

ASPECTS OF THE NEW POLITICAL ECONOMY

In the article features of aspects of new political economy.

Key words: *new political economy, policy analysis, subject of political economy.*

Introduction. Over its long lifetime category «Political economy» has had many different meanings. For Adam Smith, political economy was the science of managing a nations resources so as generate wealth. For Marx it was how the ownership of the means of production influenced historical processes. For much of twentieth century «Political economy» has had contradictory meaning. Sometimes it was viewed as an area of study (the interrelations between economics and politics) while at other times it was viewed as methodological approach. Even the methodological approach was divided into two parts-the economic approach (often called public choice) emphasizing individual rationality and sociological approach where the level of analysis tended to be institutional. New political economy become one of the most active research areas in the last decades. Building on earlier work of the public choice school, rational expectations, macroeconomics and game theory political economy has taken the next step by including rational voters, parties, politicians in the modules. The «new» political economy is not however just a reservation of an earlier approach to economics. Though characterize by a strong interest in the question how politics effect on economic outcomes. The New Political Economy is about expanding the domain of economic policy analysis and hence enhancing its relevance.

Literature review. The New Political Economy borrows ideas and develops themes from all of its historical predecessors. **Confusion:** 0) Classical Political Economy 1) International Political Economy 2) Comparative Political Economy (various political economies of...3) **New PE**, Political Economics, Analytical PE, Positive PE, Public Choice.

The main idea of this these – the new political economy which defined more by it's way of approaching this questions in large part by its use of formal and technical tools of modern economic analysis to look at the importance politics to economics. With the division of economics and political science into district disciplines economists abstracted from political and institutional factors. The desire for methodological progress and for more rigorous basis for economic analysis were important motivations in this separations. The development of neoclassical economics stressed optimization by consumers and firms object to well-defined constraints and a market environment, deliberately downplaying more amorphous political factors. Those determinants of economic outcomes easily formalized in this choice-theoretic framework were stressed in the development in neoclassical economics those not easily formalized were seen as largely the province of other disciplines.

Chronology of transformation of category «political economy». Classical political economy engaged with broader interests than what we would now refer to as economics. In Book «Wealth of Nations» Adam Smith was engaged in the study of political economy in the narrower sense of the modern lecture. He was keenly aware that effective government involved dealing with incentives inside government. He was, however, not pre-occupied with the interplay between democratic institutions and the economy, although this is not particularly surprising given the time at which he wrote.

For Ruskin, political economy was not some specialist science beyond the interest and understanding of the general citizen, but rather was something we all needed to be acquainted with; it was knowledge for social progress. Indeed, without this knowledge being available to individual social actors, Ruskin's politico ethical project is difficult to prosecute. Of course, Ruskin was not a political economist in the traditional understanding of the term, and often sought to distance himself from those one might normally identify as such. In the preface to *The Political Economy of Art*, Ruskin notes that he has 'never read any author on political economy, except Adam Smith, although later it becomes clear that he has also read J. S. Mill's and David Ricardo's work. This denial is best regarded as a rhetorical distancing from a perceived economic/rational political economy that Ruskin

saw dominating the depiction of society, rather than as an accurate depiction of his reading habits [5, p. 190].

The term political economy continued to be used in discussions of comparative economic systems – particularly in debates about the relative merits of socialism and capitalism. This brand of political economy was in part the preserve of Marxist thinkers. But it was also evident in the writings of important Austrian thinkers such as F. von Hayek and J. Schumpeter.

In continental Europe, the schism between economics and politics was less marked than in the English-speaking world. This was particularly clear in the field of public finance which remained imbued with law and political science throughout. But it was not until the post-war period with the creation of the field of Public Choice that these ideas were systematized into a body of understanding integrated with mainstream economics. The key contributors to this enterprise were Buchanan and Tullock whose 1962 book *The Calculus of Consent* provides a landmark analysis of problems of logrolling and implications of democratic governance for taxation and public expenditure.

Downs (1957) was a watershed in the development of political economy. The book was filled with many important ideas, but the one that caught on most strongly among economists was his justification for the idea that politics would converge to the preferences of the median voter. Downs described politics in the language of competing firms called «parties» where customers were voters. He observed that if parties cared only about winning, then they would have an incentive to converge to the centre – specifically the median voter. Similar ideas were also being developed in Black (1958) who recognized the importance of preference restrictions (single-peakedness) to this prediction.

The classical tradition lost its place as the dominant approach in economics to the marginalist framework of neoclassical economics, with the latter evolving into the current mainstream approach which views exact prediction through mathematical modeling as the defining feature of a scientific discipline. The work of Sraffa and Sen is complementary, for each provides an alternative multidimensional conception to replace a key analytical component of mainstream economics: Sraffa proposes an alternative to the neoclassical production function, and Sen suggests an alternative to the neoclassical utility function in the analysis of behavior and of welfare [1, p.128].

Alt and Shepsle defined political economy as the study of rational decisions in the context of political and economic institutions, stressing explicit micro foundations based on rational actors.

The separation of society into an «economy» and «polity» does not flow directly or inevitably out of either of the two approaches considered so far. The idea of the economy as a socially and historically specific institution is nonetheless an important one. When we speak of economy we already assume the existence of separable entity, a sphere, a moment of whole in the Hegelian sense a distinct set of relations between persons not in essence political or familial. This usage parallels the historical emergence of the economy as a separate institution. Karl Polanyi more than any other contemporary thinker has drawn our attention to this aspect of modern social organization.

Aspects of the New Political Economy. Modern economic analysis is used not just in the format sense of mathematical approach its also conceptual viewing political phenomena in terms of optimization, incentives and so on. The relative newness of political economy in its current form may make this problem more acute. New political economy is not insightful formalization on the obvious. Recent research has also been criticized as being too broad seen as trying to cover everything, with widely differing degrees of success.

Characteristics of new political economy:

Theoretical Eclecticism. The New Political Economy has not solved the problem of studying political competition in the absence of a Condorcet winner. But it has kept this issue firmly in the background. There are some new modeling approaches but the literature has not tried to build around any dominant theoretical paradigm. However, a few key ideas are gaining currency. This idea is a key insight of Shepsle and Weingast (1981) who discuss how restrictions in the structure of proposal-power within a legislature can be used to generate a stable point in a multi-dimensional policy space in which no Condorcet winner may exist. Roemer (2001) restricts proposal-power by modeling within-party conflict. Such restrictions improve the odds of developing a model that predicts an equilibrium outcome in a particular policy context, providing a basis for empirical analysis. Restricting proposal power is also at the heart of the agenda-setter model of Romer and Rosenthal (1978).

Theory Meets Data. The New Political Economy emphasizes empirical testing with three main sources of data being used. First, there are many studies that use cross-country data. Second, there are studies that exploit variation within countries, particularly across sub-national jurisdictions. This does suffer from some of the problems discussed in the context of cross-country studies, since regions may vary for cultural, economic and social reasons which are difficult to control for. The fact that many institutions remain fixed over time is also an issue. Finally, there is scope for collecting more bespoke data sets to examine specific policy issues. **Comparative Institutional Analysis.** One of the central themes in the New Political Economy is developing theoretical and empirical implications of alternative institutional arrangements for making political choices. Institutions can be modeled following Douglass North as the humanly devised constraints that shape social interaction or sometimes simply «the rules of the game». Comparative institutional analysis is also a place where complexity and subtlety can be brought in to capture the ways in which institutions work. **Importance of Information.** One of the central advances in economic theory in the past fifty years has been the development of tools for studying situations where individuals interact in situations where information is imperfect. Information provision of this form is increasingly being studied by the New Political Economy and the emerging evidence suggests that policy outcomes are affected by media activity. **Dynamics.** Public resource allocation has both short- and long-run effects on the economy. One distinctive feature of the New Political Economy is the attention it pays to the dynamics of politics and economics, i.e. the evolution of economies and policies over time. A key aspect of democratic political life is that governments are typically short-lived while the consequences of many policies are not. **Specificity.** A lecture such as this is not the place to review the voluminous recent literature in the field of political economy [4, p. 581].

The New Political Economy rises to specific challenges. At a broad level, it is looking behind the institutions that generate policy outcomes. While this occasionally results in a more conservative appraisal of the capacity for government intervention, it also gives a way of thinking about how to make government intervention more effective. The New Political Economy occasionally engages in debates about grand issues such as the role of states versus markets and the differences between democracy and autocracy. However, a lot of the work is focused on how the institutional details of political structure matter for policy outcomes «in the small».

Conclusions. The New Political Economy is not about economic imperialism. The aim is to generate new, policy-relevant insights, particularly in areas where economists may have a comparative advantage. What we learn complements rather than substitute's knowledge generated in other branches of the social sciences. Today, this is a reasonable ambition at least at the intersection of economics and politics. The New Political Economy is about expanding the domain of economic policy analysis and hence enhancing its relevance. We have made good progress in finding ways to integrate politics and economics to help us think about important problems.

We view political economy as a grand (if imperfect) synthesis of these various strands. In our view, political economy is the methodology of economics applied to the analysis of political behavior and institutions. As such it's not a single, unified approach but a family of approaches. Because institutions are no longer ignored, but instead are often the subject matter of investigation, this approach incorporates many of the issues of concern to political sociologists. Because political behavior and institutions are themselves a subject of study, politics also becomes the subject of political economy. All of this is tied together by a set of methodologies, typically associated with economics, but part and parcel of political science itself.

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У статті розкриваються нові аспекти нової політичної економії.

Ключові слова: нова політична економія, політичний аналіз, предмет політичної економії.

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Ключевые слова: новая политическая экономия, политический анализ, предмет политической экономии.

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