Fiscal Sociology and the Theory of Public Finance:

A Preliminary Exploration

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Preface

This book examines some of the material of public finance (or public economics) through “a different window,” to borrow a phrase from Friedrich Nietzsche. The object of analytical interest in the theory of public finance is a government’s activities, mostly its revenues and expenditures (though any budgetary operation can be mirrored by a regulation). But through what window is this object viewed? The most commonly used window is one where government is portrayed as an entity that intervenes into society to alter the equilibrium pattern of market-generated outcomes. When seen through this window, public finance appears as the activity of developing knowledge about the consequences of different interventionist actions by governments.

When viewed through my alternative window, public finance appears as a form of social theorizing. If the aim of market theorizing is to explain how people are able to generate generally orderly patterns of activity when they relate to one another through private property, the coordinate aim of fiscal theorizing is similarly to explain how orderly patterns of activity emerge when people relate to one another the particular form of collective property that constitutes a state. A comprehensive social theory might thus be thought to entail a combination of market theory and fiscal theory, taking care to incorporate the forms of civic association as well.

Through this alternative window, government appears as one of several interrelated arenas within which people interact inside a society. The pure theory of a market economy treats property rights as absolute. The alternative that I pursue here treats property as non-absolute, perhaps as illustrated by John Paul Sartre's closing declaration in *No Exit* that "hell is other people." Rights of property not only depend on what other people allow but are also subject to variation over time through societal processes that form part of the subject matter of the material I present here. Political and economic activities both emerge within the same societal process, a process that entails both cooperation and conflict. Societies have multiple arenas of interaction, and a government is just one of those arenas. Fiscal activities are thus assigned to the realm of catallaxy or interaction and not to the realm of interventionist choice. To be sure, catallaxy is generally regarded as denoting exchange. Knut Wicksell's vision of unanimity would be such a representation of catallaxy. But I use catallaxy to represent interaction, and in this I include duress as well as consent, as Wicksell recognized in his pragmatic retreat from unanimity.

The relationship between economy and polity is sequential in conventional fiscal theorizing: market equilibrium is first established, with government then intervening to shift society to some alternative equilibrium. This is, of course, as it must be with systems design, for an existing system is to be followed by some alternative. In contrast, when public finance is treated as a facet of social theorizing, the relationship between economy and polity must be coeval within a societal catallaxy. Moreover, primacy of analytical focus is placed on emergent processes of development and not on states of equilibrium. Moreover, much of that development set in motion by conflict among people and their plans.

The book's material is presented in eight chapters. The first two chapters treat preliminary considerations. Chapter 1 explores the contrasting architectonics for the alternative approaches to public finance that I have just adumbrated: the predominant approach treats public finance as a branch of economic systems design; the alternative that I sketch here treats it as a form of social theorizing. To be sure, systems design and social theorizing are not antagonistic to with one another. One person can practice both approaches to public finance, only not at the same instant. Chapter 2 examines the treatment of property rights within the context of a social-theoretic public finance, and shows how some incongruities between politically-generated and market-generated institutions can promote societal tectonics and not some placid equilibrium. The main point of this chapter is to explain the non-separable character of polity and economy, and to sketch some of the implications for a theory of public finance.

The next four chapters divide a social-theoretic treatment of public finance into four conceptual modules. Each module, moreover, reflects an enterprise-centered approach to public finance. By this, I mean that the aggregate pattern of activities undertaken by a government is generated in bottom-up or emergent fashion through entrepreneurial activity that is pursued politically. Chapter 3 conceptualizes a society as possessing two forums through which entrepreneurial activity can be pursued: a market square and a public square. These two forums reside within the same society, so they are connected; moreover, those points of connection serve as hubs of contested exchanges. The abstract notion of state is assimilated not to some such form of organization as a firm or club but to a particular type of transactional nexus; a parliamentary assembly is thus construed as a peculiar type of market forum. Chapter 4 characterizes political entrepreneurship as supplying the organizational momentum for the public square. With the political enterprise treated as the central unit of analysis for a theory of public finance, Chapter 4 locates political entrepreneurship as the generative source of the pattern of fiscal activity within a society. Chapter 5 examines the arrangements of governance within political enterprises with respect to their ability to promote the success of those enterprises. Chapter 6 explores how political enterprises go about securing revenues to support their activities, recognizing the complementarity between the taxing and the spending sides of the budget.

The final two chapters explore analytical extensions of the preceding analysis. In the earlier chapters, a society was implicitly characterized as possessing a single public square out of which the phenomena of public finance emerge. Most people, however, live inside multiple public squares. Chapter 7 examines federalist forms of public square, and does so within a polycentric vision that contrasts with the allocationist-centered vision that is common in the literature on fiscal federalism. Pareto efficiency, as generally interpreted, is a coherent analytical construction only within the framework of a closed system of equilibrated relationships. My alternative analytical window, however, entails an open system of emergent relationships, which renders Pareto efficiency incoherent. Chapter 8 presents an alternative exploration of the object of concern that has been addressed by welfare economics, and does so by working with some ideas that inhabit the domain of fiscal sociology.

This book is not written as a text. It assumes the reader has a working knowledge of the standard conceptual framework within which the theory of public finance is commonly presented. It is written as an essay that offers a personal statement regarding the theory of public finance when that theory is understood to be one aspect of a broader scheme of social theorizing. It is elemental in character, in that it addresses some foundational conceptual issues in a straightforward manner, even as it presumes a general familiarity with the standard conceptual framework. The book seeks to explore some of the contours of what a theory of public finance might look like when it was oriented toward social theorizing and not systems design.

The modern development of public choice theorizing has, of course, sought to probe some of the interaction between market and public squares, and I embrace that development. The development of public choice theorizing, moreover, is to a significant extent a continuation of the social-theoretic orientation toward public finance that was developed by Italian scholars during roughly the period of 1880 to 1940, as I have explained elsewhere (Wagner 2003). At the same time, however, much public choice theorizing treats governments as acting units of intervention and seeks to uncover the logic of such state intervention. In contrast, I treat democratic forms of government not as organizations but as orders, inside of which many particular organizations operate.

I should like to express my appreciation to the Earhart Foundation and the J. M. Kaplan Fund for support that hastened the completion of this project, as well as to the numerous graduate students who during the spring semesters of 2004 and 2006 participated with me in exploring the thoughts presented here. I am also grateful to Jürgen Backhaus, of the University of Erfurt, and Domenico Da Empoli, of the University of Rome “La Sapenzia,” for extensive discussions over several years on a good number of the matters treated here, and especially for sharing with me their insights into the German and Italian literatures that have treated public finance as a form of social theorizing. I am likewise grateful to my George Mason colleague Peter Boettke for sharing with me some of his extensive knowledge of the Austrian tradition that likewise treats economic theory as a facet of a broader program of social theory pursued from an emergent orientation. Finally, I am deeply grateful to James Buchanan for providing inspiration and encouragement starting in 1963 with my graduate student days at the University of Virginia, where he introduced me to the challenges of approaching public finance from a social-theoretic orientation.

Chapter 1

Contrasting architectonics for a theory of public finance

Philosophers of science have occupied the foreground in reminding us that the sense we make of our observations about reality is conditioned by the mental frameworks or maps we use to organize those observations. This is an important point that bears heavily upon the selection of an architectonic framework for a theory of public finance. We are all necessarily captives of the mental maps we employ in making sense of our observations. There is nothing wrong for this, for there is no way to avoid this situation. Those maps can focus our observations on important matters and help us to avoid what is insignificant. They can also keep us from understanding accurately or clearly our chosen object of examination. For millennia people thought that the sun rose in the east and set in the west. This expression arose as part of a mental map that placed the earth at the center of the universe. Astronomers mapped the heavens to reconcile their observations of the heavenly bodies in terms of this Ptolemaic mental map. Then came Copernicus with his alternative mental map where the earth revolved around the sun, and we came subsequently to understand differently our observations of the heavenly bodies. While we still speak of the sun rising in the east and setting in the west, we now know that we are speaking figuratively and not literally.

In the Preface to his epochal General Theory of Employment, Interest, and Money, John Maynard Keynes referred to the difficulties of escaping “from habitual modes of thought and expression.” He continued by noting that the “difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds.” The specific context for Keynes’ lament was the conventional, equilibrium-based theorizing that dominated economics at the time he wrote. According to this standard mental map, economic observations were observations of equilibrium relationships among prices and outputs, as conveyed by notions of stationary states. For Keynes, societies and economies were anything but stationary. They were continually in motion. Keynes sought to contribute to the development of an alternative mental map centered on motion and not on stationarity. His work, however, was subsequently reinterpreted as a contribution to equilibrium theorizing, as Axel Leijonhufvud (1967) explains, and with the distinctive features of his attempted contribution lost in the process. In this respect, it is worth noting that even at the time of Copernicus the Ptolemaic maps of astronomical observations, with earth at the center, were successful in describing those observations.

The specific context of Keynes’ statement aside, Keynes was pointing to a general problem of how the thoughts we have about phenomena are both assisted and shackled by our mental maps. A mental map designed to characterize the logic of stationary states, where economic life continues indefinitely without change, is unlikely to be suitable to characterize processes of continual innovation and development, where the one certainty is that a strategy of standing pat in commercial activity is the short route to oblivion. While this book embraces processes of continuing development over the equilibrium of stationary states, as illustrated nicely by Jason Potts (2000), the subject matter of this book is the theory of public finance and not general economic theory. The problem Keynes identified has bearing upon public finance, as many of the common patterns of thinking about public finance were fashioned at a time when governments were monarchies, in which case fiscal activities could reasonably be described as reflecting a monarch's choices. Modes of thought that were fashioned for monarchical times have been carried forward to democratic regimes without giving sufficient attention to the challenge for fiscal theorizing created by this institutional change. Hence, states are commonly treated as entities that stand outside the social economy and intervene into it. In contrast, in this book democratic states are treated as arenas of participation within the social economy: states are treated as orders and not as organizations, corresponding to Friedrich Hayek (1974).

I. Orders and organizations: two windows for fiscal theorizing

The object of study for a science of public finance is a government's budget, its taxes and expenditures. To say that budgeting constitutes the object that fiscal scholars study says nothing about the types of questions they seek to address as they go about their studies. There are different sets of questions that fiscal scholars can pose, and have posed to their material, with each set representing an effort to look at the phenomena of public finance through some particular analytical window.

Suppose two territories, equal in terms of such things as population and wealth, and each containing a democratically-elected parliament, are observed to differ in both the size and composition of their governmental activities, and on both sides of the budget. Perhaps one government finances its activities through a proportional tax on income, and with a low rate and a broad base. The other finances its activities through a progressive tax on income, with marginal rates of tax rising to perhaps more than 50 percent, and with numerous exemptions, exclusions, and deductions incorporated into the tax base. On the expenditure side, one government spends heavily on draining swamps and building subways, while the provision of retirement annuities and poor relief are organized through market-based insurance companies and charities. In contrast, the other government spends relatively little for draining swamps and building subways, but is heavily involved in transferring wealth through a wide variety of programs for retirement insurance and poor relief.

What questions might a fiscal scholar bring to bear in examining this situation? Depending on the types of questions posed, different conceptual windows will be suitable for organizing thought about fiscal phenomena. The most commonly used window is one through which the state is viewed as a goal-directed organization. The alternative window is one where the state is viewed as an order which accommodates myriad participants who pursue differing goals. A business firm is an organization: people must be invited to join an organization, an organization can reasonably be described as having goals (such as maximizing a firm's net worth) that its members act to achieve to the degree the organization is well ordered, and its activities can be characterized as choices made in pursuit of those goals. Societies and markets, however, are orders and not organizations, even though their processes proceed in generally orderly fashion. People don't require invitations to participate in market or society, they just do it. Markets and societies don't have goals; these are just arenas that encompass the participating individuals and organizations that do have goals. The aggregate patterns and outcomes that arise within societies and markets are not products of choice, but are the emergent by-products of interaction among the participants.

The preponderance of scholarship on public finance treats the state as an organization. To be sure, there are substantial differences among fiscal scholars in how they portray the goals they regard the state as pursuing, or think it should pursue. The majority of those scholars treat the state as an organization that either does or should correct market failures through providing public goods and correcting for misallocations created by externalities. Other fiscal scholars treat the state as an organization that to a significant degree plunders outsiders for the benefit of those who control the apparatus of the state.[1] In either case, the state is treated as a goal-focused organization.

When viewed through this organizational window, the state chooses its pattern of activities in reflection of the goals it pursues. Two tasks appear for a science of public finance when it is viewed through this window. One is to advise the state on how it should conduct its activities. The other is to explain the

[1] For a sharp contrast between these visions, and presented by two of the major fiscal theorists of the past half-century, see Buchanan and Musgrave (1999).

responses of market participants to those activities. Fiscal activities are treated as exogenous insertions by the state into the market economy, and the task of the fiscal scholar is to portray the market-generated responses to and consequences of those insertions. This window is by far the most commonly used window for fiscal analysis these days. For instance, a government extends a subway in one direction where the relevant alternative was to extend it in a different direction.[2] The subway extension will reduce travel time in that direction, which will increase the demand for and value of land located along the route, particularly in the vicinity of exits. Indeed, the rise in the value of land can even be used to gauge the value that market participants place upon that extension. An economist could thus estimate a rate of return from the expenditure on the subway extension by comparing the added land value with the expenditure.[3] Alternatively, a government might increase sharply its taxes on alcohol and tobacco, while perhaps increasing personal exemptions under its income tax to keep total revenues approximately constant. Once again, market participants would respond in various ways to this exogenous fiscal imposition. Among other things, it would be reasonable to expect increases in cross-border shopping, counterfeiting of tax stamps, and smuggling in response to the tax increase, and with the strength of those responses varying directly with the magnitude of the increase.

[2] To be sure, there are many possible options to the particular subway extension. Different expenditure programs could be increased. Taxes could be reduced, and with there being numerous ways of doing so.
[3] The subway extension might also reduce congestion and travel time elsewhere, which would also have to be incorporated into a benefit-cost calculus.

Analytical efforts of this type are the predominant activity of fiscal scholars. By starting from the existence of a state's budgetary activities and exploring their implications for market interaction, a fiscal theorist treats the state as an entity that is exogenous to the social-economic process. Public finance is thus a branch of applied microeconomic theory where budgetary activities are treated as exogenous shocks whose consequences are capable of being analyzed. While fiscal activities do pretty much appear to individual citizens as exogenous events, this window does not exhaust the analytical possibilities within a democratic polity. For a hereditary monarchy it might be a plausible to treat fiscal activities as exogenous shocks injected into the society by the ruling monarch. For a democratic polity, however, there is no place from which such exogenous injection can occur. A second analytical window invites the fiscal theorist to explore the origination of fiscal activities and to explain a government's pattern of taxing and spending. The subway line didn't extend itself, but was extended through some process of choice or interaction among some portion of the citizenry. Likewise, the higher taxes on alcohol and tobacco, as well as the increase in the personal exemption, didn't just happen, but happened because some person or persons made them happen. The challenge for this alternative schema for fiscal analysis, which is the prime concern of this book, is to explain just how those fiscal patterns come into existence and subsequently change.

The alternative analytical window invites the fiscal scholar to treat fiscal activities as products of institutionally-mediated interaction among people who inhabit the society under examination. Fiscal activities emerge out of catallactical relationships just as do market-based activities.[4] At this point, a theory of public finance calls for integration with the concerns of institutional economics, for it is through institutionally-mediated relationships that fiscal activities emerge and evolve. Once these institutionally-mediated relationships become germane to fiscal theorizing, fiscal and political institutions become central to the theory of public finance in two respects, as noted by James Buchanan (1967). First, fiscal institutions provide the framework that shapes and constrains the interactions among fiscal participants, just as property and contract provide the framework that shapes and constrains the interactions among market participants. Second, those institutions are contestable and subject to change through processes that are capable of analytical examination, as explained with particular clarity by Samuel Bowles and Herbert Gintis (1993).

II. Two seminal authors and their analytical windows

In his treatment of the history of fiscal theorizing, Orhan Kayaalp (2004) organizes that history according to five distinctive national windows: British, Italian, German, Austrian, and Swedish (for my review of Kayaalp see Wagner 2005). Kayaalp's treatment organizes fiscal theorizing according to the national origins of the theorists. There is certainly merit in doing this because fiscal scholars often chose their analytical topics from matters of interest where they are living. Fiscal scholars from nations that tax on the basis of value added are more likely to take their analytical material from this form of tax than are

[4] The choice-theoretic and catallactical options are portrayed in Wagner (1997a).

American scholars, where the taxation of value added is only an object of speculation. The examples that fiscal scholars use in developing their analyses tend to reflect topics of particular interest in the lands where the authors reside, as can be seen readily by comparing such prominent texts as Beat Blankart (1991) for Germany, Georgio Brosio (1986) for Italy, John Cullis and Philip Jones (1998) for the United Kingdom, and Harvey Rosen (2005) for the United States.

Yet what surely comes across particularly clearly from reading Kayaalp's presentation is the complementarity among the four continental bodies of fiscal scholarship, along with the sharp differences between those bodies and the British orientation. The four sets of continental scholars are using the same window to organize their fiscal scholarship, while the British scholars are using a different window. In this respect, Jürgen Backhaus and Richard Wagner (2005a)(2005b) present the theory of public finance in terms of a dichotomy between Continental and Anglo-Saxon orientations.

A sharp presentation of this dichotomy appeared one year apart with the publication of classical pieces of work by Knut Wicksell (1896) in Sweden and Francis Edgeworth (1897) in Great Britain. Edgeworth asked how a government should impose taxes if it wanted to raise those taxes with a minimum amount of sacrifice to taxpayers. If taxpayer effort was independent of the rate of tax and if marginal utility declined with income, the least aggregate sacrifice would be attained by a tax that pared incomes down from the top until the required amount of revenue was raised. To be sure, Edgeworth noted that this was only a first approximation, because the effort to impose a 100 percent marginal rate of tax would eliminate the incentive to earn those incomes. This insight was later formalized in what has become known as the theory of optimal taxation, initiated by Frank Ramsey (1927) and surveyed extensively in a variety of contemporary texts (see, for instance, Atkinson and Stiglitz (1980), Mirrlees (1994), and Salanié (2003)). The problem of optimal taxation is construed as one of how equally to slice the pieces of a pie, when the size of the pie shrinks as what were initially larger slices are reduced and transferred to what were initially smaller slices. While this formulation construes the budget as an instrument of wealth redistribution so as to maximize some notion of a social welfare function, this literature generally concludes in favor of but modest rates of taxation, because of presumptions about the rate at which increases in marginal tax rates will reduce the amount of effort supplied.

Regardless of particular beliefs about elasticities, the Edgeworthian inspired branch of fiscal theorizing construes the state as an autonomous and choosing agent, a sentient being that that intervenes into society to reform what would otherwise have been its characteristic features as these would otherwise have been generated through process of open-market competition. The appropriate method of analysis is that of comparative statics, where the analytical focus is centered on the equilibrium properties of different allocative interventions by government. Public finance within the Edgeworthian tradition views the state as an autonomous and reforming sentient being, and uses a methodology of comparative statics to analyze and order the various end states over which that being is exercising choice. To be sure, there is also a fiscal literature that treats states as non-benevolent forms of organization, as forms of organized predation within a society.[5] While this literature offers a nice counterweight to the roseate character of Edgeworth-inspired treatment of fiscal activity, it still conceptualizes the state as a goal-directed entity and not as an institutionally-mediated order of human interaction.

When Wicksell lamented in 1896 that "with some very few exceptions the [theory of public finance] seems to have retained the assumptions of its infancy in the seventeenth and eighteenth centuries, when absolute power ruled almost all Europe ([1896]1958, p. 82)," he would surely have brought Edgeworth into that lament had he not published one year before Edgeworth. The orientation set forth by Wicksell stands in sharp contrast to the Edgeworthian orientation in most respects. For Wicksell, government was not some autonomous agent of societal reformation, though Wicksell did have a strong interest in societal reformation. Indeed, reformation and not explanation surely dominated the foreground of Wicksell's fiscal theorizing. That theoretical effort, however, treated government as a process of interaction and not as a sentient being. Individual participants might be modeled as maximizing creatures, but government itself is not some maximizing creature but is simply an arena within which such maximizing creatures interact. Within the Edgeworthian orientation, people write their parts of the first draft of the manuscript of social life, with government then revising and polishing the manuscript. Within the Wicksellian orientation, people write the complete manuscript, with government serving simply as one of the many

[5] For exemplary treatments, see Brennan and Buchanan (1980) and Usher (1992).

locations where the manuscript was worked on. Fiscal phenomena emerge out of interaction among participants, and those interactions are shaped by both customs and habits and by constitutive institutional rules. True to his catallactical orientation, Wicksell combined proportional representation with a principle of unanimity as a way of placing government and market activity on the same plane.

Wicksell was aware of the disjunction between treating government as a process of interaction and treating it as a sentient being. A holder of absolute power exercises choice and is only remotely engaged in catallactical processes. If government is treated as an arena of catallaxy, the explanation of observed outcomes becomes a more complex matter that involves patterns of interaction among participants, and with those patterns being shaped in turn by a wide variety of institutions and customs that themselves have to some extent been generated through previous interaction. While treating government as a unitary being that intervenes into polyarchically organized market processes leads to simple and tractable models, it also misrepresents the tasks of organizing public governance. The situation for governance is one where people participate in the governance of their own activities, and not one where “the state” governs people. Recognition of this distinction leads to a polycentric formulation of governance, where various governmental organizations provide arenas where people participate in the governance of their relationships and activities (as articulated nicely by Vincent Ostrom 1999).

III. Instruction from a vitriolic tirade

Some interesting instruction about the different windows that might be employed in observing fiscal phenomena can be gleaned from the dueling book reviews that were penned in response to a book by the Italian fiscal scholar Antonio de Viti de Marco. The object of this duel was the 1934 publication of Antonio De Viti De Marco's Principii di Economia Finanziaria, the original scheme of which De Viti set forth in 1888. This book, along with the German translation of a 1928 precursor to Principii, was reviewed by Fredric Benham in the August 1934 issue of Economica. Benham began by asserting that De Viti's book "is probably the best treatise on the theory of public finance ever written." He continued by noting that De Viti's influence had been confined to Italy, along with perhaps some modest influence in Sweden. Benham likened De Viti's Principii to Alfred Marshall's Principles of Economics in its broad range combined with deep insights, and claimed that the sorry state of public finance in England could be perked up through a strong infusion of De Viti's orientation. Among the noteworthy figures that Benham took to task as reflecting this sorry state of English public finance were F. Y. Edgeworth and A. C. Pigou. Benham compared De Viti's approach with that common to English public finance by declaring that "to turn from [English public finance] to the pages of the present volume [De Viti] is like turning from a Royal Academy exhibition into a gallery of Cézannes." Benham continued by noting that Knut Wicksell's "New Principle of Just Taxation," published in 1896, constitutes a complementary addendum to De Viti. Benham closed his review by bemusing that the "lack of an English translation is a great misfortune and loss to all students of public finance in English-speaking countries."

An English translation of De Viti appeared in 1936, and it was reviewed in the October 1937 issue of the Journal of Political Economy. Henry Simons began this review by observing that "the Italian literature of public finance has long been held in high esteem; but its claims to distinction have rested mainly upon works which have been inaccessible to those of us who lacked facility with the language. The translations [both German and English translations were being reviewed by Simons] of De Viti's famous treatise are thus doubly welcome, for they will make possible a more informed consensus, both as to the merits of Italian economics and as to competence of the interpretation and appraisal which it has received in other countries."

After describing this initial sense of eager anticipation, Simons offered his summary judgment of what he found upon reading these translations: "Careful reading . . . has left the reviewer with no little resentment toward the critics who induced him to search in this treatise for the profound analysis and penetrating insights which it does not contain. The Principii is revealed to him, not as a great book, but as a . . . monument to . . . confusion." Simons continued by asserting that "there is not a single section or chapter which the reviewer could conscientiously recommend to the competent student searching for genuine insights and understanding." Simons concluded by taking on Benham's review: "If his book is 'the best treatise on the theory of public finance ever written,' one hopes that it may be the last. . . . To say that it is distinguished among treatises in its field is to . . . comment bitterly on the quality of economic thought in one of its important branches."

This clash cannot be attributed toward any kind of deep ideological cleavage about the desirable extent of governmental activity. Both reviewers, along with De Viti, took a generally classically liberal orientation toward markets and politics. That clash rather reflected sharply different conceptualizations of what a theory of public finance should seek to accomplish. For Simons, the theory of public finance was to serve as a direct instrument of statecraft. The purpose of fiscal theorizing was to advise governments on what to do to make society better. People might write the first drafts of their economic lives through their market activities, but it was the task of government to improve and perfect those lives through appropriate budgetary action. The theory of public finance was to provide assistance in discerning the contours and requirements of those perfecting interventions into the market economy. The state itself stood outside the market process and intervened into it according to a logic that was unrelated to that pursued by participants within the market process.

In sharp contrast, De Viti looked at government budgets through a different window, one where those budgets emerged according to the same economizing logic that pertained to the generation of market patterns and outcomes, with due allowance made for institutional differences between the two settings. De Viti sought to portray the rhyme and reason, the logic of the taxes and expenditures that comprise a government's budget. De Viti's theory of public finance was not designed to serve directly as an instrument of governmentguided reformation. It was rather designed to serve as a complementary component of an adventure in social theorizing, where the task is to characterize how such universal economic categories as utility, demand, cost, exchange, and entrepreneurship play out in the governance of that subset of human relationships and activities that are organized politically. For a passionate reformer like Henry Simons, the disinterested detachment of De Viti and Benham must have been disturbing and apparently infuriating as well.

In his Preface, De Viti explained that he approached public finance as a theoretical science, while many of the critics of his work construed public finance as an technique of practical statecraft. Simons certainly viewed his own work as oriented toward practical statecraft, as an adventure in what is now called economic systems design. The object of fiscal theorizing was to develop improvements in systems of political-economic order. Public finance involved the application of economic theory to particular issues of statecraft. In contrast, De Viti viewed public finance as a theoretical discipline whose object was to explain observed patterns of statecraft. Public finance was a branch of social theorizing and not a subset of economic systems design. For De Viti, the amount of effort that people devoted to economic systems design should be explainable according to the same underlying principles as those used to characterize the production of dog food, tomato juice, or marriage counseling.

While the dichotomy between systems design and social theorizing is sharp, both have legitimate places within the overall scheme of human thought. Contrary to the appearance created by those dueling book reviews, there is no need to accept one approach as legitimate while rejecting the legitimacy of the other. Public finance is a conventional term that describes two distinct activities, one being participation in statecraft and the other being theorizing about society and societal processes. This book follows De Viti in pursuing public finance as a branch of social theorizing whose particular object is that portion of human activity that is organized through governmental offices and processes.

A focus on social theorizing, moreover, is surely more foundational than a focus on systems design. Systems design follows the presumption that institutions are the rules that shape social outcomes, so those outcomes can be changed by changing those institutional rules. Social theory, however, counsels some caution in making this leap from rules to outcomes. In 1919, the United States adopted rules that prohibited the production and consumption of alcoholic beverages. This change in rules, however, did little to reduce the use of alcohol while at the same time it generated a lot of violence, bribery, and resort to underground commerce.[6] Among other things, social theorizing explores the reach and limits of systems design. Both Prohibition in the 1920s and efforts to prohibit recreational drugs today play out quite differently from efforts to regulate the flow of automobile traffic in cities. Social theory can provide instruction about the variable capacity of systems design to change societal outcomes in predicable fashion. It can also provide insight into the creation and perpetuation of measures that, like Prohibition, are rampantly destructive.

[6] See, for instance, Miron and Zwiebel (1991), Benson and Rasmussen (1991), and Thornton (1991).

IV. State and market: the disjunctive vision

The object of Wicksell's complaint was a model of political economy wherein individuals governed their private activities through market relationships and where the state intervened autonomously into the market economy. The historical record presents plenty of instances where this model of a disjunctive political economy seems reasonably accurate. Louis XIV's oft-attributed assertion that "the state is me" is a limiting illustration of a model of disjunctive political economy, as is the contemporary literature on the welfare economics of optimal taxation. Raghbenda Jha's (1998) treatise on public finance is quite typical in this respect when it opens by asserting that "public economics [is] the study of government intervention in the marketplace (p. xii)."

For hereditary monarchies among other forms of absolutist government, it is perhaps reasonable to model subjects as relating to one another within a market economy and to model rulers as intervening into the market economy on terms of their choosing. Kings could, of course, differ greatly in the choices they made, but fiscal phenomena would arise out of *their* choices in any case. One branch of choice-theoretic public finance, of which Edgeworth and Ramsey are the prime initiators, has sought to lay down norms for some relatively benevolent ruler, as illustrated by maxims to minimize the excess burden from taxation. Another branch of choice-theoretic public finance, which Amilcare Puviani (1903) illustrates nicely, has sought to portray maxims that could be construed as heuristics by which a ruler or ruling clique could maximize the present value of their personal account. In either case, the state is conceptualized as an autonomous entity that intervenes into market-based relationships as it chooses, with the only differences residing in the utility function that is ascribed to the ruler.

Figure 1.1 presents a simple graphical portrayal of a disjunctive political economy. The circles denote individual citizens and the squares denote members of a ruling cadre, or perhaps a royal family. In this graph, the members of the ruling cadre are fully connected, to indicate that they act as a single unit (or, equivalently, as an equilibrated collection of people). A king and his family would be a sociological instantiation of such an analytical construction. In contrast, the individual citizens who relate to one another within the market economy form an incompletely connected network, following Jason Potts' (2000) formulation for modeling processes of continuing development. The double arrow denotes state intervention into the economy; one direction points to the ruler's demand for revenue while the other direction shows the subjects' compliance with that demand. This analytical model captures pretty well the characteristic features of a hereditary monarchy. It likewise fits well with the systems design orientation of contemporary fiscal theorizing, where an exogenous state intervenes into market-generated arrangements.

Within this orientation, the analytical agenda of a theory of public finance contains two primary components. One component seeks to articulate standards or criteria for enlightened intervention. To be sure, this literature has not been penned under any presumption that rulers are necessarily enlightened, or even under a presumption that most of them are. Setting aside such formulations as those of Puviani, it has apparently seemed second-nature that such exercises should aim at some beneficent rather than malevolent standard. Substantial controversy has accompanied the articulation of such standards, but the controversies themselves all concern what would comprise benevolent intervention into market-generated patterns and outcomes. The agent of intervention must stand outside that market process, and cannot arise within and participate in that process. Or alternatively and in line with Buchanan (1959), the fiscal expert could simply advance a proposal for change under the hypothesis that it was generally beneficial, and with the correctness of that hypothesis subsequently judged by the degree of consent it obtained within the citizenry.

The second analytical component for a theory of public finance within a framework of disjunctive political economy is an analysis of the properties of different fiscal measures. A theory of public finance in the disjunctive mode has two analytical levels. The first level concerns the articulation of norms. The second level concerns the consequences of actual fiscal interventions. At the level of normative analysis, a claim might be advanced that fiscal measures should reduce the inequality that arises through market interaction. The positive level of analysis examines actual fiscal measures to determine such matters as their distributional impact. To the extent benevolent power rules society at the first level, the results of positive analysis at the second level will either affirm those first-level choices or will lead to modifications of those choices.

It seems reasonable to model the fiscal activities of some absolute ruler in choice-theoretic fashion.[7] Those activities represent choices by those rulers, and the observation of those choices will provide insight into the preferences and values of those rulers. The model represented by Figure 1.1 fits a particular form of society where rulers are distinct from and stand apart from the society over which they rule. Societies with democratic polities, however, are not represented accurately by Figure 1.1, for the disjunction between market and state that characterizes hereditary monarchies gives way to a conjunctive political economy, as Richard Wagner (2006) explains.

V. State and market: the conjunctive vision

As a hereditary monarchy gives way to some democratic or republican regime, a transformation occurs in the connective structure of the society. Royal families lose their lands and privileges, get jobs, and become relatively ordinary. The disjunction between rulers and ruled erodes. The situation after this erosion is portrayed in Figure 1.2, where the squares and circles shown in Figure 1.1 have commingled to produce the society represented by Figure 1.2. In this alternative representation, government is no longer a creature that lords it over society, for it is an order and not a single-minded organization. It is, of course, always possible to aggregate over the activities of the various squares depicted in Figure 1.2, and refer to this aggregate as indicating something called

[7] Even the notion of an absolute ruler is a conceptual abstraction, as Norbert Elias (1982)(1991) explains in his examination of social relationships within court-based societies.

government output. But this would be little different from aggregating over the circles and calling the result market output. Figure 1.1 implies a society with a strong separation between rulers and ruled. Figure 1.2 implies a society where some members of a family staff political positions while others staff commercial and industrial positions. A brother might be in politics while a sister is in commerce. Throughout the land, classrooms, clubhouses, and pews will contain members who operate inside each type of activity.

Within the framework of a conjunctive political economy, the state is not a sentient being that intervenes into the market but rather is an institutionalized process or forum within which people interact with one another. Social-theoretic public finance is the study of means by which people govern themselves. This is not to say that everything that governments do is agreeable to everyone. It is only to say that state activity arises from within a society, and that the same economizing drives and urges that generate market activity generates state activity as well.

The difference between the disjunctive and conjunctive visions can be illuminated with a simple illustration. Somewhere a city establishes an enterprise whereby it offers broadband service to city residents. Of what interest would this establishment be to a theory of public finance? A disjunctive orientation would examine a city's provision of broadband services from any of several possible teleological perspectives. For instance, someone might advocate municipal broadband as a means of offsetting alleged failures of market-based provision. Someone else might dispute those claims, as illustrated by Joseph Bast (2002).

Rather than offsetting market failures, municipal broadband might be characterized as a means of subsidizing politically-favored clients and supporters. In any event, the insertion of municipal broadband would be treated as an interventionist act whose consequences could be subjected to teleological analysis: where some analysts might ascribe market perfection to that act, others might describe it as market deformation.

In contrast, a social-theoretic public finance would seek first of all to plumb the establishment of such an enterprise. There is an act of entrepreneurship that establishes the enterprise. Capital is deployed into the enterprise that could have been used in other ways. Just as there is a cost of capital, so must there be an anticipated return. To be sure, there are not explicit shareholders for the municipal enterprise. Still, the enterprise would never have been created without the promise of returns to sponsors. The challenge for a theory of public finance in the conjunctive orientation is to characterize fiscal entrepreneurship according to the same essential economizing logic as is used to characterize the founding of market-based enterprises, taking due account of the pertinent institutional differences between market squares and public squares. The challenge for a social-theoretic orientation toward public finance is to explain the rhyme and reason of governmental activity as emergent from within a society, as this emergence is shaped and channeled by institutionally-mediated relationships.

VI. The public, the private, and the organization of governance

The theory of public goods is one of the primary foundations upon which the theory of public finance has been erected, at least with respect to the disjunctive version of that theory. The dichotomy between private and public goods seems to map directly and immediately into a dichotomy between markets and governments as methods of economic organization, with markets organizing the supply of private goods and governments organizing the supply of public goods. The effort to work with this dichotomy has spawned much analysis and disputation about the public or private character of numerous goods and services, most of it relatively inconclusive.

The theoretical dichotomy is sharp as presented in Samuelson (1954)(1955). The aggregate consumption of a private good is determined by addition across the amount consumed by different individuals. For public goods, however, what is produced is equally available to everyone. If the mere production of a good is to render it available to everyone, one might reasonably wonder how its production would be paid for. Some would argue that so long as the equivalence of fences can be placed around public goods, markets can organize their supply and the problem posed by public goods vanishes. Not quite, though, at least with respect to the requirements of Paretian welfare economics. A fence will keep out people who aren't willing to pay the price of admission. But no cost is involved in excluding someone, so exclusion violates one of the standard first-order conditions for Pareto-efficiency.

Short of its capacity, an auditorium that shows a film is providing a public good. If the capacity is 500 and if 300 people pay the $5 admission fee, the outcome is Pareto inefficient so long as there are people who would be willing to gain admission for something less than $5. To label this situation as inefficient, however, does not imply that there is any better way of organizing the supply of movies. For one thing, a private vendor has strong incentives to expand patronage so long as the resulting marginal revenue exceeds marginal cost, which itself is presumed to be zero in the theoretical formulations. What this means is that some system of multiple pricing will typically be established in these circumstances (as Brancato and Wagner (2004) explore), with the enormous variety of airline fares on a single flight serving as a good illustration. This does not imply that profit maximization gives the same allocative outcome as Paretian efficiency might give. There is simply no way to know, and in this realization lies the primary infirmity of the common dichotomy between public and private goods: its inability to address in any reasonable way questions concerning the organization of productive activity within a society.

There are numerous instances where similar enterprises are organized in both market-based and politically-based manners. Just as there are privately-organized hospitals, so are there governmentally-organized hospitals. There are tennis courts and golf courses organized by governments, and there are golf courses and tennis courts organized through market-based arrangements. It is the same for parks, for libraries, and for educational services. There are governmentally-sponsored enterprises that help people learn foreign languages, and there are market-based enterprises that do the same thing. It is the same for the provision of security services. In short, the theory of public goods would seem to have only weak connection with the phenomena of public finance. The dichotomy between public and private goods seem to map naturally into a disjunction between domains, with government providing public goods and market-based organizations providing private goods. This disjunction, however, does not conform at all well to reality.

Perhaps it is the very dichotomy between private and public goods that is disabling, particularly in the resulting shift of attention away from concerns about institutional arrangements onto concerns with resource allocation.[8] The extent of the public is surely broad and not narrow. Most economic activity takes place in organized public arenas. Places of commerce are public arenas. A public exists whenever a multiplicity of people comes together. In many instances, the composition of a public is continually changing, as illustrated by the customers of a retail store. And yet those customers do constitute a public. Anyone who has been disturbed in a theatre by someone talking nearby can attest that watching a movie in a theater is a public experience, in contrast to watching it at home. For the most part, though, the organization and governance of a wide variety of publics is secured in open and polycentric fashion, and not through the hierarchical ordering suggested by formulations from the theory of public goods.

For a conjunctive political economy, the institutional arrangements of human governance command the foreground of analytical attention while

[8] For a seminal effort to formulate a theory of public goods with institutional arrangements in the foreground, see James Buchanan (1968).

concerns about resource allocation occupy the analytical background. Resources, after all, cannot allocate themselves. Only people can allocate resources, and they do so within an institutional framework that constrains, facilitates, and channels those efforts. The object of study for a conjunctive political economy is how people participate through government to achieve their various ends, realizing, moreover, that people can differ in the particular ends they pursue. Fiscal phenomena emerge through interaction among people just as do market phenomena. This interaction might be beneficial for everyone or nearly everyone, or it might be beneficial for only a few, and costly for many others. The state is simply a nexus of contractual and exploitive relationships in which everyone participates to varying degrees, even if not always willingly. The extent to which those relationships are contractual or exploitive depends on the constitutive structure of governance that is in place.

It is fine to say that taxes are the prices we pay for civilization. This doesn't mean, however, that the relationship between citizens and state is the same as the relationship between customers and the retail outlets they frequent. A customer can refuse to buy and, moreover, generally can return merchandise that turns out to be defective or otherwise unsatisfactory. There is no option to do this in politics. To say that civilization is being priced too highly and to withhold payment will only land the protester in prison. And there is certainly no point in asking for a refund by claiming that the state's offerings weren't as good as its advertisements claimed them to be.

To speak of a catallactical approach to public finance is only to say that those phenomena arise through interaction among people, the very same people as who interact with one another within the market economy. Many of the phenomena of public finance surely arise through duress and not through genuine agreement. This aspect of duress was emphasized in a good deal of the Italian scholarship on public finance, and which is surveyed in James Buchanan (1960), as well as in Richard Wagner (2003). A catallactical approach toward the organization of the public economy leads directly into a conceptualization of polycentric public finance. Within that conceptualization, there is open competition within the public square for the organization and operation of enterprises that provide services to clients and offer returns to sponsors, all mediated within an institutional framework of civic governance within the public square.

A general treatment of a polycentric public economy leads to a recognition that many different enterprises are involved with the provision of services within the public square. As Vincent Ostrom (1962) explains, it is not the case that water is supplied either by market-based organizations or by governments. Rather, it is that myriad different enterprises participate in the provision of water, and these enterprises operate under a variety of organizational frameworks. It is a straightforward matter to conceptualize a municipal services industry, as this was articulated by Vincent Ostrom, Charles Tiebout, and Robert Warren (1961), and elaborated further in Vincent Ostrom (1973).

Resources cannot allocate themselves nor can functions assign themselves. Only people can do these things, and they do these things while encased within institutional arrangements that channel and constrain what they know and how they act. Government is simply a subset of the myriad arenas for human interaction within the public square, and with those interactions generating a wide variety of enterprises, some established within market forums and others established within political forums, and with varying degrees of complementarity and competitiveness existing among those enterprises. Within a social-theoretic orientation toward public finance, the establishment and subsequent support of political enterprises, along with their relationships to market-based enterprises, provides the focal point of the analytical effort.

VII. Enterprise-based public finance

The key unit of analysis in an enterprise-based theory of public finance is the political enterprise, which is the political equivalent to the firm within the context of market theory. What we call the state or government is not itself an enterprise. It is rather an arena within which enterprises are created, exist, operate, and even die. All enterprises are public creatures, in that they involve a multiplicity of people, a public. To call that multiplicity a public does not mean that it constitutes a government in the sense used within the theory of public goods. There are numerous specific ways through which the governance of the myriad publics that comprise a society can be constituted, the examination of which forms a good part of the domain of a science of human association.

The myriad associations that exist within a society constitute its enterprises. Those enterprises will in turn be organized within a variety of different arenas. The theoretical exposition of a pure market economy postulates one particular arena for the organization of enterprises. This is an arena characterized by private property and freedom of contract. To be sure, in actuality private property is not absolute and liberty of contract is restricted in numerous ways, as shall be examined more fully in Chapter 2. Still, we may consider the market as an abstract noun that, among other things, denotes the framework of principles and rules of human interaction through which people can seek to organize enterprises and promote them.

But the market is not the only arena within which enterprises may be organized. The polity provides another arena. Vincent Ostrom (1962) describes how the organization of water supply involves both market-based and politically-based enterprises. Just as the relationship among different market-based enterprises may be complementary or competitive, so may be the relationship among different politically-based enterprises. Furthermore, the same principles of complementarity and substitutability can characterize relationships between market-based and politically-based enterprises. Political- and market-based enterprises interact with one another, and in myriad ways. Some of those interactions might produce widespread, general advantage. Others might provide advantage for some people at the expense of others, as manifestations of duress in the operation of political enterprises. Regardless of the particular character of those interactions, government is not some choosing agent but is a nexus or arena of contractual and exploitative relationships. In any event, the same operation of such universal economic categories as demand, costs, profits, and entrepreneurship would be found useful in explaining the operation and governance of political enterprises as characterizes ordinary commercial activity and relationships, only they would play out differently due to differences in institutional frameworks.

It is easy enough to think of an urban transit industry that contains many different participants. To start, suppose the consensual framework of a market economy governs the relationships among all participants. Accordingly, some people might drive their own cars each day, while other people might create taxi or limousine companies. Still others might establish bus service, others might try to provide monorail service, and yet others might try to establish a subway service. All of these enterprises might be operated privately by profit-seeking companies, but if so this would be an emergent feature of the process and not something dictated in advance. There might also be some cooperative enterprises that participate in this industry, and there could even be some municipally owned operations.

The prospect of municipal operation brings forth possible conflicts among enterprises organized within political and market forums, as recognized by Maffeo Pantaleoni (1911) and elaborated by Richard Wagner (1997b). It is one thing for government-sponsored enterprises to participate within polycentric societal processes on the same terms as other participants. This would require municipally sponsored transit enterprises to compete for customers on the same basis as all other enterprises. Governments, though, can subsidize enterprises that might otherwise fail in open competition with private transit enterprises. They can also impose disabilities on competitive enterprises through regulation, as discussed in Daniel Klein (1997). The competitive ability of a privately organized bus company might be degraded by requiring it to maintain routes and schedules that are not profitable. The competitive ability of a municipal transit company might be strengthened by restricting the numbers of parking spaces that can be created within buildings located downtown. There are an indefinitely large number of ways by which a government can use taxation and regulation to secure advantages for the enterprises it sponsors relative to other enterprises within a society.

To say that governments secure advantages for enterprises that they sponsor is not necessarily to offer a negative evaluation. Several lines of cogent argument have been advanced as to why the market-based organization of urban transit might fit standard claims of market failure. For instance, Roger Sherman (1967) argues that the private ownership of automobiles creates a bias against the use of public transit facilities. Once a decision to own a car has been made, a driver's comparison between using a car and using public transit is based only on the marginal cost of using the car, whereas the price of public transit might include depreciation on the capital equipment. In a related line of argument, Donald Shoup (2005) argues that the provision of free parking in urban areas similarly presents a bias against mass transit. But these arguments get into the domain of systems design, whereas this book pursues a social-theoretic orientation whose object is to give a coherent characterization of the patterns of activity undertaken within public squares.

Within the social-theoretic orientation, the political enterprise provides the analytical starting point. At any instant, a society contains a network of enterprises. Some of those enterprises are organized through market forums while others are organized through political forums. One analytical task is to explain the characteristic features of the ecology of enterprises that exist within a society. The standard dichotomy between public and private goods will be of little help in this task. Prior to undertaking this analytical task, it is necessary to consider the place of property in the theory of public finance. The pure theory of a market economy is based upon an idealization of universal private property and full liberty of contract. The phenomena of public finance, however, are based upon a denial of those idealizations. There are some significant incongruities between the theory of a market economy and the theory of public finance that must first be addressed before proceeding to an exposition of a social-theoretic public finance.

VIII. A brief excursus on scope and method

In cooking, you don't want to do without spices and seasonings, and yet you are aware that these ingredients are but a sideshow in your overall culinary effort. Methodology would seem to occupy a position similar to spices and seasonings: some methodology is desirable but it must not be allowed to overwhelm the substance. While methodological points will be addressed at several points in this book, a summary statement might be helpful at this point to avoid misunderstanding as to what I am trying to accomplish here, for this book differs from most contemporary public finance both in its substance and in its methodology. There are four related themes of methodological significance that inform this book and which set it apart from much scholarship in public finance: (1) a treatment of a bi-directional relationship between mind and society, in contrast to mind being independent of society; (2) an emphasis on inside-out rather than outside-in modeling; (3) a focus on processes of development and not on states of equilibrium; and (4) an adoption of intelligibility and not prediction as the prime object of fiscal and social theorizing.[9]

Most economic theorizing follows George Stigler and Gary Becker (1977) in working with minds that are independent of and autonomous from societal interaction, whereas, borrowing from Georg Simmel (1978), Vilfredo Pareto (1935), and Norbert Elias (1982)(1991), I work with a bi-directional relationship between mind and society. From one direction, the interaction among minds generates and transforms societal formations; from the other direction, those formations channel and shape both the ends people choose to pursue and the means they employ in doing so. Similar to Tony Lawson (1997)(2003), I regard mind and society as both real categories of existence, in that society cannot be reduced to an individual even though a society cannot exist without members. Object-oriented programming offers insight in this respect, as can be illustrated

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[9] Five references that I have found particularly valuable in this regard, arrayed chronologically, are: Alfred Stonier and Karl Bode (1937), Karl Bode (1942), Ludwig von Mises (1966, esp. pp. 1-199), Ludwig Lachmann (1971), and Ludwig Lachmann (1977).

by Mitchel Resnick’s (1994) computational model of a traffic jam. In that model, all cars always move forward, and yet the jam itself moves backward. The jam is an object in its own right, distinct from the individual cars even though it is constituted by those cars. It is the same for the relation between mind and society.

Theorizing about people is different from theorizing about termites or trees, because with respect to people we live inside the objects we theorize about. For termites or trees there is no option but to theorize from the outside looking in, and the only test of reasonable theorizing must be some measure of the coherence between theoretical predictions and observed outcomes. In contrast, the humane sciences can also call upon theorizing from the inside looking out. Indeed, much social theorizing can only be done from the inside looking out. The claim that people seek to be effective in applying means to the pursuit of ends is not a conclusion of outside observation and inference, but rather is a feature of our self-awareness. To be sure, theorizing from the inside looking out is an instrument that must be used with care, for a danger that comes with it is that it can turn into a battle among contending prejudices and intuitions. Yet there are many statements about successful human action that can be rendered intelligible in terms of a pure logic of choice because such a logic maps directly into a logic of successful conduct—and we know from the inside that people do not seek to fail at what they try.

Equilibrium is a sensible even if perhaps peculiar notion to apply to an individual, for it merely signifies coherence in the person’s planned pattern of conduct regarding the employment of means in the pursuit of ends. It is an entirely different matter to apply notions of equilibrium to societies. A society is not an acting creature from which we would expect coherence, but rather is an arena within which acting creatures interact. It's true that societal processes unfold in generally orderly fashion, though not always and never completely. People seek to be successful in action, and have over the years developed various customs and conventions that facilitate such success. While there is a good deal of permanence in social life, particularly over relatively short periods of time, there is also a good amount of turbulence, much of which manifests itself through capital gains and losses. In my view the most foundational features of social life are not repetition, reproduction, and stagnation but are creation, novelty, and turbulence. The challenge for fiscal theorizing, as well as social theorizing more generally, is to render intelligible social life and social patterns in such a setting of continual and turbulent development.

A desire to render social life intelligible in terms of people pursing plans stands, of course, in some contrast to claims that theory should seek to predict societal outcomes. To be sure, next month will be a lot like this month, and from such regularities weak forms of prediction are possible. For instance, it is easy enough to predict that a government that increases its tax on alcohol or tobacco will find that its residents resort increasingly to underground sources of supply. But societal interaction yields much more than this, as illustrated by increased bribery, violence, and disrespect for law. These other consequences are more products of interaction than of direct choice, though in principle they too could be brought under the rubric of prediction. Yet pragmatically speaking the scope of what can be addressed by prediction is narrower than what can be addressed by intelligibility. What we can predict is limited to the availability of externally generated data, while our ability to understand has a wider range. Moreover, prediction is plagued by a problem of knowledge that does not bother intelligibility. One might seek to predict next month's societal patterns based on what people know now. However, as people live they learn, which in turn changes what they do, thus undermining the basis for the earlier prediction. The serenity of steady-state equilibrium gives way to the turbulence of emergent development. Prediction is a reasonable standard for any closed system to which equilibrium pertains. But for an open system characterized by turbulence injected through novelty, the appropriate objective of theoretical activity is to seek to render social life intelligible in terms of people pursing plans within a societal setting.

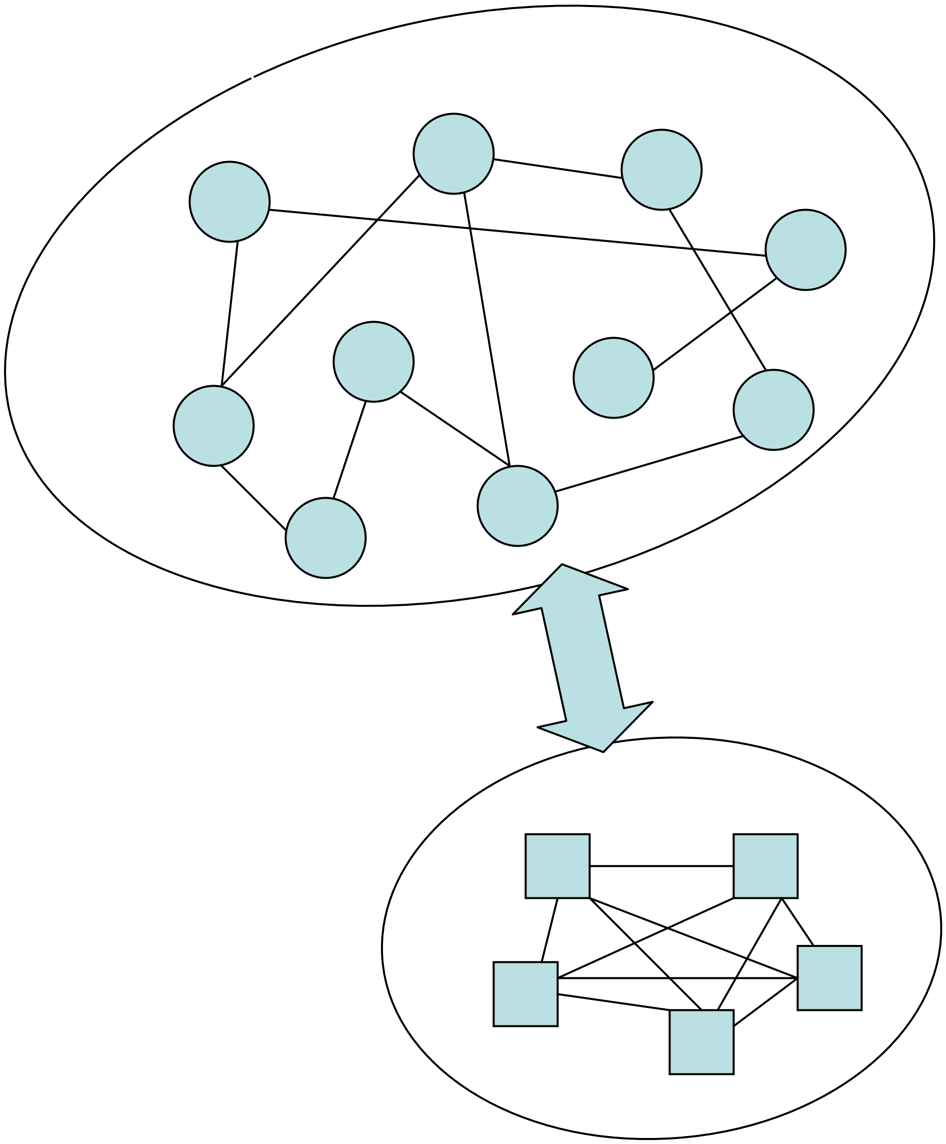

Figure 1.1 Disjunctive political economy

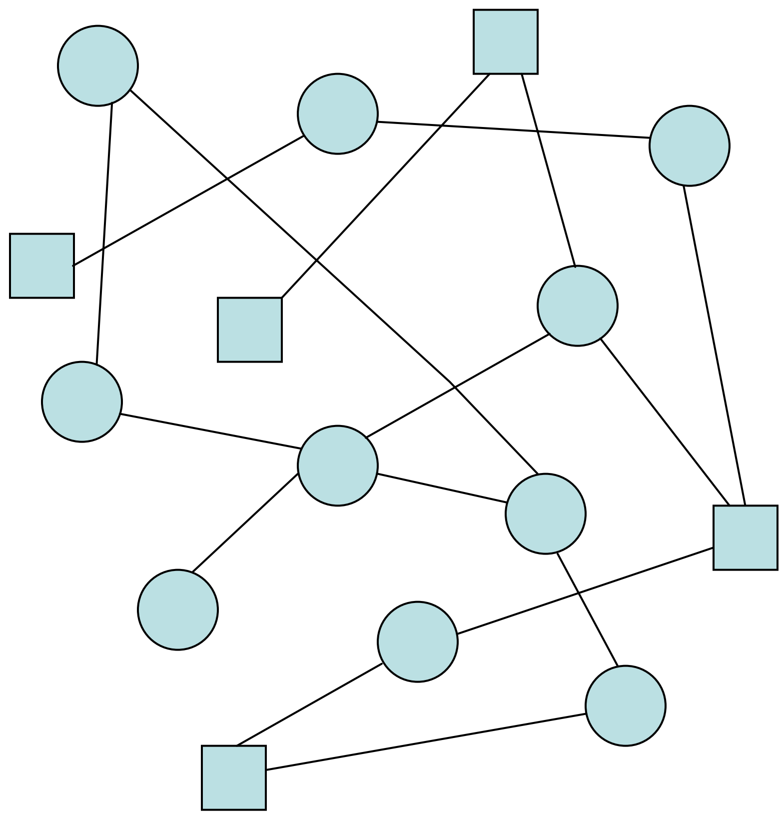

Figure 1.2 Conjunctive political economy