

## Adam Przeworski's Political Economy

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### I. Introduction

Adam Przeworski was born in Warsaw, Poland. He holds an M.A. in philosophy (1961) from Warsaw University and a Ph.D. in political science (1966) from Northwestern University. Currently he is a professor of politics at New York University. Formerly he was a professor at the University of Chicago. He has taught and researched at scholarly institutions in Chile, France, Germany, India, Poland, Switzerland, and Spain.

His scholarly concern has been associated with democracy, the state, the market, and the economy. His main theme in two books, in particular, is that both fair democracy and effective economic system are necessary conditions for the economic affluence and social peace under capitalism, although outcomes of democratic decisions are unstable and unpredictable. One feasible and desirable form of the system is market socialism plus social democracy.

Such a theme is not surprising since he is a social democrat. He is largely influenced by Marxian political economy. His approach to political issues, however, emphasizes strategic behaviour of agents rather than conforming to the analysis of structural conditions and class conflicts. Interestingly, his economic analyses basically resort to the neoclassical economics paradigm which is seemingly opposite to Marxism. However, his so-called 'analytical Marxism' incorporates two paradigms in the sense that neo-classical methods such as formal and game-theoretical analyses and historical and logical methods of Marxism are reconciled in explaining the strategic behaviour of the state, private firms, and the public.

In due course, I will examine his analyses in terms of his objectives, methods, and implications and contributions to the development of political science.

## II. *The State and the Economy under Capitalism*

In this book, Przeworski attempts to testify and criticize three major views on the relation between states and economies in order to make them relevant to the real world or to make normative and ideological assertions be technical and systematic (3).

In the beginning of the book, Przeworski asks general questions on the controllability of capitalist economy by the state forces and the possibility of steering economy for the sake of society as a whole (2). Ensuing normative and political questions are; “Should governments intervene in the economy at all? Do states fill functional gaps in markets, thus rendering resource allocation more efficient? Are markets operating smoothly only because they are organized and continually regulated by states? Or is state intervention always a source of uncertainty and inefficiency? On balance, is it beneficial or detrimental for general welfare? Are states universalistically minded organizations pursuing the general interest or are they just another among the multitude of particularistic actors, distinguished only by the monopoly of coercion?” (2). Bearing these questions in his mind, he reviews three approaches to the state and the economy in order to find the logical and practical answers.

First, ‘the rule of the people’ is an economic theory of democracy based upon individual preference and rational choice. State managers are nothing but the citizens who maximizing public support like profit maximizing business enterprises and utility maximizing consumers. Since in this framework all citizens are homogeneous, “the political process yields a unique outcome. If candidates for office compete each other and if government services are provided competitively, then the state functions efficiently as a perfect agent of the public” (6-7). Also this approach implies

that where individual endowments, preferences, and incomes are various, the median voter model leads to the conclusion that perfect democracy is sustainable—a majority rule equilibrium (7).

Przeworski argues against this approach. First of all, empirical evidences do not support the majority rule equilibrium (12). Rather the outcome of democratic process is inherently unstable since “[n]o voting procedure will in general produce a transitive ordering of collective preference” (13). Thus individual’s preferences cannot naturally be summed as a collective preference.

Furthermore, Przeworski criticizes the neo-liberalism<sup>1</sup> which is the extreme form of the ‘rule of the people’ approach. According to him, the neo-liberal claim that government intervention creates dead-weight loss (i.e., aggregate gain is less than aggregate loss) for a whole society is not true if utility is measure by money. Moreover, the claim that government intervention or political process generates waste of private resources leads to the wrong conclusion that “there is no place for politics” (20-23).

Based upon his structural and institutional approach, Przeworski concludes that various individual preferences are endogenous and interact with political process. They are “continually transformed through the political process”, as social process is procedural (24, 25). As voters care about policies, so politicians and political parties do have various preferences. Politicians’ preferences thus cannot be reduced to the public support only (26-27). Moreover, the state has a certain level of autonomy derived from idiosyncratic institutional and historical experiences (29-30) which determines the characteristics and behaviors of the state in question.

Secondly, Przeworski goes on ‘the rule of the state’ approach or the relative autonomy approach. This approach is in line with the ideas of Bentley, Truman, and Easton, and assumes that the state is always and everywhere an expression of society; it is but a channel for exercising influence. Thus the state can be either autonomous or instrumental. Since rulers pursue their own

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<sup>1</sup> “[T]he market allocates resources to all uses more efficiently than political institutions. The democratic process is faulty and the state is a source of inefficiency” (15)

interests or coordinate private interests and public interests, the state is assumed to be autonomous (30). That is, the state “formulates its own goals and realizes them in the face of opposition” (33). On the other hand, the state can also be ‘instrumental’ in the sense that the state “acts effectively as an agent of some external interests” (33). The relative weight of the roles of states thus reflects the dominance of one party over the other. If the state is autonomous, the state policy does not systemically reflect the interest of the economically influential class of the capitalist system (i.e., corporation or capitalists). If the state is instrumental, the interests of the corporate dictate the state policy (34).

The state-centric approach that is another version (probably an extreme case) of the rule of the state approach assumes the primary role of the state in the shaping of society. In other words, states “creates, organize, and regulate societies” (47). If this is so, the relative autonomy approach is redundant, and the thesis that state obtains its exclusive power from the monopolization of physical (military) force is problematic. Przeworski argues historically that the monopolization of power by a few persons and institutions are not likely since the emergence of the capitalism. Even though the state can centralize the capitalist economy, it cannot rule the decentralized decision making process of the economy (48-49). In short, according to Przeworski, since the role of state depends upon the interaction between society and economy, the state-centric approach is not convincing.

From a Przeworski’s viewpoint, state autonomy is contingent to the political, economic, and cultural conflict between various social groups. And state managers respond to the conflict which reflects the changing social environments (51). Therefore, there is no predetermined outcome. Each nation has its own peculiar system of the state which is historically and institutionally contingent (52). Facing the difficulty of predicting outcome based upon a specific theory, Przeworski sets up a game-theoretic model composed of voters, parties, elected politicians, and bureaucrats who behave strategically and belong to particular institutions. Importantly, he takes into account both public and

private institutions as crucial parts in social environment in the extent that they “delimit and enable the feasible courses of action” (63). Various outcomes of the model imply “a different level of government activity and a different distribution of its costs and benefits” (63). However, such a hypothetical model does not have cross-national empirical evidences (63).

Consequently, Przeworski concludes that while most states have certain degree of autonomy, state policies are outcomes of interaction between private and public agents. Institutions and democracy or the decentralized decision making process matter in making public policy. (64-65)

Thirdly, ‘the rule of the capital’ is mainly based upon Marxist political theory which claims that under capitalism whatever the democratic institutions are, the ‘public power of the capital’ dominates other classes and groups. The state is epiphenomenal since the rule of the capital is structural and derived from the material and class structures of the capitalist system (65). Then, he asks, “why all governments in capitalist societies are bound to act in the interest of capital, capitalism or capitalists?” (66). Orthodox Marxists’ account for this would be that state managers internalize capitalists’ goal since they cannot fully control production, investment, and consumption. So the state cannot help structurally relying on the capital (66). However, it does not mean that the state is unnecessary. The state is a necessary component in the reproduction of the system (‘continued accumulation and legitimacy’) (67-69).

Although Przeworski agrees with basic assumptions of Marxist account such as the structural dependence on capital and the importance of material conditions, he argues that Marxists’ account is logically fallible since “the very fact that any particular functional need of capitalism can, under any concrete conditions, be fulfilled by a variety of state actions renders marxist the state predictively impotent” (86). And also Marxist theories are lack of analyzing strategic interactions between agents (98). Conversely, Przeworski argues that the neoclassical economic account which recently emphasizing strategic behaviour of consumers, firms, unions, and governments (e.g.,

efficiency wage models, collective bargaining models, unionization models, and dynamic game models etc.) have better explanatory power in this respect (98).

In conclusion of the book, he argues that each theory has only partial relevance to the real world. As a matter of course, it is true that “liberty and participation can and do coexist with poverty and oppression” (101). Therefore, according to Przeworski, political theorists should adopt an eclectic stance (101). Regarding the questions he raised in the beginning, it is safe to say that the state can and should enhance the market allocations effectively. State intervention thus is necessary for the maintaining the economic affluence of the capitalist system. It, however, is important in Przeworski’s approach that outcomes of political process cannot be predicted.

As we have seen, it is apparent that he adopts methodological pluralism. Logical examinations of theories (dis)prove their theoretical consistency. Historical and empirical evidences also (dis)qualify each theory. As an alternative to the law-like Marxist approach, he sets up game-theoretic models which have ample implications in explaining strategic behavior of agents.

Przeworski’s methodology further implies that he is a structuralist equipped with rational choice theory. Since he argues that every economic and political system and corresponding theories are geo-historically contingent, he does not intend to provide us a general theory. Instead, he examines/speculates theoretical conditions which may or may not applicable to a specific system that has various economic and political problems. In this respect, he is not a maximalist. This point becomes clearer when he applies his account to the experiences of transition economies in the second book.

### III. *Democracy and the Market*

In the book entitled *Democracy and the Market*, Przeworski continues his political economic analyses on the relationship between democracy and economic system in an empirically and historically grounded fashion. He focuses on the political and economic reforms in eastern European countries and Latin American countries such as Greece, Portugal, Spain, Poland, Turkey, Czechoslovakia, Argentina, Bolivia, Brazil, Chile, Peru, and so on. In common, these countries have been experiencing radical transitions from authoritarianism and state-administered system to democracy and market-based economy (ix).

Since this book was written right after the collapse of communist regimes, it was natural for him to ask questions such as “[w]hat should we expect to happen to the countries that have ventured on the path to democracy and markets? ... Will transitions end in a democracy or in a dictatorship, new or old? Will the new democracy be a stable one? Which institutions will constitute it? Will the new political system be effective in generating substantive outcomes? Will it be conducive to individual freedom and social justice?” (ix-x).

Przeworski is aware of the difficulty of providing answers for these questions, because each country has specific institutional, historical, and cultural backgrounds. He, however, believes that social scientists should at least “speculate about the future, to understand the choices we face at present” (x). Since economic development and the social justice are urgent goals of those transition countries, theoretical projections might help them to construct a desirable political and economic system.

Regarding the issue of democracy, he argues that democracy in its nature generates uncertain outcomes (he proves it by using game models, 46-50). Furthermore, a common consensus that the decentralized decision making procedure gives rise to a majority equilibrium does not have historical

evidences. History tells us that the durability of democracy is largely constrained by institutional settings (36-37). It is also uncertain that such democracy-enhancing institutions are selected by the rational choice of individuals or groups. Among those institutional factors, Przeworski puts an emphasis on the performance of the economic system (95). For example, economic crises of Latin American countries in 1980s hampered democracy in those countries.

Przeworski is critical of both capitalism and socialism because neither of them is not capable of feeding everyone (100). This is because “capitalism is irrational because it cannot access some technically feasible distributions of welfare” (109), while socialism is inefficient in terms of production and allocation of resources (120). There are many evidences for the latter. For example, “they [socialist economies] use 1.8 times more energy and more than twice the amount of steel as capitalist countries to produce a unit of output...One half of the agricultural output of the Soviet Union is said to be lost before it reaches the consumer market...the value of goods that no one wants to take home at a zero price from Czech stores is equivalent to the economy’s growth over tow years ” (120). By this reason, many former communist economies require reforms. The type of reform is in fact various. Among them Przeworski suggests ‘market socialism’ coupled with ‘social democracy’<sup>2</sup> where the state plays active distributional role and markets are mainly composed of cooperatives rather than large private firms (in the real world, according to him, Sweden is the closest to this system) (128-133). This suggested system, according to Przeworski, offers “reasonable second-bests” (133).

In sum, the fundamental goal of countries under transition is securing democracy and economic prosperity. Democracy, however, does not always provide desirable outcome. It is rather conditioned by ongoing conflicts and institutional constraints. Neither pure market based capitalism

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<sup>2</sup> Social democracy is “a system in which no forms of private property are banned and in which the state plays an active role in regulating markets and in redistributing incomes” and market socialism is “a system in which large firms are owned by the employees or by the public and the state plays the same role with regard to markets” (133).

nor socialism has never completely resolved problems of poverty and individual freedom and justice. Alternatively and normatively, Przeworski suggests market socialism and social democracy.

#### IV. Conclusion

In these two books, Przeworski resorts to historical/empirical evidences and logical/theoretical examinations to ‘speculate’ the desirable future of transition countries. As we have seen in the earlier book, Przeworski holds the position that the strategic behavior of the state, firms, and the public is important in making new economic and political system. In addition to this point, he introduces the importance of information and uncertainty in decentralized decision making process embedded in capitalism and democracy. Such is again explained by game-theoretic models. Thus two books that I have reviewed here share the same theoretical basis as well as methodology. Although I am not sure of his contribution to the development of political science, I conjecture that it is his institution-oriented analytical methods that should be appreciated.

Extensive historical evidences assure the credibility of Przeworski’s accounts. His suggestion, albeit it is normative and theoretical, illuminates which conditions should be maintained in facing a new system-design of a transition country if they wish for economic affluence and distributional justice at the same time. His central thesis penetrating both books is that democracy and markets should be fair and effective in order to meet basic needs of people. The effectiveness of an economic system relies on the institutionalized relation between the state and private economic agents. The dominance of the state or a specific private group (e.g., capitalists) may harm the effectiveness. The fairness of democratic system, on the other hand, depends upon the strategic behavior of agents, although outcomes are hardly knowable.

From a reader’s perspective, Przeworski’s analyses in general are convincing. Particularly, his argument that outcomes of democratic procedures under capitalism are indeterminate has a great

deal of relevance to the transition economies in Eastern Europe and developing countries. From an economist's viewpoint, Przeworski's behavioral plus institutional account of the economy has more realistic implications than the neo-classical approach which begins with unrealistic assumptions like rational homogeneous agents.

However, the notion of uncertainty Przeworski uses here are not clear. Regarding the political process in the long period, he emphasizes the uncertain nature of social process since outcomes are determined by the interaction of people, the state, and interest groups. Future of a transition country is unknown. But what we can 'speculate' is what is better way for the people in consideration. The notion of uncertainty in political process, however, does not comply with the notion of uncertainty used by neoclassical economics. For example, game theoretic models and rational choice models (e.g., utility/profit maximization models) presume 'computable' uncertainty. In this sense, uncertainty is reduced to risk. Future is predictable as long as past information (or probabilistic distribution) is given. Therefore, if Przeworski uses the neoclassical notion of uncertainty in the political process, the outcome should be predicted in a probabilistic sense.

In addition, it would be better for Przeworski to take into account non-neoclassical and non-Marxian economic approaches to institutions. For example, evolutionary economics<sup>3</sup> á la Thorstein Veblen and his followers reject both methodological individualism and methodological collectivism. Rather than assuming individual rationality based upon the subjective notion of utility, evolutionary economics emphasizes the 'procedural' interaction between institutions and human conducts over time. Future is unknown (not even a probabilistic sense), history is irreversible (backward induction that is widely used in game theoretic models are irrelevant), and the current outcome of cumulative outcome of past experiences and history. Rather, social evolution or social development is not necessarily progressive. It is largely driven by instinct-habit of agency which is shaped by institution

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<sup>3</sup> Evolutionary economics is sometimes referred to as institutional economics. However, new institutionalism based upon transaction costs and the cost-benefit analysis is distinctly different from evolutionary economics.

and convention, and vice versa. In short, at least in some senses, evolutionary economic viewpoint may be more consistent with Przeworski's analyses of political process.

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