

Conti-Brown, given his critical discussion of independence, to engage with the literature on liberalism and sound money, on rule of law and monetary constitutions, and on the knowledge problem and the failures of central bank technocracy.

Ari Blask
Cato Institute

Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy

Richard E. Wagner

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Over the past few decades, insights from complexity theory and networking analysis have increasingly infused the social sciences. A complex economics perspective stresses the interactional processes between heterogeneous individuals, fallible yet capable of seeking exchange advantages and whose actions unfold in both time and space.

Despite the growing popularity of complexity approaches in economics, it is reasonable to suggest the subdisciplines of public finance and public-sector economics have been, and still remain, largely immune to process-oriented thinking.

The exclusion of complex systems approaches from public economics is illustrated by how fiscal policy action is treated in most textbooks. Convention paints the comparative static portrait of an omniscient, benevolent planner aloofly injecting tax and subsidy interventions into markets, which allegedly fail to achieve optimal resource allocations or desirable distributional outcomes.

The work of George Mason University economist Richard Wagner directly challenges that orthodoxy. He emphasizes an evolutionary political economy wherein commingled economic and political actors all interact on the same social plane. Wagner's new book, *Politics as a Peculiar Business*, is the latest in his longstanding attempts to illustrate an alternative approach to fiscal theorizing and political economy.

What is most refreshing about *Politics as a Peculiar Business* is the intellectual honesty with which Wagner depicts economic and political life in the contemporary age. Breaking down the conventional vision of bifurcated economic and political spheres, he sees a

remarkable similarity of observed behaviors regardless of institutional setting: “Political entities compete among one another just as do market entities, and with political and market entities also engaging in both competitive and collusive activities.”

Although the pro-social *Homo sapiens* regularly demonstrates an inclination to compete and collaborate with one another, whether in a market or political setting, Wagner believes that the incentive structures within the economic and political spheres greatly differ.

Market participants try to create and realize economic value given the existence of private property, relative prices, and monetary profit-loss signaling. Politicians, on the other hand, seek prestige and fame, oftentimes by attempting to secure a policy legacy for themselves, and they do so in the absence of property rights, prices, and monetary profit and loss.

Furthermore, interaction between individuals in the market generally consists of mutually beneficial, value-added exchanges undertaken voluntarily. Wagner labels this “dyadic exchange”; they are the kinds of “win-win” economic interactions lauded by classical liberals as conducive to economic prosperity and social peace.

By contrast, there is a sense in which the politician and the beneficiary of a political act (say, a recipient of a tax break or a subsidy) engage in a somewhat loosely described “transaction,” but affected nonbeneficiaries (typically a taxpayer forced into the given fiscal arrangement) lose out as a result. This “win-win-lose” configuration is denoted as a “triadic exchange,” which tends to become more prevalent as the public sector expands.

The reality of extensive economic-political commingling enables Wagner to introduce the reader to his key concept of an “entangled political economy,” in which “prudent commercial conduct cannot be determined independently of the desires expressed by political entities” and vice versa. From the vantage point of network theory, entangled political economy can be interpreted as a nonrandom and scale-free assortment of nodes and connections between economic and political actors.

Whether it is an entangled political economy or a political economy governed by a “constitution of liberty,” Wagner insists the observed configuration of political economy represents a *spontaneously ordered* process, framed as the by-product of purposeful human action but not necessarily intentional design. Wagner perceives an entangled political economy as a framework that “accommodates

recognition that societies change only through individual action within those societies, and with those actions spreading within the society according to the receptivity of other members of that society to those changes.”

The properties and implications of the entangled political economy are profound. Legislatures in entangled political economy can be perceived as “bazaars” through which the “peculiar business” of state takes place: “Parliaments don’t produce goods and services for customers, but rather serve as intermediaries between people who are seeking support for their enterprises and people who have the means to support those enterprises. It is in this setting that parliamentary assemblies are peculiar forms of investment bank, in that a good deal of parliamentary intermediation is forced and not voluntary.”

Keeping up with this metaphorical depiction of legislative bazaars, the political representatives deciding how fiscal resources are redistributed may be conceptualized as “stallholders” at the bazaar, whose positions are determined by periodic elections for political office. The stallholders’ “stock,” redistributed by the political stallholders, is originally procured by force from beleaguered taxpayers involved as third parties in unceasing triadic exchanges.

The supply and demand for political favoritism raises the question: How does “peculiar political business” affect the relative risk and rewards associated with undertaking productive activities? In practice, answering this question has taken on some urgency as the public discourse increasingly points to crony capitalism as a determinant of both excessive inequalities and suppressed opportunities within the United States and elsewhere.

Public choice theorists have long depicted processes in which market suppliers and other participants within civil society secure advantages by petitioning governments for fiscal and regulatory favors. Politically obliging rent-seeking petitioners with favorable deals ensures that “property rights are not absolute and invariant, but rather denote social relationships that are subject continually to margins of contestation and potential change.”

Wagner suggests the tendency to seek particular benefits and favors through the political realm is magnified by the centripetal tendencies of power within modern Western polities, a concerning trend even in the United States given its much-venerated tradition of robust, competitive federalism.

From the perspective of network theory advanced in *Politics as a Peculiar Business*, policy centralization is depicted as an evolutionary transition from polycentric to increasingly monocentric arrangements of political offices. This transition, in turn, implies fundamental changes to the character of public governance: “Increases in the scale of governance bring oligarchic characteristics, including domination by entrenched interest groups and an electoral process characterized more by the continuing reelection of incumbents than by competition among political parties.”

Holders of concentrated power seek to retain their advantages, thus the task to both decentralize and disentangle the economic and the political spheres will continue to be a most formidable one in practical terms.

Undeterred by the magnitude of such a task, Wagner outlines the key principles in the quest to reassert a liberal order, including constitutional limitations upon government and institutions to suppress the outbreak of special interests. In Wagner’s words, “the task would seem to require both parchment and guns, that is, both knowledge pertinent to the task and rightly aligned desires and incentives to act consistently with that knowledge.”

Dedication (or, in the contemporary case, a rededication) to the principles of limited government, as inscribed on constitutional “parchment,” is necessary to frame widespread societal expectations about the functions of public-sector activities. The elucidation of constitutional controls also promotes the accountability of politicians to nonpolitical actors within the context of democratic forms of government.

Although people have the capacity to learn about the abuses and misuses of government, and accordingly guard against these through constitutional agreement, Wagner astutely notes that “while parchment paper is stronger than ordinary writing paper, it is not sufficiently strong to deter rapacious interest groups from using government as an instrument of predation.”

In addition to a constitutional declaration of governmental limitations, institutional structures can help ensure politicized self-interests exhaust themselves into an impasse without harming voluntary economic interaction. Those self-interests can be harnessed in the generalized interest of promoting public well-being. This is where the reassertion of polycentric modes of public governance, such as competitive federalism, step into the picture, as well as the need to

revitalize institutions such as cross-checking legislatures, legislative-judicial separability, and so forth.

Wagner also emphasizes the importance of ethical norms that shape whether interacting agents endorse contract or status as the major operating principle within political economy. Recalling the sociological insights of Italian theorist Vilfredo Pareto, Wagner argues that even highly discriminatory political processes can acquire a begrudging tolerance among the populace, insofar as politicians successfully invoke nonlogical sentiments as persuasive rationales for their economically meddling actions. In this context, taxing, subsidizing, or regulating private economic interactions may be rationalized by the political class and special interests as “altruistic” acts of caring about redressing certain issues, even if evidence supporting the effectiveness of public interventions is often found wanting.

It is conceivable that, as the domain of collective action continues to gradually take precedence over noncollective action, the influence of beliefs, ideologies, sentiments, and values in political argumentation will keep growing in importance. Wagner cites “the language of welfare economics and economic policy . . . [treating] . . . all political entities as all-encompassing instances of ‘we.’ . . . Perhaps such ideology repeated again and again comes to be accepted. If so, the stage is surely set for an expansion of the reach of the political within society.”

Wagner also suggests diminishing freedom in an entangled political economy is tied to an expedient rejection by larger numbers of people of exercising individual responsibility. As he explains, “participation in cooperative association . . . requires that people pull their own weight. Responsibility for one’s conduct is a concomitant of liberty, and it’s conceivable that some people will regard the cost of responsibility as too high relative to the value they place on liberty, and so opt for servility.” If the propositions raised here are correct, the ongoing challenge for classical liberal advocates will be to also enunciate the case for economic-political disentanglement framed in new and attractive “nonlogical” ways that inspire people to support extended liberties and the responsibilities inextricably associated with them.

Wagner teaches us that the human capacity to truck, barter, and trade remains unquenchable; politicians are not alien interventionists designed to reign over the rest of us; and society is an emergent by-product of ongoing interaction between people situated in market

and political realms. These are important lessons for public policy practitioners and scholars alike, especially if they have been deeply versed in the idea of public finance as a mode of top-down social control.

Replete with original insights, and combined with mainline political economy themes from Adam Smith onward, *Politics as a Peculiar Business* stands as a monumental work for realigning our core understandings about complex human action in multifaceted social realms.

Mikayla Novak
Institute of Public Affairs
Melbourne, Australia

Who Cooked Adam Smith's Dinner? A Story of Women and Economics

Katrine Marçal

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John Maynard Keynes once wrote of Hayek that one of his arguments was “an extraordinary example of how, starting with a mistake, a remorseless logician can end up in bedlam.” Katrine Marçal’s *Who Cooked Adam Smith’s Dinner? A Story of Women and Economics* is a nice example of how an author can actually start with a correct observation, yet also end up in intellectual bedlam. The correct observation at the heart of Marçal’s book is that economics has, historically, paid far less attention to the household and family than it has to the market, and that, when it has examined the family, it has frequently done so through a framework that is too narrow to really capture how the institution works. From that truth, she begins her path toward bedlam by laying blame on economics for constructing itself around the hyperrational, self-interested, and very masculine, “economic man,” which she thinks has blinded the discipline to women’s concerns and other forms of behavior more associated with women. As a result, economics fails at understanding a world containing men and women with a wider range of motivations and personalities, which, in turn, she believes, undermines the case for the market.

Her title gets at the core of her argument: Adam Smith invented modern economics by creating the idea of “economic man”—who is, in Veblen’s terms, “a lightning calculator” of his self-interest—and