Economics as a political economy? Theoretical and policy constraints on the comprehension of political institutions by mainstream economics

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Abstract

The paper argues that it is impossible for current mainstream economics to fully integrate political institutions and mechanisms and therefore the various modalities of impacts of these political phenomena on economic processes and outcomes, as well as, symmetrically, the impact of economic processes on political phenomena. With reference to the perspective of the economics of development, the paper demonstrates this argument via two points: firstly a theoretical impossibility due to the inherent composite character non-quantifiability, instability and polysemy of institutional (political) concepts, and secondly, in terms of policy, the irrelevance of national political institutions for policies inspired by the neoclassical framework (notably its 'Washington consensus' variants).

Keywords: Political economy; theory of institutions; democracy; economic development.

JEL: B4; B5; 043; P16.

1. Introduction

The 20th century witnessed the increasing dominance of the neoclassical framework on the understanding by economics of political phenomena, in contrast with the 'political economy' of preceding centuries. Similarly, the relationships between economics and other social sciences, including political science and its concepts, have increasingly taken the form of an explicitly proclaimed 'economic imperialism' (Lazear, 1999). In the course of the 20th century, what is now coined as 'political economy' has thus become in fact neoclassical political economy.

The understanding by economics of political phenomena is here usually narrowed down to, for example, the macroeconomics of business cycles (Persson and Tabellini, 2000),

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and analyses of the impacts of public policy on the economy (via, e.g., methodologies such as the 'median voter') or to rational choice or public choice theories and their assumptions of politicians as maximising their individual interest. Likewise, in growth or development economics, this understanding is narrowed down to political institutions reduced to variables in econometric models, typically growth regressions, with the relationship between economic outcomes and political entities being most often reduced to comments on coefficients and their signs within the regression. These approaches exhibit the common problem of the inconclusiveness of results when models are econometrically tested. This is particularly the case of analyses of a political institution such as democracy and its economic impacts – the focus usually being its impacts on growth:

The paper refers to the perspective of economics of development and the related literature on growth and development. It argues that it is impossible for current mainstream economics to fully integrate political phenomena and therefore the various modalities of impacts of these political phenomena on economic processes and outcomes, as well as, symmetrically, the impact of economic processes on political phenomena. It demonstrates this argument via two points: i) a theoretical impossibility due to the inherent non quantifiability, instability, pluridimensionality and polysemy of institutional (political) concepts, and ii) in terms of policy, the irrelevance of political institutions for policies inspired by the neoclassical framework ('Washington consensus', 'neoliberal').

i) Firstly, in theoretical terms, what could be a genuine political economy is made impossible by the views of the concepts at stake in mainstream economics, notably of (political and economic) institutions and of the complex causalities that link them, these views being characterised by their simplicity and inaccuracy. This is the case even in studies that are considered as the most sophisticated, such as those by Acemoglu and Robinson (e.g., Acemoglu and Robinson, 2012), as, despite the wide use of the concept of power, their conceptual framework still relies on a limited set of concepts from mainstream economics and rational or public choice – e.g., incentives, elites, among others. Political and economic processes are formalised in models and therefore the related institutions ('democracy', 'dictatorship', 'authoritarianism') or concepts ('interest', 'delegation', 'rights', 'trust', and the like) are necessarily subsumed in variables that must be circumscribed, be they discrete or continuous. Yet institutions are composite entities that involve a plurality of levels, simultaneously cognitive (as they are individual, 'mental', representations that have a deontic value, ruling reasoning and behaviour) and social (as these representations are disseminated and, at the same time, are outcomes of social interactions and feedback processes). Hence institutions do not necessarily have the properties required by modelling, i.e. referring to objects that are stable in time and space, as their meanings and references vary with contexts (e.g., 'democracy' in the 5th century BC Athens, in Tocquevillian 19th century America or in a newly independent 20th century Sub-Saharan African country). Quantification of political economy and its causal processes is therefore by definition impossible (as well as full predictability): this explains the inconclusiveness of modelling and econometric exercises as soon as they include concepts that are no longer strictly economic quantities (such as prices). This also explains why, even if it would wish it, mainstream economics - model-based, empirically tested via datasets and econometrics - cannot conceptualise political economy. The latter can be understood via theoretical

frameworks that radically differ from the objectives of robustness and precision that characterise mainstream economics – 'excessive ambitions', as coined by Elster (2009), which became particularly flagrant with the 2008-09 financial crisis.

In addition, current mainstream economics has an inherently limited understanding of the relationships between economic phenomena and political ones because of its exclusion of the consideration of the historical building of concepts, although the latter are shaped by time, contexts and political and economic processes over the long-run: the meanings of economic concepts, such as markets, capital, prices, money, debt, are in the course of history constructed and 'loaded' by multiple political and social phenomena: the denial by mainstream economics of such construction makes it difficult for it to apprehend the polysemy of concepts and consequently the exact relationships between them.

Finally, in terms of policy, the above arguments weaken the view that there could be ex ante causalities and regularities applicable everywhere, notably regarding public policies and institutional design: no specific institutions cause growth. As underscored by Elster (2013), the design of democratic institutions that will track independently defined good outcomes is bound to fail.

ii) Moreover, it may be argued that the impossible building of a genuine political economy that would fully consider political processes and institutions is supported by the policies associated with mainstream economics - both reinforcing each other: here political institutions appear to be in fact irrelevant, and sometimes even a 'nuisance', for the policies that support mainstream economics ('Washington consensus'). At the same time these policies are self-contradictory as democracy ('accountability', 'good governance' and the like) is claimed to be one of their key pillar.

These two points are developed as follows. Firstly, the approaches of political phenomena by mainstream economics are presented, with a focus on the concept of democracy and its different economic impacts. Secondly, its flaws are examined, with the theoretical impossibility of such approaches, notably stemming from the quantification imperative, demonstrated by showing that the concepts involved are primarily of a composite nature and with meanings that vary across time and space. Thirdly, it is shown that the policy reforms that are inspired by mainstream economics may *de jure* claim consideration for existing political institutions (e.g., aiming at 'internalisation' of reforms, or promoting citizens' voting and participation): yet when it happens that existing political institutions, e.g. parliaments, constitute obstacles to the implementation of these policy reforms, the latter de facto aims at bypassing these political institutions.

2. The incorporation of politics by mainstream economics: modelling and reductionism

2.1. 'Political macroeconomics': politics as an additional variable within economic modelling

Variety of approaches, similar theoretical framework. The last decade of the 20th century witnessed the development of a 'positive political economy', which has weak

relationships with the ‘political economy’ of the classical economists. It aims at investigating economic behaviour in political processes and political behaviour in markets; in particular, how political institutions affect economic outcomes, or how economic preferences and behaviour affect political institutions. It aims at completing the explanations of the evolution of economic aggregates with political variables, typically political institutions (or types of regimes). It remains within the mainstream framework and relying on models, it claims to provide a more scientific understanding of phenomena so far analysed via qualitative approaches.

‘Political macroeconomics’ thus focuses on the impact of political institutions such as parliamentary vs. presidential regimes, or electoral rules (e.g., majority vs. proportional rule) (Aghion et al., 2004; Aghion and Howitt, 2009). Similarly, this approach explores the impacts of electoral cycles and partisan politics (e.g., the ‘conservative’ vs. the ‘left) on public policies: for example, at election time the incumbent would typically have incentives to increase budget deficits (Alesina et al., 1997; Drazen, 2000, among many others).

The rational choice perspective also constitutes a significant current in the mainstream analysis of the contribution of political phenomena to economic outcomes, particularly in its application to public policies under the form of public choice theories. Under the influence of James Buchanan, among others, the incorporation of political and legal institutions in economic analysis has given rise here to the approach of ‘constitutional political economy’ (among others, Buchanan and Tullock, 1962; Buchanan and Musgrave, 1999). The concepts used in public choice perspectives remain those that are pervasive in mainstream economics, notably those of rent-seeking with freedom as a core concept (Boettke, 2014) and a view of the state as Leviathan that must be constrained (Buchanan et al., 1980), and those of public policies driven by interest groups or lobbies, which aim at maximising their own gains.

These interest groups are typically viewed as ‘capturing’ public policies: in particular, such ‘capture’ explains the poor outcomes of the reforms of the Washington consensus in post-communist or developing countries, e.g., of privatisation or trade liberalisation (Boycko et al., 1996; Hellman et al, 2000; Kaufmann, 2012). Trade policies are a domain where such perspectives have been widely used: in this ‘political economy of trade policy’, the influence of interest groups explain resistance to trade liberalisation, the levels of tariffs, and the like (e.g. Grossman and Helpman, 1994).

The analysis of the political economy mechanisms that underlie the process of development has been strongly influenced by these perspectives, notably rational choice (in particular by Bates 1988; 1993): low levels of development are explained by elites, rent-seeking politicians and bureaucrats that pursue their own interests and view state resources as objects for their own predation, which is a key rationale for restraining state intervention in the economy. For example, interests, e.g. those driving groups that have an interest in continuing civil conflicts are thus the basis of explanation of social unrest or civil wars, particularly in developing countries, and explain these countries’ economic stagnation (Collier and Hoeffler, 2007); and at the extreme, they explain the ‘state failure’ that is recurrent in developing countries (Bates, 2007). Principal-agent theory has also fed this political economy, where, again, core concepts remain incentives, collusion, rewards and punishment, e.g. in order to explain the stabilisation

of corruption equilibria in developing countries or the failure of privatisation (e.g., Laffont, 2000; for developing countries, Estache and Wren-Lewis, 2009).

The understanding of the processes underlying the development of nations, and notably the possibility of convergence and divergence across countries or 'clubs' of countries has strengthened the incorporation of political phenomena in the analyses of the determinants of growth. Daron Acemoglu and James Robinson have thus written numerous studies arguing that it is political institutions that explain why some nations 'fail' and other do not. Key concepts remain those of elites or oligarchies vs. other groups, incentives and interests (e.g., of oligarchies in redistributive policies), predation - or 'extractive' political economy. For example, the divergence between today's developed and developing economies would thus stem from the fact that the first have elaborated 'inclusive' institutions while the second have been plagued by 'extractive' institutions (among many other studies, Acemoglu et al., 2001; 2002; Acemoglu and Robinson, 2012).

Absorbing politics into mainstream economics. In appearance, this political economy seems to be a modification of mainstream approaches, which would amend its core premises and incorporate hypotheses elaborated by neighbouring social sciences, notably political science or international relations. In fact, however, firstly this inclusion of 'political' notions and causalities does not modify the core assumptions of mainstream models. 'Representative agents' are, for example, kept by many of them, e.g. the models on the impact of partisan politics and electoral cycles on budget deficits via these agents' demand for redistribution (Boix, 2003 for a synthesis). This is also the case of the concept of institutions: even if analyses became more sophisticated over time, since the Nobel prize awarded to Douglass North and Robert Fogel, with, for example, the consideration by North of cognitive processes or violence (North, 2005; North et al., 2009): in the neo-institutionalist literature political institutions remain conceived via concepts such as incentives, competition, governance and the like. Secondly, this incorporation rather results in a capture of the domains of neighbouring social sciences, a denial of their competence on the domains of political phenomena and a claim of a superior competence: being more formalised and mathematical, economics would be more competent than any 'qualitative' social science. This explicit imperialism is claimed by Lazear (1999).

In terms of methods, in addition to pure modelling, cross-country regressions became a privileged tool for the demonstration of the impact of political entities on economic processes, and notably a tool of the measurement of this impact, as measuring is crucial in mainstream economics. Independently from mainstream political economy, this pre-eminence of regressions has been strengthened by growth economics and its analyses of the divergence and convergence in the wealth of countries: from the end of the 20th century onwards (e.g., after Barro, 1996), these processes of convergence-divergence have been increasingly tested via the inclusion of a variety of non economic determinants in growth regressions (e.g., political institutions, types of regimes), beyond 'traditional' variables such as physical and human capital or total factor productivity. Political phenomena thus were transformed into variables that could be handled in regressions. Particularly relevant for development, the relationships between political institutions and growth have been the subject of a vast number of studies based on growth regressions.

2.2. A key example of the mainstream political economy perspective: the relationships between democracy and growth

The relationships between democracy and growth have been particularly investigated given the obvious importance of the concept of democracy as a core concept in political science. They constitute a privileged example for the highlighting the limitations of the hypotheses and concepts used in mainstream political economy. These relationships have been mostly addressed via models or empirically via cross-country regressions, usually regressing cross-country average growth on a proxy measure of democracy.

The economic impact of democracy follows many channels: some channels may lead to a positive impact on growth (e.g., democracy may foster the accumulation of human capital), others to negative impacts (e.g., democracy may foster government consumption) (Tavares and Wacziarg, 2001). Moreover, correlations may be examined in both ways, from democracy to growth and from growth to democracy. In an abundant literature, studies fail to detect a positive impact on growth while others do, and positive or negative impact of autocracy on growth can be found; the reverse causality has also been argued, i.e. the positive impact of growth on democracy (Przeworski et al., 2000; Lipset, 1959).

From democracy to growth, a positive impact? Several studies have aimed at demonstrating a positive relationship of democracy on growth via analytical reasoning: for example, for Sen (1999), democracy is an element of freedom, and democracy prevents disasters, e.g. famines. Likewise, for Rodrik (1999), participatory political institutions are meta-institutions that elicit and aggregate local knowledge and hence help build better institutions: democracy is instrumental to other institutions or economic outcomes, such as growth, human capital, or welfare.

Econometric exercises also find positive relationships of democracy on growth. For example, for Rodrik and Wacziarg (2005), democratic transitions have a positive effect on growth in the short-run, especially in the poorest countries, that democratisations tend to follow periods of low growth rather than precede them. Likewise, regressions may find that more than the type of political regime, it is the the stability of political institutions that has a positive impact on growth (Przeworski et al., 2000). Similarly, and also using regressions, Acemoglu et al. (2014) show that democracy increases future GDP, the channels of causality being the increase in investment and schooling, public good provision and the reduction of social unrest. Studies that do not use regressions and that focus on democratic transitions, such as Papaioannou and Siourounis (2008), find that democratic transitions are associated with positive growth gains and that, after the consolidation of democracy, growth stabilises at a higher rate in the medium and especially the long run. Persson and Tabellini (2006) also show that an appropriate methodology reveals positive effects of democracy on growth.

The positive effect may be indirect and indeed democracy has been shown to influence several variables, which in turn have an impact on growth: Democracy is viewed as being involved in a wide range of indirect causalities: among others, these can be education (Stasavage, 2003), health (Kudamatsu, 2012 on infant mortality), or human development (Gerring et al., 2012, only for long-lasting democracy).

The quest for a demonstration of positive relationships is crucial, as it has supported from the 1990s onwards the policy stance of international financial institutions (IFIs), the IMF and the World Bank, and subsequently all donor agencies, including the EU, where democratic institutions are said to have a positive impact on growth, in association with concepts such as 'good governance', i.e. a set of heterogeneous notions such as accountability, transparency, lack of corruption and 'participatory processes'.

From democracy to growth? Inconclusive relationships, problems of endogeneity. In contrast, for many studies, the relationships between democracy and economic growth are inconclusive, and typically, cross-country regressions involving the two variables produce a great range of different results. This inconclusive character has even been acknowledged in the policy literature within the IFIs or the EU, though for the latter aid flows are conditional to the existence of democracy in recipient developing countries (Kurki, 2014). This suggests a limited relevance of the variables as well as the methods (Madeuf and Sindzingre, 2011).

The pioneering study of Przeworski and Limongi (1993) has indeed already noted that the impacts of democracy on growth appear to be 'hopelessly inconclusive'. Democracies may be more vulnerable to particularistic demands, especially for immediate consumption, which may hamper long-run investment. Democracies may thus intensify existing social divisions. A problem of democracies in developing countries is that they must deliver economic benefits to the various constituencies within the short time horizon of the electoral cycle. There is a divergence, however, between the short time horizon of elections – and reform programmes – and the longer time required for elevating incomes, transforming institutions and improving human development (e.g., education, health). Democratic institutions may thus generate lose credibility, though this credibility is a crucial channel of their impact on growth. As argued by Przeworski (2005), democracy stabilises only if it 'self-reinforces' and if it involves income redistribution that is viewed as fair both by the poor and the rich: democracy is therefore more likely to endure in high-income countries.

This underscores that this causality from democracy to growth cannot be disentangled from the causality going from level of development to democracy, and therefore the problems of endogeneity they involve, e.g. the likelihood of particular type of political regime in developing countries may be a function of the level of development – this endogeneity being indeed underscored by many studies. Democratic regimes are more likely to occur at a higher level of development, and the duration of democracies and dictatorships is influenced by economic conditions (Przeworski and Limongi, 1993). The level of development influences that of public institutions, and at low levels of development, public institutions are often captured by private interests groups that in turn contribute to the inefficiency of these institutions and hence to a negative impact of public institutions and the associated political regimes on growth (Bardhan and Udry, 1999).

The impact of democratic institutions has thus been analysed as non-linear and subject to threshold effects: this impact differs according to levels of development and depends on the time horizons considered. For example, using cross-country regressions, Barro (1996) showed that more democracy enhances growth at low levels of political freedom but reduces growth at a moderate level of freedom, while improvements in the standard

of living (measured by GDP, health and education) raise the probability that political freedoms will grow.

From growth to democracy? The reverse relationship, i.e. the impact of growth on democracy, appears to be similarly inconclusive in the literature. It has been firstly analysed by the pioneering study of Lipset (1959; later, Huber et al., 1993, or Barro (1999). Lipset had argued that at the country level, democracy is an outcome of higher levels of incomes. Lipset's thesis has been subject to critiques, however. In particular, from examples of former European colonies, Acemoglu et al. (2008) find that there is no correlation between income and democracy. Democracy and income per capita tend to co-evolve but here is no evidence that income per capita has a causal effect on democracy. Similarly, Acemoglu et al. (2009), show that there is no statistical or causal effect from growth to democracy.

From a lack of democracy to growth? Similarly, the symmetrical relationship, from non-democratic regimes to growth, appears to be inconclusive. Authoritarian regimes display diverse forms, some providing stability, and others rapid growth (Bardhan, 1993). Dictatorships achieved a whole range of economic outcomes, from the best to the worst (Sah, 1991; Varshney, 2002). Many autocratic regimes enjoy high growth rates, China being a well-known example. High growth rates may also characterise countries where growth is grounded on the export of commodities and hence on movements of their international prices, while these countries may be governed by authoritarian regimes and even dictatorships: this is typically the case of oil countries.

For some studies, in the early phase of development, 'benevolent dictatorships' can be efficient in triggering growth: e.g., Singapore, or South Korea during its phase of catching up in the 1980s that was achieved under military rule, i.e. the 'developmental state' model, the military viewing growth as an instrument of the enhancing of their maintenance in power, or China. Yet, authoritarian states may also be associated to economic stagnation, as revealed by a number of Sub-Saharan African economies.

3. Theoretical constraints on the integration of political phenomena in mainstream economics and on the quantification imperative

3.1. A simplification of political concepts stemming from the quantification imperative

Econometrics and, in particular, cross-country regressions bypass the complexity of the causal relationships that may associate political institutions and regimes and growth. The inherent flaws of cross-country growth regressions have been revealed by many studies (e.g., Brock and Durlauf, 2001), for example, the lack of robustness of specification, collinearity and non-linearity, including mainstream authors: Srinivasan and Bhagwati (1999) thus argue that cross-country regressions are a poor way to analyse the relationships between growth and other variables: the choice of period, sample and proxies imply many degrees of freedom 'where one might almost get what one wants if one tries hard enough'. Political variables, and more generally institutional variables, e.g., democracy, do not constitute simple economic aggregates and are particularly exposed to problems of endogeneity.

Equally, the necessity of using measurable variables or proxies leads to concepts that are often ill-defined, and in particular confused with their observable attributes. Yet, the attributes of a phenomenon are not the phenomenon itself (e.g., four legs are not a table). Democracy, for example, is confused with its attributes (e.g. political freedom, participation, representation) or with other institutions that are associated to democracy (e.g., parliaments, parties), or with neighbouring concepts (e.g., 'good' governance). It is also confused with economic institutions that share similar attributes, in particular the attribute of freedom, e.g. free market institutions, or secured property rights. Democratic institutions are also often confused with policies, i.e. policies of democratic governments.

In addition, in this political economy, cross-country regressions rely on proxies and indicators that are often questionable, such as, e.g., indexes of economic freedom, rule of law and so on. For example, Barro (1996) uses subjective indexes of political freedom as a proxy for democracy. Moreover, proxies may have a remote relationship to what they are supposed to represent: e. g., the rate of urbanisation as a proxy for prosperity before European colonisation (Acemoglu et al., 2002); or an index of the average protection against expropriation between 1985 and 1995 as a proxy for current institutions (Acemoglu et al., 2001). These methodological issues, which stem from the quantification imperative, actually contribute to the inconclusive character of results.

3.2. Political phenomena as inherently composite and non quantifiable concepts

The example of the relationships between democracy and growth, with the multiplicity of different results and their inconclusive character show the limits of the mainstream approach of political phenomena.

A crucial question, which is rarely analysed as a prerequisite by econometric studies, is indeed that of assessing what political phenomena exactly are, what are their necessary and sufficient attributes, and if they can be measured. Regarding the example of democracy, as other political institutions, democracy is a concept, which is the name of a specific political institution but it also refers to a plurality of institutional mechanisms. As other political and institutional concepts, democracy is a multidimensional concept, which is inherently related to and defined by other concepts that belong to many domains, political, economic, psychological, among many others. This is even acknowledged by mainstream economics. Alesina and Perotti (1994) thus underscore that there can be two different definitions of democracy: the implementation of regular, free, multiparty elections; and the existence of civil and economic liberties. Some regimes may be undemocratic according to the first definition but grant economic rights to their citizens (e.g., Hong Kong, Singapore).

Political institutions as composite entities: distinguishing their forms and contents. All institutions, and therefore that of democracy, are composite entities. They exhibit two different dimensions: 'forms' and 'contents' (Sindzingre, 2007a). Institutions include 'forms' (e.g., the words that denote them, public rules, objects, symbols, a written legal apparatus), which must be distinguished from 'contents' (the mental representations that individuals may have of these institutions).

Only 'forms' of institutions are observable and in fact mainstream analyses consist in transforming these observable forms into variables that can be handled in models.

Growth regressions by definition rely on variables that can be handled in equations, i.e. the observable forms of political processes or institutions: e.g., constitutions, parliaments, number of parties, elections, property rights, legal rules, degree of compliance, extent of political and economic freedoms and so on. Causalities rely on variables referring to formal legal systems that exist 'on paper' (*de jure*). The political institutions that are examined in models are therefore the observable attributes of institutions, or their observable functions, or the observable effects of these institutions' existence. Yet the mere presence of formal democratic institutions provides limited information on the processes actually at work (e.g., political, institutional, psychological), which are context-dependent and evolve with time. A key point is that a particular institutional form may be associated with many actual contents, depending on contexts – historical, geographic, economic, social. The content of an institution is under-determined.

For their part, the 'contents' of institutions are intrinsically heterogeneous. They are made of many elements, i.e. the mental representations and beliefs hold by individuals, with some of them having a deontic force (e.g., 'I must', 'I cannot', etc., i.e. meta-representations, which produce rules, Sperber, 1996), cognitive abilities (e.g., reasoning), with some being context-specific and which are influenced by emotions; public expressions of these internal mental representations, with some that disseminate more than others across individuals, are more 'relevant', and become shared, collective representations and, if the latter have a deontic force, social norms; linguistic processes, e.g. names that have various meanings; material objects (including symbols), among many others (Sperber, 2000; Sperber and Hirschfeld, 2004; Searle, 2005).

Institutions generate mental representations that have a deontic force, as in essence they produce norms, but for a given institution, this deontic force of norms obviously displays a great variation across individuals. Yet, by definition, because these mental representations are not public, other individuals have no direct access to the knowledge of the force of obligation that a particular mental representation has for a given individual: an individual's public behaviour provides only an indirect signal to others, and this individual may not 'believe' or 'adhere' to these deontic representations, even if her behaviour suggests she does. Once they have become collective (public, shared, 'socialised') representations, these 'contents' also vary in space and time, as they constantly combine with other socialised representations according to contexts (historical, geographical, cultural), notably with other types of institutions.

For example, many developing countries exhibit formal democratic institutions, but the effective 'content' of the exercise of political power may in fact consist in the appropriation of public resources by the groups in power: democratic institutions may in fact be instruments for autocrats to serve their private interests and stay in power and rely on clientelism. Conversely, a specific 'content', for example social norms valuing individual participation in political processes, may take different forms, with some forms not being 'democratic' in appearance. Among examples are village assemblies in traditional lineage societies, or the China's township-village enterprises that contributed to the beginning of China's growth: while displaying legal forms that were still belonging to the communist system, they were based on participation and decentralisation (Qian and Weingast, 1997).

Forms of institutions may be quantifiable (e.g., elections, coups, numbers of political parties, decisions by regulatory bodies, votes in parliaments, percentages of participation, etc.) but in essence this cannot be the case of 'contents' - contents are not a 'thing' (as the concept of dog does not bark). Therefore, contents of institutions (economic, political, social) do not enter into simple causalities that could be uttered as, e.g. 'this given (political or economic) institution causes growth'. What models and regressions apprehend are forms and attributes of political entities that may be quantifiable (e.g., numbers of elections), not their 'content'. The inconclusive character of causalities analysed by mainstream political economy thus stems from methods themselves, i.e. from the ex ante assumption that the assessment of 'scientific', rigorous causalities can be demonstrated only from their translation into mathematical language. It stems from the intrinsic imperative for mainstream economics of modelling phenomena and empirically testing them via econometrics. As a consequence, mainstream economics and the variables of its models apprehends only the forms of political institutions (*de jure*), be they 'formal' or informal', and is not equipped for the comprehension of *de facto* political phenomena. This strongly biases its understanding of institutions as well as their impact on economic aggregates.

The inherent reductionism of mainstream political economy does not account for the composite character of notions such as power, trust, adherence, relevance, even if theories use ordinal concepts such as hierarchy, asymmetries, as, e.g., in game theory. Reductionism actually cannot account for ex ante heterogeneity and discrepancies that stem from concepts that are composite – for example, this composite character underlies the long observed 'irrationality' of individual behaviour (now the subject of a vast literature in psychological economics, neuroeconomics and the like) that is recurrent in politics, as well as the 'alienation' of individuals - who may not mentally believe nor adhere to a political institution, but comply with in their behaviour (a well-known examples being 'protest voting').

Therefore it cannot be surprising that there are many possible channels of causality and intermediate mechanisms between a political institution and economic outcomes, that these relationships are non-linear and exhibit threshold effects, and may generate poverty traps and multiple equilibria (Sindzingre, 2007b).

Content of institutions as outcomes of combinations with other institutions, notably social norms. 'Contents' of institutions, individual and shared representations, the various intensities of their force of obligation, the meaning of their name, their relevance and credibility for individuals, obviously depend on these individuals' environments as well as past events and memories, and result from constant combinations and recombinations of all these elements. Therefore they necessarily fluctuate.

In this regard, social norms – i.e. unwritten norms, as opposed to written legal rules - constitute key elements of these 'contents', and therefore strongly influence the causalities between political institutions and economic outcomes, microeconomic and macroeconomic. In particular, they consist of the social representations and norms that organise 'fairness' (e.g., 'is this political institution fair given the local norms that organise social hierarchies or equality?': Sindzingre and Tricou, 2012), 'justice', 'trust', or 'credibility' (e.g., the credibility of governments' policies and commitments: 'given past events, e.g. reneging of promises, given the environment, e.g., pervasiveness of

clientelism, is this commitment by a government credible?'). The institutions and policies of government, e.g. redistributive or taxation policies, may be coherent with or diverge from existing social norms, notably those related to fairness or justice: this orients individuals' representation of and adherence to political institutions (e.g., democracy), and therefore of these institutions economic effectiveness.

As local unwritten norms tend to be particularly pervasive in developing countries due to the weakness of state institutions, the content of institutional novelties, such as attributes of western democracy (elections, parties), may combine with these local norms and the associated hierarchies, which in turn may weaken western-type democracy (Sindzingre, 2012). Similarly, in some settings social norms may foster cohesion or in contrast polarisation, and the actual content and economic impact of a democratic formal institution will depend on the many possible combinations with these norms (Nissanke and Sindzingre, 2006 on the case of Sub-Saharan Africa). Equally, as shown by European welfare states, it is social protection combined with specific types of democratic institutions that have fostered their unique paths of growth, which are both the outcome of democratic institutions and the expressions of demands from citizens, which these institutions made possible (Lindert, 2004). Economic impacts of political institutions such as democracy result from these unique combinations.

The level of inequality prevailing in a given country in combination with local social norms typically constitutes an important 'content' of the representations of political institutions. Aggregate economic outcomes such as growth may rely on a highly inegalitarian sharing of the social product, which may generate 'institutional poverty traps' (Bowles, 2006). Examples of political traps and vicious circles are the oligarchic systems of some Latin American countries, which, despite a possible reliance on democratic institutional forms, may consolidate economic inequalities via institutions to which access is locked (via, e.g., mechanisms that lock access to education) (Engerman and Sokoloff, 2000): oligarchies may put in place economic institutions that foster growth but lock their political power from other social groups (Acemoglu and Robinson, 2006). Inequality plays indeed a crucial role in the shaping of the relationship between democracy and growth, for example via its relationships with political instability and access to education (Perotti, 1996).

3.3. Taking historical change seriously: meanings' instability and polysemy of political concepts over time

There is therefore an intrinsic impossibility to quantify the concept of democracy in the way that it used by standard methods of political economy, e.g., cross-country regressions. The concept of democracy and other concepts related to political institutions and regimes do not have the properties that are required for variables to be used in modelling, i.e. being entities that are separable and with a stable empirical reference (meaning) in space and time. For example, the concept of democracy is a concept, but also an institutional form that is specific to a particular time and space (e.g., the modern individualist type of democracy). The 'name' ('democracy') may be identical and enable the possibility of common conceptual features: however, the effective contents of a democracy that is put in place, e.g., in a Sub-Saharan African country that is characterised by a low level of literacy, decades of colonisation and dictatorship, obviously differ from the content of the democracy observed by, e.g.,

Tocqueville in 19th century America. In addition, 'contents' are individual and collective representations, they may be stable while 'forms' vary, and 'forms' may be stable while 'contents' vary.

Cross-country regressions omit to consider that phenomena that do not consist in quantities, such as institutions, cannot be measured as the usual economic variables they handle, such as prices. When variables refer to institutions, political entities and mechanisms, they do not display such properties of stability and separability (Sindzingre, 2006; 2007a). This explains the uncertain character of the results of econometric exercises.

Time is an important dimension of the concept of democracy. Time shapes democracy firstly because the persistence, the *longue durée* of institutions in the course of history consolidates them as well as their influence on economic activities (Putterman et al., 2001); and secondly, because the time frames of economic agents, their capacity of forward-looking against market myopia, shape their economic behaviour. In a different perspective, this impact of time has been underscored by Gerring et al. (2005) who find that the impacts on growth of political institutions such as democracy differ according to the duration of these institutions in a given setting. Time also shapes political institutions as the latter also result from rulers' preferences and time frames: e.g., a ruler may institute either predation or taxation depending on his time horizon (Olson, 1993). For Olson, the combination of political instability and dictatorships leads to pure predators: the latter feel insecure, they have therefore more incentives to loot the country than to make it grow and levy taxes on its production, and there is no incentive for increasing wealth and create efficient economic institutions.

Yet mainstream economics has notorious difficulties in incorporating time conceived as irreversibility (e.g. path dependence). Even if they may exhibit better accuracy and take time into account, evolutionary games or experiments do not integrate in their models history and the contribution to the meaning of institutions of contexts that constantly change (Field, 2014). The concept of evolution as used by evolutionary game theory indeed differs from that used in evolutionary economics, the latter considering time via learning and irreversibility (Hodgson and Huang, 2012).

The relationships between political institutions and economic aggregates are unstable and non-linear because the meanings of these concepts, the reference of their names (e.g., the names of 'democracy', or 'accountability', or 'legitimacy'), their social relevance and dissemination, are built by history over the *longue durée* and change with time. The entities to which they refer are typically context-dependent and subject to historical transformation. Moreover, such concepts imply the definition of other institutional concepts (e.g., 'representativeness', 'delegation', 'government', and so on).

In addition, time increases the polysemy of political (or economic) concepts and therefore the plurality of their links with other concepts or empirical phenomena. In mainstream economics, the analysis goes one-way, e.g., political institutions are conceived via economic concepts taken from the neoclassical framework (such as incentives) – completed by a few other concepts (such as, for example, reputation or trust, as is the case on neoinstitutionalist approaches, e.g. Greif, 2006; Dixit, 2004). This prevents analyses that go the other way, i.e. that political concepts shape economic ones – 'markets' being a well-known example, as they may be viewed as the historical outcomes of class struggles (Fontaine, 2014, going beyond Fernand Braudel). Similarly,

the emergence of (paradigmatic) markets such as the Champagne fairs may have been in fact determined more by state power than self-reinforcing reputation mechanisms (in particular regulation, Edward and Ogilvie, 2012), as is also the case of many other economic institutions (e.g. taxation, Tilly, 1985; Slivinski and Sussman, 2009).

3.4. Indeterminacy as a consequence of the composite character of institutions: ex ante no political institution intrinsically causes growth

As a consequence, the causal links that institutional forms and contents may have with other concepts, such as economic outcomes, are also composite and vary with contexts: they cannot thus be predicted ex ante, and they can be observed only ex post (Sindzingre, 2007a). Indeed, a key point is that the inherent composite character, as well as the time- and context-specificity of political institutions, makes it so that it is impossible to predict ex ante what will be the actual causality between a given institution and a given economic outcome.

Relationships can be assessed only *ex post*: in some cases democracy may foster growth, e.g., in strengthening social cohesion, sometimes democracy strengthens social cohesion without enhancing growth, sometimes social cohesion is a prerequisite to democracy or growth, and sometimes democracy may exacerbate divisions or inequalities, as it may happen in low-income countries. This explains the limitations of the standard methodologies in economics, i.e. cross-country regressions, which assume the existence of stable and *ex ante* relationships. The *ex post* emergence of links and causalities implies that analyses of the relationships between growth and democracy are to be made on a case by case basis, e.g. a country or region, and at a given period of time.

Indeed, in historical perspective, no particular institution appears to be indispensable for growth (Engerman and Sokoloff, 2003; Rodrik, 2004). No intrinsic outcome of institutions can be ex ante deduced from their form. In the long run, no cause is exogenous (Przeworski, 2004).

Similarly, in terms of policy, the exact economic outcomes of political reforms cannot be predicted ex ante. Likewise, no design of democratic institutions can guarantee particular economic outcomes (Elster, 2013). For example, authoritarian regimes may implement mainstream policy reform, which may fail or bring economic growth. Authoritarian regimes may also devise ‘heterodox’ policies, which may be successful. This has been shown by the Asian ‘developmental states’ of the late 20th century – e.g., Korea, an autocracy at the time of its take-off, or China. Democracy in India has not delivered spectacular growth; and the growth it has experienced has, moreover, accrued mainly to specific groups. In Sub-Saharan Africa, nationalist military leaders and coups paved the way of a stable democracy, as in Ghana, or aimed at more justice and income redistribution, as in Burkina Faso. More than political forms, the positive impact of a political regime may stem from a feature that is indeterminate ex ante, such as this regime's ability to ‘provide leadership in resolving collective action problems, this leadership being both the capacity of formulating cohesive developmental goals and avoiding prisoners' dilemma-type deadlocks (when private interest groups, in the absence of a government’s commitment, prefer short-term rent-seeking) (Bardhan, 1993).

The relationships between democracy and growth depend on specific policy choices and hierarchy of priorities, which are particularly crucial in developing countries that have limited resources. For example, for some governments, growth may be the overarching objective, as has been the case in Asian developmental states (Korea, Taiwan, China) in the early stages of their development, and governments draw their political legitimacy, beyond the particular form of the regime, from this growth (Kang, 2002, on Korea).

In fine, only case studies can highlight specific channels, causalities, and outcomes: case studies, as they enable the use of alternative conceptual frameworks, appear to be the privileged way for apprehending the interactions between economic and politics in their multiple layers and causal directions, and contributing to the building of a genuine political economy.

4. The policy level: the irrelevance of political institutions for policies inspired by mainstream economics

It has been argued that the political economy that is defended by mainstream economics inherently relies on a conceptual and methodological framework, which inherently limits its understanding of political phenomena. In addition, it may be argued that in the 'empirical world', the policies it inspires in fact do not take them seriously into consideration, may ignore them and even view them as a nuisance.

4. 1. Bypassing local political institutions while claiming to support them: the international financial institutions in developing countries

Regarding developing countries, typical examples are the policies coined as the 'Washington consensus', i.e. set of policy reforms that were prescribed from the early-1980s onwards by the international financial institutions (IFIs), the IMF and the World Bank to these countries in exchange for financial relief. As is well-known, the IFIs governance does not rely on democratic principles (in contrast with the United Nations), but on voting power that is proportional to the wealth of member countries ('one dollar, one vote') (Akyüz, 2005; Vreeland, 2010). At the same time, since the 1990s onwards, the IFIs claim that democratic politics are part of the desirable goals of the reforms conditioning their lending – e.g., elections, accountability, transparency, lack of corruption, etc. Yet, it is notorious that the IFIs implement policy-based lending with all types of governments, sometimes democratic, but the most autocratic and corrupt (Easterly, 2013), and in fact ignores the features of local politics. The IMF justifies this by this Articles of Agreement that forbid interference with local politics: in actual fact, IFIs policy reforms are influenced by political motives (e.g., of key members of their boards, Thacker, 1999; Vreeland, 2007; Dreher, 2008; Deaton, 2013), and within a given country, the timing of reforms and financial support has political consequences, i.e., destabilising or, on the contrary, supporting a particular regime.

In addition, if national political or judicial institutions (e.g. parliaments, courts, independent governmental bodies), constitute obstacles to the implementation of policy reforms such as privatisation or trade liberalisation, they are often in actual fact treated as irrelevant, bypassed or ignored – their suppression can even be an IFI conditionality.

This has been the case in developing countries at the time of IMF and World Bank stabilisation and structural adjustment programmes, if these national institutions were anticipated to disturb the implementation of programmes. This is an inherent aporia, which demonstrates the limits of a political economy based on mainstream economics and policies (Sindzingre, 2013): these policies are elaborated by institutions, the governance of which is not democratic and for which the democratic rules of recipient countries may be an obstacle, while democracy ('accountability', 'good governance' and the like) is claimed to be a key dimension of their policies.

4.2. A similar paradox for another supra-national institution: the European Union

This aporia is not confined to the IFIs and their policies in developing countries, as has been shown by the functioning of another supra-national institution that has the capacity to impose policy reforms to member countries: the EU and notably the policies of the so-called 'troika' in the treatment of the sovereign debt crisis after 2010 in the aftermath of the 2008-09 financial crisis, especially vis-à-vis Portugal and Greece. Similarly, as is well-known, the governance of the EU is not democratic – the 'Berlin-Washington consensus', Fitoussi and Saraceno, 2013) -, grounding its foundations on technocracy and non-elected individuals (Vauchez, 2014), and having fed public opinions' feeling of 'the people against Europe' (Gifford, 2014). It may even be argued that the EU was built in 1957 in order to promote markets and competition, not labour, with the belief that growth will stem from the internal market[2], and that EU institutions were built with a defiance vis-à-vis the mechanism of democracy (as explicitly mentioned by Jean Monnet himself[3]).

Similarly, the European Commission has shown that it may consider as irrelevant or even obstacles the member countries' political institutions when these institutions have not been subservient to its policy goals. This bypassing is even at the foundation of the 2007 Treaty of Lisbon, which reformed the architecture of the EU, de facto ignoring the rejection of the European Constitutional Treaty by French and Dutch electorates in 2005 (this condescension toward national democratic institutions has also been depicted by the European Commission's anger at votes in Switzerland in 2014 regarding migration, though these stemmed from democratic and locally legitimate institutions). The same reluctance vis-à-vis democratic mechanisms underlie the selection of the key positions within the EU, as is shown by the behind the scenes political negotiations between EU head of states regarding the 2014 renewal of these positions.

Likewise, while the European Commission claims to promote democracy, the presence of the European Central Bank in the 'troika' and in the conception of its programmes demonstrates the pre-eminence of technocracy over political institutions of recipient countries, and the reforms prescribed by the 'troika' in highly indebted Eurozone countries (Greece, Portugal) have required the bypassing of domestic political institutions of recipient countries in order to be implemented. For example, in Portugal, the European Commission 'warned' in April 2013 the Portuguese government that it should implement the prescribed policies, though the Portuguese Constitutional Court

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[2] Melanie Schmitt, Libération, 1st May 2014.
[3] Ian Buruma, Le Monde, 3rd May 2014.

rejected some of them as unconstitutional[4]. The reform programmes imposed to Greece since 2010 are another well-known example of bypassing local political institutions and dismantling the mechanisms of political and social representation (e.g. the representation of workers in the collective bargaining system[5]). Moreover, a decrease of the minimum wage in Greece was imposed, not only against local politicians and public opinions, but even against its own rules, the Treaty of Lisbon stating that the EU has no competence in wages matters[6].

Policy statements by the IFIs or the European Commission on the benefits of political liberalisation, citizens' participation, 'accountability', 'good governance' thus express an inherent contradiction. Mainstream economics, and the associated political economy, are thus inherently confronted with the aporia that the policy reforms they defend must be implemented by illiberal political mechanisms and institutions.

In addition to the theoretical flaws analysed above, this disqualifies mainstream economics' policies when they claim that they rely on and strengthen democracy, as well as the claim of building a political economy that would have the most rigorous understanding of the relationships between political phenomena and economic outcomes.

5. Conclusion

With reference to the debates that pervade development economics, it has been argued that despite a vast literature that explores the relationships between political phenomena and economic outcomes, the theoretical conceptual framework as well as the model-based methodology of mainstream economics prevent it to build, despite its claims of superior scientificity, a genuine political economy. Its theoretical premises and quantifiability imperative prevents mainstream economics to fully understand political institutions and mechanisms, and therefore the complexity of the impacts of these political processes on economic aggregates, as well as, symmetrically, the impacts of economic processes on political institutions.

With a particular focus on democracy, as democracy is viewed as paradigmatic political institution for mainstream economics as well as a desirable goal for all policy reforms that are defended by supra-national institutions and most countries in the world, the paper has demonstrated this argument via two points. Firstly, mainstream economics and the associated modelling are confronted with a theoretical impossibility due to the inherent composite character, non-quantifiability, instability in time and space, and polysemy of political concepts.

Secondly, in terms of policy, as shown by the examples of the Washington consensus policies, or those promoted by the European Commission, though ex ante they claim to support local institutions and democracy, the policies inspired by the neoclassical

[4] "EU warns Portugal to stick to fiscal targets after court ruling", Euractiv, 8 April 2013: http://www.euractiv.com/euro-finance/portugal-urged-stick-fiscal-targ-news-518931

[5] Barry Eichengreen, Lessons of a Greek Tragedy, Project Syndicate, 13 June 2013: http://www.project-syndicate.org/commentary/what-greece-should-have-done-differently-by-barry-eichengreen. For more in-depth analysis, see Yanis Varoufakis blog: http://yanisvaroufakis.eu/greek-implosion/

[6] Michel Miné, Libération, 1st May 2014.

framework consider local political institutions as irrelevant when they do not agree with these policies, leading to the aporia of policies that in fine must be implemented by illiberal political mechanisms.

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