

Promoting the General Welfare: Political Economy for a Free Republic

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The American republic was founded on a vision of the political economy of freedom, to borrow from the title of a collection of Warren Nutter's (1983) essays. That vision combined valuation and cognition into a framework of political economy. Wagner (2002) describes the problem of securing good governance as a form of social agriculture. With respect to real agriculture, many different plants can grow on a particular plot of land. Valuation is necessary for selecting what to grow and what not to grow, but it isn't sufficient. Cognition is also necessary for successful agriculture, as represented by such scientific fields as plant genetics and soil chemistry. After all, valuation not informed by cognition may lead to efforts to grow plants that won't thrive in that soil or climate.

Like real agriculture, political economy also involves both valuation and cognition, only now applied to people rather than to plants. The American republic was founded on the normative vision that people should live together as a society of free and responsible individuals. Within this vision, public officials were servants and not masters and government was based on consent among the governed, and with majority dominance not being equivalent to consent. The American republic was founded as a constitution of liberty. Every society has a constitution in the sense that every society exhibits regular patterns of activity that can be described by some set of rules, just as lexicographers and grammarians describe patterns that people exhibit in their use of language. Only a few societies, however, have had constitutions of liberty. For any idealized constitutional vision to be successful, it must be capable of being regenerated as

time passes, as against succumbing to some process of degeneration. The Founders recognized that continuation of the constitution of liberty they had established was up to future generations. Benjamin Franklin acknowledged this pithily when, in response to a question about what kind of government the Founders had established, he declared “A republic, if you can keep it.”

Franklin’s challenge points to the cognitive component of political economy. An act of valuation might commend a constitution of liberty, but maintenance of such a constitution involves the cognitive faculties in creating a constitutional architecture that will withstand some natural processes of dissipation of which the Founders were well aware. All regimes are capable of retrogressive drift (Wagner 2006a) because human nature carries within itself the seeds of retrogression. Those seeds are of two forms: grabbing power and ceding power. Grabbing power describes what James Madison denoted as the violence of faction in Federalist #10, wherein governing coalitions impose their will on everyone else. Ceding power refers to what Alexis de Tocqueville described as a sickness of the people, wherein people sacrifice liberty for convenience. Such ceding is articulated cogently by Vincent Ostrom (1997) and is described succinctly by James Buchanan (2005) as a fear of being free. It’s also portrayed by Tocqueville in *Democracy in America* in his chapter on democratic despotism, where he describes how political officials can come to regard themselves as shepherds and the people as sheep to be tended.

The American founders framed their ideas within a theory of political economy, even if they did not expressly articulate such a theory. With respect to

such express articulation, James Buchanan and Gordon Tullock's (1962) *Calculus of Consent* was written to set forth a theory of political economy that would render sensible the constitutional architecture by which the American republic was constructed. Similarly, Vincent Ostrom's (1987) *Political Theory of a Compound Republic*, the first edition of which was published in 1971, sought to elaborate further the logic of that complex constitutional architecture. Ostrom describes the American form of the constitution of liberty as a compound republic, which he contrasts with a simple republic. With simple republics there exists a locus of final authority. This locus has been typically described as something like "the people," but in practice this reduces to some position of dominance through the arithmetic of majority rule, especially when combined with Bertrand de Jouvenal's (1961) recognition that simple republics necessarily will have an oligarchic character because genuine deliberation among large numbers of people is impossible. Simple republics are monocentric: they possess a center of authority. In contrast, compound republics are polycentric: there is open and continuing competition among multiple sources of authority. In simple republics rulers govern people; in compound republics people govern themselves. This, anyway, is the idealized vision on which the American republic was founded.

In recent years, political economy has attracted strong interest within the wider community of economic scholarship, as represented by such works as Persson and Tabellini (2000), Drazen (2000), and Besley (2006). This contemporary understanding of political economy, however, has been fashioned with reference to simple republics where a single election is the instrument

through which policy choices are made. This contemporary treatment of political economy is contrary to the understanding that informed the American founding, and is incapable of illuminating the political economy of a free people. The political economy of the founders was a political economy of freedom and limited government; contemporary political economy is a political economy of unlimited government. I shall first explore these alternative frameworks for political economy, after which I shall examine the general welfare principle of the American founding in relation to these alternative visions of political economy. This examination will center on a distinction between leveling and raising as alternative orientations toward the general welfare. While the theory of polycentric political economy that informed the American founding would have embraced a program of raising, the monocentric vision of political economy that is presently in vogue leads almost inexorably to a program of leveling.

Political Economy as a Field of Inquiry

Political economy is a compound term that denotes some form of relationship between the objects we denote as polity and as economy. But what kind of form might that relationship take? What is the process by which this compound is created? Most contemporary thought proceeds in formulaic fashion as illustrated by $\text{Political Economy} = \text{Polity} + \text{Economy}$. This formula tells us that the compound entity is created through addition across entities, each of which has its own principles of operation. By this formulation, polity operates according to some set of constitutional principles while economy operates according to

private property and freedom of contract. Furthermore, polity acts on economy to modify the activities that had been generated within the market economy. Such contemporary treatments of political economy diverge significantly from the vision of political economy that was present at the American founding. The articulation of political economy in a manner that is congruent with a constitution of liberty requires an alternative framework grounded in complexity and polycentricity, and not in simplicity and monocentricity.

In Wagner (2006b)(2007) I described these alternative orientations toward political economy as disjunctive and conjunctive; in Wagner (2010) I identify them as separated and entangled. While the names have changed, the ideas represented by those names remain the same. What I mean by separated political economy is illustrated by Figure 1. There, the squares denote the enterprises located within the polity while the circles denote the enterprises located within the economy. This separated framework entails several significant presumptions. One is that all enterprises in the polity act as a unified entity, or as an organization, as illustrated by the complete graph of connections among those enterprises. In terms of Hayek (1973), the polity is an organization where all participants aim at the same objective. In contrast, the enterprises within the market economy form an incomplete graph, which indicates that they comprise an order and not an organization. The arrow that runs from polity to economy indicates that polity acts on economy, shifting the results of economic activity from what otherwise would have resulted. For instance, a market-generated

distribution of income might subsequently be modified through politically-sponsored redistribution.

The distinction between an organization and an order can be conveyed readily by comparing two familiar social configurations. One is a parade; the other is a crowd of spectators leaving a stadium. Both are orderly, in that people can conduct themselves well within either configuration. The sources of orderliness, however, are different, as befits the differing natures of those configurations. The parade is an organization. The orderliness of a parade is established by a parade marshal. The pedestrian crowd is an order. The orderliness of the crowd results through interactions and accommodation among the members as informed by morals (for instance, courtesy) and conventions (for instance, walking on the right). A political economy suitable for understanding the orderliness of crowds of spectators would be of no use for understanding parades, while an effort to treat spectator crowds as unruly parades that need to be better disciplined would be a recipe for tyranny.

The separated framework of political economy conceptualizes the establishment of market equilibrium as being followed by political intervention to change those market outcomes. Polity and economy thus denote separate entities that act independently and sequentially. Economy is the locus of activity where the first draft of the manuscript of social life is written; Polity is where that manuscript is revised and perfected, or changed in any case, for there are a good number of theorists who argue that the revision is corruption and not perfection. My interest, however, resides not in any qualitative evaluation of

political action but in alternative conceptualizations of how polity and economy combine to form political economy.

The alternative, entangled framework of political economy, which reflects the vision of political economy that informed the American founding, is illustrated by Figure 2. As with Figure 1, the squares denote political enterprises and the circles market enterprises. It is still possible to distinguish polity and economy, as well as to combine them and refer to political economy. The structure of that combination differs in several respects between the two frameworks. For one thing, political entities do not form a fully connected graph among themselves. Polity is no longer an organization; instead, it comprises an order of competing organizations. Furthermore, those political entities do not act on economy as an entity but do so by acting on particular entities within the economy, as illustrated by the connections between particular political entities and particular market enterprises. Still further, action occurs simultaneously in both spheres, whereas in the separated vision political action is subsequent to economic action, as it must be whenever polity is described as acting to correct or perfect market outcomes. The manuscript of societal life is composed in many venues, political and economic, but that composition occurs simultaneously in those various venues, as befits a polycentric process of free and open competition.

Figure 3 illustrates one further point that is significant for my analysis. It can be used to illustrate in an abstract manner a process of regime drift that I will explore more fully below. Panel A illustrates complete separation between political and commercial entities. Furthermore, it shows the political entities as

encircling the economic entities. This formulation corresponds to a classically liberal vision of political economy. We should not, however, associate this pure form with some actual historical moment; Jonathan Hughes (1977) points out in his study of regulation since the Colonial period that there has always been entanglement within the American political economy. At the same time, however, the extent of entanglement when political activity claims less than 10 percent of total output will be much less than when it claims more than 40 percent. Panel B is meant to illustrate an abstract rendition of a snapshot taken after entanglement had been growing for some time: Panel B represents an internally generated transformation of Panel A.

As for the transformation of Panel A into Panel B, think Shakespeare. In particular, his character Jacques's soliloquy in *As You like It*: "All the world's a stage, and the men and women on it are merely players." It's easy enough to gloss that soliloquy from the standpoint of political economy. Unlike staged drama, in the drama that is human life parts and roles are not assigned nor are scripts prepared. The drama is improvised and self-organized, though not chaotic. It's orderly and intelligible, but the order is emergent and not stipulated in advance. Within the classically liberal political economy described by Panel A, political figures are like stagehands. Their efforts are important for the human drama, even essential, but they work behind the scenes all the same. This situation was summarized aptly in the 6th century B.C. by the Chinese scholar Lao Tzu (quoted in Jacobs 1992, p. 157): "A leader is best when people barely know he exists. Not so good when people obey and acclaim him." It's easy

enough to understand how growing entanglement can arise within a constitution of liberty. All that is required are points of mutual attraction between political and economic entities, and with that mutual attraction pulling political entities into center stage, as seen by comparing Panel B with Panel A. A political entity can gain political advantage by forming alliances with some economic entities. Likewise, economic entities can gain competitive advantage by forming alliances with some political entities. Entanglement arises out of this process of mutual interaction.

Panels A and B are meant to illustrate two snapshots of a continuing historical process of growing entanglement between political and economic entities. Jane Jacobs (1992) distinguishes between commercial and guardian moral syndromes. Her distinction doesn't fit completely the distinction between polity and economy, because there can be guardian activities organized within the economy just as there can be commercial activities organized within the polity. Nonetheless, her distinction fits pretty well the ordinary distinctions people have in mind when they refer to polity or to economy, and with growing entanglement speaking to what Jacobs describes as "monstrous moral hybrids." Jacobs's treatment of such hybrids is consonant with Jonah Goldberg's (2008) analysis of the growth of liberal fascism since the Progressive era. As Goldberg notes, fascism can take on various personae. Where some can be brutal, others can be gentle, much as Alexis de Tocqueville described in his chapter on democratic despotism in *Democracy in America*.

The American constitution of liberty has been under assault since the early days of the republic. In *Congress as Santa Claus*, Charles Warren (1932) chronicled the erosion of the general welfare clause between the founding of the republic and 1932. Warren reports (p. 75) that 1867 was the first time money was appropriated for charitable relief, to provide seeds in response to crop failure in the south and southwest. It took some time for such proposals for relief to become common items of Congressional deliberation. Not even the Chicago fire of 1872 elicited an appropriation for relief. But proposals for relief continued to gain favor in Congress, with the burden of constitutional maintenance shifting to Presidential veto, as illustrated by Grover Cleveland in 1887 when he vetoed an appropriation to aid farmers in Texas. By the end of Warren's narrative in 1932, there was no longer any recognized constitutional limit on the power to appropriate.

Warren's chronicle illustrates how the interplay between principle and practice can produce outcomes that were not part of any original intention. In saying this, I acknowledge that there is invariably some ambiguity about the intentions behind the American founding. Within any collection of people there will be multiple intentions in play. A simple comparison between the federalist supporters of the Constitution and the anti-federalist opponents will reveal some of that multiplicity. At the same time, however, what surely comes through most strongly from reading those debates is the underlying commonality in the orientations they possessed toward the place of government in the free society they were seeking to support (Storing 1981). In short, there was universal

recognition that government was a necessary evil in the effort to secure good governance, and most certainly was not an instrument of unalloyed beneficence. Government represented a Faustian bargain: it involved the use of an instrument of evil, force over other people, because it was thought that the resulting good would be worth the evil, provided the instrument were used under tightly controlled circumstances. Warren chronicles the continuing weakening of those constitutional controls.

With respect to the political economy of human governance, there are really only two forms that such governance can take, though each form can take on numerous particular looks. Those forms conform to the terms liberalism and collectivism. The various liberalisms construe polities as orders that contain polycentric arrangements of political organizations. While each organization has objectives, the system itself does not, for it is an arena that accommodates peaceful interaction among the people and organizations within its precincts. People have goals and can even join their goals in corporate organizations, but society is an order of organizations and not itself a goal-focused organization. The American founders saw this societal setting as constituted through a federal republic.

In contrast, the various collectivismisms see societies as having goals, with society being an organization of organizations, as it were. The polity is thus the locus of societal articulation and action. Individual goals and actions must conform to those politically-expressed priorities. A society is to be transformed from an orderly crowd of moving pedestrians, each of whom is aiming at

individually chosen objectives, to a parade, each member of which is performing as directed by the parade marshal. As with any such dichotomy, there can result many variations on both the liberal and collectivist forms. Furthermore, sufficient variation in those forms could even produce the cognitive error of thinking there is a continuum of forms and not a dichotomy, and with this error abetting constitutional drift from liberalism to collectivism (Wagner 2006a).

To hold a liberal preference for self-governance does not guarantee that such a regime will carry the day: this is a lesson that Warren teaches trenchantly, and it is one of the lessons of the vision of political economy that informed the American founding. Liberalism can transmute into some form of collectivism even though there is no general support for this transmutation before it occurs. You cannot go from individual values to collective outcomes by simple addition across people. Recognition of this reality is treated lucidly in Thomas Schelling's (1978) recitation of several illustrations of how collective results of individual action cannot be said to reflect the preferences and valuations of the participants. The situation illustrated by Panel A does not transmute into that illustrated by Panel B at one instant. That transmutation is a process that involves interaction among many people over a long duration, and with no one participant being aware of promoting such a transmutation. This is how it is with emergent processes of spontaneous ordering: individual interactions appear to occur within an invariant constitutional framework, and yet the accretion of these interactions transforms the constitutional framework.

The primary object of interest here is the ability of our conceptual frameworks to influence what we see in the first place. In a widely-repeated joke, an economist is asked why he is kneeling beneath a lamppost. He responds that he is looking for his lost car keys. When asked if he was sure this was where he lost them, he responds that this was not where he lost them, but he can't look where he lost them because there is no light shining there. This joke invariably brings smiles and chuckles, which indicates some recognition of two-edged character of analytical frameworks: they allow us to see some things more clearly, including things that might not really be there, while also preventing us from seeing other things, even those that might be of particular significance. My concern is how different theories pertaining to political economy frame issues in particular ways that highlight some options while obscuring others, especially with respect to the promotion of the general welfare within a constitution of liberty. The predominant theoretical framework almost inexorably construes the task of securing the general welfare as one of the leveling of incomes within a simple republic, as illustrated by Richard Musgrave's (1959) treatment of redistribution through central authority that has shaped nearly all subsequent discourse in public finance and political economy. In contrast, I explore a framework that would promote what I describe as a program of raising, and which comes into view only when it is framed within a framework of political economy that is consonant with the founding vision of the American constitution of liberty.

Leveling and Raising as Alternative Orientations toward Human Welfare

Suppose 100 runners in a 10,000 meter race are distributed across a ten-minute interval by the time they cross the finish line. Someone might think it would be nice if the runners were more closely bunched, say within a five-minute gap. How might this desire be acted upon? There are two ways: the slower runners could be assigned head starts; alternatively, they could be induced to train harder. This distinction between receiving head starts and training harder reflects the distinction I want to make between leveling and raising as alternative approaches to promoting the general welfare. A program of leveling seeks to narrow the range of outcomes by imposing a set of head starts that would produce a closer bunching at the finish. A program of raising seeks to help the weaker runners to become stronger runners. Running is, of course, a quite different activity than participation in commercial life; moreover, people aren't forced to run but they must participate in commercial life. All the same, the distinction points in two distinct directions regarding the social organization of human welfare and flourishing. A program of raising seeks to improve bad performance; a program of leveling seeks to increase the rewards that accompany bad performance while reducing the rewards that accompany good performance.

It is well recognized that the same set of people can generate different outcomes depending on the institutional framework within which they interact. Indeed, this was the central theme of Schelling (1978). The observation surely pertains to the social organization of welfare just as it pertains elsewhere. Simple

observation throughout the world shows that flourishing is not an inexorable condition of social life, but rather is a contingent feature. Some institutional frameworks are more consistent with flourishing than other frameworks. A telling illustration of this effect of institutional frameworks is a widely-viewed satellite photo of the Korean peninsula at night, where the south is brightly illuminated and the north is mostly dark.

How do theories of political economy relate to leveling and raising? Contemporary political economy is based on patterns of thought that make leveling appear almost automatically as the only way to proceed. Politically, the theoretical framework posits a singular locus of authority, in contrast to a constitution of liberty. Economically, the common framework presumes that observed incomes reflect the best efforts of people to transform their talents into income. People are presumed not to misuse their talents, so low income means that those well-used talents are not highly valued by other people. Poverty is thus something that can't be addressed by individual effort and can only be addressed through systemic reform, as illustrated by a program of leveling.

Francis Edgeworth (1897) asked whether a despot could increase total utility within a society by redistributing income, and both his question and his answer has informed programs of leveling ever since. Edgeworth's baseline answer was that leveling would increase total utility in the presence of diminishing marginal utility of income. Edgeworth also offered a proviso which came to inform an extensive literature on what is called optimal taxation, a literature that is surveyed in (Mirrlees 1994). That proviso entailed recognition

that leveling could also reduce the income that people generate, with this recognition operating to limit the extent of leveling.

This formulation entails the presumption that the utility from living is separable in consumption and effort, with consumption entering positively and effort negatively. This formulation might appear innocent enough as a blackboard exercise, but it is not so innocent when it is thought to offer insight into the goodness of societal practices and institutions. Among other things, it holds that the best life one can have is to gorge on consumption while doing absolutely nothing, as illustrated by some hugely rich playboy or playgirl.

But is the diminishing marginal utility of income a reasonable analytical construction to use in appraising institutional arrangements and societal conventions? If we apply this construction to athletic contests, we would have to conclude that games that end in ties are superior to those that have winners and losers. As compared with a tie, the pleasure gained from winning over tying is less than the humiliation suffered by losing in place of tying. That people regard ties as something to be avoided suggests the weakness of treating consumption and effort as separable, as Wagner (2007, 189-96) explains. The alternative is to treat effort and consumption as together comprising a unit of meaningful activity. For instance, some people might enjoy a snifter of cognac together after a day of rock climbing (Loewenstein 1999). It would be mistaken to treat rock climbing as the effort that produced the ability to consume the cognac, for this would imply that it would be better just to have the cognac without first climbing the rock. But climbing the rock and sharing the cognac form a non-separable unit of the

participation in life that provides the basis of social organization. The wholeness of that participation cannot truly be separated into parts even though for some purposes it might be useful to focus attention on one thing or the other. This raises the question of how to participate effectively in the economic life of a society? If such participation is not a type of involuntary reflex like breathing but rather is something that is learned and acquired, it is reasonable to ask how different institutional arrangements promote or impede that acquisition. The extent of flourishing, or of languishing, within a society would then be mediated through those institutional arrangements.

Wants and Activities in Relation to Leveling

The political economy of levelling divides a society into two sets of people: those from whom taxes are taken and those who receive transfers. This division corresponds to the commonplace distinction between “haves” and “have-nots.” If one were to ask what it is that the haves have that the have-nots lack, the standard answer would be income, or perhaps wealth. This follows from the formulation which holds that people are identical in all relevant respects except their ability to convert their natural talents into income. Everyone necessarily performs to their full capacities in the conduct of their lives, but some people just have more talent for transforming effort into income. One troubling feature of this analytical framework is the irrelevance of history to the conclusions reached about individual conduct. The orthodox presumption is that it is meaningful to compare positions people hold today without taking into account any information

about how they came to attain those positions. This is hardly a sensible procedure once it is recognized that income today is a product of past actions, and that the quality with which one employs one's talents is a variable that to some extent is open to personal choice as well as subject to influence through societal institutions and public policies.

An alternative possibility, which is precluded by this standard formulation, is that the haves and have-nots can also differ in such qualities as attitudes, orientations, and activities, and with those qualities exerting a significant impact on income. Consider a variation on Henry Fawcett's (1871) tale of Robinson and Smith. Each started at the same point in life in similar occupations earning similar amounts of income. Robinson spent all of his income, a good part of it on amusement. Smith saved part of his income, and put a good part of the remainder into personal improvement. As the years passed, Smith advanced into higher paying positions while Robinson stayed pretty much where he started. The incomes of the two diverged increasingly with the passing of time. If the two were compared after, say, 30 years, Smith could well be judged to be a have who should be taxed to support Robinson, who is a have-not. Yet the difference between the two is only a reflection of the different choices they made over the preceding years. Robinson could have been less of a spendthrift and saved more in preceding years, as did Smith. Alternatively, Robinson might have been more energetic in his job and hence received similar advancements to what Smith received. However those comparative histories might have unfolded, an

observation of comparative income positions in one particular year provides no information about how those people came to hold those positions.

It is worth noting in this respect that the theory of consumer choice, which is the typical point of departure for economic theory, starts with consumers having endowments that they apportion among objects according to their valuations and the prices of those objects. This analytical framework allows people to differ in two respects: (1) in their preferences for different items of consumption and (2) in their endowments. With such a point of analytical departure, it seems almost inevitable that analysts would probe the merits of differential endowments among people, as illustrated by the literature on optimal taxation. A program of levelling seeks to redistribute endowments that themselves exist independently of human effort.

Don Pantinkin (1965) makes a vital distinction between individual experiments and market experiments. There are many individual experiments that cannot be generalized into a market experiment. For instance, an individual can be faced with a higher tax rate. A society, however, cannot because it would be necessary also to take into account the use of the revenues collected by the tax. Similarly, an individual can be given an endowment, with the subsequent actions observed or theorized about. A society, however, cannot be given an endowment because there is no source to supply that endowment. For the individual experiment, the endowment can come from other people through taxation. But for a market experiment there is no source to provide an endowment. Hence, consumption cannot be an endowment for a society even

though it can be an endowment for an individual. At the societal level, the standard of living is not an endowment but rather is a product of a social ecology of interacting efforts.

The political economy of levelling contains a subtext that directs the conferral of sympathy within a society toward those who have little, and with levelling transfers being a collective expression of that sympathy (Hochman and Rodgers 1969). Having low income is a sufficient condition for receiving sympathy and transfers, as this condition is an imposition of nature and not a consequence of choice. As an individual experiment, such a direction of sympathy is probably of little consequence. This inconsequential character evaporates, however, when we move to the societal level of market experiment. If there is any sympathy to be doled out based on analytical reasoning, perhaps it should be given to those who undertake suitable efforts that contribute to societal flourishing rather than to those who act in dissipative and improvident fashion. To be sure, this might be a difficult and contentious distinction to make, for it unavoidably becomes involved with efforts to bring moral distinctions to bear on different patterns of life, as Gertrude Himmelfarb (1983)(1992) illuminates brightly.

Raising as an Alternative to Leveling

The political economy of levelling precludes from view any possibility that the content of the moral imagination (Himmelfarb 1992) can be influenced through social institutions and political programs. This analytical framework

means in turn that people individually bear no responsibility for their positions in life, because the conduct of life is a natural talent that everyone possesses in equal degree in light of their genetic endowments. To claim scope for societal sources of influence is not to deny the importance of genetics. It's even possible to assign primary significance to genetics while still maintaining room for societal influence. The presumption of a blank slate (Pinker 2002) can be avoided without denying the ability of environmental situations to influence the content of moral imaginations. For instance, it seems to be well recognized that children, young boys in particular, who grow up without fathers present are typically less suited to market activity than other children (Pruett 2000).

A program of raising would commend a different locus of sympathy and obligation than would a program of leveling. The language of obligation speaks to who owes what to whom. The political economy of leveling holds that the haves are obligated to support the have-nots. This pattern of obligation arises because the haves and have-nots are presumed to differ only in endowments that are not of their making. In contrast, the example of Robinson and Smith points to a different and more complex locus of obligation because present circumstances are a product of past choices and actions. As compared with Smith, Robinson made choices that led to his standard of living increasingly to sink relative to Smith's. Rather than Smith being obligated to Robinson, it is surely reasonable to ask why Robinson isn't obligated to Smith to avoid becoming a possible burden. Why doesn't the obligation run in terms of people striving to avoid becoming a

have-not? A concern with raising and flourishing would surely seek to use Smith and not Robinson as an exemplar for the conduct of lives.

To be sure, the story of Robinson and Smith is only one of many that could be told. That story concerned people who at one time were in reasonably similar circumstances but who made choices concerning the conduct of their lives that led in divergent directions. Other stories could be told of different initial starting points, perhaps as illustrated by boys growing up without fathers present. Such different starting points are nonetheless consistent with the acceptance of a sense of obligation to conduct one's life in a responsible manner, which would mean in turn seeking to be a positive contributor to life in society. Difficult circumstances will always be in play, and those circumstances pretty much invariably invoke sympathetic responses through charitable activity.

Self-respect is surely a reasonable quality to find among the members of a flourishing society, and is surely something that is acquired through activity and not through consumption, as recognized by Lawrence Meade (1986). A society does not attain the quality of being flourishing independently of the actions of its members but rather attains that quality as a result of those actions. Flourishing is a product of activity and not of consumption. It is flourishing that makes consumption possible. What this suggests is the value of an inquiry into the relation between welfare and flourishing because flourishing is a product of activity and the impact of activity on character.

To speak of self-respect is to bring raising into the analytical foreground; however, raising cannot be accomplished without active participation by the

person being raised. Raising requires changes in patterns of conduct, so raising involves relationships among participants that are not necessary for levelling. Raising is complex and difficult; levelling is simple and easy. The monocentric orientation that accompanies the political economy of a simple republic assimilates readily to a program of levelling. Leveling is a simple program to pursue. All that is necessary is for government to tax some people and distribute the proceeds to other people. It is obvious that governments possess the knowledge necessary to do this.

It is different with a program of raising because raising involves complex patterns of interaction. Raising is a complex quality of a system of human relationships and not a simple product of taxing-and-spending. Leonard Read (1958) explained that no single person knew how to make a pencil. The production of pencils is a systemic property of human interaction within an institutional framework grounded in private property and freedom of contract. The social arrangements that support the production of pencils are complex, even though it would be a relatively simple matter for a government to impose a tax on the sale of pencils. While governments can tax pencils, they can't plan their production, though, of course, they could always conscript pencils from people who have produced them. A program of raising is like the production of pencils in that it requires complex patterns of social cooperation that are incapable of being duplicated by any single person or agency. Raising is a systemic property of a constitution of liberty and not something that can be systematically attained through policy planning.

Institutional Requisites for Raising

It is easy enough to state the central idea behind a program of raising: it means helping people to become more effective at making their way in society. While this idea is easy enough to state, it is not easy to implement. A program of raising requires the use of knowledge that is not fully in the possession of any particular person, and involves instead institutionally structured coordination among multiple participants (Hayek 1945). In such settings of complex phenomena (Hayek 1967), the use of knowledge is more a matter of supporting open processes of experimentation than of assigning choice to one central source of authority. The knowledge required to level is simple and readily available, so governments are capable of pursuing a program of levelling. In contrast, the knowledge required to raise, like the knowledge required to produce a pencil, is distributed throughout a complex network of human relationships and can be put to use most effectively within a polycentric political economy of open competition among ideas and programs.

Among other things, a program of raising requires programmatic distinctions to be made between good and bad choices, and also requires a resolve to act upon that distinction. James Buchanan's (1975) articulation of the Samaritan's dilemma explains why a central authority is likely to pursue a program levelling even if it knew how to pursue raising, which it doesn't. While the Samaritan understands that a decision to offer aid now will lead to an increased volume of disability in the future because such aid reduces the cost of

bad choices by potential recipients, the Samaritan offers aid anyway. When a position of central authority is present, that authority bears responsibility for the denial of aid and whatever might follow from that denial. It is different in a polycentric system where there are multiple authorities and not a central authority. Polycentricity reduces the force of the Samaritan's dilemma because no single denial is ever a final denial of support. This situation surely lends credibility to requirements by potential donors that potential recipients change their conduct in ways that will improve their ability to support themselves.

Monocentric governments have difficulty making credible commitments about offering or withholding aid because this form of government possesses a grantor of last resort. In contrast, a polycentric system of genuine federalism has no position of a grantor of last resort. Credible commitments with respect to offering or withholding aid are more likely within a system of genuine federalism because a rejection of support by any particular donor does not close the door on possible support elsewhere. Hence, the force of the Samaritan's dilemma is likely to be weaker (Wagner 1989, pp. 170-73). One Samaritan in a system with many Samaritans will never be in the position of being the last option for a supplicant seeking aid. Since raising requires actions by the recipient as a condition of receiving support, the possible denial of support by a potential donor is a more credible possibility in a polycentric system of Samaritans than in a monocentric system where there exists a Samaritan of last resort.

The distinction between good and bad choices is easy enough to make at an abstract level: good choices are those that lead to flourishing life styles while

bad choices lead to debilitation and destitution. But that abstract character leads to numerous difficulties at the level of practical implementation. Early in life, families are the crucible in which the moral imaginations of children are shaped. Some parents pay attention to this and do it well, other parents don't. Political processes aren't at all adept at supervising or policing parental action, and children cannot be said to have chosen their characters or the contents of their moral imaginations. While Hillary Clinton's (1996) claim that it takes a village to raise a child raised a fair amount of controversy, it was accurate all the same. What was not accurate, however, was the presumption that the ideal village operated in hierarchical fashion much like a Health and Human Services bureaucracy, in contrast to the polycentric operation of a genuine village.

If we ask whether the status of being a have-not is a natural condition or is self-inflicted, as it was for Robinson, the reasonable answer is that both sources are present and with the relative significance of those sources differing among people. Robinson became a have-not by choice. A woman who has several children while living on welfare and without a father present similarly had choices. Her children, however, will typically face greatly restricted options regarding the mental and moral orientations they are likely to possess as they enter adolescence and adulthood (Pruett 2000). As always, there are two types of errors in this situation: one error is to aid the Robinsons when they had the capacity to be like the Smiths; the other error is to fail to aid those Robinsons who had no capacity to be like the Smiths. Furthermore, it is misleading to characterize these errors simply in terms of an amount of aid, for this is the

approach of levelling. The aid that accompanies a program of raising involves relationships aimed at promoting the acquisition of orientations and talents that would contribute to flourishing. There is no recipe for perfection in the face of such matters of multi-dimensional complexity.

It is here where the political economy of the compound republic (Ostrom 1987, 1997) comes into play. A compound republic can accommodate multiple sources of experimentation, which is particularly valuable in the presence of complex phenomena (Hayek 1967). The distinction between simple and complex phenomena is vital in this respect. Leveling is a simple program that can be described by just two elements: (1) a distribution of tax extractions and (2) a distribution of transfers. It is easy to implement levelling. In contrast, raising is a complex program that has numerous components that can be combined in myriad different ways. Each of these combinations represents a different approach to raising. The elements involved in raising can be combined in different ways to generate a huge number of distinct programs. This is a feature of the combinatorial arithmetic that pertains to complex phenomena. Suppose you ask how many different ways you can combine 13 cards out of a deck of 52. The answer exceeds 635 billion. If a program of raising were to involve combining 13 components out of 52, you would likewise have over 635 billion distinct programs of raising.

Raising is predicated on the presumption that those classified as have-nots differ in qualities that render them less effective in participating in the economic life of a society, in contrast to the presumption on which levelling is

based, namely, that everyone invariably does the best they can with their talents, and it just so happens that some talents don't pay well. Hence a program of raising must address numerous elements, each of which speaks to the use of talents and each of which can be combined in numerous distinct ways. For instance, the treatment of fatherless boys is but one of many elements that would have to be combined to comprise a program of raising. But that element has various forks that generate still more options, as does each of the other elements. For instance, one fork might concern whether to treat fatherless boys by leaving them with their mothers or by putting them into foster care. But each of these options leads to other forks in this road of complex possibility. The branch where the boy stays with the mother, for instance, could differ depending on whether the siblings are boys or girls, and also on the numbers involved. The branch where foster care is the option likewise might differ according to whether the home is proprietary, church operated, or an in-tact family. In the presence of such complexity, open experimentation is the best procedure we know for generating knowledge, as explained by the essays in Bergh and Höijer (2008). Such openness of experimentation, I might add, has nothing to do with central government grants for local programs, for such grants operate to restrict rather than to promote experimentation because they specify in advance particular branches that must or cannot be explored.

In a similar vein of thought, Elinor Ostrom (2005) explains that private property is likewise a complex phenomena that is composed of several building blocks that can be combined in numerous distinct ways. She identifies seven

distinct types of rules that constitute private property, and with each of those rules capable of taking on numerous particular configurations. For instance, there are position rules that identify the participants in a particular situation, boundary rules that establish the connections and relationships among participants, and choice rules that establish what actions are open to the different participants. Suppose for each of these seven sets of rules there are five particular ways those rules can be structured. In this case there will be $5^7 = 78,125$ particular paths by which private property can be established.

Economists and perhaps social scientists generally, fail to appreciate how fully it is that unarticulated practices contribute to the generation of patterns of individual action that would be denoted as beneficial. Until recently in the US, for instance, commerce operated under the doctrine known as “hire at will,” which entailed the ability of employers also to fire at will. To be sure, it is costly for firms to replace employees, so firing typically would not be an arbitrary action. Yet this doctrine surely operated in the direction of promoting generally beneficial patterns of conduct. Someone who is fired for being too often late to work might be induced to acquire some discipline by setting an alarm clock or by refusing to carouse so late into the night. Even if that person fails to acquire such discipline, other people will be induced to do so to avoid suffering a similar experience. As that doctrine has been overturned through legislation and judicial ruling, it has become more costly to dismiss employees. We may expect such rulings to weaken the forces of self-discipline by weakening the connection between

actions and consequences (Schelling 1984), as would the offer of higher payments for being unemployed.

Many issues turn upon whether people make bad choices or are victims of misfortune outside of any reasonable prevision, as addressed by Milton Friedman's (1953) examination of the relative roles of choice and chance in the determination of personal incomes. A reasonable answer would be that both are in play and, moreover, that there is no foolproof recipe for making relevant distinctions and judgments. It is surely reasonable all the same to think that the ability to make such judgments requires particular knowledge of particular circumstances pertaining to the different potential claimants. This knowledge is more likely to be distributed throughout a polycentric system than to be possessed by some central authority. A system of free and open competition can incorporate such distributed and localized knowledge that is largely excluded from national action because such knowledge is generated through the processes of experimentation within a system based on open competition (Vihanto 1992).

Time preference offers a good vehicle for some of these matters pertaining to flourishing and of the impact of institutionally-structured practice on the ability of people to flourish. One central feature of the conduct of life is recognition that all action is aimed at the future. That future is discerned via an act of imagination that people can project with sharper or weaker discernment. Edward Banfield (1958)(1970) argued that poverty was significantly a matter of

how people projected themselves onto the future, with high time preferences representing weak projection.

With respect to the story of the three little pigs, two of whom were eaten by a wolf in consequence of their weak projection, we come to a fork in the road regarding efforts to prevent such situations. One fork would be to build brick houses for those pigs. This would be a program of levelling, and would surely promote a lowering of time preferences within the society, and would likely prove impossible all the same. The other fork would rely upon sad stories about eaten pigs to induce more sober and far-sighted action by the remaining pigs. This would be a program of raising. Such a program seems almost impossible within monocentric polities because the burden is too much to bear for a Samaritan of last resort. For any particular Samaritan within a polycentric set of Samaritans, however, it is imaginable that such experimental processes will operate and institutionalized practice within that society will operate more fully to promote human flourishing within the society because the talents and capacities at play among the members of that society became more congruent with the requisite conduct necessary for flourishing.

Concluding Remarks

Discussions regarding the political economy of welfare are dominated by propositions about the desirable extent of levelling to be pursued collectively within a polity. Perhaps the main thing that can be said in support of a program of levelling is that it lies within the competence of governments, because the only

type of competence that is involved is that of taxing and spending. A program of levelling embraces the presumption that all members of a society are inescapably doing the best they can to promote their flourishing, thereby contributing to societal flourishing. The cardinal presumption here is that the haves and the have-nots differ only with respect to the income they have, and with that income having nothing to do with previous choices they made or actions they took. Once it is recognized that those choices and actions matter, the implications of levelling for the types of choices and actions that people make must be explored. This exploration leads into a consideration of a program of raising as an alternative to levelling. A major difficulty with raising is that there is no easy formula by which to pursue such a program. Levelling is easy to pursue; raising is a difficult and complex process that is filled with unknowns and uncertainties. While there is no simple formula by which a program of raising can be implemented, there is good reason for thinking that the openly competitive process of a polycentric system that can accommodate experimentation and variation is the best way possible for proceeding with a program of raising and flourishing.

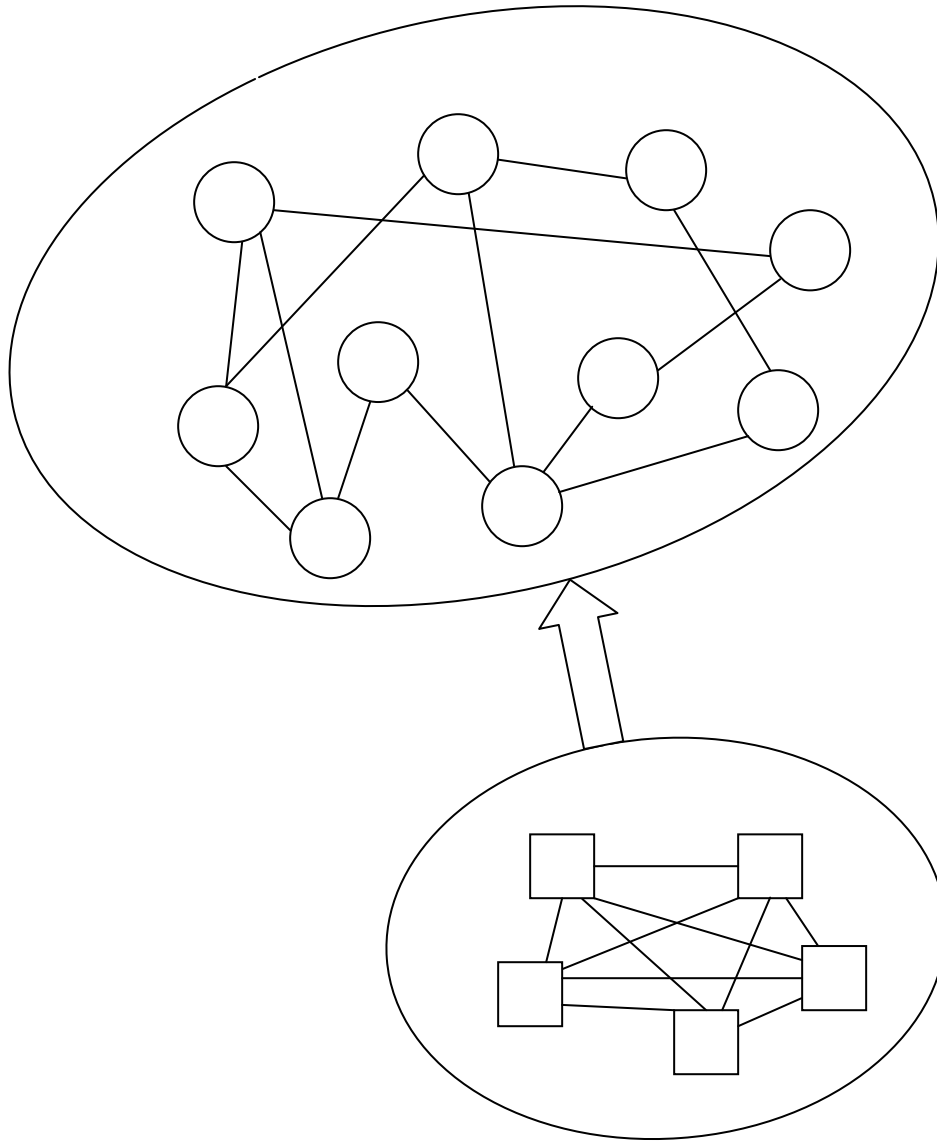


Figure 1: Separated Political Economy

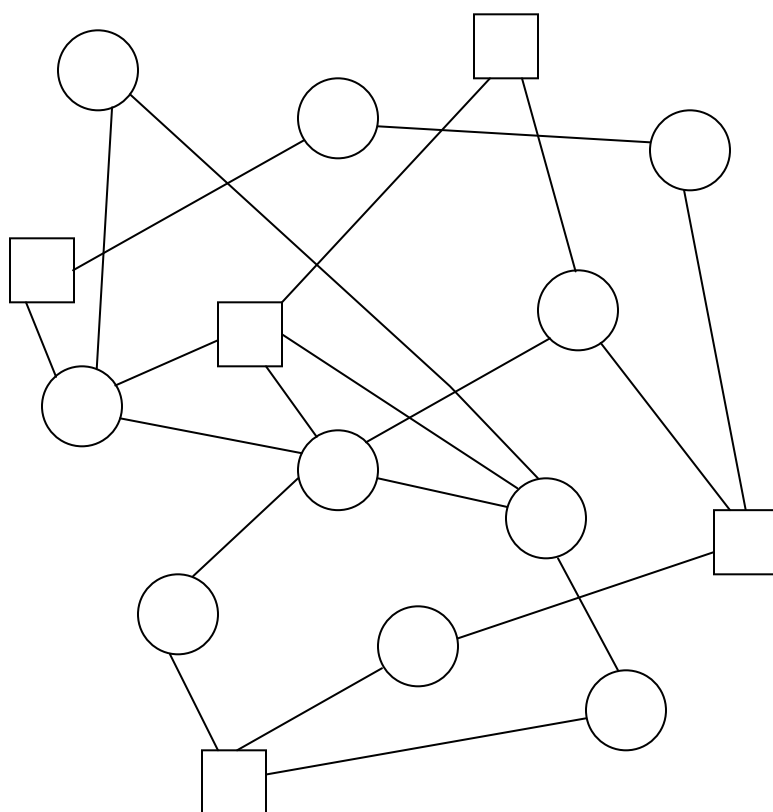
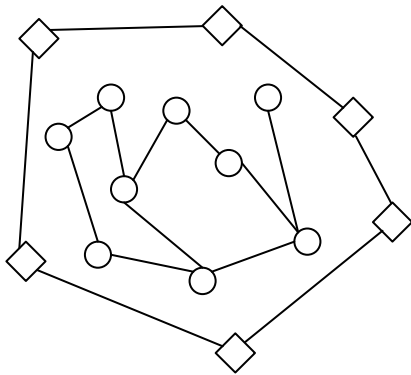
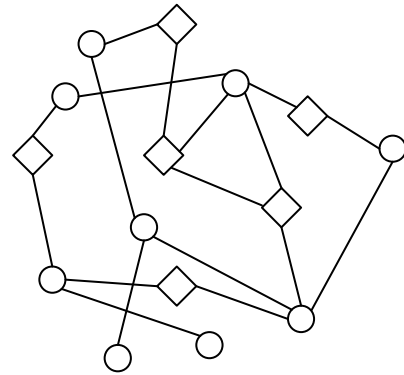


Figure 2: Entangled Political Economy



A



B

Figure 3: Alternative Forms of Political Economy

- Market enterprises
- ◇ Political enterprises

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