

## Introduction to the Class Political Economy

### I. Classical Political Economy and J.S. Mill

Before the late-19<sup>th</sup> century, economics as a subject was not called economics. It was better known as political economy. A good example of this was John Stuart Mill's *Principles of Political Economy* (1848). Mill's book was used at Oxford as one of the most important texts to be studied in economics until 1919. One obvious question is why Mill chose the words "Political Economy" in the title. This was no doubt because of the subject he wished to write about. He made clear in his Preliminary Remarks, at the first of his book, that political economy concerned the laws governing all aspects of wealth. Here is how he writes this

"Writers on Political Economy profess to teach, or to investigate, the nature of Wealth, and the laws of its production and distribution: including, directly or remotely, the operation of all the causes by which the condition of mankind, or of any society of human beings, in respect to this universal object of human desire, is made prosperous or the reverse. Not that any treatise on Political Economy can discuss or even enumerate all these causes; but it undertakes to set forth as much as is known of the laws and principles according to which they operate."

Mill was by no means the only 19<sup>th</sup> century writer to use the term political economy. It was already in strong currency by 1848. Mill's father had written a book on political economy and Mill had been well versed (even as a young boy) in David Ricardo's *Political Economy and Taxation* written in 1817. So, political economy, at least as a mature economist such as Mill thought, was about wealth. But, to write such a book, one needed of course to explain public wealth, government policies, collective choice, and other eminently political aspects to wealth creation. Government was a natural part of the creation, use, and distribution of wealth. Therefore, to early classical writers it would be unthinkable to ignore government institutions and the political process when discussing economics. Hence, the classical name, political economy. Mill reserves his discussion of government to the very end of his work in Book V. Here are the topics which he covered

**Book V** On the Influence of Government

**V.I** Of the Functions of Government in General

**V.II** On the General Principles of Taxation

**V.III** Of Direct Taxes

**V.IV** Of Taxes on Commodities

**V.V** Of some other Taxes

**V.VI** Comparison between Direct and Indirect Taxation

**V.VII** Of a National Debt

**V.VIII** Of the Ordinary Functions of Government, considered as to their Economical Effects

**V.IX** The same subject continued

**V.X** Of Interferences of Government grounded on Erroneous Theories

**V.XI** Of the Grounds and Limits of the Laisser-faire or Non-Interference Principle

In the late 19<sup>th</sup> century, a division of intellectual labor led to some people focusing on politics and other people focusing on economics. As such, the issue of politics branched and matured into its own subject. Economics continued to discuss government, but only as it related directly to policy. Economists showed no interest in collective choice, political institutions, voting, or government, *per se*. Economics branched off and dropped the political aspects of the subject. Political science took up the mantle and a new discipline was born.

To say that economics quit the subject of government altogether would be wrong. Just as Mill had focused his attention mainly on taxation, debt, and the ordinary functions of government, modern economists continued to be interested in these subjects. The sub-discipline in economics was called public finance. As government grew and became more extensive in people's lives, public finance was broadened to become public economics – a term that is used today.

However, in the 1940's a completely new marriage of economic and political science occurred called – public choice theory. This subject sought to apply the tools of microeconomics (namely individual rational choice theory) to analyze the workings of the political system and the workings of government. Government bureaucrats, voters, politicians, etc. were analyzed in terms of their self-interest as constrained by the rules of collective action. At the same time, researchers were developing new theoretical tools like game theory to see how that individual action could be translated into collective outcomes. The founder of the Public Choice

School of Public Economics was James M. Buchanan, and he was awarded the Nobel Memorial Prize in Economics in 1986.

Modern political economy includes all subjects dealing with the interface between politics and economics. We will treat each interface separately. Here is the outline of the course. Each week we will spend the first part of the class looking at the reading I give you. The second period will involve you in answering questions given as worksheets.

- 1 106/09/19 Introduction to the Course, Exams, and Grading
- 2 106/09/26 Chapter 1 The Subject of Political Economy
- 3 106/10/03 Chapter 2 Types of Economic Systems
- 4 106/10/10 Chapter 3 Assessing the Impact of Govt on the Economy
- 5 106/10/17 Chapter 4 Marxism and Marxist Economies
- 6 106/10/24 Chapter 5 The Washington Consensus and Its Critics
- 7 106/10/31 Chapter 6 The Politics of Social Welfare
- 8 106/11/07 Chapter 7 Elements of Public Choice Economics
  
- 11 106/11/28 Chapter 8 Regulation of Markets and Industries
- 12 106/12/05 Chapter 9 Deficits, Debts, and InterGen Equity
- 13 106/12/12 Chapter 10 The Politics of Income and Wealth Inequality
- 14 106/12/19 Chapter 11 Climate Change and Externalities
- 15 106/12/26 Chapter 12 Money Politics
- 16 107/01/02 Chapter 13 Why Nations Fail - A Review