

THE
OXFORD
HANDBOOKS
OF
POLITICAL
SCIENCE

GENERAL EDITOR
ROBERT E. GOODIN

EDITED BY
BARRY R.
WEINGAST
DONALD A.
WITTMAN

≡ The Oxford Handbook of
**POLITICAL
ECONOMY**

THE OXFORD HANDBOOK OF

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ECONOMY

Edited by

BARRY R. WEINGAST

and

DONALD A. WITTMAN

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Dedicated to my parents, Barbara and Edward Weingast
B.W.

Dedicated to Noah, Emily, and Joshua
D.W.

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PART I

.....
INTRODUCTION
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CHAPTER 1

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THE REACH OF POLITICAL ECONOMY

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BARRY R. WEINGAST
DONALD A. WITTMAN

OVER its long lifetime, the phrase “political economy” has had many different meanings. For Adam Smith, political economy was the science of managing a nation’s resources so as to generate wealth. For Marx, it was how the ownership of the means of production influenced historical processes. For much of the twentieth century, the phrase political economy has had contradictory meanings. Sometimes it was viewed as an area of study (the interrelationship between economics and politics) while at other times it was viewed as a methodological approach. Even the methodological approach was divided into two parts—the economic approach (often called public choice) emphasizing individual rationality and the sociological approach where the level of analysis tended to be institutional.

In this *Handbook*, 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 is not a single, unified approach, but a family of approaches. Because institutions are no longer ignored, but instead are often the subject matter of the 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 now part and parcel of

political science itself.¹The unit of analysis is typically the individual. The individual is motivated to achieve goals (usually preference maximization but in evolutionary games, maximization of surviving offspring), the theory is based in mathematics (often game theoretic), and the empirics either use sophisticated statistical techniques or involve experiments where money is used as a motivating force in the experiment (see Palfrey, this volume).

The purpose of this Introduction is to illustrate the intellectual excitement in political economy by covering some important elements on the scholarly frontier. As such, it neither provides an outline of the volume nor a summary of the major topics and results. In this chapter, we discuss a set of approaches and issues that have spawned interesting results and that are likely to spur considerable research in the next decade.

We divide our essay into five sections. In Section 1, we discuss research on endogenous institutions. The research agenda on institutions follows a natural progression. The first step is to determine how institutions affect behavior. Indeed, this step seems a necessary condition for a theory of endogenous institutions. Having built up a large literature on the effects of institutions, students of political economy have begun to treat institutions as endogenous (thereby incorporating some of the subject matter of sociology and anthropology). We focus our attention on legislative institutions because this is where much of the work has been done. The success of institutional analysis of legislatures is not surprising, as scholars have collected a large body of data and evidence (both quantitative and qualitative) on legislatures. For example, votes have been recorded with party affiliations and other attributes noted. These large data sets allow hypotheses to be tested and theory to be refined. Because the rules of the US Congress are internal to Congress, voting procedures, the type of committees, and committee assignments are all endogenous. So legislatures are fertile ground for exploring institutional choice.

One of the technically most challenging but at the same time one of the most exciting areas of research in political economy concerns the revelation and aggregation of information, the subject of Section 2. This work is exciting because many of the results contradict earlier beliefs based on decision-theoretic models and because this research answers many puzzles. Here, our focus is on voters, particularly voters who are uninformed in one way or another, but are nevertheless rational. Since this research area is still in its infancy, we expect much more to be done in the ensuing years.

Section 3 is devoted to evolutionary models of human and political behavior. Political economy is now at the confluence of two related paradigms: utility maximization and evolutionary fitness. Both employ survival arguments in the context of competitive forces—for example candidates need to win elections to survive. And both employ the concept of equilibrium. These two concepts of survival and equilibrium distinguish political economy from other approaches to political behavior. However, these two approaches at times provide contradictory insights. As we will

¹ See Austen-Smith, this volume.

show, some kinds of irrational behavior may improve evolutionary fitness. So at the same time that political economy is pushing the envelope of hyper-rationality (as illustrated in Section 2), it is also trying to incorporate elements of emotions and irrationality (Section 3). Furthermore, while political economy has traditionally been based on self-regarding behavior, a considerable body of research in evolutionary politics tries to explain other-regarding behavior, such as altruism and vengeance.

Scientific knowledge depends to a great extent on the interplay between empirical knowledge and theoretical development. Not surprisingly, our most comprehensive knowledge is about the advanced industrial democracies in general and legislatures in particular, where the great number of observations (of votes, party affiliation, etc.) allow for an extensive testing of hypotheses and considerable refinement of theory.² Our *Handbook of Political Economy* reflects this emphasis.

Nevertheless, over time, there has been a spread of knowledge from the core areas of research. This spread has occurred for several reasons. First, the same behavioral relations that we observe within democracies may occur across political systems once we account for the divergent institutional constraints on the actors. For example, authoritarians may not face elections, but they too need political support to remain in power (see Bueno de Mesquita, this volume). Second, more information is being collected so that cross-country comparisons can now be done.³ Finally, the political phenomena in non-democratic countries raise a host of questions typically ignored in democratic countries that demand answers: why is there ethnic conflict? When is democracy a stable political system? What if any is the relationship between democracy and capitalism? And why are so many nations underdeveloped?⁴

In Section 4, we consider the spread of political economy to new areas of research. Here the empirical and theoretical answers are the least certain, but perhaps the most interesting because of their novelty. We use, as our illustrative example, work on the size and wealth of nations. A motivating reason for choosing the size of nations as our prime example of the spread of political economy is that rational choice models have often been (unfairly) accused of dealing with “epiphenomena” such as voting rather

² This disproportionate focus of political economy research has arisen for several reasons. First, the political economy tools were first developed studying democratic countries and are therefore more easily adapted to other democratic countries than to non-democratic ones. Second, close observation and data are more easily obtained in democratic countries so that theories applying to them have been honed the most. Third, the institutional tools of political economy are more readily applied to the more highly developed institutions of the advanced industrial democracies, in contrast to the less stable and less institutionalized politics in the developing world.

³ Indeed, another defining characteristic of the political economy approach is the use of large data sets that enable econometric comparisons across a variety of countries, where the varieties are captured by different independent variables. For examples of cross-country comparisons, see Persson and Tabellini (this volume) and Glaeser (this volume). The econometric approach is in stark contrast to the older comparative politics literature, which compared two or three countries at a time.

⁴ For *Handbook* surveys of these fields see, respectively: Fearon (this volume), Przeworski (this volume), Iverson (this volume), and both Acemoglu and Robinson (this volume) and Bates (this volume).

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