 2009, p. 169). His

[97] North's cooperation with WUStL's Business School was close. In personal correspondence, he communicated to the dean of the Business School, Robert Virgil, that the Business School committed a mistake in allowing Matt McCubbins and Gary Cox to leave (NORTH, 1986a-DCNP). Half the fellows from the center had appointments in the Business School and they organized the conference "Political Economy and Business" in 1987 (MILLER, 1987-DCNP).

research would culminate with *Understanding the process of economic change* (NORTH, 2005), in which he attempted to apply cognitive science to the study of ideologies and economic development.

One of his most important interdisciplinary actions was the *Working Group on the Emergence of Social, Political and Economic Institutions*, an initiative of the Committee on Basic Research of the National Scientific Council, of which North was the chairman from 1983 to 1986. It was one of the most comprehensive interdisciplinary initiatives of its time. The members of the working group were Robert Bates (political science), Robert Brenner (history), James Coleman (sociology), Elizabeth Coulson (anthropology), Kent Flannery (archeology), Vernon Smith (experimental economics) and Neil Smelser (sociology). It was a massive attempt to create a truly interdisciplinary "new institutional social science" to explain the evolution of institutions (NORTH et al, undated-DCNP).

In the end, North's work in the Center provided a testing ground for his project of a new institutional social science. He was among people with similar thinking, who wanted to apply economic tools to improve both economics and political science, with the intention of having future practical applications, and trying to remedy the issues for which he criticized NEH so much. The government and its decision making process were important parts of his project at WUStL, which motivated his migration from the boundary between economics and political science in the 1980s to the boundary between the social and neurological sciences in the 1990s, culminating in his later research on cognitive economics, social orders and the origins of violence (NORTH; WALLIS; WEINGAST, 2009). He thus tried to find the key to the conditions necessary for economic development by going further afield.

4.5. CONCLUSION

One of the reasons why North became so important to economics was because of his transit between many different disciplines of the social sciences. His criticism of economics was direct, calling economics "a very narrow field that, by itself, I don't think is very interesting" (HORN, 2009, p. 170), while claiming that "price theory and opportunity cost – the economic way of reasoning – is the most powerful tool of analysis in all the social sciences, and you don't give that up" (LYONS; CAIN; WILLIAMSON, 2008, p. 203). His attempts to improve the tools of economic analysis motivated him to go beyond neoclassical

economics and NEH, which led to something else. Krul (2018) called his theory "new institutionalist economic history", instead of just "new institutional economics."

There has been an increase in the popularity of economic history in recent years, including new cliometric research, and economists themselves are becoming more interested in the field, starting to realize how important economic history is to political economy (ACEMOGLU; ROBINSON, 2006; 2012; MEJÍA, 2015; CALAFAT, MONNET, 2017; CIONI; FEDERICO; VASTA, 2019). The John Bates Clark Medal, given yearly to the most important economist under 40 years of age in the United States, was given to Dave Donaldson in 2017, for his work on trade economics that involved massive research in the economic history of India[98]. The renewed prestige of economic history, however, contrasts with the increasing gulf between cliometricians and non-cliometric economic historians (KLEIN, 2018). Social scientists are still wary of congregating into a "new institutional social science", even if they want more interdisciplinarity.

North himself was not spared from critiques. Ankarloo (2002) claimed that North's attempt to incorporate history into economics failed, leaving economics still ahistorical. McCloskey (2018) claimed that North's approach failed to separate itself from scientism, while his focus on cognitive science left no space for ethical considerations. North recognized as much: "we don't explain the transition completely. We don't explain in a satisfactory way how political systems evolve and how you get adaptive efficiency" (SNOWDON, 2016, p. 143).

I conclude it is hard to portray North either as a pluralist or as an economic imperialist. He never went as far as William Riker, for example, who claimed that rational choice is the only model capable of giving a robust psychological and social base to social science (RIKER, 1995, p. 40). He also criticized rational choice scholars such as Ferejohn, Fiorina and Shepsle (the latter a department colleague at WUStL and a fellow of the Center in Political Economy in its earlier years): "I, myself, am quite critical of such models because I think they assume information feedback and knowledge on the part of voters and representatives which are absolutely ridiculous" (NORTH, 1990-DCNP). Nevertheless, he was also not willing to abandon the rational choice model: he saw insights from other fields as helpful to improve it, while being dismissive of alternative approaches to economic history[99]

[98] https://www.aeaweb.org/about-aea/honors-awards/bates-clark/david-donaldson

[99] In a letter to historian Mary Schweitzer, North wrote he was "not sure that it is possible to persuade historians of the value of economic reasoning" and argued that historians should study the new institutional economics, instead of the zero transaction costs approach that is standard of economics (NORTH, 1993-DCNP).

(cf. BOLDIZZONI, 2011, p. 111). To him, it was clear “the future is not going to look like the past” (NORTH, 2011-DCNP), and he defended a new political economy, combining insights from economics and other social and cognitive sciences, to understand our non-ergodic, complex world (NORTH, 2006).

5. HIRSCHMAN'S POLITICAL ECONOMY OF CITIZENSHIP

"A taste is almost defined as a preference about which you do not argue – de gustibus non est disputandum. *A taste which you argue, with others or yourself, ceases* ipso facto *being a taste – it turns into a value."* Albert Hirschman[100]

5.1. INTRODUCTION

As mentioned in the introduction, criticism to how orthodox economics dealt with the political economy did not restrain itself to rational choice-based approaches. URPE-affiliated economists had heavy criticism of their own (e.g. BRONFENBRENNER, 1970; MATA, 2005; 2009; LEE, 2011; REVIEW OF RADICAL POLITICAL ECONOMICS, 2018). While public choice theorists criticized the inefficiency of the welfare state (THOMPSON, 2008), URPE-affiliated economists criticized the doctrine of Military Keynesianism that was part of the economic practice of the time (BARKER, 2018). Just like PCT supporters, they criticized orthodox economics for ignoring issues like the interest of policymakers and the role of power relations in the economy. URPE, however, consisted of critics of capitalism, whereas the Public Choice Society (PCS), though gathering an ideologically diverse crowd, was a place where libertarians converged, including those affiliated to the VSPE. For this reason, Olson and Clague (1971) saw a convergence between the "New Left" and the "New Right", and they expected that the boundaries between them would become thinner[101].

The convergence thesis was stillborn, nonetheless. The values that each group defended were fundamentally different (TILLMAN, 1975). Economists related to PCT adopted a rational choice-view of the economic agent, while those related to URPE embraced Marxian, institutionalist, and other approaches that explicitly rejected the rational choice paradigm.

Albert Hirschman's work provides an example of the failure of the convergence thesis. Just as disappointed with mainstream economics for ignoring issues of political economy as economists from URPE and PCT, he had a project that explored the "political dimensions of

[100] (HIRSCHMAN, 1986, p. 145)

[101] One example is Martin Brofenbrenner, who was both a member of URPE and the liberal/libertarian Mont Pèlerin Society (MATA, 2009, p. 125, n. 25), and wrote an important early literature review of the radical economics movement (BROFENBRENNER, 1970). Another example is Dryzek (1992), who argued that Public Choice and Critical Theory (associated to the School of Frankfurt, in the figures like Theodor Adorno, Jürgen Habermas and others) have more in common than might appear, since they both emphasize the rational egoism of politicians.

economic phenomena" as intimately related to the "terms of development sequences in which political and economic forces interact," interfering directly in the "processes of social change" (HIRSCHMAN, 1971, p. 1). To this approach, he circulated between the labels of "political economy", "political economics" or "politics-cum-economics" (*ibid.,* p. 7), though the term usually associated with Hirschman's contribution in the literature is "political economics" (FROBERT; FERRATON, 2003; GUIOT, 2017).

His approach stood between the URPE and PCT alternatives, occupying a similar academic niche. Although he had little sympathy to radical political economics[102], he saw his work as an alternative to the public choice approach. Hirschman's most important model of political economics was the exit-voice-loyalty (EVL) model (HIRSCHMAN, 1970). He suggested the mechanisms of exit and voice as a way of synthetizing how collective action could take place within economic and political mechanisms. This would become an important part of his project of political economics. The model remained an important contribution to political economy due to the wideness of its audience, even though it failed to produce a paradigm and to decisively influence the economic profession[103].

Although Grofman (2002, p. 31-32), a former president of the PCS, considers the EVL model as important to public choice in general, Hirschman had an antagonistic relationship with public choice itself, as evidenced by his writings and interviews. Initially, Hirschman took an interest in public choice. In correspondence with Gordon Tullock, which extended from November 1961 to February 1962 (HIRSCHMAN, 1961a,b, 1962-GTP; TULLOCK, 1961a,b, 1962-GTP), he showed interest in the latter's work and expressed his sentiment that they were exploring similar issues, even mentioning that Tullock's book would help in his own research (HIRSCHMAN, 1962-GTP). Tullock lent him his own mimeographed copy of *Calculus of Consent* and appreciated Hirschman's interest in the work, but remarked:

[102] In his review of Adelman (2013) for the *Review of Radical Political Economics*, Perelman (2015, p. 324) wrote that Hirschman was neither a socialist nor favored governments, though he was sympathetic to left liberal causes. He concluded that Hirschman's work "should be of great interest to radicals today."

[103] "[HIRSCHMAN, 1958] appeared at a critical point in this methodological crisis. It is a rich book, full of stimulating ideas. Its most important message at that time, however, was a rejection of the drive toward rigor. In effect, Hirschman said that both the theorist and the practical policy-maker could and should ignore the pressures to produce buttoned-down, mathematically consistent analyses, and adopt instead a sort of muscular pragmatism in grappling with the problem of development. Along with some others, notably Myrdal, Hirschman didn't wait for intellectual exile: he proudly gathered up his followers and led them into the wilderness himself. Unfortunately, they perished there. The irony is that we can now see that high development theory made perfectly good sense after all. But in order to see that, we need to adopt exactly the intellectual attitude Hirschman rejected: a willingness to do violence to the richness and complexity of the real world in order to produce controlled, *silly* models that illustrate key concepts" (KRUGMAN, 1994, n. p., emphasis in the original)

"I think you are probably right about the interrelationship between our projects. In general, however, we are interested in studying how institutions work in order to find out if the institutions can be improved. The ultimate objective *differs* from yours" (TULLOCK, 1962-GTP, emphasis added). Tullock and Hirschman would interact indirectly again in the future, but in much worse circumstances, as we will see below.

This chapter explores the conflict between Hirschman and public choice theory using the reception accorded to the EVL model as an example of this relationship, with the purpose of understanding Hirschman's contribution to political economy as an outcome of his desire to provide an alternative to public choice. The chapter is divided in four sections, besides this introduction: in Section 2, I present Hirschman's work on voice, exit and loyalty; in Section 3 I present critical reviews to his model that proved influential on him; in Section 4 I discuss Hirschman's project of an alternative political economics; and I conclude in Section 5, by showing how distant Hirschman ultimately became from mainstream economics.

5.2. VOICE AND EXIT

Hirschman was interested in political economy ever since the beginning of his career. In *National power and the structure of foreign trade* (1980 [1945]), a book based on his PhD dissertation at the University of Trieste, he analyzed the influence of international trade on the power relationships between nations. In *Strategy of economic development* (HIRSCHMAN, 1958), he reminds the reader that "economic development has often been a by-product of the quest for *political* and military power" (*ibid*., p. 10, emphasis added), implying a deeper relationship between the processes of economic and political development. In the 1960s, therefore, he considered political economics as a "no man's land" (SWEDBERG, 1990, p. 155) that he tried to explore, trespassing disciplinary boundaries. It was with the EVL model, however, that he would 'seriously' try to tackle the relationship between politics and economics.

Hirschman's concerns over voice and exit, and their relevance to economic policies, are linked to his skepticism towards the orthodox development policies prescribed by the World Bank and similar institutions, as they had failed to incorporate political economy into their models. He had touched upon issues of collective decision making while working as an advisor in Colombia (ÁLVAREZ; GUIOT; HURTADO, 2019), concluding that, if economists

in developed countries tended to ignore political economy, the situation was even worse in underdeveloped areas (HIRSCHMAN, 1971, p. 255). Nevertheless, he considered the failure of the Nigerian railroad transport system as the catalyzer for his ideas on this topic – an episode in which competition between trains and trucks made consumers abandon the option for train transport, thus contributing to its decadence (HIRSCHMAN, 1970, p. vii).

The construction of the Bornu terminal, 480 kilometers long, was financed by the World Bank, and Hirschman was one of the economists who analyzed the project (HIRSCHMAN, 1969, p. 146-155). He considered it a failure for many reasons, especially because the railroad model needed to distribute authority positions in a way that balanced the many ethnic groups comprising the Nigerian state, in order to be a symbol of national integration. Contrariwise, railroads became a *locus* for insufflating ethnical rivalries, favoritism and inefficiency, while the truck system did not exhibit these problems in the same scale, being better adapted to the Nigerian ethnic problem through service specialization. Adelman also mentioned that the Nigerian failure affected Hirschman profoundly since the Biafra Civil War started only months after he evaluated the project, and he was terrified by the possibility that the failure of Bornu might have contributed to one of the most horrific civil wars of the time. Seeing that "a development project he had so recently evaluated was contributing to savagery was clearly haunting him," Adelman continues, "and he confessed that economists needed to grapple with the unintended consequences of their thought" (2013, p. 422).

In his opinion, economics alone could not explain the failure of the Nigerian railroad system. To tackle how political and economic influence mingle with each other, he developed in the book *Exit, Voice and Loyalty* a triad of concepts designed to illuminate the subject. "Voice" was the name he gave for the active mechanism, which included speaking out against perceived injustices, contesting decisions, organizing protests and strikes, among others; "exit" was how he named the passive mechanism – defection, changing products and leaving places; while "loyalty" was the force that deterred exit, thus allowing the voice mechanism to be explored (*ibid*., p. 438).

There are applications of these concepts in both political science and economics. In economics, the competition mechanism is the standard manifestation of exit: when the price of a good increases, the tendency is for consumers to migrate to cheaper products. In contrast, "voice" is more common in political science: to remain inside an arrangement and try to modify the situation in order to return to the old situation or attain a new one. An example of economic

application of the voice concept are consumers who send letters to the producer to complain about a reduction in quality, instead of automatically shifting to another product.

As said before, the competition mechanism provides a basic example of how economists tend to favor exit mechanisms. If something is not palatable to consumers, they change to another product, without any need to explain the reason to producers. It is an impersonal process. Hirschman, however, argued there are situations in which preference for exit may make the situation worse. The example of Nigerian railroads shows how competition, along with the incompetence of railroad managers, can make the clients who are most interested in quality to leave early and let the railroads and their remaining users in a worse situation:

> exit did not have its usual attention-focusing effect because the loss of revenue was not a matter of the utmost gravity for management, while voice did not work as long as the most aroused and therefore the potentially most vocal customers were the first ones to abandon the railroads for the trucks. (HIRSCHMAN, 1970, p. 45)

Hirschman identified an underlying presumption among economists: the competition mechanism will automatically lead to progress of the market in a better direction, by eliminating the less able and rewarding the best. Hirschman tried to understand why this is not always the case.

As Hirschman showed in the Nigerian example, the managers of the railroads used their economic power to improve the economic position of their families or clans, instead of the nation in general – a clear problem of public choice/collective decision-making (HIRSCHMAN, 1969, p. 147). Those who control a market niche will take measures to preserve this niche and its rents. In the case of the Nigerian railroads, the exit of consumers made the service even worse, but it did not hurt the rents of railroad owners, thus allowing their profits and power to stay unharmed.

Hirschman mentioned other examples, such as American public schools (the exit of good students leads to a decline in quality in their former schools, but these schools usually do not close) and the indiscriminate selling of stocks in bear markets, considered as a bad, but widespread management practice in the business literature (HIRSCHMAN, 1970, p. 46). The first consumers to leave are thus the ones who value quality most. Without these consumers, producers have incentives to become lazier and not improve. The market may remove these producers, but if their cost of staying in the market is not expensive enough, they will remain for a longer time than predicted by economic theory.

In contrast, voice differs from exit in both its active character and its methods. It can be defined as any attempt to change instead of defecting and can thus be called "interest articulation" (*ibid*., p. 40). Voice can be expressed by different methods, such as strikes, protests, complaints, among other forms of organization around an objective. Thus, a client who writes a letter to a producer or a worker who begins a strike are articulating their interest because they do not want or cannot use the exit option.

Lastly, there is "loyalty". Hirschman considered loyalty the factor that decreases the probability of exit – in other words, the higher the loyalty, the more agents will try to use their voices with the intention of supposedly staying, of improving the situation, instead of exiting (*ibid.,* p. 77). This is what explains why consumers most invested in quality would not leave immediately when the quality of a product declined. They would only leave (or increase their chances of leaving) when they saw their loyalty ignored or unrewarded, as when their attempts to influence the organization/producer resulted in failure and theirs voices were ignored (a concept he would later develop into the importance of disappointment to social change).

Voice and exit represent different approaches and can be treated either as alternatives or complements to each other. One possibility is to frame the problem in terms of cost-benefit analysis: if consumers think they can remain loyal to a brand, they can opt for voice in the hopes of improving the product. Hirschman, however, feared that the emphasis of economists on exit implied a negligence of voice, while other social scientists emphasized voice and tended to neglect exit. Due to his own experience, Hirschman was more concerned with the first case, especially since human capital and rational choice theories started to invade other fields. Hirschman initially focused on how voice can be stifled by exit, even if in a later moment he came to see them as complementary (e.g. HIRSCHMAN, 1993). In fact, interpreting voice and exit as strictly cancelling each other is currently considered a wrong interpretation of Hirschman's work, even though the two mechanisms can be at odds in practice (JOHN, 2017).

5.3. NEGATIVE REPERCUSSIONS OF HIRSCHMAN'S EVL MODEL

As of August 2019, the number of citations in Google Scholar for Hirschman (1970) surpasses 25 thousand, meaning it was read by an enormous amount of scientists and researchers. At the time of its publication, Adelman (2013, p. 444) states that the book was an

"immediate sensation" due to the amplitude of issues it covered and the fact that, with the exception of the section on "loyalty", it was written in accessible language and captured the *zeitgeist* of the time.

The acceptance, however, was not unanimous, and the focus of this section is on the most important negative reviews of the book. Edward Kane, then book review editor of the *Journal of Finance*, wanted to introduce its readers to discussions in political economy and contacted Gordon Tullock to review a couple of books, including Hirschman (1970). In the letter, dated 11 June, 1970, accompanying his review, Tullock wrote that "as you can see, I didn't like the book" (TULLOCK, 1970-GTP). To him, the simplest explanation to the case of Nigerian railroads was that if there were no trucks in Nigeria, the railroad would just continue to extract money from taxpayers and refuse to improve its service. In other words, voice would accomplish little if there was a monopoly. He thus concluded the book had little value to tackle the issues it raised (TULLOCK, 1970, p. 1195).

The review created a qualm between Hirschman and public choice theorists. Mancur Olson, who had previously praised Hirschman's work[104], had to intervene with a letter to Hirschman apologizing for the tone of Tullock's review (ADELMAN, 2013, p. 447). Olson was the president of the PCS at the time and he advocated the convergence between researchers on political economy, regardless of their ideological preferences (cf. OLSON; CLAGUE, 1971)[105].

Olson's letter also touched on the "ideological gap" separating Tullock and Hirschman. According to Olson, Tullock was on "the far right of the old classical liberal or laissez-faire conservative tradition, and you are surely not on that side" (*ibid.*, 2013, p. 447)[106], which implied that Tullock took issue with Hirschman for not adopting a pure free-market approach to the voice and exit problem – in other words, that the review was more *ideological* than technical. He also commented that not having Hirschman as part of the Public Choice Society was like Robert Solow not having anything to do with the Econometric Society (*ibid.*,

[104] Olson wrote in an article reviewing *Journey Towards Progress* along with other books that Hirschman's work had the best quality of all the reviewed books, though the review missed the point by focusing solely on the descriptions of Latin American institutions instead of policy recommendations (OLSON, 1965b) – if we compare Hirschman's work to a painting, Olson praised it more for the frame than for the painting in itself.

[105] In *The Logic of Collective Action*, Olson gave an interdisciplinary tone to the book, with quotations of authors from social psychology (Festinger), sociology (Weber), and even praising Marx, saying he "developed an interesting and provocative economic theory of the state at a time when most other economists had not even begun to consider the question" (OLSON, 1965a, p. 102).

[106] As mentioned before, his concerns about Tullock's intransigent free-market ideology are present in his review of *The calculus of consent* (OLSON, 1962).

p. 448). Hirschman thanked the letter but announced he would not take part in the activities of the society anymore.

The harshest criticism, however, came in a long review by Brian Barry (1974)[107]. He recognized that Hirschman had good points, but there were problems with his analysis. He dismissed the novelty of Hirschman's approach, mentioning the problem had already been studied by Olson and Anthony Downs. Barry also cited many problems of his model, such as the concept of "loyalty" serving as an equation filler and Hirschman`s underestimation of economic logic (*ibid.,* p. 86). The lack of formal modelling of the concepts became a problem for many researchers. Many parts of his model, including the very concepts of "voice" and "exit", were ambiguous and unclear, to the point that later authors would write that "much of the work in comparative politics uses the EVL framework merely to give a label to some of the processes under discussion and none tests Hirschman's purported interactions" (DOWDING et al, 2000, p. 478). The massive number of citations observed at the beginning of this section may thus mean there are as many interpretations of EVL as there are citations to the work, thus inhibiting the creation of a paradigm around the model.

Supporters of a rational choice approach adapted the EVL model to fit the public choice framework itself. The EVL model is considered similar to the model proposed by Charles Tiebout on electoral migrations (TIEBOUT, 1956; DOWDING; JOHN, 1996), which is a formal, though incipient model preceding Hirschman's "exit" mechanism.

Keith Dowding and Peter John, for example, argued that one of the main flaws of Hirschman's model is that, in spite of considering the *intention* of change, it did not consider the *action* of change (DOWDING; JOHN, 1996). Their model attempted to improve on Hirschman's concepts, giving them a more formal meaning in order to be more attractive to economists (DOWDING; JOHN, 2012). Hirschman's own work, however, went in another direction.

[107] Barry was himself a critic of the public choice movement: "…it is obviously important to establish that the 'economic' assumptions are not universally and immutably true […] we have found to be, roughly, that the theory falls down when it is applied to people for whom participation is not a cost, and these, at any rate in our sort of society, are predominantly middle class people" (BARRY, 1978 [1970], p. 178). This criticism is somewhat similar to Hirschman's, which led the latter to concede that Barry had important points (cf. SWEDBERG, 1990), thus stimulating further critique of Olson in later works (HIRSCHMAN, 2002 [1982], p. 78, n. 1).

5.4. HIRSCHMAN'S ALTERNATIVE PROJECT OF POLITICAL ECONOMICS

According to Adelman, "by 1978, the spirit of '68, which had been so decisive for *Exit, Voice and* Loyalty, was looked upon as a rash, aberrant, quixotic outburst" (2013, p. 534). While Hirschman was widely read by social scientists, he considered that he had failed to attract the economists' attention, after trying for many years (SWEDBERG, 1990, p. 158). His distancing from economics is reflected in the fact that he became a scholar at the School of Social Science at Princeton's Institute of Advanced Studies, a place he considered "isolated" from economics (*ibid.*, p. 157). In his late career, he admitted he had become a full dissident economist, who "moved far away from economics" (HIRSCHMAN, 1995, p. 83).

While one might consider these episodes involving public choice scholars to have been minor, private manuscripts show that Hirschman held a bitter resentment against Olson[108]. In a non-published manuscript written in the 1970s ("Olson and the collective action", *apud* ADELMAN, 2013, p. 553ff), Hirschman scrutinized Olson's work: he criticized him for ignoring entrepreneurship, leadership, public service and, most importantly, he opposed the model of the individual that Olson adopted on not only technical, but also moral grounds – the purely self-interested man, who was nothing but a slave to his desires and external incentives. He considered Olson was wrong in his understanding of collective action, and that his theory of public choice did not explain why collective action occurs (HIRSCHMAN, 2000 [1985], p. 93), calling it "nonsensical" and "absurd" (SWEDBERG, 1990, p. 159). His project of political economics would evolve to provide an alternative political economy, grounded on his view of economics as a social and moral science, instead of rational choice theory[109].

For a mainstream economist, the EVL model might have been interesting "literary" analysis, but flawed for not presenting a *formal,* empirically testable model. Moreover, Hirschman did not commit to a rational view of economic and political agents. He did not consider formal modelling to be a particularly good strategy for intersecting the two

[108] In an interview, when asked who his "enemies" were, he counted Olson among them (HIRSCHMAN, 2000 [1985], p. 93).

[109] In a personal correspondence, Andrés Guiot (2019) suggested that his use of the term "political economics" in *Bias for Hope* indicated he might have public choice in mind. Hirschman mentioned Olson and Downs by name as examples of theorists working on the intersection between politics and economics, but he does not use the term "public choice" to refer to them, preferring "political economics" (HIRSCHMAN, 1971, p. 7). Hirschman, however, was capable of "doing" political economics in the neoclassical way: chapter 9 of *Bias for Hope* uses the "apparatus in indifference and transformation curves to explain the behavior of an underdeveloped country" in accepting international aid (*ibid.*, p. 3).

social sciences and admitted that his philosophy of "trespassing" the boundaries between the social sciences was 80% art and 20% science (SWEDBERG, 1990, p. 157). His opposition to rational choice theory in political economy, however, was the catalyst for his project of political economics that followed the publication of the EVL model.

Hirschman's books that elaborate on this project are *The Passions and the Interests* (1977)*, Shifting Involvements* (1982) and *The Rhetoric of Reaction* (1991), written during his time at the Institute of Advanced Studies. He was convinced that the social sciences should cooperate more and practice the act of "trespassing" boundaries, never abandoning the idea that the end of his research was to discover the process behind economic development (GUIOT, 2017).

One proposition that was antagonistic to public choice was his opposition to Olson's theory of free riding, present in the *Logic of Collective Action* (1965a). The previous section mentioned how dissatisfied he was with the concept, because it diminished at best, or eliminated at worst popular participation for the passivity of the market, effectively creating a passive, "voiceless world" where people would be consumers who "vote with their dollars" (CROUCH, 2011, p. 27). Against this, Hirschman sought to demonstrate in his project of political economics that "[political] participation is not a cost but a benefit" (HIRSCHMAN, 1971, p. 7), while the idea of voting with their dollars had no credence because consumers could be easily manipulated by corporations (HIRSCHMAN, 2002 [1982], p. 10). He focused on trying to understand why people participate in political life and how the tools of economics were not enough to understand political economy. Unlike Anthony Downs, who considered that political parties were useful to "offer citizens a full range of ready-made and firm opinions on all issues of the day," which was a source of free-riding, Hirschman sought to demonstrate the existence of a mechanism that rational choice theory did not capture, which led people to join certain political parties because they really believed in their tenets or had a sense of political duty. In this sense, "there is no such thing as a free ride" (HIRSCHMAN, 1995, p. 80).

Since economics uses the idea of "interest" as one of its main concepts, Hirschman started his project with a different understanding of "interest". In *The Passions and the Interests*, he noted that earlier writers (starting with Augustine of Hippo) discussed how to curb human passions by pitting passions against each other (such as laziness against greed). After the 15th century, the "interests" came to be seen as substitutes for this function. Interests "comprised the totality of human aspirations, but denoted an element of reflection and

calculation with respect to the manner in which these aspirations were to be pursued" (HIRSCHMAN, 1977, p. 32).

The word started to be used to refer to the improvement of statecraft, on how to attain greater realism in the analysis of human relations, with the beneficial effect of being a seemingly "neutral" concept that could serve to analyze men as they were. Montesquieu declared the *doux commerce* doctrine, in which the pursuit of profits through commerce would make the violence of wars too costly and create more opportunities to obtain wealth. Along these lines, the concept of interest mutated towards the current understanding of economic self-interest. However, citing Adam Ferguson and Alexis de Tocqueville, reliance on interests might have deleterious effects in society:

> While not invoking the fallacy of composition, they put forward a rather similar point: as long as not everyone is playing the "innocent" game of making money, the total absorption in it of most citizens leaves the few who play for the higher stakes of power freer than before to pursue their ambition. In this way social arrangements that substitute the interests for the passions as the guiding principle of human action for the many can have the side effect of killing the civic spirit and of thereby opening the door to tyranny. (*ibid.,* p. 125)

In other words, "liberty is never in greater danger than it is when we measure national felicity by the blessings which a prince may bestow, or by the mere tranquility which may attend on equitable administration" (FERGUSON, 1995 [1767], p. 255). An increase in wealth may not necessarily mean an increase political freedom but rather the opposite, if the population values its wealth more than its freedom and is willing to accept tyrants as long as they preserve this wealth. In summary, *The Passions and the Interests* was a book of intellectual history that recast the relevance of earlier debates for current concerns. In the last paragraph of the book, Hirschman wrote that he hoped both defenders and critics of capitalism "could improve upon their arguments through knowledge of the episode in intellectual history that has been recounted here" (HIRSCHMAN, 1977, p. 135).

Shifting Involvements, on the other hand, was an attempt to tackle issues with consequences for policy. The "spirit of 1968", which had once challenged Olson's paradox on the impossibility of collective action, had dimmed quite quickly (HIRSCHMAN, 2002 [1982], p. 78). To understand this, Hirschman suggested that disappointment played an important role. As he put it, "acts of consumption, as well as acts of participation in public affairs, which are undertaken because they are expected to yield satisfaction, also yield disappointment and dissatisfaction" (*ibid.,* p. 10). The phenomenon of disappointment creates a cycle that alternates

between periods of private interest and public action, depending on the disappointment of each of these types. Disappointment with accumulated private goods can lead to an increase in people's desire for change, thus making people resort to their voice, for example[110].

Hirschman's criticism of Olson's concept of free riding in collective action (OLSON, 1965a) posed an important point in the book. Olson's formulation posited that, unless the group has an incentive structure, a rational participant will not contribute to it. In contrast, Hirschman argued that "far from shirking and attempting to get a free ride, a truly maximizing individual will attempt to be as activist as he can manage, within the limits set by his other essential activities and objectives" (HIRSCHMAN, 2002 [1982], p. 86). For Hirschman, there are benefits from public engagement that go beyond mere cost-benefit analysis, and free riding will thus be spurned. In times of change, free riding will be seen as socially deplorable when action is demanded, contrary to what Olson proposed. However, public participation might decay with increased economic development, with the citizen retreating into private life, due to disappointment and comforts, as it happened with the "spirit of 1968" (*ibid.*, p. 125). As Dowding and John (2012, p. 16) wrote, "Hirschman sees people engaging in collective action for expressive reasons – that is for fun and because they care about public issues despite potential costs." This was true for *Exit, Voice and Loyalty* and it is even truer for *Shifting Involvements*.

In the last book of the trilogy, *The Rhetoric of Reaction,* we can see a continuation of his ideas on collective action to criticize rational choice theory and its consequences, and to suggest alternatives. The book was funded by a grant from the Ford Foundation to study the new conservative movements. He considered it, ultimately, as a tract "against the then aggressive and would-be triumphant neoconservative positions on social and economic policymaking" (HIRSCHMAN, 1995, p. 87). His purpose, however, was to improve the quality of social debate, just as in the case of *The Passions and the Interests*[111].

[110] Hirschman wrote that "people who have experienced a great deal of disappointment in their search for happiness through private consumption [...] are infinitely more 'ripe' for collective action than a group that is just setting out on that search" (HIRSCHMAN, 2002 [1982], p. 85). For example, recent research has argued that crying is more common in developed countries, because poverty frowns upon crying, Adam Smith being one of the first scholars who noticed it (PAGANELLI, 2017). Since Hirschman made many references to Smith's work, it is safe to say that disappointment follows a similar logic.

[111] In fact, his main issue is not with conservativism or progressivism (the sixth chapter is dedicated to criticizing leftists and progressive ideas within the framework of the book, such as the dictum "history is on our side"), but rather with intransigence. The Brazilian translation of the book is titled *The Rhetoric of Intransigence* (HIRSCHMAN, 1992 [1991]), which is arguably a more accurate title.

Hirschman identified three theses adopted by conservative rhetoric: the perversity thesis (any social change perversely exacerbates the problem the change aimed to solve), the futility thesis (social transformations are pointless, futile) and the jeopardy thesis (even if the change has potential, the costs and dangers are too great and can jeopardize society and liberty). Although it is not the objective of this chapter to make a grand review of these theses, Hirschman used them to criticize mainstream economics for being compliant with conservative rhetoric[112].

The previous sections detailed Hirschman's experiences with economists, whom he considered one of the most intransigent groups of social scientists. The idea of a self-regulating market uses the perversity effect to discourage reforms that would benefit the population, with the explanation that they would disturb the market order. This effect, however, can create a perverse effect of its own, by encouraging the population to take a passive stance to changes, under the belief that the market will provide a better alternative. Ultimately, far from being the dynamic engine of capitalism, the self-regulating market can be one of the most conservative institutions of a society and, ultimately, an engine of mediocrity.

Economists also enable the futility and jeopardy effects by denying that policies, such as Keynesian ones, have any effect on society. Both rational expectations and PCT criticized Keynesian policies because they nullified their own intentions, rendering them as "inoperative, otiose – futile" (HIRSCHMAN, 1991, p. 74). Any attempt to change will be rendered pointless because agents will exploit loopholes that work against the intended results. And even if they do make a change, will it be worthy? Hirschman cited an example from British history in the 19th century, where due to the existence of a "cult of the British constitution" (*ibid.,* p. 90), many reforms were opposed on the grounds that they could undo current achievements and the liberty they allowed to exist[113].

As mentioned before, Hirschman had moved away from pure economics (HIRSCHMAN, 1995, p. 83) and saw the extension of rational choice theory as harmful to the social sciences. In an interview from 1985, he claimed that his greatest enemy was the "orthodoxy": "to always repeat the same recipe, the same therapy, to cure different types of

[112] "When I wrote *The Strategy of Economic Development* [HIRSCHMAN, 1958], there existed a certain orthodoxy. Today everybody talks about privatization; at that point everybody talked about planning, about the importance of planned growth, about planning for planned growth, and so on." (SWEDBERG, 1990, p. 159)

[113] "The argument that a new advance will imperil an older one is somehow immediately plausible, as is the idea that an ancient liberty is bound to be more valuable or fundamental than a new ("newfangled") one." (HIRSCHMAN, 1991, p. 123).

disease; to not admit the complexity, wanting to reduce it at any cost" (HIRSCHMAN, 2000 [1985], p. 96, translated).

One of the most important consequences he feared was the loss of public spirit. He blamed the analysis of Gaetano Mosca, Vilfredo Pareto and other Italian economists who had earlier studied collective decision making[114] for the rise of fascism in Italy, because their analysis weakened the faith in democratic institutions (HIRSCHMAN, 1991, p. 78). If democratic institutions are not to be trusted, especially with the looming threat of communism and the fact that liberal institutions did not have a footing in Italian society, fascism became a relevant alternative. The fascist rhetoric of a corrupt and selfish elite would not be out of place in Mosca and Pareto's works[115], and they were more competent in articulating themselves than their political competitors. In other words, they were better at using voice, a testimony that voice itself can produce harmful populism and worse.

In sum, through his project of political economics, Hirschman did not produce formal models, making his approach unattractive to economists, but this was never his objective. He intended to create an explanation, a theory of political participation and citizenship – to understand questions such as why people vote, why people participate in politics. Economic theory alone cannot explain these questions and he feared the answers provided by economic students of political economy, such as public choice theorists, could be harmful to political progress and the integration of the individual in society.

5.5. CONCLUSION

Hirschman's work was characterized by "freedom from disciplinary boundaries" (FERRATON; FROBERT, 2014). Throughout his career, he remained primarily an economist who wanted to improve the social sciences through alliances with other disciplines (HIRSCHMAN, 2000 [1985]) – even if he lamented having little success in influencing economists (SWEDBERG, 1990).

[114] The same Italian economists whom public choice theorists consider their precursors (cf. MEDEMA, 2009).
[115] Nelson (1991, p. 22, emphasis added), writing on Mussolini's rhetoric, observed that the Black Shirts were "antisocialist and *antigovernment* yet extremely nationalist" and propagated Mussolini's strategy of manufactured political confrontation. The role of Pareto, Mosca and Michels in the fascist movement is a controversial topic and Buzaglo (2018) considers their theories to be dismal, excluding popular participation from politics – just as Hirschman feared.

Just like members of URPE and the PCS, he attempted to integrate politics, economics and the social sciences in general into a holistic approach to understand society. His non-compliance with mainstream economics, however, ensured that his theories on political economy/economics did not leave a lasting mark on the profession, even if he is recognized by many as a great thinker (DOWDING et al, 2000). *The Economist,* for instance, regarded him as one scholar who, without a doubt, deserved the Nobel Memorial Prize (THE ECONOMIST, 2012).

Even though public choice theorists consider him important to their tradition (e.g. GROFMAN, 2002; MUELLER, 2003), Hirschman firmly believed his work was at odds with the public choice approach[116]. One might find it ironic, therefore, that his work has been adapted and expanded by authors associated with a rational choice view of political science (e.g. DOWDING; JOHN, 2012)[117], as this may have removed something important from his thought[118]. Even so, his example illustrates how political economy means different things to different people. Just because you see other soldiers shooting from the same side, this does not mean they are your allies. Hirschman's work provides another example of the failure of the convergence thesis: his values were different from a good number of public choice theorists, especially the ones from the Virginia tradition, fearing that a *laissez-faire* economic attitude would lead to a degeneration of citizenship in society. His work on political economics could also be labelled as a political economy of citizenship, an integral part of economic development that might not be properly captured by GDP only.

[116] Grofman (2002, p. 41, n. 7) admitted that "from a sociological point of view, Hirschman really cannot be labeled part of Public Choice", but still considers him important for public choice, without elaborating further. Mueller (2003, p. 182) only acknowledged his writings on the EVL model, without discussing them further. It seems they are doing the same thing Olson (1965b) did: praising Hirschman's work more for the frame than for the painting itself.

[117] "People weigh up the relative benefits and time horizons of voice and exit, trading one for the other both immediately and over time. For Hirschman, it is the trade-off and how loyalty affects it that is important. In many applications of Hirschman's framework the trade-off is forgotten as social scientists only consider exit or voice independently" (DOWDING; JOHN, 2012, p. 131).

[118] In a similar case, Jan Tinbergen and John Maynard Keynes engaged in a debate on the role of econometric methods, which Keynes opposed due to being a different, underdeveloped and potentially harmful way to understand economics (see GALVÃO DE ALMEIDA, 2016). Later, Tinbergen met Keynes and said that econometric models confirmed a result he had found in *Economic Consequences of the Peace*. Tinbergen expected him to be glad he found the result, but Keynes just replied: "How nice for you that you found the right figure" (MAGNUS; MORGAN, 1987, p. 130). Even if they reach the same results, does this mean they share the same spirit or values?

6. ADDITIONAL CHALLENGES OF NEW POLITICAL ECONOMY: INTERDISCIPLINARITY AND IDEOLOGY

New political economy attempted to unify the social sciences, or at least foster interdisciplinary work between economics and other disciplines. There are many obstacles, such as issues of imperialism and ideology, which might make others wary of these attempts at a unified social science. As the previous chapters have demonstrated, many scholars have established entire alternative traditions to avoid some of these implications.

This final chapter focuses on these obstacles, in an attempt to make clear what had been in the subtext of the dissertation so far. Therefore, it will not repeat the same arguments from previous chapters nor cite all the relevant literature. Instead, it complements the preceding analysis with other sources that did not fit in previous chapters. The next two sections discuss the two main challenges that have affected practitioners in the field, when analyzed from the viewpoint of the history of economics: the tension between interdisciplinarity and imperialism, and the issue of ideology in the studies of new political economy and public choice.

6.1. THE (SUPPOSED) PROMISE OF UNIFICATION UNDER POLITICAL ECONOMY: A THEORY OF EVERYTHING?

From the introduction all the way through the last chapter, the theme of "interdisciplinarity" has been a constant in this dissertation. In the introduction, we saw the dissatisfaction of economists and other social scientists with the way postwar mainstream economics approached the public sphere. These concerns with the economic approach to the polity led to a "return" of political economy, designed to create a more integrated approach to the social sciences. The political business cycle model sought to analyze issues of political economy by attributing a political origin to the phenomena of business cycles, typically an issue pertaining to macroeconomics. Members of the emerging community of new political macroeconomics, however, still consider themselves essentially as macroeconomists, which puts them at odds with public choice theorists. Douglass North was also dissatisfied with how economics dealt with problems of political economy, proposing not only a new institutional economics, but also a new institutional social science, with influences from economics, history, political science and even the neurosciences. Likewise, Albert Hirschman developed his own

project of political economics as a critique of how economics approached political issues, in an attempted move towards a more integrated social science.

We can thus conclude that (new) political economy/economics is mostly an applied (battle)field, which attempts to understand the political domain using economic tools. But could it ever be more? One of Saint-Paul's (2000) criticisms is that the field failed to produce a *robust* paradigm, that could be tested and replicated with less ambiguity possible. Paradigms are important because they produce acceptance in the mainstream of science, an "overarching intellectual theme that binds all its elements together" (BLAUG, 2001a, p. 124). In economics, many sub-disciplines have their own paradigms: labor economics has human capital theory and efficiency wages, international economics has the Hecksher-Ohlin model, microeconomics has asymmetric information (SAINT-PAUL, 2000; BLAUG, 2001a).

We can compare NPE to another applied field: cultural economics. As the economic study of cultural goods and services, there are a variety of ways to "do" cultural economics, but most of its practitioners are neoclassical economists (GALVÃO DE ALMEIDA, 2019). The model closest to functioning as a paradigm in cultural economics is Baumol's cost-disease: the lack of technological innovations that makes wages increase without productivity gains, implying "irremediable cost inflation in the arts" (BLAUG, 2001a, p. 131). Even with ambiguous empirical verification, it helped establish the field and its method spilled over to other applied sub-disciplines, such as health economics.

The closest thing NPM has of a paradigm is the political business cycle model. As we saw in chapter 2, though supported by finicky empirical evidence, it created a bridge between macroeconomics and the analysis of collective decision making/political economy, expanding the domain of macroeconomics. This could explain the model's resilience. However, judging by Saint-Paul's review of the literature, the effort had limited results. NPM as a tradition had only limited penetration in the mainstream of the discipline. Given the absence of a robust paradigm, the lack of penetration in the core of mainstream economics, despite the continued acceptance of rational choice theory, one could argue that new political economy (including NPM, NIE and PCT) is mostly located at the non-orthodox segment of the mainstream – what Dobusch and Kapeller (2012) termed "Colander's edge", not fitting neatly within the current paradigms of economics, but also not completely rejecting its main tenets, such as rational choice and equilibrium models.

The current paradigm in macroeconomics is the dynamic stochastic general equilibrium (DSGE) model. During a hearing held by the American congress, which summoned economists to explain the situation leading to the 2007-2008 financial crisis, V. V. Chari proffered an aphorism that would become a meme of economics: "If you have an interesting and a coherent story to tell, you can do so within a DSGE model. If you cannot, it probably is incoherent" (CHARI, 2010, p. 32). Therefore, "from this perspective, there is no other game in town." (*ibid.*, p. 35). Indeed, DSGE continues to be the "standard narrative" in macroeconomics (SERGI, 2017), sustaining most macroeconomic-related research (GLANDON et al, 2018).

Due to the way the "rules" of economics are built, new political economy must comply with them if it wants to be of any decisive influence in economic theory. In the case of its macroeconomic variant, it should try to elaborate DSGE models of political economy, since no immediate change is visible in the horizon (cf. LINDÉ, 2018). Some public choice authors argue that DSGE models made us regress to the same paradigms of the older theory of economic policy, of standard rational agents and policymakers as mere executors of economic policy (DE GRAUWE, 2010), which would be at odds with the intent of the scholars who called into question the presuppositions of 1960s mainstream economics[119].

Political economy, in all its strands, struggles to be formally incorporated into the core of the mainstream for being a discipline not only in the frontier between orthodoxy and heterodoxy, but also in the frontier between economics and other social sciences, especially political science. Due to its different methods[120], economics has remained insulated from the other social sciences, and cross-disciplinary cooperation has been scant[121] (FOURCADE; OLLION; ALGANN, 2015; also see Hirschman's critique in p. 15 of this work). In other words, political, or better, interdisciplinary economists are not as common as the groups analyzed in this dissertation would wish.

Even when economists engage with other scholars, their acceptance is not universal. The difference is clear in the degree of acceptance of the economic method in

[119] Efforts of incorporating issues of political economy into DSGE models have been practiced (e.g. ALESINA et al, 2017). Incidentally, Azariadis (2018) argued that DSGE models have not reached the same level of influence that the Klein-Goldberg and other macroeconometric models had in the economy in the 1950s and 1960s.

[120] Whaples (2010) mentioned an economic historian that refused to engage with historians because he could not accept that they could write their works without "numbers", i.e. models.

[121] However, Cruz e Silva and Cavalieri (2019) argue that economics has been more open to other social sciences, as evidenced by an increase in citations from political science journals in recent years. Overall, there was an increase of almost 280% in interdisciplinary citations from the 1960s to recent years. Their article takes a general approach to the subject, though separating which of these articles are specifically oriented by a rational choice framework is a next step of the research.

Political Science and History departments in American universities. In political science, rational choice theory has been widely accepted in the mainstream of the discipline: "aside from a few universities with a dominating presence of political scientists of this persuasion, virtually every political science department in the [United States] is recruiting for someone with such training" (WAISMEL-MANOR; LOWI, 2011, p. 66). For political scientists, Downs (1957) produced "a breath of fresh air" when proposing the idea that politicians are self-interested (HIRSHLEIFER, 1985, p. 54), and the study of rational institutionalism would eventually become part of the hegemonic paradigm of the discipline (MÖRSCHBÄCHER, 2018, p. 41-46). Not only that, the penetration was so profound that it led some to fear it would eventually take over as *the* method of political science – so much that a good number of political scientists gathered in a movement called "Perestroika", to criticize the budding monism and defend a pluralist approach to political science (GUNNELL, 2015; HÉRITER, 2016)[122]. Additionally, Iversen and Soskice (2006) criticized the fact that few political scientists engaged with macroeconomics, leaving the field open to domination by economists, instead of sharing the space with political scientists working on models of political macroeconomics.

Meanwhile, as briefly discussed in chapter 4, the rational choice-based approach is virtually extinct from History departments[123]. To further the argument, using data from 2009, Whaples (2010) mentioned that scholars who identify themselves as historians and are part of History departments make up only 16.4% of subscribers to the Economic History Association, 11% of the attendants at meetings of said association, and none of the 52 authors who published in the *Journal of Economic History* in that year, while only 7.5% of the contributors to the same journal thanked historians for their cooperation. From the testimonies he collected, Whaples argued that economic historians and historians not only cannot apparently understand each other due to fundamentally different methodologies, they are also largely uninterested in what each other has to offer (see also KLEIN, 2018).

[122] The movement had some important achievements, as signers of the founding manifest managed to reach the presidency of the American Political Science Association (Susanne Randolph, Theda Skocpol, Jennifer Hochschild) and there is empirical evidence it induced an increase in pluralism in the association's journal, even managing to revert the increasing trend of rational choice-based articles (MÖRSCHBÄCHER, 2018, p. 88, 99, 108-109).

[123] "As for history, the probability of the cliometrician's brand of economic history ever "returning" to history departments is very close to zero" (TROESTKEN, 2010, p. 26). Werner Troestken is a rare example of a historian who was interested in an economic approach to history. In his short article, he admitted he had to transfer to an economics department because he was alone in terms of research, even though he said to have never experienced prejudice from his historian colleagues.

When Claude Diebolt and Harald Hagelmann (2019, p. 654) wrote the introduction to a special issue of the *European Journal of the History of Economic Thought* on the relations between the history of economic thought and cliometrics, they used the word "reunified" to refer to Robert Fogel's work combining economics and history, highlighting how he "used the latest analytical, conceptual and econometric tools of modern economics and gathered realms of historical data to reinterpret American economic growth" (*ibid.*). If Fogel reunified the two fields, this means not only that economics and history were separated, but also that they had been *unified* once before, and it would be good if they returned to being one.

As Kuorioski and Lahtinen (2012, p. 351) argued, "unification is a stronger notion than unity of knowledge in the sense of compatibility or coherence. It embodies the idea that there is something intrinsically virtuous in explaining or accounting for as much as possible with as little as possible." The search for a unified theory that explains the greatest possible number of things is not just a feature of economics, being also present in other fields, as in the search for a "theory of everything" in physics.

From the admittedly deficient perspective of a layman in physics[124], a theory of everything should unify all the different theoretical strands in the field, including general relativity and quantum field theory. The notion was eloquently expressed by Steven Weinberg, winner of the 1979 Nobel prize in physics:

> Our present theories are only of limited validity, still tentative and incomplete. But behind then and now we catch glimpses of a final theory, one that would be of unlimited validity and entirely satisfying in its completeness and consistency. We search for universal truths about nature, and, when we find them, we attempt to explain them by showing how they can be deduced from deeper truths. Think of the space of scientific principles as being filled with arrows, pointing towards each principle and away from the others by which it is explained. These arrows of explanation have already revealed a remarkable pattern: they do not form separated disconnected clumps, representing independent sciences, and they do not wander aimlessly – rather they are all connected, and if followed backward they all seem to flow from a common starting point. This starting point, to which all explanations may be traced, is what I mean by a final theory. (WEINBERG, 1992, p. 6)

This sounds very much like the search for the Holy Grail. Stephen Hawking famously ended his *A Brief History of Time* (1988, p. 193) stating that the implication of a successfully tested and proved theory of everything "would be the ultimate triumph of human reason – for then we would know the mind of God". If current physics purports to arrive at a

[124] Being a layperson has not stopped economists to use the concept in economics; see Azariadis and Kaas (2007), where they apply the concept of a theory of everything to macroeconomics.

"comprehensive and quantitative understanding of the universe" (WEINBERG, 1992, p. 10), a unified theory would be the highest achievement that physicists could produce, not only providing answers to age-long problems, but effectively taking science to another level: "A final theory will be final in only one sense – it will bring to an end a certain sort of science, the ancient search for those principles that cannot be explained in terms of deeper principles" (WEINBERG, 1992, p. 18).

The existence of a "theory of everything" is not consensual among physicists[125], who strive to remain aware of "false dawns", such as the many physicists that assumed physics would be complete before the turn of the 20th century (HAWKING, 1988, p. 172). But how would the concept of a "theory of everything" fare in other fields? As we saw in this dissertation, political economy has represented one such endeavor in the social sciences. One explanation would be "physics envy". Physics envy has been a standard source for criticism of orthodox economics (e.g. DRAKOPOULOS, 2016, p. 42-44). Richard Nelson (2015), one of the most important pioneers of evolutionary economics, urged scientists, especially economists[126], to "get over it": some disciplines are just not like physics, and some scientists, in their hastiness to emulate physics, end up not understanding what makes physics different, nor its limitations.

But the physicist's longing for a theory of everything differs from the desire of social scientists for a unified theory like political economy: physics is forward-looking, seeking for a research program that could unify general relativity with quantum field theory; political economy is backward-looking, suggesting a return to the root of the social sciences, when the disciplines stood united as one, only now with updated methods that could produce a definitive explanation of social phenomena. The "glimpses of a final theory" might even be more frequent in political economy, which explains the massive amount of definitions, but these "glimpses" are much more ambiguous and harder to synthetize, even with more formal modelling methods.

Weinberg wished to avoid "physics imperialism": a physical "theory of everything" is *for* physics. It is unclear how deeply such a broad framework could influence the

[125] Wikipedia (2019b) lists the following arguments against a "theory of everything": impossible to fit in with Gödel's incompleteness theorem (the system of statements does not "close", and cannot prove the consistency of itself), fundamental limits to accuracy in measurements, lack of fundamental laws (what is *the* fundamental law of the universe?), ambiguity of the term "everything", layers of theories that could extend infinitely, and impossibility of truly precise calculations.

[126] Since physics envy is also a problem in other disciplines, such as chemistry, geography and biology.

other "hard" sciences, and the chances of it seeping into the "soft" sciences are even lower. Metaphysics will still coexist with formalism for a long time to come.

But attempts to unify the social sciences will not stop. The Holy Grail is too enticing and, even if not found, the journey itself could still provide enough reward. Mark Blaug (2001b, p. 131), commenting on how ambiguous the empirical evidence is for Baumol's cost-disease, justified the model's importance for calling attention to other problems: "Nevertheless, if greatness lies not so much in being right as stimulating others to find what is right, then Baumol's unbalanced growth model is one of the great ideas in economics." The ambiguity of empirical evidence is also present in the PBC model, perhaps stronger, and yet it made possible an entire new tradition of macro political economy.

There are varying degrees of this ambition, going from a full unification to a modest sharing of insights. Marx tried it his way, as did Hirschman. Douglass North also flirted with the idea in his "new institutional social science" (SCHULZ; KLING, 2011). One of the most controversial attempts, however, comes from the so-called economics imperialism[127]. When Riker (1995) claimed that rational choice theory is the only method that can produce results, he was likely advocating that a social "theory of everything" should be based on rational choice theory. A similar argument was made by Hirshleifer (1985, p. 53, emphasis in the original), who argued that "economics interpenetrates all [social sciences]. *There is only one social science* [and] economics really does constitute the universal grammar of social science." Notice the grammatically awkward double emphasis of Hirshleifer, using "*really does*" to show how utmost his statement is[128]. And, of course, the *freakonomics* trend, starting with Steven Levitt and Stephen Dubner's book (2009), which captured the layman imagination with its approach, to give rational choice economics-based explanations to problems of daily life. Depending on who you ask, it can be either "economics made fun" or "imperialism made fun"[129].

[127] See (MÄKI; WALSH; FERNÁNDEZ PINTO, 2018) for a collection of articles on scientific imperialism, including the economic one.

[128] Some rational choice supporters have begun to move away from imperialistic connotations. For example, Kliemt (2018, p. 132, n. 3) called economics imperialism "entertaining but often 'absurd'" and defended a more down-to-earth rational choice theory.

[129] Literature on the merits of Levitt and Dubner is extensive, and it approaches the relationship of economists with the lay public, therefore it will not be expanded further in this dissertation, even though its existence and importance to the visibility of economics and its orthodox component should be acknowledged. See volume 19, issue 3 of the *Journal of Economic Methodology* (2012) for a series of articles on the *Freakonomics* phenomenon.

In less aggressive statements about the earlier development of the new political economy movement, its defenders argued that it should not be considered economics imperialism, since

> it is little more than the natural evolution of a paradigm that had previously integrated both disciplines but that economists refined in the first part of this century after shedding many of the encumbrances reality places on theorizing […] it seems only reasonable to anticipate that the study of politics and economics can once again become wholly integrated. (ORDESHOOK, 1990, p. 10)

In a similar vein, Mancur Olson believed "this tendency of convergence is highly desirable and ought to be accelerated". He continued:

> In part, this is because of the old idea that reality is not divided into departments the way universities are. The same individuals are active in the marketplace, in the political system, and in social institutions such as friendships and families, and most of them act most of the time out of a single plan or general purpose. The line of inquiry […] is accordingly inspired by the conviction that any effort to compartmentalize the substantive domains of disciplines is inevitably artificial and arbitrary. (OLSON, 1990, p. 212-213)

Therefore, economists see themselves as "extending the range of their studies to include all social sciences" (COASE, 1978, p. 203). Political science, however, was especially receptive to economic methods because, as put by scholar James Marion Farr, it is a "scavenger discipline": a discipline where a "chronic dependence on other disciplines as sources of theoretical, conceptual and methodological innovation and development remains largely in place" (SIGELMAN; GOLDFARB, 2012, p. 2). A similar situation occurred with sociology, where authors such as James Coleman and George Homans "invited" economics imperialism into their disciplines (ZAFIROVSKI, 2014), even though its penetration was not as deep as in political science (see WITTEK, 2013). This stands in contrast with the situation prevailing in history, as North could challenge the usual understanding of economics imperialism by recognizing that Marxism and the Annales school dominated history departments, arguably providing a barrier against cliometrics.

It seems the exchange has been mostly one-sided, to the point that Ordeshook (1990, p. 26) argued that, while economics contributes an entire methodology, political science can call the economists' attention to institutional problems – which sounds like a rather unequal exchange[130]. Sigelman and Goldfarb (2012, p. 3), writing from the point of view of political

[130] "Although political science does not have a paradigm to transmit to economics, its concern with institutions, which economists frequently trivialize, yields a special sensitivity to the paradigm's inadequacies for studying

scientists, warned that some economists regard their incursions as *noblesse oblige*, an arrogant public relations strategy that "often sparks resentment among those on the receiving end who have been made to feel like second-class citizens within their own discipline." Coase (1978, p. 207) noted that "the claim that economics is the science of human choice will not be enough to cause sociologists, political scientists, and lawyers to abandon their field or, painfully, to become economists." Moreover,

> If it is true that the more developed state of economics, as compared to the other social sciences, has been due to the happy chance (for economics) that the important factors determining economic behaviour can be measured in money, it suggests that the problems faced by practitioners in these other fields are not likely to be dissipated simply by an infusion of economists, since in moving into these fields, they will commonly have to leave their strength behind them. The analysis developed in economics is not likely to be successfully applied in other subjects without major modifications. (*ibid.*, p. 209).

The same reasoning applies to political economy. There is much ado about how political economy is an approach that returns to treating the social sciences as one, but the truth is that their several languages have developed along very different paths, with different languages. This issue has been briefly touched upon in chapter 3, indicating how the crux of the division between NPM and PCT scholars might be the language they use – the former using a "macroeconomic" language to explain collective decision making, the latter using a "microeconomic" language to the same end. The issue of language might also explain the existence of so many different approaches within economics:

> From Keynes, Lucas and Prescott we inherited a culture, a language and a long list of riddles. How far we go toward solving those riddles depends in part on how good we are in enriching our language to the point that it communicates with everyday life. (AZARIADIS, 2018, p. 1567).

For Azariadis, the challenge is to create a language in which authors can converse. Congleton (2018) and Wagner (2017) have also claimed the best advances in public choice happen when its different traditions manage to mingle their languages. Physicists have the advantage of a unified language (at least as seen from the outside) that might explain why the discipline has advanced so far[131]. Physics, however, must worry about unifying quantum field theory and general relativity; macroeconomics, in contrast, deals with at least five main

those institutions." (ORDESHOOK, 1990, p. 26). It should be noted the concept of a paradigm in political science works different than in economics (see MÖRSBÄCHER, 2018).

[131] A critic could accuse Azariadis of suffering from physics envy, but for someone who claimed that "the foundations for a theory of everything in macroeconomics are already at hand" (AZARIADIS; KAAS, 2007, p. 15) with the DSGE model, the serious recognition of its limitations in Azariadis (2018) is a great advancement.

workhorse models and five paradigms in the mainstream only (cf. AZARIADIS, 2018). The frameworks in new political economy I have analyzed in this dissertation exhibit an even greater degree of diffusion: rational choice theory provides some organization around a paradigm, but there are still different traditions in conflict with each other, besides a multitude of interpretations for the EVL model. Some of the approaches comprising the broad field of political economy only share the desire to analyze both politics and economics in a single approach and nothing else.

In fact, as a reviewer of the NPE literature suggested, the problem of the field is not so much the lack of a theory of everything, but rather the opposite: the loose ends do not connect due to heavy reliance on specific examples that cannot create general explanations. As a result, "the literature runs the risk of having the same fate as the theoretical [industrial organization] literature, which was cynically summarized by Richard Schmalensee in the following way: 'Anything is possible'" (SAINT-PAUL, 2000, p. 921).

Is it true that anything is possible in political economy? Should this be the case? The dreams of a fully integrated approach to the social sciences seem much more elusive than a theory of everything in physics. The idea of a theory of everything is already quite ambitious in the latter field. Unsolved problems, such as the nature of dark matter, test the limits of the physics paradigms, the limits of the language physicists use. And there are also the fundamental epistemological limitations inherent in the scientific enterprise: we cannot understand the world as it *is*, which is why we must "do" science and also why science is always evolving – science is part of a reaction against a fundamental imperfection of humanity. Hawking wrote that with a theory of everything, we would know the mind of God, but if we could learn such *exact* knowledge, it would not be quite correct to say we learned what God had in mind when He created this world – instead, we would *become* God. Such a prospect sounds perilous, the kind of peril depicted by *Jurassic Park* on the limits of science.

Still, can social scientists ever *aspire* to know the mind of God the same way Hawking and his fellow physicists do? Can we ever imagine Keynes, Friedman, Lucas or others ending their books with phrases similar to Hawking's? For example, if we discover the *true* source of the business cycle, would it allow us to know the mind of God? Even if we consider the fundamental difference between the objects studied by physics and economics, one must wonder if there is any meaning in these questions and their potential answers – which can

become even more complicated when we add other areas such as the biological sciences to the mix, as in the case of Douglass North and the neurosciences.

Maybe the effort of unification is too ambitious, since its most successful attempt, *in relative terms*, is the rational choice paradigm, which found great resistance. Analyzing a handbook on the applications of rational choice to the social sciences, the reviewers argue that "rational choice does not apply in an undifferentiated way to the whole social field," since it fails to conceive a theory of society, thus remaining only with piecemeal applications (CHASERANT; GIRARD; PIETRI, 2015, p. 112). One can observe how Douglass North and his associates turned to the neurosciences to go beyond rational choice, and how Hirschman rejected the rational choice paradigm for its supposed bad social consequences, coupled with a skeptical view on the unification of the social sciences (HIRSCHMAN, 1971, p. 27; SWEDBERG, 1990).

It seems that a unified theory, a theory of everything, might not be the best model for the social sciences. Even an interdisciplinary view of the social sciences draws skepticism. Olson never claimed his work to be interdisciplinary[132]. NPM seems to be an exploration of the boundaries between macroeconomics and political economy from the macroeconomics' side, which would explain why it does not refer to political science very often. After commenting on how cliometrics failed to penetrate history departments, Troestken wonders whether this was actually a "good thing":

> Economists have their way of looking at the world; historians have theirs. Economists can make their arguments; historians can make theirs. That we disagree on so much only makes for a richer, more diverse intellectual marketplace. Even if we don't want to buy what the other one is selling, that does not mean that there might not be other buyers out there. As academics we often assume that genuine interdisciplinary dialogues are a positive thing, that all concerned would benefit. I do not think that is the case here. The paradigms of economics and history are so different, we probably should just agree to disagree and go our separate ways. (TROESTKEN, 2010, p. 26)

The situation seems a bit grim for a social theory of everything, or even for a "new institutional social science" – even if one does emerge, as North wished, it might not be a theory of everything, but rather just another theory of institutions and institutional change, with the advantages of a wider field of research. North might have been aware of this, since his

[132] "I would not start with any desire to 'trespass' in any discipline or even to do interdisciplinary work. I have no particular belief that such work is superior to disciplinary work. I have never tried to be interdisciplinary; much of what I do is not interdisciplinary at all. Neither would I believe in avoiding interdisciplinary work." (SWEDBERG, 1990, p. 177).

work challenged the usual perception of economics imperialism, defending the application of the economic method to other fields, but also recognizing its limitations. Even if disciplines remain separated, they should share an interest in each other, in what Dobusch and Kapeller (2012) labeled "interested pluralism."

6.2. THE CHAIN OF IDEOLOGY IN PUBLIC CHOICE THEORY AND HISTORIOGRAPHICAL PRACTICES

Throughout this dissertation, a constant theme has been observed: all approaches analyzed sought to distance themselves from public choice theory. The political business cycle model started as a macroeconomic approach to problems of collective decision making, being developed by authors not affiliated to public choice theory; new political macroeconomics rejected the label "public choice", wishing to avoid the ideological implications of public choice theory; new institutional economics largely replaced public choice in political science as it facilitated a less hostile treatment of government, and Douglass North considered that public choice's obsessively negative view of government interfered with a rational analysis of political economy; radical political economists shared some of the same concerns with political economy, but their values differed too much from those of public choice theorists; finally, the reaction against public choice was an important factor in Albert Hirschman's project of political economy of citizenship.

I do not intend to repeat the same arguments made in earlier chapters. There is enough evidence that public choice theory was rejected by the aforementioned groups due to its ideological subtext: the *apparent* commitment to a libertarian view of the world, and its conflation with a rational choice approach to politics. The combination of a libertarian view of the world with an economic analysis of politics is something all these scholars wished to avoid, as well as the perceived pessimism and cynicism associated with it. To exemplify, consider how the dilemma of "why people vote" if they are rational proposed by Downs and the problem of the possibility of collective action suggested by Olson, if taken to their extremes, should exclude popular participation from politics, one of the reasons why Hirschman so defiantly opposed these models.

There are discussions on method and ideology among public choice theorists. In a follow-up article to *An economic theory of democracy*, Downs (1962) revised a few of the

predictions contained in his main book, after receiving some criticism from defenders of the "public interest". Although he admitted that the "public interest" might exist, he still maintained a pessimistic view of its power to influence policymakers. In the end, Downs changed the way politics was understood, transforming "the public-spirited citizen portrayed in civics texts into the self-interested individual portrayed in economics texts" (SIGELMAN; GOLDFARB, 2012, p. 12), which earned him the criticism of Hirschman and a variety of other scholars (e.g. BARRY, 1978 [1970]). Downs was a liberal in the American sense, which meant his political position was close to the center-left, similarly to Olson (cf. MUELLER, 2015). However, while recognizing Olson as a left-liberal, Rowley (1987, p. 42, n. 6) described his works as "one of the most conservative contributions in the post-middle years of the twentieth century." Avoiding the implications of an inherently libertarian public choice, authors associated with Analytical Marxism have produced work that could be classified as an "alternative" public choice, but, as far as we know, public choice theorists do not congregate with this tradition (cf. SELF, 1993, p. 16-19). In reviewing 100 years of the *American Political Science Review*, Waismel-Manor and Lowi associated the rise of the rational choice method with the ascent of market-friendly governments in the 1980s:

> To some degree, rational choice in political science is to an overwhelming extent a playing out of the pure economic libertarian maximization model […] Riker himself was one of the most un-political, un-opportunist, non-ideological, non-cultish members of this profession. Nevertheless, one of the reasons rational choice became a successful force was its ideological consonance with the politics and ideology of the 1980s. (WAISMEL-MANOR; LOWI, 2011, p. 75)

Therefore, even if a relevant portion of the founding fathers and current practitioners of public choice do not identify themselves as libertarians or supporters of free markets, it seems that public choice cannot shake off its public identification with free market advocacy. But why is this relevant to the argument developed in this dissertation? This has not been considered an important factor by public choice theorists, who blame it on ignorance and "political correctness" (MUELLER, 2015). I argue it is not, but, rather, an indication of a deeper symptom of a larger problem in public choice practices: the adoption of a Whig, teleological view of their own history and role in the economic world, a "hubris", in the words

of a historian from outside the economics community (THOMPSON, 2008, p. 360; also DE BEUS, 1990), and a tendency to portray their founders as "special" [133].

Much of the historical research on Public Choice has been unbalanced, at least before the middle of the 2010s. Pro-public choice authors like Rowley (2008) claim there was a conspiracy of mainstream economics against public choice, an underdog narrative pitting the David of public choice against the Goliath of established economics. On the other hand, Medema (2004) points out that many supporters of public choice tend to oversell how deviant public choice was from economic orthodoxy while omitting their sources of funding to bolster their "underdog narrative". Medema (2011, p. 232) would later argue that the acceptance of their ideas, as seen 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". Historical validation is achieved at the cost of actual history. For example, Wagner's (2016b) claim that Italian public finance theorists would be public choice theorists if they were alive today is what historian Marc Bloch (2002 [1949], position 854) called "obsession with origins", usually not considered a good historiographical practice for ignoring the context in which scholars wrote their treatises, while *invariably* serving to promote a narrative independent of factual historical evidence – a malpractice identified by Blaug (2001b) in Robert Lucas's claim that Smith, Hume and others would use advanced mathematical methods if they were available to them.

Nowhere is this issue exposed more evidently than in the controversy surrounding the publication of Nancy MacLean's *Democracy in Chains* (2017). Briefly mentioned in chapter 3, "it is an understatement to say that [the book] generated a wave of controversy when it was published in June 2017" (FARRANT; SCHEALL, 2019, p. 115). The wave of controversy is a topic of study itself, because why did it happen in first case? The controversy originated with the publication of a critical book on James Buchanan and the VSPE by MacLean, a historian of social groups from Duke University and, therefore, an outsider to the community of economists and historians of economics. The work links Buchanan and other Virginia political economists to a network of conservative and libertarian scholars, politicians and businessmen bent on influencing American politics, removing power from the federal government, and undoing civil freedoms. Its back cover reads: "A piercing examination of the

[133] See Clark and Lee (2018), who after insights on "Buchanan's genius", try to justify their collective aggravation with Nancy MacLean's book on the basis that "Buchanan was creatively playing with ideas" and that the moral argument against public choice is void. See also the analysis of Rowley and Houser (2012) in the following pages.

Right's relentless campaign to eliminate unions, suppress voting, privatize public education, stop action on climate change and alter the Constitution" (MACLEAN, 2017, back cover). The book was a finalist of the National Book Awards of 2017, in the non-fiction category[134].

The book has been criticized on many grounds. "MacLean's journalistic turn gives her book an admirable polemical vigor that makes it fun to read", writes Jack Rakove (2017), a historian and Pulitzer Prize laureate, "but as a serious intellectual history of public choice ideas or (more to the point) of Buchanan's own substantial oeuvre, *Democracy in Chains* is disappointing". "Most of the book," writes political scientist and public choice theorist Michael Munger, "and its substantive conclusions are idiosyncratic interpretations of the facts she selects from a much larger record, as is common in the speculative-history genre" (MUNGER, 2018). The book was also criticized by Philip Mirowski, a well-known critic of neoliberalism, for focusing on the central figure of Buchanan instead of his network of supporters, thus conflating the history of an individual, Buchanan, with the history of the neoliberal right (MIROWSKI, 2019).

Other reviews were more hostile. Jennifer Burns (2018), historian of economic thought and libertarian movements, criticized the book for being a poor history of public choice thought, arguing that its focus on the "Kochtopus" conspiracy will not make it stand the test of time. To Geoffrey Brennan (2018), a close contributor to Buchanan, MacLean's portrait "is distorted in many details and extremely implausible overall", while Ross Emmett (2019), also a historian of libertarian movements, essentially accused her of bad faith for not analyzing Buchanan's change of views during his lifetime, the so-called "hermeneutics of suspicion". Even if supporters have recognized the inaccuracies in her book, they consider the characterization of the VSPE agenda to be accurate (MONGIOVI, 2019), and describe the neoliberal reaction to the book as vitriolic and a reflection of their own libertarian echo chamber (MIROWSKI, 2019).

I do not intend to offer my own review of her book or question/support her historiographical practices. My purpose is to use this case to elaborate on Gary Mongiovi's apt metaphor of poking a hornet's nest. The hornet's nest, in this case, refers to how public choice treats its founders. The book merely exposed to a larger, non-academic audience an enduring

[134] https://www.nationalbook.org/books/democracy-in-chains-the-deep-history-of-the-radical-rights-stealth-plan-for-america/

issue of practices mentioned in the previous chapters of this dissertation, and I believe it could help understand why outsiders "shy away" from the label.

In an article with the grandiose title "The Life and Times of Gordon Tullock", Rowley and Houser (2012) wrote a biographical piece in the style of a novel, with vivid descriptions of Tullock's experiences during the Second World War and the communist takeover of China, to which he was present. It is replete with approving descriptions such as "displaying from early childhood a superior intellectual ability that clearly distinguished him from his peers," (p. 4) a "brilliant polymath," (p. 8) a "world-class scholar," (p. 10) a man of "amazing talent," (p. 12) the "missing ingredient" that "would turn the Center into an intellectual powerhouse over the coming decade," (p. 13) even wondering "whether or not Divine Providence energized him," despite the fact that Tullock himself was an avowed atheist (p. 15). Such heroic spirit needed antagonists, since no journey is free from adversities:

> In a small city, without a substantive business community, such anti-intellectual misfits were able to pursue their progressive agenda without any apparent cost, and indeed, to much rejoicing among the Marxists who dominated the liberal arts faculty. So the Fifth Column was already firmly established within the university itself. (p. 16).

There was a conspiracy of Democrats, Marxist-Leninist bureaucrats from the Ford Foundation "who used the wealth accumulated by America's foremost capitalist to weaken the infrastructure of capitalism and freedom across the United States," (p. 17) leading to a comparison of the University of Virginia to Vichy's France, betrayers of American ideals. To be fair, the article was part of a special issue of *Public Choice* honoring Gordon Tullock (2012), but there is not the slightest attempt to hide its agenda: critics of public choice are foolish at best, enemies of freedom at worse; Democrats (would this include Olson, Downs, Ostrom and others?) are enemies of public choice, and McCarthy was probably right. It would not be surprising to find the piece published in an alt-right website, but it was instead published in *the* most important peer-reviewed journal in the field, for a considerable interdisciplinary audience of economists, political scientists, philosophers and social scientists in general.

On the other hand, MacLean (2017) gives a completely different picture of this episode. As in the case of the article above, some reviewers have mentioned how MacLean uses a style that resembles a novel rather than a scholarly work (e.g. MUNGER, 2018; MIROWSKI, 2019). Tullock supported a chapter of the Young Americans for Freedom, defending the right to discriminate against integrationists (MACLEAN, 2017, p. 94); the Thomas Jefferson Center was well supplied with anonymous donations by the Virginia business community (*ibid.,* p. 95);

many feared the center was becoming dogmatic in its defense of free markets, one of the reasons why the Ford Foundation refused to grant funding (*ibid.,* p. 96); Buchanan is described as a "bully pulpit", using techniques of intimidation against those who did not support him, to the point the conservative administration of the university decided to end the program. In the end, MacLean concludes:

> Buchanan's telling distorted the reality in at least two ways. The administration was not, in fact, liberal, let alone hostile to right-wing ideas. Its members were pragmatic conservatives; Buchanan's men were zealous libertarians. And the administrators had realized that the difference mattered (p. 100).

Which account is closer to what really happened?[135] The many flaws of *Democracy in Chains* have been analyzed by historians of economics, who generally do not consider it as a good history of the public choice movement. Nevertheless, just as Buchanan and Wagner were not interested in offering an accurate depiction of Keynes in DiD (cf. JOHNSON, 2018), it seems that MacLean has other purposes in mind. In the end, it is somewhat karmic: over 40 years ago, Buchanan made an inaccurate interpretation of a famous dead economist, condemned by the latter's supporters as purposeful bashing; after he died, Buchanan himself became the subject of an inaccurate representation denounced by his own supporters.

From my research, I have found MacLean's portrayal of Buchanan to be perhaps the most humane account available of his life, portraying a flawed human being (perhaps too flawed). It might not be the most correct or the most neutral account, on the contrary, but at least it does not canonize him as others do. Brennan (2018, p. 640) wrote that "Buchanan was no saint" – while this is correct, the pro-public choice historiography might give readers a different impression. Reading his correspondence with Mancur Olson, and seeing how he took offense with Olson for disagreeing with his libertarian ideology (MEDEMA, 2009, p. 142), one is led to believe that Buchanan could not comprehend how someone could disagree with him. Mueller (2015, p. 386) has defended public choice theorists and their ideology by immediately attacking other authors who write from other perspectives in a *tu quoque* argument. The controversy served to expose the issue of agendas in the history of economic thought – the

[135] Levy and Peart's forthcoming book on the early history of the Virginia school analyzes this episode through archival analysis. They conclude that, in their requests to the Ford Foundation, the Thomas Jefferson Center tried its hardest to portray itself as a pluralistic space, open to researchers of all ideological opinions, even citing the connections of Ronald Coase, then a fellow at the center, with British Fabians. The tone, however, is apologetic: "Ironically, perhaps the closing of the Center contributed to the opposite of the Ford Foundation's defense of diversity: it removed one highly unusual methodological approach from the economics landscape and thereby moved the profession somewhat closer to a monolithic approach to economic problems." (LEVY; PEART, 2020, p. 56).

aforementioned back cover of MacLean (2017) shows there is an agenda in the book, of American liberal inspiration, but the same could be said in many histories of the public choice movement, a libertarian agenda of using the history of public choice to promote a narrative, and most works on that show this issue were earlier published than MacLean's. The studies mentioned seem to have a remarkable lack of self-awareness about how they approach their own discipline and its history, and this was noticed by other scholars (e.g. North's critique of the obsessively negative view of the government by public choice theorists).

This lack of self-awareness might create an inconsistent political economy. Peter Self, in his critique of PCT, wrote that "the political entrepreneurs who launched [pro-free market] initiatives clearly did not believe that public choice theory applied to themselves" and that, ironically, they act on a particular view of the "public interest", neglecting corporate influences (SELF, 1993, p. 266). It is worth remembering that Kalecki's original PBC model was a critique of the relationship between government and "big business", where toxicity would usually start in the private sphere, but in reality both private and public spheres were entangled with each other.

Due to its massive size, the problems of government and the public sphere are legion (cf. TANZI, 2011). It is easy for a student of public choice to become cynical towards the public sphere (cf. ROWLEY, 1987, p. 42-43), but is such cynicism directed at the market sphere? A scholar can make a career out of researching theory and evidence on government failure without touching upon the growing power of corporations, and even if perchance he does so, he can associate the growth of corporate power again to government failure and prescribe policies that diminish public power and benefit market liberalization[136]. In reality,

> it is impossible to envisage an economy that is not dominated by giant firms and in which they are *unable* to translate economic power into political influence, governments cannot be trusted not to be exceptionally *responsive* to these firms' interests. (CROUCH, 2012, p. 171-172, emphasis added).

The invasion of public power by private power is something scholars of neoliberalism claim to be happening, and it is a product of articulation of interests for years, even decades (e.g. MIROWSKI; PLEHWE, 2009). Thus, libertarians insist to consider the term as a "political swearword" against free markets and the fruit of an incorrect understanding of

[136] It should, again, be reminded that the argument can be inverted, government failures have perverse effects in the economy, but they should not be used as a scapegoat of market/private failures – entangling both approaches is a challenge of any attempt at political economy.

different traditions of thought (HARTWICH, 2009; MAGNESS, 2019)[137] – and this in spite of the large amount of scholarship on the issue produced around the world, to the point that even the International Monetary Fund recognized its relevance to policy debates (OSTRY; LOUGANI; FURCERI, 2016). The term "neoliberal conspiracy" has been used to accuse MacLean of misrepresenting Buchanan and the VSPE, to benefit her agenda. But maybe there is no conspiracy, just an alignment of interests more complex than we can understand at first. If there is a conspiracy, Buchanan and, by extension, the libertarian movement are essentially "corporate apologists", but if not, then they might be, to borrow a term used by Ludwig von Mises (1951, p. 17), "innocent fools[138]" at the service of these same corporations, because while the latter might claim to defend free markets, their goal is to become mono or oligopolists. Charles Rowley himself, one of the most important scholars pushing for the "Public Choice versus the World" narrative, admitted something was wrong, according to MacLean (2017, p. 207-210), and feared the penetration of "big money" into libertarian organizations. For this reason, there is value in the different criticisms advanced by scholars affiliated with NPM and NIE, and by Hirschman: they saw things that bothered them, and given the influence of the Virginia tradition on the public relations of PCT, this meant not only cynicism, but a *selective* cynicism[139].

Some public choice authors are aware of these issues. Buchanan himself was aware of the potential problem to the public spirit – the same feared by Hirschman – that an excessively cynical view of politics could bring. In an article co-written with Geoffrey Brennan

[137] "Neoliberalism is essentially an intentionally imprecise stand-in term for free market economics, for economic sciences in general, for conservatism, for libertarians and anarchists, for authoritarianism and militarism, for advocates of the practice of commodification, for center-left or market-oriented progressivism, for globalism and welfare state social democracies, for being in favor of or against increased immigration, for favoring trade and globalization or opposing the same, or for really any set of political beliefs that happen to be disliked by the person(s) using the term" (MAGNESS, 2019).

[138] "Marx and the Marxians erred lamentably when they assumed that the masses long for a revolutionary overthrow of the 'bourgeois' order of society. The militant communists are to be found only in the ranks of those who make a living from their communism or expect that a revolution would further their personal ambitions. The subversive activities of these professional plotters are dangerous precisely on account of the naivety of those who are merely flirting with the revolutionary idea. Those confused and misguided sympathizers who call themselves 'liberals' and whom the communists call 'useful innocents,' the fellow-travellers and even the majority of the officially registered party members, would be terribly frightened if they were to discover one day that their chiefs mean business when preaching sedition. But then it may be too late to avert disaster" (VON MISES, 1951, p. 17). Of course von Mises thought that applying this to leftists' ideological counterparts would be unthinkable. The term "useful innocents" is less offensive than the alternative "useful idiots". The term was first used by the Croatian-Yugoslav dissident Bogdan Raditsa, who was disappointed, in the Hirschman sense, with Yugoslav communism becoming just a race for more power, and warned that fellow communists in other countries could only attain a similar conclusion if they adopted their tenets (O'TOOLE, 2019).

[139] Mongiovi (2019, p. 192) contrasts Buchanan's spirited opposition to the student movement of the 1960s and 1970s to his tepid opposition to the abuses of liberty in Chile: "This misalignment of priorities raises questions about Buchanan' s commitment to individual liberty as a 'supreme value" (*ibid.*), and how negotiable liberty is.

(1988), they analyzed the "moral" argument against public choice. Public choice would have a potentially damaging effect on the "civic religion" and "voters, lobbyists, politicians and bureaucrats may face reduced public expectations of their behavior – standards of public life will be eroded, and persons in these roles may predictably lower their own standards in response" (*ibid.,* p. 183). Only a "heroic" statesman can manage to make some progress and they admit that "the public choice analyst would probably soft-pedal the cynical edges, and focus more on the prospects for institutional reform than on the maximization of career prospects" (*ibid.*, p. 184). In spite of this, Brennan and Buchanan defended the validity of PCT analysis because it has a "constitutional perspective", focusing on shifting "attention away from the analysis of policy choice by existing agents within existing rules, and towards the examination of alternative sets of rule" (*ibid.,* p. 187).

In commenting this article, Clark and Lee (2018), argue that the threat of the moral argument is overstated, coming "from the tendency for large numbers to see political morality as accomplishing noble goals motivated by good intentions with the coercive arms and agencies of government programs" (*ibid.* p. 417-418). Again, the problem is *outside* public choice, with the inherent failure of politicians.

My goal is not to delve further into neoliberalism and its different meanings and its relation with public choice, but to call the attention of issues of ideology and, consequently, of agenda and narrative in the political economy and the history of thought, especially of the said political economy. If quality of research was the only issue, Burns would be right in affirming MacLean (2017) would be forgotten, but, besides being too early to make this kind of judgement, it touched upon a problem that is usually "swept under the rug" of economic and scientific research – sometimes the "rug" just cannot hold these issues further without showing off, like this recent controversy showed. As much as criteria of rigor, anonymous peer review and other actions try to dissipate ideological noise in academic research, perhaps its extinction might be impossible.

From the results of this dissertation, there seems to be some credence to Robbins's evaluation that while economics can be value-free, political economy cannot, and thus neither this dissertation would be immune to it. On one hand, libertarian values are clear in the Virginia tradition, but some of the other approaches studied here, such as NPM and Stanford, tried to take an apolitical stance on political economy. North, in a letter to Michael

Munger, admitted that ideology is simply everywhere (NORTH, 1992-DCNP)[140]. Even econometric models can display ideology, especially when they are policy-oriented (cf. AZAM, 2019). Some people considered the ideological charge of public choice to be tolerable or just related to a specific tradition, while others, including the groups studied in this dissertation, did not, enough to make them feel wary or uncomfortable with associations to the label.

Perhaps this is a reason why there are so many definitions of political economy, which may turn conventional economists away. Jean-Jacques Laffont, a pioneer in applying general equilibrium models to public economics, wrote that most economists have chosen to ignore the interaction between economic policy and politics" due to strictly following Robbins' definition of economics, to the point that "some even believe that it is not 'politically correct' to develop policy recommendations altered by political considerations." (LAFFONT, 2000, p. 5).

This is evidenced in the works of recent Nobel Memorial Prize winners Abhijit Banerjee and Esther Duflo. They end their book on the economics of poverty with a section titled "Against political economy" (BANERJEE; DUFLO, 2011, p. 226-236). To them, the primacy of politics over economics typical of the political economy approach (which they identify with Acemoglu, Robinson and others who focus on new institutional economics), and the idea that development cannot come until good political institutions are in place, offers a melancholic view of the development process. Alternatively, they argue that "good policies" might have better results than "good politics". One can interpret their words as a subtle criticism of the cynical view inherent in much of contemporary political economy.

Banerjee and Duflo's research earned them a Nobel Memorial Prize and it is hard to believe this will not influence the trends of the economics profession. There is therefore a chance that new political economy might experience, once again, a decrease in interest over the next years. Maybe the philosopher cited in an introductory note is slightly more correct than the economists, defining political economy as a "style of thought driven, at least in part, by an existential need to justify the world, to reconcile us with its imperfections, and to explain how to obtain good things in life" (ENGLAND, 2016, p. 5). Building on this definition, new political economy is a style of thought designed primarily to understand the boundary relationships

[140] "Let me start with ideology. I think ideology is nothing more nor less than the mental models that people have to interpret the world around them. That means it is coexistent with the way in which people think about everything around them. Now it may be useful to separate scientific knowledge from ideological appraisals but I am not sure that it really is. Everybody possess ideology whether they are geniuses or dopes" (NORTH, 1992-DCNP).

between economics and politics, but it can also can be expanded to include other fields of social science – while still suffering from the inescapable non-neutrality diagnosed by Robbins.

7. CONCLUSION: THE DREAM OF ONE SOCIAL SCIENCE

There are other motivations for humankind than the economic, and we are fools if we do not reckon this. Frank Knight's old message repeats. James Buchanan[141]

Research in political economy has progressed a lot and has attracted many talented scientists, all motivated by the desire of contributing to an economic analysis of politics that could lead to a more integrated understanding of the social world. Courses in political economy are offered in many graduate programs, attracting not only economists but also other social scientists who intend to work in the boundary between economics and other fields, especially political science. Not only this, there is also growing demand from employers that economists should have a knowledge of political economy[142].

Chapter 2 explored the development of the political business cycle model, as the first attempt to fully integrate macroeconomic analysis and collective decision making. The PBC model would later become the closest to a paradigm elaborated by students of the macroeconomics of collective decision making, a.k.a., new political macroeconomics, the topic of chapter 3. NPM also branches out to other research questions, such as fiscal deficits. Its macroeconomic focus caused NPM to become a separate tradition of public choice, overlapping many times with PCT, but using a different method. Chapter 4 then focused on the work of Douglass North, one of the main writers in the new political economy tradition, who advanced an integrated treatment of institutions with economics, history, political science and even the neurosciences. Finally, chapter 5 discussed Albert Hirschman's political economy, stressing his focus on a model of low formality, in contrast with the usual approach to political economy embraced by contemporary economists. Chapter 6 then cleared remaining issues present in the subtext of the previous chapters, namely: the aspirations of political economy to become a way of unifying the social sciences, and the reasons for its scant success; and the ubiquitous influence of ideology in most of its strands, especially public choice.

[141] BUCHANAN (1978-DCNP).

[142] "A spell in the civil service is always useful to enable economists to separate the politically possible from the economically desirable. At the very least, a working knowledge of the history of economic ideas is useful, if only to emphasize that the greatest economic thinkers understood the political context in which they were operating. Unfashionably normative by the recent standards of academic economics, political economy is what ultimately drives policy decisions." (KING, 2012, position 709). This was written by Stephen King, then chief economist of HSBC. In addition to knowledge in political economy, he also argued economists should have skills in economic history, international relations, financial markets and global capital flows.

This dissertation is not, by any means, an exhaustive account of the many traditions of political economy. It did not fully cover public choice and its many branches, but it did show how influential it was for NPE authors, either through positive or negative reaction. It also did not cover rational choice-based traditions unaffiliated with public choice, such as the Chicago and the Stanford-Caltech approaches and how NPM overlaps with public finance studies, and especially social choice theory, which is probably the omission I regret the most. It offered only a partial history of new political macroeconomics, by focusing on the political business cycle model and the field's search for its own identity. We discussed the political economy of Douglass North, not the political economy of new institutional economics, therefore leaving aside important early contributions by Oliver Williamson, Mancur Olson and the Ostroms, and recent contributions from Acemoglu and his associates, who are changing both economic history and political economy. Lohmann (2006, p. 525) argued that research in political economy is moving towards "the Next Big Thing, which is comparative political economy, or the political economy of development," a subject also not covered in this dissertation. The chapter on Hirschman is the odd piece, not only due to the lack of archival research, but especially for concentrating on the work of a respected economist and social scientist who was, nevertheless, a heterodox scholar, rejecting rational choice theory. Ironically, since his own view of political economy emerged as a reaction against the rational choice paradigm, Hirschman systematically engaged the latter's tenets and assumptions, thus providing yet another illustration of the widespread influence of rational choice theory and public choice.

Despite all these gaps and lacunae, I have sought to show through the introduction and the five essays that economists have worked in the boundaries between economics and other social sciences, usually referring to this work as "(new) political economy". Though having many names and definitions, political economy exists out of a desire to integrate economics and politics. This might take the form either of an extension of the domain of economics, or of a truly interdisciplinary effort; in both cases, the underlying motivation is to arrive at a better understanding of the social world. The attempt of rational choice theory to integrate the social sciences into one, through a rational and empirical method, has been an integral part of new political economy and has deeply influenced other areas such as political science. Nevertheless, it still suffers from many problems, which allowed movements like Perestroika to increase the relevance of other approaches in political science, and historians to blankly reject the usefulness of the method as an effective instrument for

understanding the problems of history. Despite these difficulties, rational choice theory remains the approach that, in *relative* terms, arrived the closest to unifying the social sciences.

The desire for a closer relationship still allures economists, like a dream. The dream of unification is, again, backward-looking. The political economy models show their resilience, such as the political business cycle model: even with its problems, it still remains an important model. In economics, it seems that no one is really gone. Some of the great economists of the past, such as Hayek[143] and Keynes[144], already argued that an economist who is just an economist remains incomplete. Political economy might be one way to overcome this. As this dissertation showed, however, inner conflicts may operate as stumbling blocks in the way of the many partisans of the approach, in their attempts to influence the economy and the world. New political economy tried to be many things: a model of political influences in the business cycle, a political economy approach to macroeconomics, a new institutional social science, a study of the importance of citizenship, and even a "theory of everything". Humanity, however, is more complicated than atoms, and so are the sciences that study its behavior.

[143] "The physicist who is only a physicist can still be a first-class physicist and a most valuable member of society. But nobody can be a great economist who is only an economist – and I am even tempted to add that the economist who is only an economist is likely to become a nuisance if not a positive danger" (*apud* MACHLUP, 1974, p. 523).

[144] "[The economist] must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician." (KEYNES, 1924, p. 322).

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ANNEX 1 – INTERVIEW WITH DR. MARGARET LEVI

Transcript of the interview with Dr. Margaret Levi on October 26, 2018, at the Duke University, School of Law.

R: So dr. Levi how did you meet Douglass North at Washington University?

L: I didn't, I met him at the University of Washington (both of us laugh – if fate doesn't exist why did he go to such a similarly named university?) and it was in…I think it was in 1974 when I first arrived. And he called me to have lunch. Because Sam Bowles, who was another distinguished economist, who was a friend of mine, and had answered- Doug had called Sam to ask him how he could learn about Marxism again. Because he thought he had an important set of ideas that needed to be brought back in form of his long-term secular change theory and Sam said that there was a new assistant professor there in political science who can talk to you about that. So we met for lunch and decided ultimately to have a political economy program.

R: About the political economy program, how did you attempt to elaborate the program? Like, what was the content you expected to…

L: We focused on the undergraduate program. And the idea was simply that the student was self-selected into it, and they had to take a couple of basic courses, which were already on the books. So, one was a course on property rights and theories of state, that Yoram Barzel taught, in economics; and the other was the class I started to teach on Marxist political economy, which I was interested at the time, and there were other electives that you could take, basically microeconomics, basically political science. And, at the end of the that, they could choose to be in a seminar that Doug and I taught together, for undergraduates. So that was the structure.

R: In the biography of Douglass North's Nobel biography he wrote, he referred to you as a Marxist. Did you see any problem conciliating Marxism with Douglass North's neoclassical theory?

L: He was interesting in change in neoclassical theory, because he felt it couldn't deal with dynamics, you know, long-term institutional change. He had learned about Marxism when he was an undergraduate in Berkeley and he wanted to relearn that to figure out where it could helpful to neoclassical economics, in ways he went out to do. I no longer call myself a Marxist, but I'm certain they believed in a variety of structural theories, and it was part of what Doug

wanted to bring into neoclassical economics, which was a more structural theory and more about long-term dynamic institutional change.

R: And this ties-in with his theory of politics.

L: Well, another thing that came out is that two books emerged from teaching together. His work which was Structural change in economic history and the other was mine *Of Rule and Revenue* which came out some years later, which was published as articles first. But if you read my book, you'll see that it's not a Marxist book, it was informed by Marxist theory, but it was also informed by transaction cost theory, which I was learning from Doug. So we both affected each other's thinking and we both got changed in the process.

R: How were the last years at University of Washington with Doug, before he went to St. Louis?

L: We had a great time teaching the seminar together, and our ideas were really developing, and it was a very exciting intellectual moment, but he was feeling…um…two things happened: one was that he was feeling he needed more than my department could provide, there was other kinds of political science that he wanted, and two: he was old enough to retire and the University of Washington did something very silly, but it wasn't the only university which did this, but it made very cheap for senior people to retire and gave'em all kinds of benefits when they retired. So he and I had lunch one day and he was in shock because he realized he could retire, take a job somewhere else and make even more money than he was making (laughs), and meanwhile he started to talk to Washington University, among other places, and I told him that, for his purposes, it was the best, if not one of the best political science departments in the country, because there were people like Barry Weingast, Kenneth Shepsle and Jim Alt. But they were really thinking about how to use neoclassical economics to inform political science and to transform both neoclassical economics and political science, which they did (laughs). Norman Schofield was also there, you know, people in economics across, you know, there was a group of people who were serious political economists.

R: Yeah, Barry Weingast started at economics and went to political science.

L: He did both. In Caltech he had a joint degree. That's not an economics degree, but a political economics, but he's a well-trained economist, there's no doubt of that. Barry and I are at Stanford and we write a lot of things together.

R: Did you cooperate more with Doug in the 80s and the 90s?

L: Yeah, he continued being one of my closest friends, he and his wife Elisabeth Case, and we shared work with each other, talked to each other, went to each other's meetings, and he was there for my presidential address for the American Political Science Association, he gave me a call when he won the Nobel prize; Barry Weingast, Avner Greif, Bob Bates, and John Wallis were at the center he was studying, and Doug came to them to give practice talk of his Nobel. So we continued to interact.

R: Alright, thank you for your time Dr. Levi and have a nice day.

L: Thank you very much!

ANNEX 2 – CORRESPONDENCE WITH DR. ROGER NOLL

Rafael Galvão <email omitted> October 3, 2019:

Good morning, dr. Noll

My name is Rafael Galvão de Almeida and I'm a PhD student at the Federal University of Minas Gerais. I'm conducting a research on history of economic thought, on political economy/economics and how economists have studied political issues (for example, this is a draft of a chapter of my thesis <link omitted>)

I am sending this email to ask you about how political economics developed in Stanford. You were referred to my Beatrice Cherrier, who had written on the development of the JEL codes and she mentioned that you had issues with naming the category D7 - Analysis of Collective Decision Making. One of the terms considered was "political economics" but it was rejected due to being too parochial, in relation to Stanford and Caltech.

Therefore, I want to ask how Stanford's political economics was different from other traditions. I have been studying Douglass North's work on political economy at Washington University and the new political macroeconomics (related with Alesina, Tabellin, Persson and others) - as well as the many traditions public choice, however the focus of my thesis is more how macroeconomists approached research that would qualify as D7 - on how they are their own "thing".

A friend of mine (Andres Guiot) suggested that Albert Hirschman might have influenced Stanford's political economy from the time he was there, though Hirschman was critical of rational choice theory (and one article of my thesis is about how Hirschman's project of political economics had its catalyst as a critique and rejection of public choice theory). Therefore I wonder if you could tell me about it.

Thank you,

Rafael Galvão de Almeida

Roger G. Noll <email omitted> October 3, 2019

Hello Rafael,

I will first answer the question about JEL classifications. [Beatrice]'s article gets it right. I suggested that the system have a section "Positive Analysis of Collective Decision-

Making and Political Processes" under "Microeconomics" with the following subsections (my actual words in the letter to John Pencavel that she cites):

Social Choice Theory; Theory of Teams and Committees

- Economic Models of Political Processes: Elections; Legislatures; Voting Behavior
- Public Sector Organizations; Bureaucracy; Administrative Processes
- International Relations; Arms Races and Arms Control
- Positive Analysis of Macroeconomic Policy-Making
- Positive Analysis of Microeconomic Policy-Making

The current system is:

D7 Analysis of Collective Decision-Making

D70 General

D71 Social Choice • Clubs • Committees • Associations

D72 Political Processes: Rent-Seeking, Lobbying, Elections, Legislatures, and Voting Behavior

D73 Bureaucracy • Administrative Processes in Public Organizations • Corruption

D74 Conflict • Conflict Resolution • Alliances • Revolutions

D78 Positive Analysis of Policy Formulation and Implementation

D79 Other

I attribute to Gordon the addition of clubs, rent-seeking and corruption. Note that politics of macro and micro have been combined.

In my letter to John, I was against using Public Choice, Political Economy, and Political Economics because each was too narrow (associated with a subset of people who worked on the application of economic methods to the positive study of government). At the time (1989), the politics of macro policy and Marxism were both calling their work "political economy," the Carnegie-Mellon and Virginia people were using the term Public Choice, and the Caltech-Stanford-Washington University people were using "political economics." I thought that using any one of the three would cause negative reaction from those who used the other two, but that

all could live with "collective decision-making." In this conjecture I was wrong about the founders of "public choice" – they continued to believe that they should have had their own high-level category in the classification system that was called "Public Choice," and believed that the decision not to do so was driven by elitism in the top departments.

While I opposed using the term "political economics" as the name for the field in the JEL classification system. I did, however, propose that the Stanford program (a joint effort among faculty in business, economics and political science) adopt that name to distinguish us from the other groups.

In my next e-mail, I will answer the question about the origin and nature of the Stanford program.

Roger G. Noll <email omitted> October 3, 2019

Part Two: Stanford Political Economics

The defining characteristic of Stanford's program is a focus on positive analysis – cause-effect models of public sector behavior. The idea was to make a distinction against the often normative content of work in Public Choice (libertarian anti-government arguments based on various demonstrations that government is inefficient), Political Economy (the part that was Marxist), and "normative as positive theory" in welfare economics (especially in the fields of industrial organization and public finance) that was based on the idea that government takes actions solely to solve market failure problems (externalities, monopoly, information asymmetry).

Here I should add a non-obvious aside: the Chicago School part of the field (mainly coming from faculty in industrial organization and law and economics such as Gary Becker, Sam Peltzman, Richard Posner and George Stigler) was viewed by us as having a close kinship with Marxism in that it emphasized the control of policy by firms (the "capture" theory of regulation).

In any case, we were trying to be as apolitical as possible. Just as the microeconomic theory of the firm is about what capitalist enterprises do, not whether they are good or bad, political economics was about why government takes the actions that it does: public sector

outcomes as derived from citizen preferences as mediated by institutions (representative democracy, legislatures, courts, bureaucracy, constitutions).

The development of the program was clearly influenced by the first few hires. The business school required a course about the relationship between business and government that focused mainly on ethics and the social responsibility of business. The course was not popular with the students and was controversial among business school faculty. So in the 1970s the B-school recruited faculty to redo the course.

The first faculty hired were Jon Bendor, David Baron, Susanne Lohmann, Keith Krehbiel, and Dan Diermeier. They redesigned the course to cut the normative part way back and to replace it with economics-like material on how government works and why it does what it does, with a focus on how businesses strategy can take government behavior into account.

Meanwhile, the political science department had hired John Ferejohn away from Caltech. John was a Stanford Ph.D., and Kenneth Arrow was on his dissertation committee. John was hired as a representative of the "economics approach to politics" group that had emanated out of the University of Rochester department of political science in the late 1960s and early 1970s. This produced several highly influential scholars like Ken Shepsle (Washington University and then Harvard) and Morris Fiorina (Caltech, Harvard, and finally Stanford). By the late 1970s, Caltech had mostly replaced Rochester as the source of scholars trained in economics but who studied politics, producing students like Barry Weingast, Randy Calvert, Mat McCubbins and Gary Cox. The main advantage of Caltech over Rochester was that the graduate training at Caltech had more economics and econometrics, and the university was richer and more supportive. The Stanford program was like the Caltech program, although Caltech placed a higher fraction of its students in econ departments.

Stanford's political science department, while traditional, was influenced by Kenneth Arrow, and was widely admiring of the work of one of his first students, Anthony Downs, so John F. was hired to import this kind of work into the department. A few years later, others were added, notably Barry, Doug Rivers, Gary Cox, Mo Fiorina, and Bruce Cain (all connected to Caltech as students or faculty).

Meanwhile, a couple of years after John F. came to Stanford, I arrived from Caltech. Thus, by the mid-1980s, the group was small in each of the components, but collectively large, which allowed us to create "political economics" as a field in econ and

political science as well as a separate Ph.D. program in GSB. Among the three components, we began to produce a handful of ph.d. students per year, most of whom were placed at research universities, mostly in political science, but a fair number in business schools. Many B-schools adopted Stanford's course – David Baron's text did more than anything else to sell the field to business schools). Only a few placements were in economics departments, even among the economics ph.d.s who entered the field.

Stanford was not a player in the subfield of the politics of macro policy. In 1985, the economics department hired Guido Tabellini, with the idea that he would build that area into the program, but he was not happy here and left after a year. As a result, applied work in the field was almost all oriented towards either micro policy or other policy areas (civil rights, defense, etc.).

I read the chapter of your dissertation that you linked in your message, and with few exceptions it does not mention any of the work at Stanford. I think that this is partly because of your macro emphasis, and partly because the biggest impact of the Stanford program has been on research and graduate education in political science and business strategy, whereas the work on political business cycles and the effect of institutions on long-term economic growth is mostly of interest to economists. The one main exception is that economics has been interested in the politics of regulatory policy and Stanford has been a major player there.

You might want to use Google Scholar to search a few of the names mentioned above to get a sense of the areas of widely cited work that has come out of Stanford. The foundation of the field here is Kenneth Arrow's "Social Choice and Individual Values" (over 20,000 cites and among the most highly cited works in all social science). Others are Baron and Ferejohn, "Bargaining in Legislatures," with 2500 cites; Krehbiel, "Information and Legislative Organization" with over 2500 cites; McCubbins, Noll and Weingast, "Administrative Procedures as Instruments of Political Control," with over 3000 cites; Morris Fiorina, "Retrospective Voting in American National Elections," with nearly 6000 cites.

Also, you do not cite two books by North and Weingast, one of which has over 5000 cites and another of which has over 3500. Both are about how institutions affect growth.

Finally, I do not think that Hirschman's work had an effect on the field at Stanford. The reason is that Stanford did not reject rational actor models. While behavioral economics has

been part of Stanford's program since the start, the focus is more on extending the standard model rather than rejecting it.

Hope this is useful

Roger Noll