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# A plea for political economy

## Reviving the tradition of political economy could yield the tools needed to study – and perhaps finally understand – our rapidly changing world

The world economy is at a turning point. As global supply chains face increasingly frequent disruptions, the structures underpinning markets and international trade are unravelling, leading to economic instability which, in turn, is spilling over into other domains and fuelling conflict and political polarisation.

In the face of these challenges, it is worth asking why, despite an unprecedented influx of data, mainstream economic thinking and policymaking appear to be failing. I believe that the problem lies in the lack of theoretical research, particularly when it comes to exploring overarching ideas needed to connect and interpret seemingly disparate data points and trends.

The growing backlash against economic theory in recent years has tended to focus on the field's reliance on developing mathematical models for their own sake rather than to inform and improve public policy. Many argue that instead of trying to imitate physics, economists should emphasise data-based empirical analysis. But while I do not doubt the importance of collecting data and addressing urgent social issues, major turning points demand that we direct our attention to more fundamental issues and consider the need for an economic paradigm shift. History is rife with such shifts. The Industrial Revolution, for example, was a period of rapid technological innovation that enhanced our ability to produce goods but also changed the rules of the game, as feudalism gave way to wage labour and large-scale factory production. Children were put to work on the shop floor, and the skies darkened with smoke and pollution.

*After Walras's work laid the foundations for neoclassical economics, mathematical principles*

Initially, no one understood how this new industrial economy worked. But the Industrial Revolution coincided with some of the biggest breakthroughs in economic theory, from Adam Smith's seminal *The Wealth of Nations* in 1776

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to Léon Walras's *Elements of Pure Economics* in 1874. These pioneering works, in turn, led to innovative and necessary policy interventions, such as Britain's introduction of income tax in 1842 and the passage of the US Sherman Antitrust Act of 1890. Crucially, the burgeoning discipline was not yet synonymous with mathematical modelling, which is why both Smith's lucid, mathematics-free analyses of political economy and Walras's mathematical work were able to transform economic theory and provide invaluable insights into the new paradigm that emerged during the Industrial Revolution.

After Walras's work laid the foundations for neoclassical economics, mathematical principles became integral to public policy. For a while, this approach worked well. But the neoclassical revolution assumed perfect information, and this became embedded in the discipline, even though most economists – except for a few hardliners – knew it was a chimera. By the early 1970s, Nobel laureate economists George Akerlof, Joseph Stiglitz, and Michael Spence demonstrated that information is not just imperfect but asymmetric, and that this had more dramatic consequences than people had realised. Corporations know more about the products they sell than buyers do, just as used-car dealers know more than their customers about the vehicles they sell. These economists' ground-breaking work upended some of neoclassical economics' fundamental assumptions, leading to a paradigm shift that provided new insights into how to design public policies to protect consumers and workers from exploitation.

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Economics is now once again on the cusp of a profound transformation, owing to the digital revolution and the rise of artificial intelligence. By redefining the meaning of labour and giving rise to new forms of economic warfare that disrupt global supply chains, these rapid technological advances are changing the nature of markets and trade. Policymakers appear slow to recognize this new reality, leading to frequent economic 'firefighting.' But just as fighting fires does not eliminate the need to develop new types of non-flammable materials, economists must devote more energy to studying the dynamics of today's emerging technological

paradigm. One way to do this is to go back to basics. Notably, before the late nineteenth century, there was no discipline called economics; it was known as 'political economy,' in recognition of the intertwined nature of the economy and the polity. This began to change with the publication of Alfred Marshall's *Principles of Economics* in 1890 and the subsequent rise of marginalism. With its separation from the study of politics, economics became a distinct, mathematical discipline. While this exclusive focus has allowed economists to focus their research and enabled the discipline to mature by leaps and bounds, it has also created an artificial separation between economic policymaking and politics. In the real world, markets, trade, politics, and international relations have become so interconnected that we miss a lot if we try to study them separately. Fortunately, the rise of game theory over the past century has provided economists with an analytical framework that, unlike marginalist mathematics, can encompass both economics and politics. Reviving the classical tradition of political economy would provide us with the intellectual tools needed to study – and perhaps finally understand – our rapidly changing world.

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