

THE PECULIAR BUSINESS OF POLITICS

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This article stems from Jim Dorn's invitation to encapsulate my recent book, *Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy* (Wagner 2016). Where standard political economy treats states as singular entities that intervene in economies, I treat states as networks of *peculiar* enterprises that operate inside a society's market arrangements. This peculiar quality ramifies throughout a society. To be successful, political enterprises must raise sufficient revenue to return profits to investors. Those profits are disguised through indirect transactions and ideological formulations, but are profits all the same. There is thus a simple explanation for why political enterprises grow relative to commercial enterprises: they grow because they offer higher returns to *relevant investors* than what those investors could obtain through commercial enterprises. The analytical challenge a theory of entangled political economy must face is to explain the profit-seeking reality of the sub-system of political enterprises that operates inside a society. This article sketches the main conceptual issues with which a theory of entangled political economy must contend, and closes by considering possible implications for efforts to limit the reach of the political within society.

To start, equilibrium theory and its associated method of comparative statics is incapable of conveying the analytical vision of

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entangled political economy. This vision is one of continual change injected into societies by creative agents with interests that sometimes support and at other times oppose those of other agents. Cooperation and conflict are both ineradicable features of societies (Hirshleifer 2001). This theory must be constructed in the active voice, in contrast to the passive voice of equilibrium theory. This construction requires a theory of creative systems, in contrast to the standard vision of robotic or mechanical systems (Bertalanffy 1968). The magic number for conveying the central features of market interaction under private ordering is two, for two is sufficient to convey the generation of mutual gains from trade. By contrast, the magic number for illustrating public ordering is three, for three is necessary to convey how power can be used to reward friends at the expense of enemies (Schmitt [1932] 1996). The peculiar commercial quality of political interaction generates a continuing parade of societal tectonics (Young 1991), in contrast to the placidity of equilibrium theory. These tectonics can transform a constitution of liberty into a constitution of servility as private ordering recedes relative to public ordering. This article sets forth the principal analytical constructions by which the entangled vision is executed, and it closes by considering both the scope for and difficulties of restricting the reach of the political within an unavoidably entangled system of political economy.

Two Visions of Political Economy: Additive and Entangled

The compound noun “political economy” denotes a relationship between the two simpler nouns polity and economy. Just how that relationship is construed entails much of significance, as I explain in *Politics as a Peculiar Business*. Standard formulations of political economy, as illustrated crisply by Persson and Tabellini (2000), construe polity and economy as independent entities, with polity acting on economy to change economic outcomes in some fashion. This is the standard vision of public policy wherein a policy mechanic works on an economic engine to improve its performance, or perhaps to degrade it depending on whom you ask.

This standard framework can be reasonably described as *additive* political economy to indicate that political economy denotes an adding together of polity and economy wherein each entity maintains its

original qualities, much as a collision between two billiard balls leaves their original qualities unchanged. While *Politics as a Peculiar Business* explains that this vision of political economy is incoherent, that vision nonetheless provides ideological cover for nearly the entire gamut of state activity. There is no political activity that won't find supporters who claim to seek to fix some societal defect. After all, what political program has ever been advocated by someone who claims that there is nothing wrong with the economic engine or process? Additive political economy provides ideological cover for the interventionist state by playing upon the universal recognition that machines sometimes malfunction and require mechanics to repair them. In contrast, entangled political economy locates such so-called policy mechanics as profit-seeking enterprises that operate within the economic process, except that those enterprises have peculiar features relative to ordinary enterprises, as Eusepi and Wagner (2011) elaborate.

Orthodox welfare economics and its claim on behalf of the Pareto efficiency of competitive equilibrium reflects the additive vision of political economy. The first-order conditions for Pareto efficiency pertain to transactions among commercial actors. If those conditions are satisfied, the economic engine is working efficiently. Such conceptual constructions as public goods and external effects invoke claims that the engine is not working efficiently and requires intervention by policy mechanics. To be sure, there has been extensive debate over whether common claims of inefficient performance are truly what proponents of state intervention claim they are, as Coase (1974) and Krause (2015) illustrate for lighthouses and Cheung (1973) and Johnson (1973) illustrate for bees.

The language of welfare economics enables someone to support or oppose nearly any imaginable policy proposal. Markets work well or they don't, depending on the proclivities of the observer and not on any so-called facts of the matter. This situation arises because the conditions for Pareto efficiency refer to states of mind. Those states cannot be observed. Only action can be observed, and action speaks ambiguously. Does a ship crashing on rocks indicate market failure? Or does it show that scarcity will be present even in a Pareto-efficient world? An economist can argue either position. One could argue that the ship's sinking reflects the unfortunate fact of scarcity, because if it were Pareto efficient to build another lighthouse it would have been built already (Stigler and Becker 1977). One could

argue alternatively that transaction costs are involved in trying to aggregate small valuations across large numbers of people, and that a public agency is able to lower that cost (Kahn 1966). Yet again, someone could argue that political agencies have neither the incentive to perform such aggregation nor the knowledge that can only be generated through market transactions (Hayek 1937, 1945). In short, the categories of welfare economics do not provide a recipe for the resolution of disputes but rather provide a grammar for generating interminable disputes (Wagner 2015).

This interminable quality arises because of the presumption buried within the framework of welfare economics that those who articulate those arguments are not ordinary economic actors with ordinary commercial interests, but rather are detached from and independent of commercial activity. Yet real mechanics operate within the market, and an economist can use the theory of markets to say useful and intelligible things about observed patterns of mechanical activity within a society. How is it any different for so-called policy mechanics? The scheme of entangled political economy claims that there is no formal difference, for policy advocacy reflects the same economizing logic as ordinary commerce (McCormick and Tollison 1981, Tollison and Wagner 1991). To be sure, there are significant substantive differences due to the peculiar quality of political activity relative to commercial activity. Political activity *is* commercial activity, only it is not organized through the private law framework of property and contract (Streit 1992). Indeed, these days there is perhaps little commercial activity that stands outside the direct influence of public ordering.

It should be noted that entangled political economy is not some new theoretical development. Entanglement was a common scheme of thought during the classical period of political economy, as illustrated by Robbins (1952) and Samuels (1966), as well as by Frank Knight's (1960) examination of the problem of bringing intelligence to bear on democratic action. With respect to practice, moreover, Jonathan Hughes (1977) explained that entanglement among political and commercial enterprises was widespread in Colonial America, though not nearly to the extent that it is today. It was only with the coming of the neoclassical period in economics starting late in the 19th century, with its replacement of political economy with economics (Milonakis and Fine 2009), that the construction of additive political economy starts to take shape with its isolation and separation

of what were thought to be purely economic phenomena from political phenomena. Entangled political economy represents a reformation of classical modes of thinking, as Maria Paganelli (2014) illustrates with respect to Adam Smith, making use of new modes of thought in the process.

Most significantly, the entangled vision of political economy treats economics as a genuine social science and not a science of rational action writ large (Wagner 2010). To execute this alternative scheme of thought requires replacement of the common presumption that economic observations pertain to states of societal equilibrium. If observations are thought to reflect states of societal equilibrium, sound economic reasoning requires that society be reduced to a representative individual to economize on analytical effort (Kirman 1992). Once this reduction is accomplished, there is no option but to treat economics as a science of rational action writ large because society has effectively become a single individual for analytical purposes. By contrast, if economics is to be treated as a genuine social science it must embrace a scheme of thought that entails creative and open-ended interaction among individuals being continually injected into society, as Giandomenica Becchio (2014) illustrates for Carl Menger. Hence, entangled political economy is articulated within a nonequilibrium analytical framework at the social, though not individual, level of analysis. There is no presumption that mutual consistency among individual plans is present within a society. Indeed, the typical presumption is that such consistency is never attained.

Executing the Entangled Vision: Challenges and Opportunities

Additive political economy reflects a conceptual antinomy wherein a market economy is described as an order consisting of myriad organizations while a polity is treated as a single organization. In an earlier age, when governmental budgets were in single digits as a share of GDP, and where public ordering had but modest presence within a society, it would surely have been a reasonable approximation to use the theory of markets to characterize the preponderance of economic activity, while leaving politically organized activity standing apart from the theory of markets. To be sure, entanglement was present even in those earlier times, as Hughes

(1977) explains. Yet that presence was trifling in comparison with the presence of public ordering now.

In modern times, such approximation-based reasoning can lead thought significantly astray. It is common to think of the U.S. federal government as an organization directed by a president. The federal budget, for instance, is commonly described as “the president’s budget.” To speak this way is to engage in formal and not in substantive speech. Aaron Wildavsky (1975: 211) estimates that the American president spends around 20 hours a year working on what is designated as “his” budget. In no reasonable way can such a budget be described as a product of a president’s deliberate choice. To the contrary, that budget is the product of a process through which enterprises compete for political support. This competitive process is, at present, only incompletely understood (Wagner 2007: 125–54; Wagner 2012a). This situation reflects what Gordon Tullock (1965) described as “bureaucratic free enterprise,” which denotes a system of interaction among competing entities that operate outside a framework of private property, and does not represent the activity of a coherent organization. There is no way that a single mind can truly choose the budget of the federal government by devoting 20 hours to the task. To develop a reasonable understanding of the world we experience, there is no option but to incorporate politically organized activity into a theory of order, which is what entangled political economy seeks to accomplish.

Throughout the social sciences, though not only the social sciences, theorists must theorize about objects that they can apprehend theoretically but not observationally. This situation means that inputs into our theories are also constructed through theory. The predominant line of economic theory for the past century or so has held that our observations pertain to states of systemic equilibrium. Yet there is no reason to do this other than to ease the theorist’s life. Proceeding in this fashion also means that change can come only as an exogenous shock to an equilibrated system. It further means that an economic system can be reasonably reduced to a representative agent, because no useful theoretical work is accomplished by working with a larger number of agents. Theorists understandably emphasize the ability of a scheme of thought to sharpen the image of the phenomena they are examining. It should also be noted that a scheme of thought also precludes other phenomena from being seen. For instance, a theory based on universal price taking will not be able

to serve as a theory of price formation. Should a theorist desire to construct a framework where change comes about through interaction among conflicting plans within a society, it will be necessary to develop some nonequilibrium framework.

Politics as a Peculiar Business rejects these conventional theoretical presumptions and seeks to create some elements of a nonequilibrium approach to social theory. It accepts the presumption that individuals are economizing agents, and so seek to replace conditions they value less highly with conditions they value more highly; however, it treats those agents as creative and not mechanical. A person who faces unchanged prices and incomes can thus choose differently as time passes due simply to a desire to avoid boredom, to say nothing of recognizing that action occurs in combinatorial space where exploration for fresh ideas always beckons. While societies are generally orderly systems of interaction, they also entail turbulence. That turbulence, however, stems from the creative actions of people within the society which continually upset other plans within that society. Turbulence and not placidity is the normal state of a system of entangled political economy. A system based on private ordering, however, is generally better able to calm turbulence than a system where public ordering occupies the social foreground (Wagner 2012b).

In any case, societies are conceptualized as complex systems of creative action and interaction wherein novelty is continually inserted. Within this analytical framework, a conceptual problem arises in bringing commercial and political enterprises onto the same field of vision. Commercial enterprises operate with several or alienable property rights. The theory of market order explains how prices emerge out of economic interaction within the institutional framework of private property and freedom of contract. Those prices aid entrepreneurial judgments in organizing economic activities within society. Among other things, market prices enable the development of profit-and-loss accounting and help to establish market values for enterprises (Boettke 2001). In contrast, political enterprises operate with common property where prices do not emerge and market values cannot be established. Yet political enterprises must engage in economic calculation just as surely as do commercial enterprises. The chief executive of a politically organized park service, for instance, must decide how much land to devote to campgrounds relative to playgrounds, what kinds of equipment to install on playgrounds, and

many other facets of the enterprise's operation. At the same time, that park service must remain competitive within the budgetary process of the governmental unit of which it is a part. Commercial and political enterprises are subsystems within a common social system, but interaction among those enterprises generates societal tectonics and not placid equilibrium due to institutional divergences in their respective modes of entrepreneurial action.

Social Systems Theorizing: Mechanical vs. Creative

It is common to speak of economies and polities as "systems." But what kinds of systems are these analytical objects? Any system can be described as a network that contains a set of nodes along with edges that connect those nodes. For purposes of economic analysis, the nodes can be described variously as persons, enterprises, or agencies. In any case, the edges would denote patterns of relationship among the nodes. A network-based depiction is a useful way to characterize human population systems where each node operates with particular knowledge within a social division of labor (Hayek 1937, 1945). The performance properties of any system depend on both the capabilities possessed by the nodes and the patterns of connection among the nodes. Following Bertalanffy (1968) systems can be characterized as mechanical or creative.

Conventional economic theory characterizes an economic system as mechanical, which follows from the presumption that economic observations pertain to states of systemic equilibrium for a given set of preferences and techniques. Within this conceptual framework, it is a simple step to imagine a policy mechanic who inserts new data into the system at particular nodes, which results in a new equilibrium for the system. For a creative system, however, this conventional framework is incoherent because the relevant data don't exist prior to action but rather emerge through action. As Buchanan (1964a) explains, a market is not competitive through prior assumption but becomes competitive as action takes place through time. A policy mechanic can still act on particular nodes within the system, but creative agents can also by-pass those efforts in open-ended, creative fashion. Even if they face unchanged prices and incomes, creative agents can choose to alter their patterns of action, much as Ross Emmett (2006) explains in his analysis of Frank Knight's likely reaction to Stigler and Becker's (1977) argument to the contrary.

It is easy enough to characterize the difference between robotic and creative systems by using images that *Politics as a Peculiar Business* sets forth. A parade illustrates a robotic or equilibrium system. A parade is an organization. It might contain 5,000 participants stretched over two miles. All the same, those participants can be reasonably reduced to a center of gravity and represented as a point on a map, and with the progress of the parade tracked on the map as it moves along its route. By consulting the parade marshal's order of march, someone standing on a reviewing stand can tell which particular unit is passing by simply by consulting a watch. The only obstacle to doing this resides in the possible occurrence of some exogenous event such as the engine of a float breaking down, with the parade stopped until a tow-vehicle arrives. A parade is a robotic system, and is suitable for analysis by a theory of equilibrium because this theory captures the central features of a well-working robotic system where the constituent elements perform as they are programmed unless they break down.

A crowd of pedestrians leaving a stadium after an event illustrates a creative or nonequilibrium system. The crowd of pedestrians is orderly just as is a parade. The orderliness of the crowd, however, has different sources than the orderliness of the parade. In no reasonable way can a crowd be reduced to a parade. The members of the crowd are heading in different directions, whereas the members of the parade are heading in the same direction. The members of the crowd are also moving at different speeds, in contrast to the common speed of movement among the members of a parade. Within a creative system, the constituent elements perform as they choose. So-called policy mechanics cannot change a creative system as they choose because the elements in that system can in effect talk back through their creative actions. This situation means that systemic properties are not the province of so-called policymakers or policy mechanics. To the contrary, systemic properties are products of interaction among the constituent elements, as those interactions are guided and shaped by the actions of the participants.

The pedestrian crowd is still an orderly system, only that orderliness has different qualities and sources than does the parade. The parade is actually a form of public ordering in that the parade marshal establishes a set of rules to which the members of the parade agree to conform. Parades do, of course, differ in their observed qualities, and those differences reside in such matters as differences

in the musical and marching abilities of the members of the parade. For instance, some members of the parade might be able to keep in step better than other members, or play their music more deftly. For the pedestrian crowd, however, there is no common timing to the movement of the members, nor is there any common music that they play. Each member chooses his or her own pace and direction of movement. Orderliness within the pedestrian crowd resides in such matters as people having a general dislike for crashing into other people, in conjunction with having internalized some principles of courteous conduct in social settings. The pedestrian crowd is a privately ordered system that illustrates the merits of Edward Stringham's (2015) claim on behalf of private ordering.

Experiences with the prohibition of alcohol early in the 20th century and with current efforts to prohibit recreational drugs illustrate in sharp relief the difference between mechanical and creative systems. If a social system were a mechanical system, prohibition would forthrightly stop the activity in question, provided only that policy increased prices sufficiently. In response to policy-induced changes in prices, the individual agents would eliminate that activity from their repertoires and would revise their pattern of activity in light of the new set of prices. Within a creative system, however, policy-induced changes in prices also induce creative searches for new paths of commerce that are accompanied by new sets of prices. Within a creative system, there is no reason to expect individual agents to cease particular activities just because other agents, political or otherwise, seek to make them do so. In other words, prohibition, then or now, does not eliminate the prohibited activity from agents' repertoires. All prohibition accomplishes, and all it can accomplish, is to empower one set of agents to try to prevent activities that another set of agents desires to undertake. How successful that effort will be will depend in large measure on the creative responses of those other agents.

Market Transactions and Parasitical Political Calculation

Commercial and political enterprises both operate within the same societal territory and confront the same kinds problems of engaging in successful economizing action. Every actor is engaged in seeking to attain and maintain desired states of existence in the presence of other agents seeking to do the same. All enterprises are thus

engaged in seeking to make value-increasing choices as the executives of the enterprise appraise their situation. In this respect, Buchanan's (1969) analysis of the reciprocal relationship between cost and choice tells us that cost always pertains to the options for choice that an acting individual faces. If you want to explain the choice of an enterprise, whether commercial or political, the relevant situs of cost pertains to the options a choosing agent faces and not some abstract construction of enterprise-level accounting. While agency costs are always present in corporate situations, the transferability of ownership and the resulting establishment of corporate valuation presents tools to limit agency costs in commercial enterprises relative to political enterprises, as Meckling and Jensen (1976) and Fama (1980) explain.

Both commercial and political enterprises may be reasonably regarded as profit-seeking enterprises. After all, to seek profit means nothing more than to avoid loss. Loss, moreover, means shifting resources from higher-valued to lower-valued uses. Profit seeking, in other words, is simply different wording applied to mutual gains from trade. Commercial enterprises can remove profits directly from the enterprise. Political enterprises can't. This doesn't mean that profits can't be removed from political enterprises, nor does it mean that profits don't result from the action of political enterprises. It means only that profit from political enterprises follows some indirect channel. In this respect, Pauly and Redish (1973) explain how nonprofit hospitals can serve as conduits for the transfer of profits to physicians. As a general matter and in the spirit of Pauly and Redish, politically generated profits are removed through transactions with associated commercial enterprises, resembling money laundering in the process.

Political enterprises lack some significant tools for economizing action because they operate under nonalienable ownership. As a result, they carry no market value. These enterprises still seek to be successful within their arenas of action. Those arenas, however, are governed by budgeting and not commercial transaction. This situation leads to a sequential pattern for interaction among commercial and political enterprises: commercial enterprises locate profit opportunities, after which political enterprises enter that commercial territory and do their business as peculiar forms of commercial enterprise. Within this environment, political enterprises must act parasitically on commercial enterprises to secure

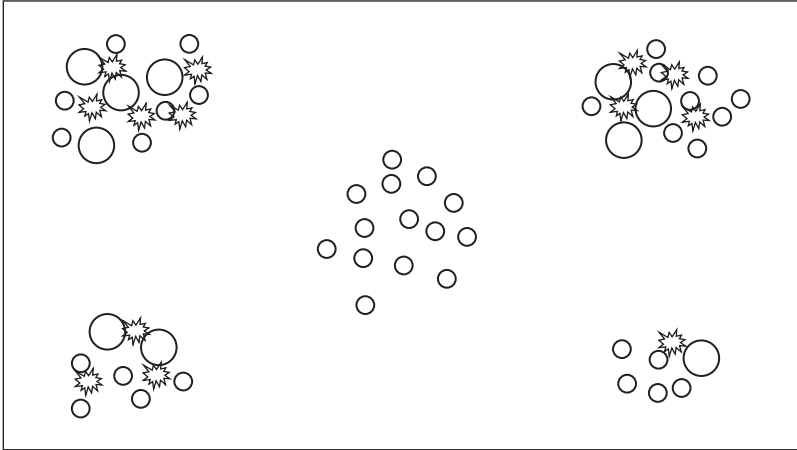
navigational guidance and financial support. By navigational guidance, I mean that the location of commercial enterprises provides information for the location and substance of political programs. By financial support, I mean that political enterprises operate within the fiscal commons (Wagner 2007) and not within the market, and therefore derive their revenues through making parasitical attachments to market transactions. Hence, political enterprises are doubly indebted to commercial enterprises: commercial enterprises provide navigational guidance and revenues.

By parasitical political pricing I mean something similar to what Maffeo Pantaleoni (1911) set forth in treating a system of political prices as being a parasitical attachment to a system of market prices. Pantaleoni asked us to imagine a world inhabited by two bazaars, one a market bazaar and the other a political bazaar. In the market bazaar, vendors sell their wares at market prices which Pantaleoni, in keeping with the economic theory of his time, treated as being equal to marginal costs of production. In the political bazaar, vendors sell their wares at what Pantaleoni described as political prices, which depends on the particular tax system in place. Pantaleoni worked with a flat tax on all income, as did Buchanan (1964b) in creating a model in which all members of a society would agree on the same rate of political output. The parasitical quality of political pricing comes into play because political enterprises do not generate their revenues directly from the sale of services, but rather derive them from making parasitical attachment to commercial transactions.

Figure 1 illustrates the location of commercial and political enterprises in a manner consistent with Pantaleoni's theory of parasitical political pricing. It illustrates the simple point that commercial enterprises first locate profitable opportunities, and then political enterprises locate nearby to complete the parasitical relationship. The figure describes a network of enterprises that inhabit different locations on some abstract notion of commodity space.

Figure 1 shows two types of nodes. The circles are commercial enterprises, with some being large and others small. The irregular spheres denote political enterprises. The enterprises are located in five distinct parts of the abstract commercial space to represent different types of commercial activity. Suppose momentarily that the political enterprises are removed from view. We can liken the resulting distribution of firms over commercial space to the distribution of

FIGURE 1
 ENTERPRISE LOCATION AND PARASITICAL
 POLITICAL CALCULATION



NOTE: circles = commercial enterprises; irregular spheres = political enterprises.

prospectors among potential sites. Just as prospectors will clump in some areas and avoid other areas, so will commercial enterprises.

Figure 1, with the irregular spheres suppressed, is a portrait of the location of enterprises in commercial space. The center shows 14 small firms. The largest concentration of large firms is in the northwestern part of Figure 1, where four of the 11 firms are large. At the northeastern part of Figure 1, three of the 12 firms are large. At the southwest, two of the seven firms are large, while in the southeast there is one large firm among the six firms. Figure 1 represents the location of commercial enterprises in commercial space, and that pattern would be explained through the economizing efforts of those enterprises. Figure 1 with political enterprises suppressed from view characterizes the use of knowledge within a framework of wholly private ordering. The locational pattern of enterprises in Figure 1 provides information about the pattern of human concerns. In this respect, firms located in the northwest and the northeast would seem to be particularly strongly implicated in dealing with matters of great human concern and interest. These are the activities that would attract attention in national newscasts, whereas going on in the southeastern part of commercial space

would likely attract little attention. Enterprises located in the center of Figure 1 would attract even less attention reflecting that those enterprises deal with matters of highly local concern, such as cutting grass and painting houses.

How might political enterprises be incorporated into this map of enterprises, keeping in mind their necessarily parasitical character in light of their lack of tools for economic calculation? Commercial firms identify locations that are of most significant human interest and concern, after which political enterprises enter the territory looking for margins along which they can develop clientele and extract support. Figure 1 distributes 13 political enterprises within the commercial territory portrayed there. Those enterprises are placed systematically according to market principles of economic calculation. The center of Figure 1 has no political enterprises, which indicates that there is no political profit to be gained by locating there. In contrast, five political enterprises are located in the northwest, to indicate that much political profit is thought to be attainable there. The northeast also contains much potential for political profit, as indicated by the location there of four political enterprises. The southwest is commercially less exciting than the northeast, as illustrated by only three political enterprises being located there. The southeast is even sleeper commercially speaking, and so contains only one political enterprise.

Most of the political enterprises locate adjacent to large firms, and sometimes straddle large and small firms. When public ordering appears, dyadic exchange gives way to triadic exchange (Podemska-Mikluch and Wagner 2013). With dyadic exchange, no matter how numerous the participants, commercial relationships are agreeable to the participants. With triadic exchange, however, there is agreement among a dominant subset of participants to prey upon other members of society, using ideological formulations to soften the appearance of preying. With private ordering, a failed enterprise will liquidate its assets or otherwise reorganize, depending on what the participants are able to work out among themselves. With the triadic exchange that public ordering enables, the executives of a failing enterprise might be able to secure the cooperation of a political enterprise in order to establish a class of forced investors to keep the enterprise going without reorganization.

Private vs. Public Ordering and the Generation of Societal Tectonics

What are the economic properties of a social system where commercial and political enterprises occupy similar territory but are constituted through the different operating principles that the distinction between dyadic and triadic exchange conveys? Jane Jacobs (1992) advanced the reasonable claim that well-working societies required some reasonable mix of commercial and guardian activities, with the two operating in different domains of action. She also recognized that excessive commingling between commercial and guardian activities could have socially troubling consequences—what she described as “monstrous moral hybrids.” The resulting admixture of private and public ordering can create societal tectonics in economic regions where the two forms of ordering commingle, generating economic rubble in the process. In a similar vein, William Niskanen (1978) explains that classical Greek theorists, unlike their successors two millennia later, recognized that democracy was a difficult form of government to maintain because of its strong tendency to erode the sense of personal responsibility that is bound up with the principle of private property and residual claimancy.

The history of urban transportation since the time of the jitneys in the early 20th century (Eckert and Hilton 1972) provides a good illustration of a situation that is still in play today with controversy over Uber and Lyft. Suppose initially that transportation within a city is organized wholly through private ordering. At some subsequent moment a city council sponsors a municipal bus enterprise. This could have been organized as a private enterprise with the members of the city council being the shareholders. But instead it is organized as a municipal enterprise. While the enterprise doubtlessly will charge fares to riders, equally surely the municipal enterprise will not be able to survive in the face of truly open competition with private enterprises because it lacks the managerial tools that private property enables commercial enterprises to develop. The municipal enterprise, however, will be exempt from taxes that the private enterprises must pay. While the municipal enterprise might be required to charge fares to cover its direct operating expenses, it might also receive its buses through the city budget, enabling the municipal enterprise to appear more competitive than otherwise. Should the

municipal enterprise still face competitive difficulty, the city could regulate private competitors as in abolishing competitive forms of transportation. Short of doing this, it could impose costs on commercial enterprises through regulation, again enabling the municipal enterprise to appear more competitive. In any case, the insertion of public ordering into a system grounded on private ordering will generate the social equivalents of earthquakes where the supporters of political enterprises clash with the supporters of commercial enterprises. Earthquakes create rubble, of course, and how that rubble is removed has significant social implications. One possible form of removal would be to replace public with private ordering, as in privatizing the municipal bus enterprise. Another form of removal would promote some fusion between private and public ordering by inserting politically expressed interests into the operation of commercial enterprises.

Alternatively, within modern credit markets private and public ordering are deeply entangled, as Smith, Yandle, and Wagner (2011) explore with reference to the depression-era National Recovery Act and the more recent Troubled Asset Relief Program. Along many margins of activity, public ordering now governs the conduct of commercial lending enterprises. Entangled political economy captures the idea that political enterprises are involved in commercial activity, just as commercial enterprises are engaged in political activity. Rather than engaging in debates over whether the events of 2008 were caused by excessive or insufficient regulation, entangled political economy would explain such events as reflecting *systemic properties* of a system in which businesses engage in politics and politicians engage in business. When political agencies become involved in directing the composition of asset portfolios and when financial institutions engage in negotiation over meeting regulatory requirements, what Jacobs (1992) describes as monstrous moral hybrids come into the commercial foreground to do their work.

Within a framework of private ordering, debtor-creditor relationships are governed by principles of contractual obligation (Fried 1981). Within this framework, borrowers and lenders alike regard their relationship as mutually advantageous. Not all debtor-creditor relationships work out to mutual advantage, often because of unanticipated changes that affect one of the two parties. A borrower might have thought a new commercial venture would be more profitable than it turned out to be. In consequence, the debtor might have

declared bankruptcy after having tried unsuccessfully to discharge the debt by liquidating some other assets. Given the creditor's place in the bankruptcy pecking order, the creditor's loss on this transaction might have upset other commercial relationships that called for renegotiation. Regardless of the simplicity or complexity of those renegotiations, the legal principles that accompany private ordering provide clarity as to just who it is that owes what to whom in sorting out the pattern of obligations that accompany the collapse of earlier expectations.

With private ordering, promises are exchanged among specific individuals, and controversy over fulfillment of those promises resides with those individuals. This is so with a modest amendment for promises involving corporate bodies. A corporate officer who occupies one side of a promise might leave the corporation before the promise is discharged, leaving the promise as a general obligation of the corporation. To the extent corporate governance operates to limit agency costs, promises made by different corporate officials have much the same effect as promises made by a single official, as De Angelo (1981) and Makowski (1983) explain.

The situation changes sharply when public ordering enters into debtor-creditor relationships (Wagner 2012a). Whether we are talking about some \$20 trillion of official public debt or some \$100 trillion of unfunded liabilities, there is no clarity about who owes what to whom. These obligations point to past promises of an indefinite form that cannot be kept going forward. Public debt doesn't entail specific promises and obligations. Public debt operates in the realm of status and not that of contract.

Present magnitudes point toward a form of *systemic lying* of large magnitude. When viewed from a contractual perspective, public debt denotes a gap between the promises that have been made to people in their capacities as taxpayers and the promises made to people in their capacities as beneficiaries. I describe this as "systemic lying" to indicate that it is a systemic quality of a system of entangled political economy wherein principles and concepts derived from private ordering are extended to public ordering. It is, after all, not necessary for governments to use public debt. A government that found revenues falling short of expenditures could finance the gap by taxing. If it did this, some taxpayers doubtlessly would borrow to discharge their liability rather than paying cash. Hence, the increased spending would induce increased borrowing within the society, but

this indebtedness would be organized through private ordering and not through public debt and the public ordering this entails.

Public ordering uses the language of contract without the practice of contracting. In consequence, public debt doesn't reflect promises in the same sense that promises are made under private ordering. With public ordering, debtor-creditor relationships are based on status. While bondholders agree to buy bonds and so agree to become creditors, there is no agreement behind the acquisition of the status of being a debtor. One could, of course, claim that taxpayers accept the status of being indebted by virtue of their being a citizen of the indebted government, but this is just a particular ideology talking, which claims that any democratic process reflects consensus among everyone caught within the web of governmental action.

The different operating properties of private and public ordering are captured crisply in Vilfredo Pareto's ([1923] 1935) distinction between logical and nonlogical action. This distinction does significant work in explaining the generation of societal earthquakes of varying magnitudes, as Patrick and Wagner (2015) explore. By logical action, Pareto meant actions that correspond to the template of scientific experiments, which he described as the logico-experimental method. A firm that introduces a new line of products under the presumption that this will increase the value of the firm can test this conjecture against actual market valuations. Political environments accommodate no such testing, and yet those environments are fiercely competitive all the same. Competition within public ordering will manifest itself in ideological constructions; competitors will seek to advance ideological formulations that resonate more strongly with the relevant electorate than other formulations. Without private property and residual claimacy, choice evaporates and is replaced by expressions of sentiment.

Conclusion

My primary interest in writing *Politics as a Peculiar Business* was to contribute to the construction of an analytical framework in which economics would be construed as a genuine social science, the starting point of which would be the formal ubiquity of economizing action. In the process, I hoped to contribute to the development of a science of association along similar lines to Michael Oakeshott (1975) and Vincent Ostrom (1997).

In pursuing this effort, I have located political activity within the sphere of enterprise association, recognizing that political enterprises have peculiar qualities that manifest themselves throughout a society. Those peculiar qualities, moreover, bring to life Benjamin Franklin's reported retort to a lady who asked him, at the close of the American Constitutional Convention in 1787, what kind of government the Convention had established. Franklin is alleged to have replied, "a republic if you can keep it." It's clear that Franklin thought in terms of open or evolutionary processes and not in terms or closed states of equilibrium. It's equally clear that what was established as a constitution of liberty has moved significantly toward becoming a constitution of servility, of the democratic sort that Tocqueville described in his chapter on democratic despotism in *Democracy in America*.

Whether the reach of government can be stopped and even reversed is an open question that awaits future observation. There is very little that governments do that cannot be accomplished through nongovernmental action, though with different distributional consequences and with different people occupying positions of honor. Within a system based on private ordering, entrepreneurs and other creators are the principle holders of posts of honor within a society. These people hold center stage in human drama, with political officials serving mainly as stagehands. With public ordering the positions are reversed, with political officials coming to occupy significant posts of honor and gain control of center stage. But the human drama is continuing and patterns of human association are continually changing. My presumption in writing *Politics as a Peculiar Business* is that locating economics as a genuine social science, and politics as a peculiar form of commercial enterprise, will contribute to the emergence of a better appreciation of the constitution of liberty we once had, relative to the constitution of servility that has been growing over the past century or so.

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