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Abstract

Political Economy and Public Choice have studied the interactions between the economy and the polity for over 60 years now. The present paper endeavours to provide a critical discussion of this literature and its achievements. In particular, it starts with the different approaches based on *empirically tested or politometric models*, and it then proceeds to discuss different studies of the effects that particular *rules of the game* have on politico-economic outcomes. The third part will deal with studies that take institutions to be endogenous and aim at explaining why particular institutions emerge. Finally, the question whether political economy has been a success or a failure will be tackled. While the success in terms of the position gained in economic research and teaching is undeniable, a look at one of the most thriving recent areas of economics, namely happiness research, will reveal that fundamental lessons all too often remain disregarded.

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Introduction

Economic activity is influenced by political decisions, and political decisions are influenced by the state of the economy. Their interaction, which is captured by the evaluation and the policy functions – as shown in Figure 1 – is so obvious that few people would deny it.

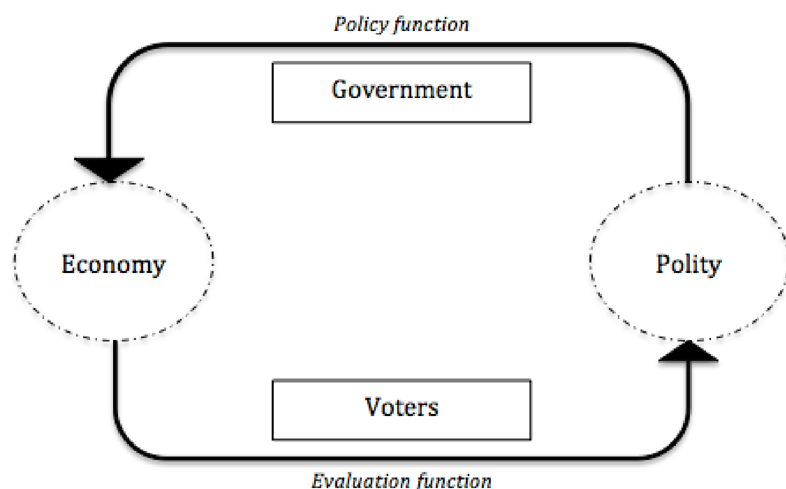

Figure 1: The interaction between the economy and the polity.

The relationship between the two sectors of society can be illustrated in a more detailed way, as shown in Figure 2:

- The government systematically impacts on economic activity via a large number of policy instruments, ranging from taxes and public expenditures to all sorts of regulations. This is the *policy function*;

- Economic activity, as reflected in the size and change of GNP, the rate of unemployment and the rate of inflation, determines government popularity and hence the probability of reelection. This is the *popularity function*.

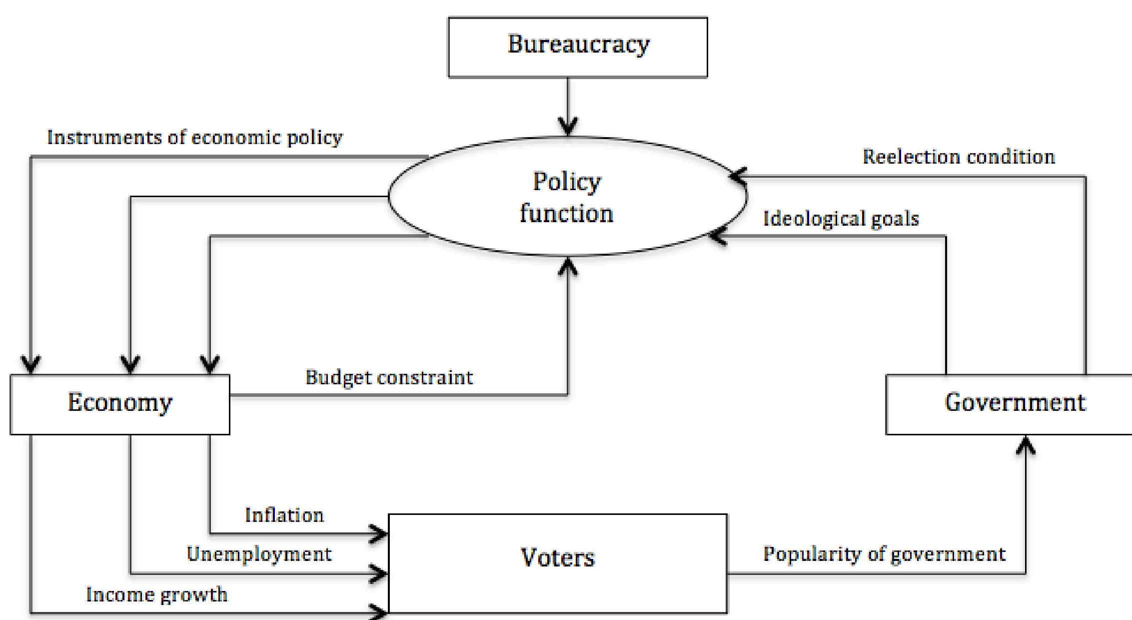

Figure 2: Politico-Economic Model.

Political economy and Public Choice have studied these interactions for over 60 years[1]. It is the purpose of this paper to provide a critical discussion of this literature, which may be called *politometrics.*

There are many other parts of Political Economy not treated here. Examples are (see Ostrom 2011):

- Incentive problems connected with *public goods.* Olson (1965) argued that individuals have no incentive to contribute to such goods as they can consume them even if they do not help to provide them. Exceptions arise when the number of individuals concerned is small, which entails that they can exert pressure to participate, or when there is a repeated interaction with an open end that may, under favorable conditions, induce individuals to contribute. Most importantly, the government may force individuals by imposing taxes. The fundamental public good problem was later applied to resources and named the Tragedy of the Commons (Hardin 1968, Ostrom, Gardner and Walker 1994). Since then, the conditions under which the supply of public goods is likely to

[1] For general surveys on political economy see the fundamental work by Mueller 1979, 1989, 2003.

arise has been studied intensively, most importantly by Ostrom (1990), who collected a large data set referring to many different public goods situations.

- *New Institutional Economics,* which originated in Coase's (1937) question of why firms exist. Other important contributions are by North (1981) analyzing the structure of institutions and their change over time, and Williamson (1975) looking at the transaction costs as a determinant of organizations.

- The structure and performance of *local public economies* and polycentric systems such as self-governance (e.g. Ostrom 1970). In this context a new form of governance built on a web of multiple intersecting governments, or Functional, Overlapping and Competing Jurisdictions (FOCJ, Frey and Eichenberger 1999) has been suggested.

Part I of this paper deals with the various approaches to political economy *based on empirically tested or politometric models*. I will discuss to what extent standard economics takes the mutual interaction of the economy and the polity into account. I will then turn to models explicitly capturing this interdependence, the "politico-economic models". These approaches take the institutional setting of society as given and study how the various actors behave within these restrictions.

Part II looks at the *institutional setting*. It is taken to be exogenous; the effect of particular *rules of the game* on politico-economic outcomes will be studied here.

The following part takes institutions to be *endogenous*. The corresponding studies seek to explain *why particular institutions emerge*. It discusses recent empirical models that explicitly analyze how the political and economic institutions of a society are shaped by fundamental (exogenous) forces and past events.

Based on this overview, the final part of the paper inquires whether *political economy has been a success or a failure*. It has certainly been a success in terms of the attention received and the position gained in economic research and teaching. At the same time, the conclusion is also somewhat pessimistic. In many instances in which the politico-economic interaction is crucial, a significant number of scholars still construct models based on the assumption that governments want to, and are actually able to, *maximize social welfare*. Happiness research, one of the most thriving recent areas of economics, will be considered as an important case in point. Significant scholars in happiness research wish to charge government with the task of pursuing, and maximizing, the aggregate happiness of the population as an expression of so-

cial welfare. In this regard, the fundamental lessons and insights of political economy are still disregarded.

I. Politometrics

The mutual dependence of economy and polity seems to be so obvious that one might think that the interaction is fully accounted for in economic research. However, this is not the case in standard economics.

A. Standard Economics

We can distinguish various stages in how economists have dealt with the issue raised:

(a) The economy today is rarely treated as a *closed system,* though scholars fascinated by the general equilibrium model of Arrow-Debreu (1954) still focus solely on economic activity and thus disregard the public sector. The more recent versions of computable general equilibrium models generally include the public sector but model it simplistically.

(b) Some economic models treat the public sector as *exogenous*. They study, for instance, how changes in public expenditures, in taxation or in regulations affect the economy. This is, of course, a perfectly legitimate view. And yet, it remains too narrow because it ignores that the public sector acts in reaction to economic activity.

(c) Most importantly, an approach that has a long history in economics and remains popular today is to start from the presumption that *government maximizes social welfare*. This has been the expressive goal of the "quantitative theory of economic policy" that was championed by Tinbergen (1956) and Theil (1964) and that is still popular today. For instance, recent "libertarian paternalism" (Thaler and Sunstein 2003, 2008) based on the behavioural, or rather the psychological-economic view of human action, and in particular of decision-making, implicitly assumes that governments would be satisfied by simply "nudging" people in directions furthering social welfare. But it may well be that governments attempt to nudge people in a direction beneficial for the politicians in power but harmful for society as a whole.

The above approach assumes that governments maximize social welfare. This is defended by arguing that the resulting socially optimal policy indicates the direction public policy *should* go. However, this view is faced with the fundamental theoretical problem that no social welfare function exists if some rather narrow conditions (such as e.g. single peakedness, see Black 1948) are not fulfilled. These conditions are certainly violated as soon as distributional aspects are involved – which is nearly always the case in real life policy decisions. As a consequence, the social welfare maximization approach is based on questionable theoretical foundations and does not indicate how social welfare can be increased. Moreover, the content of the "social welfare function", i.e. the determinants and their weights, has not been determined empirically[2]. It is, of course, possible to simply *assume* the weights of the various determinants, for example that a rise in unemployment by one percentage point reduces social welfare by the same amount as a rise in the rate of inflation by one percentage point, and to then derive the government's optimal policy. This may provide useful information and should thus not be totally dismissed. However, it reflects a technocratic approach that is far from enabling government to truly maximize social welfare.

B. Explicitly Modeling Politico-Economic Interaction

Various branches of economics have endeavored to account for the politico-economic interaction. The classics of economic theory like Adam Smith and Karl Max wrote about Political Economy and analyzed the interaction between the political and the economic sector. However, since Political Economy was soon equated with Marxism, the further developments in the study of politico-economic interaction were relabeled Public Choice. This was all the more warranted since Political Economy had ignored the processes inside the political sector, the polity. Public Choice filled this gap by modeling the behavior of politicians and bureaucrats as rational and self-interested.[3]

[2] Some scholars argue that happiness research has changed this situation. However, as will be discussed in section IV, such empirical determination runs into yet another problem, namely that governments will have a strong incentive to manipulate reported happiness.
[3] A special part of Public Choice is called "Social Choice". It analyzes the problems arising when individual preferences are aggregated to a social welfare or social decision function. Arrow (1951) and Sen (1970) received a Nobel Prize for their respective contributions.

B.1 The Virginia School and Public Choice

James Buchanan and Gordon Tullock, two scholars working at the same time at the University of Virginia, constructed a more general model of the interaction of the economy and the polity (Buchanan and Tullock 1962). They employ the standard assumptions about the behavior of economic actors to study the behavior of politicians and public officials. In particular, they assume that politicians strive for the retention of power and reject the notion that they pursue the good of the citizens. The Virginia school has produced a large number of analyses of politico-economic interactions based on the assumption of self-interested politicians and bureaucrats.

An important and widely used model of Public Choice based on the assumption of politicians maximizing their own utility is the *Median Voter Model.* Where the interaction between the economy and the polity is made explicit, the *vote maximization model* is most often used in the basic form of the median voter model. Two political parties will converge to the same position on one given issue, which equals the median voter in the overall distribution of voters' preferences. Consequently, in a regression analysis, the median value of the relevant determinants is taken rather than the average. To be precise, the researchers should take the income (or any other determinant) of the *median voter* (this is not necessarily the same as the median income). It is however often overlooked that the median voter model only works under narrow institutional conditions. Most importantly, vote maximization by each of the parties only leads to the choice of the median value of the variables if there are strictly two parties, and if no additional parties may enter this political competition for votes. There are few, if any, democracies in which this strict assumption holds. Even in the United States or the United Kingdom with their respective two dominant parties, additional parties or contenders participate in presidential elections. When three or more parties compete, they may take quite diverging positions, depending mainly on the possibility to form coalitions. Moreover, the median voter model applies only when the number of voters participating in an election is fixed; it may not vary in response to the positions taken by the parties. Such a strict assumption excludes the possibility that some citizens decide to abstain when a party program is too much in the center. This behavior would give parties the incentive to move away from the common median position. Consequently, the median voter model rarely applies in actual situations. Its popularity seems to stem from the fact that it leads to a well-defined equilibrium and therewith allows the researcher to derive clear predictions.

Notwithstanding this criticism, the median voter model may be used to *analyze referenda* or initiatives in which there are strictly only two outcomes possible: accept or reject (see e.g. Pommerehne and Frey 1976, Romer and Rosenthal 1978, 1979, 1982). However, few countries in the world use this kind of direct democratic decision procedure, Switzerland being the great exception (see Pommerehne 1978). Therefore, the respective empirical research is useful only to indicate what would be in the interest of those citizens who care to participate in such referenda (in Switzerland the vote participation rate for referenda is about 45% in the long run average). It does not necessarily indicate what policies the citizens, and the population as a whole, desire to see implemented.

While the median voter model is certainly elegant, produces an equilibrium outcome and allows testing empirical implications, the assumptions about the political sector both with respect to the parties and the citizens are extremely narrow and thus rarely fulfilled in reality.

B.2 Political Business Cycles

The interaction between the economy and the polity has been analyzed in various quantitative and empirical ways.

The government is assumed to maximize votes at exogenously determined election dates subject to the constraints imposed by the state of the economy. Assuming the probability of re-election to depend on the rate of unemployment and the rate of inflation, and letting the economy be represented by an extended Phillips-curve, a *political business cycle* results (Nordhaus 1975). After an election, the government undertakes a restrictive policy, raising the rate of unemployment but reducing future inflation expectations. Towards the election date, the government undertakes an expansionary policy, reducing the rate of unemployment while still profiting from a low inflation rate. This politico-economic cycle repeats itself infinitely, i.e. there is no learning on the part of voters or politicians.

A number of scholars have used similar models and some have found different political business cycles. An empirical study finds that, contrary to the predictions of Nordhaus' model, left-wing governments tend to undertake an expansionary policy after winning an election, and over the election term move to a more restrictive policy (Paldam 1979).

A broader approach uses an econometric model in which the economy is a constraint to government. The political agents are analyzed in line with the economic model of human behavior. Politicians maximize their own utility, which consists in ideological goals as well as in the pleasure derived from being in power, the rents extracted, and the recognition received by the voters. They are constrained by the need to be re-elected so that only a government confident to be re-elected according to the popularity function can pursue a purely ideological policy. A left-wing party tends to increase, and a right-wing party tends to decrease taxes and public spending. If the popularity function of the incumbent indicates that re-election is uncertain, the politicians in power undertake popularity increasing economic policies. These models have been empirically tested for various industrial (Frey and Schneider 1975, 1978a, 1978b, 1979, 1981) as well as for less developed countries (Praschnik 1991, Head 1992, Mendoza 1992a, 1992b, for surveys see Frey and Schneider 1988, Frey 1983). Unlike the models derived by Nordhaus and followers, these models do not produce a pre-determined and identical political business cycle. Rather, the shape of the politico-economic cycles depends on a number of determinants, including the economic conditions and the nature of political competition. Political competition in turn is determined by the number and vote shares of parties competing, as well as by the coalitions that are likely to be formed.

In the literature based on Nordhaus' model, voters are assumed to be myopic. However, such extremely myopic voters that never learn from their mistakes are difficult to reconcile with the assumption of actors with *rational expectations* on which public choice is critically based. Rational expectations were first introduced in the partisan-politics model by Minford and Peel (1982) but the paper by Alesina and Rosenthal (1995) received most attention. When voters are rational and *forward-looking* there is *no Political Business Cycle* – in stark contrast to the regularly occurring Nordhaus cycle.

The cycle reappears only when voters are assumed to be *uncertain* about the timing of the elections, as is the case in the United Kingdom as well as under specific conditions also in many other countries.

A variety of Political Business Cycle models with rational voters and opportunistic politicians appeared (Rogoff and Sibert 1988, Persson and Tabellini 1990, Rogoff 1990, Alesina and Rosenthal 1995) in which the parties or candidates differ in their abilities to macromanage the economy. These models with *not fully informed* voters predict that governments will increase certain categories of spending, run deficits, and perhaps create extra inflation just prior to an election. Voters are assumed to be perfectly impartial and without any loyalties.

Consistent with a partisan voter model, Frey and Schneider (1978a) showed that the support for the president is more sensitive to changes in unemployment the lower the group's income. Empirical evidence suggests that blue-collar and unskilled workers are more concerned with high unemployment whereas wealthier people care more about the inflation rate (see Schneider and Frey 1988 for a review).

The next stage of opportunistic voter models consisted in modeling voters as *retrospective* (Fiorina 1977, 1981) and including such voters in models of partisan politics (Hibbs 1987, 1992, 1994, 2000), i.e. where politicians depend on party machines and are ideologically committed to the position of the party to which they belong.

II. Rules of the Game

The politico-economic models discussed so far take the fundamental "rules of the game", the constitutional or institutional setting which structures human interaction in society, to be given exogenously. This part of the paper reviews the study of the effects that the underlying constitutional setting has on decision-making. The term "constitution" (sometimes also called "institution", see e.g. North 1990, 2005) includes the formal and even informal rules shaping human interaction. Thus, the term goes well beyond the written constitution. Constitutional economists are most interested in the rules governing societal proceedings that finally result in collective decisions (Buchanan 1975, 1991, Frey 1983).

A. The Constitutional Approach

The interaction between the economy and the polity can be looked at in terms of a game taking place under particular institutional conditions (Buchanan and Tullock 1962, Brennan and Buchanan 1985, Mueller 1996, 2001). The outcome of this process is fundamentally shaped by the rules under which these interactions take place. The rules can be formally written down, as in a country's constitution, or unwritten, in the form of norms or customs and habits. Rules matter when they shape individuals' behavior. The effects of constitutions on behavior are not always straightforward; indeed there are countries in which the written constitution looks democratic but where reality follows quite different patterns.

According to constitutional economics, institutions influence the process of interaction and the outcome of political and economic processes. Hence three different stages may be distinguished:

(1) The most fundamental level at which a *choice is made between the many possible rules of the game*. This choice may occur behind the veil of uncertainty (Rawls 1971, Buchanan 1976), or may consider new forms of organizing economic activity.

(2) The *constitutional stage* where the *consequences of the various fundamental rules of the game* are analyzed;

(3) The *current stage* where, taking these rules as given, the participants in the game make political and economic decisions serving to maximize their utility function. The current politico-economic process thus is endogenous and cannot be influenced from outside. In particular, advice offered to government by scholars on matters of economic policy will be disregarded except if it is in the politicians' self-interest, i.e. if it allows for re-election and maximization of power. In general, the politicians know well enough how to undertake self-beneficial economic policies within the given institutional constraints. This conclusion about the ineffectiveness of policy advice stands in stark contrast to the idea that scholars have a notable impact on the economic decisions taken by politicians. Economic advice will only be considered and followed by politicians if they do not know how to otherwise design a policy that is in their own interest. But to offer advice to further the "public good" (however defined) has no effect on political decisions. This means that there is a fundamental difference to the standard welfare approach to economic policy. This is rarely noticed and acknowledged. Quite often, analyses start from the idea that governments maximize social welfare, and only then introduce some political elements such as the influence of government bureaucracy or interest groups. Such an approach disregards the basic interaction or game played by actors pursuing their own utility. In principle, economic advisers cannot influence the resulting interactions from the outside as each actor is behaving in a way conforming to his interests. If this holds, the outcome of the interaction can only be influenced by changes in the rules of the game, or the constitution shaping these interactions.

Thus, effective economic policy advice has to focus on political and economic institutions (see also North 1981, 1990, 2005). Behind the veil of ignorance, economists should offer advice about which institutions lead to outcomes reflecting individual preferences.

The importance of institutional or constitutional rules in determining the outcome of politico-economic interaction seems to be obvious. Nevertheless, much of economic analysis tends to disregard not only the current stage with given institutions, as discussed above, but also the constitutional stage.

Most modern textbooks on economics discuss the workings of the economy only *within a given institutional setting*. This was the case in Keynesian economics but still tarnishes far more recent versions of economic theory. A perfectly competitive market is often just assumed to exist and the effects of policies are simply derived from this particular institutional form. Comparative institutional analysis of different rules of the game, e.g. of a competitive market, of a market with strong bureaucratic interventions and of an economy without well-defined property rights, tend to be disregarded, especially in macroeconomics. The issue with this neglect becomes particularly obvious in the political sphere. To take an extreme example, consider offering economic advice to an authoritarian ruler. This would have very different implications than to do so for a democratically elected government. There is little point in advising the former to undertake a policy designed to further the "common good" as the ruler's interest is quite different. Rather, the interests of the groups on whose support the ruler relies, often the military, count.

B. "Political Economics"

Over the last few years a new research direction labeled Political Economics emerged. It studies the interaction of political and economic activities by comparing the different outcomes of institutional rules, i.e. it deals with level (2). This approach uses more modern econometric methods than had previously been used, but it ignores the decade-old and relevant Public Choice literature (Mueller 2007). State-of-the-art econometric techniques are used to study the impacts of different constitutional settings on economic outcomes. An important contribution to this literature is Persson and Tabellini (1990, 1999, 2005) who compare the economic consequences of two constitutional choices: (1) a majoritarian vs. a proportional representation electoral rule and (2) a presidential vs. a parliamentary form of government.

Persson and Tabellini find that majoritarian electoral rules increase electoral competition, thus resulting in less rents for politicians, less redistribution by the central government, reduced deficits and smaller central government. Moreover, presidential systems lead to a lower sup-

ply of public goods, less rents for politicians, less redistribution, and smaller government. They also find that the large electoral districts that are found in proportional representation systems entail more corruption and that parliamentary forms of government are associated with higher productivity. These findings are empirically validated with a large longitudinal data set.

Later on, Persson and Tabellini (2005) explain the theoretical mismatch they had found with respect to redistribution and proportional elections with a new model. The fragmented party system often leads to coalition governments within which there is electoral competition inducing governing parties to increase spending by the central government. Furthermore, they provide a politico-economic perspective on the nexus between development and democracy by highlighting the importance of sequencing: countries liberalizing their economy before extending political rights fare better.

Clearly, these contributions are noteworthy – what remains questionable is whether this research is in fact a new development in the political business cycle literature within Public Choice theory. On a more general note addressed to Persson and Tabellini, Acemoglu and co-authors and related literature, Mueller criticizes the "tendency to re-label public choice and then pretend one has discovered something new" (2007: 67).

III. Endogenous Institutions

This section considers how the choice between different institutions is taken, i.e. it refers to level (1).

In constitutional economics following Buchanan, there is no *causality issue* because the two stages of the choice of rules and decisions within rules are neatly separated and looked at in a quite different way. Constitutional decisions are taken behind the *veil of ignorance*, meaning that the individuals who make the decisions do not know in which situation they will be in the future. In reality, such a situation rarely obtains. Rather, many individuals are confident that they will belong to a certain group or class in the future, and will accordingly try to influence the constitutional elements chosen.

The scholars engaging in "political economics" are aware of the causality problem: Institutions determine policy decisions and outcomes, but the latter also influence the institutions

existing. However, to identify the causalities is difficult, and several attempts have remained unsatisfactory (Acemoglu 2005).

A valiant and most influential approach has been made by identifying institutions far back in history, which under no circumstance can affect today's economic outcomes (Acemoglu, Johnson and Robinson 2001, 2002). Other approaches consider other exogenous influences such as weather conditions (e.g. Brunner 2003).

Another and even more recent approach inquires whether it is possible to find a new form of economic organization so far not explored. Thus, the concept of "seasteading" has been suggested as a way to undertake economic activities in the seas, similar to what used to exist in former times and what was called "homesteading" (*Economist* 2011). The organizations established in the sea and thus beyond national boundaries can choose an efficient way to do business and to spend their leisure time. High mobility is assured. In particular, firms and individuals who do not agree with the rules existing in a particular seafaring place may leave with low cost and join a seafaring place better suited for their preferences. While these new forms of organization seem to be somewhat exotic, there exist organizations performing similar tasks; for instance, ships stationed just outside the national boundary of the United States offering casinos. Similarly, ships outside the national boundary of a nation where birth control is prohibited may offer medical and hospital services to women whishing abortion.

IV. Success or Failure?

It may well be argued that Political Economy has made great progress since its first developments in the 1950s and 1960s. The theoretical models of the polity have become more refined, the interactions better specified, and the role of institutions has increasingly been taken into account. Furthermore, the field has become empirical, using the most advanced estimation techniques.

Political Economy has also been a success with respect to the institutions that are devoted to its study. There is an American and a European *Public Choice Society* and the *International Society of New Institutional Economics* (ISNIE) offering yearly conferences with a large number of participants. There are various journals devoted to the subject, such as *Public Choice, Constitutional Political Economy,* or the *European Journal of Political Economy.*

A further clear success of Political Economy has been the considerable number of *Nobel Prizes* given to respective scholars. Arrow and Sen on Social Choice, Buchanan on Constitutional Economics, and North and Ostrom on Institutional Economics are undisputed exponents. But Coase, Williamson, and Becker may also be counted to the group of Political Economists at large[4].

Nevertheless, this progress is mitigated by the fact that the basic ideas of political economy are all too often disregarded in mainstream economics. One can still find works with the implicit, and sometimes even explicit, assumption that benevolent governments technocratically maximize social welfare. The Political Economy is still often captured in overly simplistic models– such as the median voter model – because this allows to easily derive equilibrium outcomes. While the recent contributions relating the economic and political sectors are impressive, they have to some extent remained within a specialist community of scholars. Their effect on general economics is not very large, but compared to the former self-contained economic theory that completely disregarded politics, much has been achieved.

Meanwhile, in comparison to standard economics as presently en vogue, one can well be disappointed. In particular, the fundamental role of institutions in shaping the behavior of both, political and economic actors, is often disregarded.

This latter statement can be illustrated by policy recommendations emerging from one of the most recent and thriving fields in economics, *happiness research*. It will be argued that the policy consequences suggested are still guided by a technocratic benevolent dictator approach.

Modern, empirically orientated economic research on happiness was started by van Praag and Kapteyn (1973) and Easterlin (1974). Since then, the major determinants of subjective reported well-being, in particular of life satisfaction, have been identified (for surveys see Frey and Stutzer 2002a,b, 2005, Dolan et al. 2008, Frey 2008). Thus, we now know much about how socio-demographic factors (such as age, marriage and personal relationships), economic factors (such as income and its distribution, unemployment, or inflation), cultural factors (such as race or religion), or political factors (extent of democracy and decentralization) affect happiness.

[4] However, some "Anti-Political Economy" scholars such as Tinbergen or Mirlees who explicitly base their research on social welfare maximization also received Nobel Prizes.

Several prominent happiness researchers (e.g. Layard, Frank, Oswald, or Diener) suggest that *governments should maximize happiness*. At last, the dream of economists seems to have come true: the social welfare function has been empirically filled and thus can and *should* be maximized.

Politicians have been eager to pick up this new science (Layard 1995) as it promotes the impression that they care for their citizens. The King of Bhutan, the French President, the British Prime Minister, the Chinese President and politicians of several other countries stated that they now wanted to pursue policies maximizing or increasing happiness. This sounds like an excellent policy worth supporting, it seems difficult indeed to object to making people happier.

However, a more careful consideration reveals that a policy of happiness maximization is most doubtful and perhaps even dangerous in a democratic society. It corresponds to an idea where social welfare can and should be brought about by a government assumed to act solely in the interest of its citizens. This policy from above, by a technocratic, research-informed and benevolent government, stands in sharp contrast to one of the major points of Political Economy: politicians are rational individuals with their own goals and thus act like everybody else: in their own interest. A happiness maximizing policy is faced with several other major problems (Frey and Stutzer 2010). Respondents' answers to representative surveys on their happiness level tend to be biased when they are aware that the aggregate happiness index therewith constructed will be used for political purposes. Moreover, governments have a strong incentive to *manipulate the happiness indicator that is to be maximized*. Happiness indicators are based on surveys and create many possibilities to influence the results in favor of the incumbent government.

At the constitutional level (2), the government's claim to pursue a happiness maximizing policy may make it difficult for opposing parties to argue against the party in power, which in turn undermines the intensity of political competition.

Happiness research and the policy proposal that governments should maximize happiness is just one example suggesting that Political Economy has not been sufficiently integrated into economic thinking.

Political Economy has obtained important results but must seek more actively to enlarge the perimeter of its application.

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