order of the stars' (Cannan, 1929, p. 37). The traditional meaning of oikonomike or economics, was therefore 'household management'. Aristotle (1662, p. 30) used it in this sense when analysing households as 'three pairs: master and slave, husband and wife, father and children'. This meaning persisted in moral philosophy until the middle of the 18th century, for example, in Hutcheson (1755) and Smith (1763, p. 141). The Latin oeconomia likewise meant management of household affairs, extended to management in general including orderly arrangement of speech and composition. The French économie or économie took over this wider meaning of management from the Latin and when combined with politique it signified public administration or management of the affairs of state. Arthur Young (1770) applied this wider meaning in the title of a treatise on agricultural management. Using 'economy' as a synonym for 'thrift', 'frugality' and careful management of the finances of households and other organizations also derives from the Latin adaptation. 17th-century concern with nation building gave the term 'public administration' a wider scope, and given developments in France under Henry IV and Richelieu it is not surprising that the term 'political economy' made its first appearance there. This first use is generally attributed to Montchrestien (1615), but King (1948) indicates prior use in Mayerne-Turquet (1611). Because the relationship between state and economy it signified was so appropriate to the times, King suggests that other, perhaps earlier uses, may be found. Petty (1691, p. 181 and cf. 1683, p. 483) used the term in England. As Cannan (1929, p. 39) surmised, he could as well have used 'political economy' as 'political anatomy' to describe his attempts at analysing the Irish economy, considering he used 'political arithmetick' for the art of making more precise statements on the political economy of nations, interpreted as their comparative strengths (cf. Verri, 1763, pp. 9-10, who speaks of the science of political economy in this manner). Cantillon (1755, p. 46) referred to an 'oeconomie' in the sense of an economic organism in which classes exist as interdependent units, but his book remained an 'Essay on Commerce'.

More precise formulations of political economy as a science of economic organization, though with continuing connotations of management, regulation and even orderly natural laws, are found in Physiocracy. Quesnay's early usage generally implies the traditional meanings, but in addition he applied the term to include discussions of the nature of wealth, its reproduction and distribution. This double meaning is particularly evident in his Tableau économique. It is therefore no accident that Mirabeau (1760) spoke of économie politique 'as if it consisted of a dissertation on agriculture and public administration as well as on the nature of wealth and the means of procuring it' (Cannan, 1929, p. 40). During the subsequent decades the second meaning became more dominant, the word 'science' was added to it (an innovation attributed to Verri, 1763, p. 9) and by the 1770s it almost exclusively referred to the production and distribution of wealth in the context of management of the nation's resources.

Sir James Steuart (1767) is the first English economist to put 'political economy' into the title of a book. Its introductory chapter explained that just as 'Oeconomy in general, is the art of providing for all the wants of the family', so the science of political economy seeks 'to secure a certain fund of subsistence for all the inhabitants, to obviate every circumstance which may render it precarious; to provide every thing necessary for supplying the wants of the society, and to employ the inhabitants in such a manner as naturally to create reciprocal relations and dependencies between them, so as to make their several interests lead them to supply one another with reciprocal wants'. (1767, pp. 15, 17). Steuart's full title gave the subject matter to be covered: 'population, agriculture, trade, industry, money, coin, interest, circulation, banks, exchange, public credit and taxes'. In 1771 Verri published Reflections on Political Economy, the preface of which referred to a new department of knowledge called political economy. Although Smith did not use 'political economy' in his title the introduction and plan of his book refers to 'different theories of political economy' and at the start of Book IV he defined the term as 'a branch of the science of a statesman or legislator' with the twofold objectives of providing 'a plentiful revenue or subsistence for the people ... [and] to supply the state or commonwealth with a revenue sufficient for the publick services' (Smith, 1776, pp. 11, 428). Elsewhere (1776, pp. 678-9) Smith indicated that he saw political economy as an inquiry into the nature and causes of the wealth of nations or, as the physiocrats had initially suggested, the science of the nature, reproduction, distribution and disposal of wealth.

The association of the science, political economy, with material welfare proved to be particularly hardy, as was its association with the art of legislation. Bentham (1793-5, p. 223) put the matter concisely when he argued, 'Political Economy may be considered as a science or as an Art. But in this instance as in others, it is only as a guide to the art that the science is of use'. Torrens (1819, p. 453) also called it 'one of the most important and useful branches of science' while James Mill (1821, p. 211) and McCulloch (1825, p. 9) defined it as a systematic inquiry into the laws regulating the production, distribution, consumption and exchange of commodities or the products of labour. 'Confounding' the art with the science was criticized by Senior (1836, p. 3) as being detrimental to its development, a position likewise taken by John Stuart Mill (1831-3) and which also reaffirmed its moral and social nature. In this influential essay, Mill (1831-3, p. 140) defined political economy as 'the science which traces the laws of such of the phenomena of society as arise from the combined operations of mankind for the production of wealth, in so far as those phenomena are not modified by the pursuit of any other object'. This position was more or less adhered to in his later Principles (1848, p. 21), when he defined its subject matter as 'the laws of Production and Distribution, and some of the practical consequences deductible from them ...'. Cairnes (1875, p. 35) condensed this to the statement that 'Political Economy ... expounds the laws of the phenomena of wealth.'

The middle of the 19th century saw two criticisms of this meaning of political economy. Marx (1859, p. 20) identified the study of political economy with a search for 'the anatomy of civil society' or, as Engels (1859, p. 218) put in in his review of this book, 'the theoretical analysis of modern bourgeois society'. This preserved the name but criticized the scope and method of political economy. Others suggested the name be changed because it had become misleading. Hearn (1863) put forward Plutology or the theory of efforts to satisfy human wants; MacLeod (1875) proposed 'economics', defining it as the 'science which treats of the laws which govern the relations of exchangeable quantities', a nomenclature of whose virtues he successfully persuaded Jevons (Black, 1977, p. 115). When in 1879 the Marshalls published an elementary political economy text, they called it The Economics of Industry. The new name of MacLeod and the Marshalls was favourably referred to in the second edition of Jevons's Theory (1879, p. xiv) because of convenience and scientific nicety (it matched mathematics, ethics and aesthetics) and Jevons's last published book (Jevons, 1905) bore the title Principles of Economics. Although Cannan (1929, p. 44) claimed Marshall (1890) induced acceptance of the new name, this only came with the
later editions, and the change was not completed until the early 1920s (Groenewegen, 1985). Even then, Marshall (1890, p. 1) appeared to treat the two names as synonyms: ‘Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being.’

Just as J.S. Mill (1831–3, pp. 120–1) had attempted retrospective codification of scope and method in the 1820s, so Robbins (1932, p. 16) redefined economics in its marginalist form as ‘the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses’. This did more than supply a meaning for the new term, ‘economics’. It destroyed the view classical economists had of their science, as Myint (1948) clearly pointed out. Others (e.g. Knight, 1951, p. 6) complained that Robbins’s definition neglected the link between economics and the ‘individualistic or “liberal” outlook on life, of which “capitalism”, or the competitive system, or free business enterprise, is the expression upon the economic side, as democracy on the political’. However, the major drawback of the Robbins definition was its irreconcilability with Keynes’s work with its proof of the possibility of unemployment equilibrium and hence contradicting Robbins’s requirement for the existence of an economic problem that resources have to be scarce. Modern mainstream definitions of economics (Rees, 1968; Samuelson, 1955, p. 5) have simply combined the Robbinsian resource allocation problem with the new economics of employment, inflation and growth developed from Keynes’s work.

Robbins’s definition also aimed to make economics ‘a system of theoretical and positive knowledge’ (Fraser, 1937, p. 30), preferring to reserve the older name, ‘political economy’ for applied topics such as monopoly, protection, planning and government fiscal policy, subjects included in his essays on political economy (Robbins, 1939). Although Schumpeter (1954) held a similar opinion he was careful to warn that ‘political economy meant different things to different writers, and in some cases it meant what is now known as economic theory or “pure” economics’ (p. 22). These views of political economy conflict with the pragmatic Cambridge outlook on economics, derived from Marshall’s definition of economics as ‘an engine for the discovery of concrete truth’, encapsulated by Keynes (1921, p. v) in his famous introduction to the Cambridge Economics Handbooks: ‘Economics is a method rather than a doctrine, an apparatus of the mind, a technique of thinking which helps its possessor to draw correct conclusions.’ This sentiment is concisely summarized by Joan Robinson’s view of economics (1933, p. 1) as ‘a box of tools’. Marxists had never abandoned the older terminology of political economy. Dobb (1937, p. vii) defended ‘political economy’ against the new term ‘economics’ because its controversies ‘have meaning as answers to certain questions of an essentially practical kind’, associated with the ‘nature and behaviour’ of the capitalist system. Likewise, Baran (1957, p. 131) argued for a ‘political economy of growth’ because an ‘understanding of the factors responsible for the size and the mode of utilization of the social surplus ... [is] a problem, not even approached in the realm of pure economics’. For the classical economists, use of the surplus had been a major research question. Political economy is therefore a very appropriate title for the endeavours of some contemporary economists to resurrect both practical and theoretical aspects of the classical tradition in what they describe as the surplus approach.

By the 1960s the radical libertarian right from Chicago and the Center for the Study of Public Choice at Virginia Polytechnic appears to have appropriated the title ‘political economy’ for their wide application of Robbins’s (1932) injunction that analysis in terms of ‘alternatives’ is the key distinguishing feature of economics. This effectively replaced Robbins’s question ‘what is or is not economic in nature’ with the far wider one of ‘what can economics contribute to our understanding of this or that problem?’ This opens up the way for an economics of ‘family life, child rearing, dying, sex, crime, politics and many other topics’ which some of its practitioners identify with Adam Smith’s research agenda (McKenzie and Tullock, p. 3). Others continue to associate the term ‘with the specific advice given by one or more economists ... to governments or to the public at large either on broad policy issues or on particular proposals’ or, alternatively, as another term for ‘normative economics’ (Mishan, 1982, p. 13).

At the approach of the 21st century, both terms – ‘political economy’ and ‘economics’ – survive. During their existence, both have experienced changes of meaning. Nevertheless, they can still essentially be regarded as synonyms, a feature of this nomenclature reflecting an interesting characteristic of the science it describes. In its sometimes discontinuous development, economics or political economy has invariably experienced difficulties in discarding earlier views, and traces of old doctrine are intermingled with the latest developments in the science.

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Nordhaus (1975) assumes that the incumbent political party attempts to secure re-election by maximizing the expected proportion of votes cast in its favour at the forthcoming election, via the exploitation of lags due to adaptive expectations. Hence, the government attempts to exploit the short-run inflation-unemployment trade-off (‘x’ consisting of inflation and unemployment) when faced by a backward-looking electorate which judges the government by its past track-record. The government can then fool the electorate by judiciously depressing output in the early part of its term in office in order to force down the expected rate of inflation, and by engineering a boom without too many adverse inflationary consequences towards election eve. A subsequent administration is then lumbered with the inflationary consequences of such a myopic vote-maximizing strategy. The political business cycle is characterized by rising inflation and falling unemployment rates over each election period and relies on three key assumptions: (i) myopic governments; (ii) backward-looking voters; and (iii) adaptive expectations.

One relaxation of (i) is that the government attempts to maximize the uninterrupted length in office, so that when it is fairly sure of winning the next election it may already start depressing expectations even further in order to secure victory at the election after the next. It can be shown that the resulting outcome corresponds to a social welfare optimum with the discount rate equal to the probability of not being re-elected, so that decision making is no longer myopic and the political business cycle disappears. Alternatively, an incumbent government may use slack at the forthcoming election to promote its own ideology. This means that it is optimal to pursue a fairly ideological policy at the beginning of the election period and to adjust its policy progressively in order to gain votes as election eve approaches. Assumption (ii) implies that the electorate is presumed to know what it likes, but to fail to understand the interactions between politics and the economy.

A more strategic electorate also penalizes any undesirable actions occurring after the forthcoming election by withdrawing its support when the incumbent attempts to implement a vote-maximizing strategy. Hence, the electorate changes its preferences, by increasing the relative importance of low inflation on election eve, in order to force the government to act as a benevolent dictator with an infinite planning horizon. The obvious alternative to (iii) is the rational expectations hypothesis, which has been argued (McCallum, 1978), does not permit a regular political cycle as the electorate eventually anticipates the incumbent’s vote-maximizing strategy and negates any real effects. But under the twin assumptions of the New Classical School, the natural rate and the rational expectations hypothesis, any type of policy rule is ineffective.

In models with sluggish goods and labour markets, such as the real exchange rate overshooting model of Dornbusch (1976), politically induced swings in the economy can occur even though the private sector is forward-looking and rationally anticipates future political and economic events. For example, with a higher probability of a left-wing opposition party taking office in the future, the probability of large budget deficits and high short rates of interest in the future increases. Current long rates of interest will therefore rise and the exchange rate appreciates, since these correspond to forward-looking asset prices. The incumbent right-wing administration therefore experiences a larger recession and fights this with a more reflationsary package than in the absence of a higher probability of a left-wing party taking over. This ‘colouring’ of ideology, combined with jumps in the economy on election morning due to the arrival of the ‘news’ about the election outcome, gives rise to political-economic swings quite distinct from the Nordhaus or Kalecki view (van der Ploeg, 1985).

There are of course many other approaches to the political business cycle. For example, Frey (1978) ascribes a more Pavlovian role, based on satisfying rather than optimizing, the government so that the incumbent reacts ex post to the violation of economic, re-election and/or ideology target. Also, governments of different political persuasions may attach different weights to the interests of different groups in society (van Winden, 1983). However, the main lesson of these studies is to treat the government as a political animal concerned with its own survival rather than as a benevolent dictator concerned with maximizing social welfare. This lead to a positive rather than a normative approach to economic policy formulation and a deeper understanding of the political business cycle.

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**See also** BUSINESS CYCLES; TRADE CYCLE.

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'political economy' and 'economics'. This article provides a survey of the origin of the term 'political economy' and its changes in meaning, emphasizing in particular its first modern usage in the 18th century, its demise from the end of the 19th century, when it was gradually replaced by the word 'economics', and its revival in a variety of forms, largely during the 1960s, which have altered its meaning from more traditional usage. What follows is therefore largely descriptive and etymological, designed to indicate the 'political economy' meaning associated with both the term, 'political economy' and its more modern synonym, 'economics'.

The origin of words starting with 'econ' is Greek, from the ancient Greek word 'econ' meaning 'house' and nom meaning 'law' in the sense of the law of the house, appropriate to astronomy when it deals with 'the law'.
political economy and psychology

If political economy is the science of wealth, then it deals with efforts made by man to supply wants and satisfy desires. "Want", "effort", "desire", "satisfaction", are each and all psychic phenomena.

It would therefore appear that psychology must be to political economy - like the deity of Boethius - path, motive, guide, original, and end'.

Yet it is obvious that the political economist as such is not engaged in the establishment of the ultimate principles of psychology. He has not, for example, to investigate the nature of a concept, or determine the relation of the Will to the Reason. So far it is clearly true (cf. J.N. Keynes, Scope and Method of Political Economy, pp. 87, 88) that although the laws of the political economist 'rest ultimately upon a psychological basis', he accepts psychological principles as his data rather than establishes them as his conclusions; unless indeed he should be compelled to make excursions into the psychological field proper, because he does not find his premises sufficiently elaborated to his hand.

But this does not justify the reduction of the psychological factor of political economy to a level with the physical factor. Cairnes indeed (Logical Method of Political Economy, 2nd edn, pp. 37 and 38, quoted and apparently endorsed by Keynes, p. 85) instances the law of rent, and maintains that, in establishing this law, the economist no more undertakes to analyse the motives of self-interest which dictate the conduct of the landlord and the tenant than he undertakes to analyse the physical qualities of the soil which determine the law of decreasing returns. Now this is very true. The economist starts with both psychological and physical data, which he need not analyse, provided he has satisfied himself that they are true. But the difference is this, that whereas his data are partly physical and partly psychological, his quaestia are, in the last resort, wholly psychical. For if the law of rent is anything, it is a formulating of the principles which we may expect to regulate the conduct of men, secured in certain possessions and privileges, actuated by certain motives, and in the presence of certain physical facts and laws. The laws of political economy then, being ultimately laws of human conduct, are psychical and not physical; and therefore psychology enters into political economy on something more than equal terms with physical science and technology. It therefore seems clear that, although the economist, as such, is not concerned with the ultimate analysis of his psychological data, his quaestia or conclusions are themselves of the order of psychic phenomena. But within the limits thus laid down there is still ample room for diversity of opinion. It may be contended that the economist has to receive, and test, his psychological and physical data alike, to deal with them by the universal methods of dialectic (i.e. inductive and deductive logic, or mathematics, if applicable), and then hand over his psychological results to the sociologist. Or it may be argued that political economy is largely, or even prevalingly, applied psychology, so that the economist must from first to last realize that he is dealing with psychological phenomena, and must be guided throughout by psychological considerations. In that case the relation of psychology to economics will be as close as that of mathematics to mechanics, though not in all respects analogous to it.

It is easy to see that the controversy as to the inclusion or exclusion of Consumption as a separate and acknowledged division of political economy, has a decisive bearing upon this question. The whole theoretic study of consumption can be little else than the application of the great psychological law of diminishing returns of satisfaction or relief to successive increments of commodity or service supplied to the same