

Emergent Politics and the Power of Ideas

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Abstract: The advent of public choice throws a wrench in the Hayekian vision of an order/market vs. organization/state dichotomy. Politics are emergent just as markets are. The simple argument that markets are decentralized knowledge-aggregators and politics are not is no longer prima facie acceptable. The fundamental problem thus needs to be restated as a comparative institutional one. This paper argues that markets have tight feedback from the extended order, while politics do not, and thus that ideas matter more in politics than markets.

I. Organizations and Orders

F. A. Hayek's recognition of the spontaneous character of market order dispels any illusions of "social ends." Markets emerge from and inform purposive activity; they are not themselves purposive. Hayek criticizes socialism and social justice on the grounds that they treat society as a purposive organization (Hayek 1973, 1976). Government—an organization—attempts to impose teleology onto a non-teleological system. But planned order is limited in scope; it cannot exceed the potential knowledge of an individual or small group of planners. Rather than "rationalizing" production, state planning displaces the global but dispersed knowledge of market participants with whatever knowledge happens to sit around a conference table. That dispersed knowledge of market participants coordinates the productive activities of multitudes, allowing maximal exploitation of the division of labor. The role of the liberal economist is then clear: to oppose policies that disrupt the spontaneous operation of markets and support policies that enable it.

The advent of public choice economics throws a wrench in the Hayekian vision. Public choice treats politics as exchange (Buchanan and Tullock 1962), though not in a narrow sense of swapping property titles. Individuals come with their own purposes and projects into an interpersonal arena—be it the polity or the market—where scarcity and the division of labor generate, respectively, competition and cooperation. The polity is thus "catallactic," albeit more like a barter economy than one with money markets. Many political enterprises coexist with their own distinct and often contradictory ends. The market sphere is non-teleological because it is home to enterprises with incommensurable, incoherent, and irreconcilable ends. But so too is the political sphere. In modern societies, the volume of government activity certainly overwhelms the possible content of an individual mind. The polity, like the market, is a spontaneous order.

Treating the polity as an order raises three problems with Hayek's story. First, the clean bifurcation between spontaneous markets and the governmental organization becomes blurry. Hayek's critiques of planning have intuitive appeal, but what do they mean when "intervention" means one order "imposing" on another? Second, there is no *prima facie* reason to suppose that one spontaneous order functions more smoothly than another. How is a decentralized market process any better at coordinating activity than a decentralized democratic process? Indeed, the contemporary turn in public choice has been to treat democratic and market competition isomorphically. Elections and auctions are equally efficient (Wittman 1995, Besley 2006). Finally, what is the role of the liberal social scientist in an emergent polity? If

policy is not an object of choice, how useful is social theory beyond its intrinsic merit?

Seriously tackling these questions requires an appropriate analytical framework, one that allows the economist to recognize the common features of political and market processes while not glossing their differences. Specifically, this entails common behavioral assumptions underlying institutional differences. And these behavioral assumptions must allow for processes in the first place. The standard neoclassical model of human behavior, which includes only choice, has proven ill-equipped for this task. Neoclassical agents are capable of preordinating complex markets when money is a mere veil. Is it any wonder that, when dropped into models of politics, they manage to secure a timeless democratic efficiency?

The only perspective that will do is an entrepreneurial one. By allowing for human ignorance and creativity, side by side with incentives and choice, an entrepreneurial theory allows for a genuine examination of politics and markets alike *as processes*. It also puts institutional differences front and center. In the face of genuine ignorance, learning, and novelty, state-comparisons of markets vs. politics are not possible. There is no way to know, *a priori*, what sorts of plans will be attempted. The wishful conjectures of market and political entrepreneurs could take any number of forms. Instead, the theorist is forced to consider the institutional environment in which plans are made. Creative agents can try anything, but their efforts will meet the response of a *refractory reality* (c.f. Roberts 2002). Different institutions offer different epistemic access to that reality. The relevant questions, then, are best categorized as comparative institutional ones.

Wagner (2007) pushes this entrepreneurial understanding of agency further than any other treatment within public choice. In addition to concepts made famous by Hayek, I use his framework as a starting point for my discussion below.¹ Rather than treating the state as intervening *ex post* into equilibrated markets, Wagner treats *polities* and *markets* as coeval forums within society. Society itself is an interconnected ecology of enterprises in which market and political enterprises exist side by side. Both are comprised of purposeful and creative human activity. The difference between market and political enterprises is whether they are governed by private contractual relations across a medium of common property or they operate fully within the commons. This distinction is crucial, because it means that market and political enterprises will behave differently not based on any objective characteristics of “public” or “private” goods, but based on the institutions that govern decision-making processes concerning each. These two spheres are inextricably interwoven in a larger social nexus, but those institutional divergences make all the difference.

The purpose of this essay is to get at a fundamental distinction between markets and politics that bears import for our understanding of their operation and interaction, as well as the role of the liberal social scientist. My starting point is to distinguish between environments that provide tight epistemic feedback and those that provide only loose feedback. This essay makes two main arguments. First, markets offer agents far tighter feedback than do politics. Second, this entails that ideas—our mental models of the causal properties of an environment—matter far more in politics than in markets. Before making these arguments, however, I must flesh out my understanding of environmental feedback and how it applies to social order generally.

II. Feedback and Embedded Agency

Tight and Loose Feedback

Systematically successful plan execution requires that agents' conjectures significantly correspond to the environment in which human activity is situated. Such correspondence can be the result of feedback from an agent's environment which can take one of several forms: *ex ante* signals on which to base forward-looking action, *ex post* selection mechanisms to sort out successful strategies, or—most commonly—some mix of the two. From the perspective of action, different systems of causal connections each constitute an “environment” insofar as they affect the success of certain types of plans. Though distinct, these environments may be interrelated and overlapping. Of particular interest is when one environment is emergent from other environments. Being emergent, the feedback mechanisms of one environment need bear no necessary resemblance to the mechanisms in its component systems, and vice versa. This basic property of emergence—irreducibility—can simply be cross-applied to the concept of feedback. It must inform any discussion of feedback in social systems.

The ability of humans to successfully interact with physical reality through sense experience is one such example of feedback from environment to agency. A red glow sends me a clear *ex ante* signal that touching a piece of metal would run counter to my usual plans. Term papers, after all, are harder to type with one hand. If I do touch a hot stove—perhaps not understanding the meaning of the red glow—I receive *ex post* feedback of an unpleasant sort. My ability to learn turns this experience into a selection mechanism. I avoid contact with hot stoves in my future behavior. There is a tight feedback mechanism at work here. *Ex post* experience feeds into our future *ex ante* interpretations.

But environmental feedback is not always so readily available. Consider the equally physical “disease environment.” The causal system by which man's plans are disturbed by disease agents offers far less feedback—both *ex ante* and *ex post*—than the hot stove. Microbes are invisible to the naked eye and may affect me only after a long and variable lag. Even armed with modern medicine I may get sick and not know where and how I contracted the disease. Disease environments offer relatively loose feedback.

A million potential questions present themselves when we acknowledge that different environments offer different feedback. The good questions, as stated above, are comparative ones. Many are bewildering. Most are far beyond my capacity to answer. What are the quantitative differences between feedback across environments? What sorts of knowledge do they provide? Are such comparisons across heterogeneous sorts of knowledge even valid? How might they be accomplished in a non-arbitrary way? An attempt to systematically explore these questions could span decades and disciplines alike. I intend to focus instead on what appears to be a piece of low-hanging fruit: the power of ideas in an environment as a function of available feedback in that environment.

Of course, there are no shortages of definitions of the word “ideas.” The wishful conjectures of agents are a species of ideas. But those matter in any causal environment, and the whole exercise of comparative institutional analysis requires abstracting from or endogenizing such agent-level differences. For my purposes, *ideas* shall refer to an agent's mental models of his environment (e.g., his understanding of the system of causal connections that affects some subset of his plans). But this definition is not purely instrumental. I believe that these ideas are what teachers mean when they tell their students that “ideas have consequences” or make references to “the power of ideas.” Though I focus on the notion of plan “success,” the models that constitute these ideas may be positive, normative, metaphysical, theological, inarticulate, inconsistent, or anything in between. Thus, they need not apply solely to consequentialist agents who would be interested only in prediction. The key factor is that they allow agents to evaluate the desirability of their plans.

My hypothesis is straightforward: *ideas matter more in the absence of tight feedback*. Consider the hot stove. A popular theory in ancient Greece was that physical objects possess their properties by virtue of indwelling *daemons*, or spirits. Hot objects are home to fire *daemons* just rivers house water *daemons* (Cornford 1957: 96-8). Such anthropomorphic ideas seem quaint today. But their average adherent would doubtlessly respond to a hot stove in a fashion identical to a modern physicist versed in the most mathematically sophisticated models of thermodynamics. The difference in their ideas simply does not manifest as a difference in behavior. I am *not* arguing that their ideas do not

matter. Rather, I am arguing that as an environment approaches “perfect” feedback, the mental models that different agents hold in that environment will approach perfect substitution. Copernican and Ptolemaic sailors alike can make their way home. Relatively tighter feedback means that differences in ideas matter relatively less.

Conversely, consider the case of a loose feedback environment. Again returning to the ancient Greeks, physicians of the Hippocratic school famously taught that illnesses were caused by humors in the body. The balance of bodily fluids could explain everything from a cough to one's very personality (Sigerist 1961: 318-326). A physician who swears by a fuller version of the Hippocratic oath, humors and all, would tend to a patient far differently than one armed with the germ theory of disease. Mental models matter a great deal in the absence of tight feedback. Pushing the point further, we can imagine two medical school classmates vociferously disagreeing on a diagnosis. In loose feedback environments even minor differences in mental models can engender substantially different diagnoses and thus strategies. Contrariwise, no one who burns his hand on a stove seeks a second opinion.

Social Environments and the Extended Order

With these preliminary observations laid out it is possible to turn to social science in particular. Does feedback from social environments bear more resemblance to the case of disease or the case of the hot stove? Social reality is invisible, known only by observing its effects and engaging in rational reconstruction (Hayek 1952). But it is not the invisibility of social reality *per se* that creates difficulties. However invisible, what is social can indeed be subject to tight feedback mechanisms through direct interaction with others. For instance, language is an emergent social phenomenon. But speaking incomprehensibly will elicit a response that can help correct speech. Monetary exchange likewise is an inherently social phenomenon. But if I try to buy a sandwich with bills bearing my comely visage, I will quickly find them an inadequate means to finding willing exchange partners. Similar observations could be made about rules of just conduct. People by and large handle such facets of social reality with facility. This makes sense, because these facets only exist as constituted by intersubjective meaning: money is only money because we all attach the significance of money to it. These are what Hayek refers to as “motivating or constitutive opinions,” for the ideas themselves constitute the social phenomenon in question (Hayek 1952: 64). Insensibility of causal factors is thus a necessary but insufficient condition for positing weak feedback.

It is critical to distinguish between the “social” character of social

phenomena and the *extension* of the social order. The extended order emerges from these lower-level social interactions. Being emergent, it need not share their feedback properties. Cooperating with my neighbors involves both social structures and immediate, tight feedback. Cooperating with the anonymous millions whose actions affect the success of my plans is quite a different matter. Even ignoring the invisibility of social relations, the sheer number of “underlying variables” that matter to my plans and their widespread dispersal through time and space make their relatively immediate apprehension impossible. These variables are like germs, not heat: though imperceptible, they can mean the difference between life and death. It is their sheer number and vast dispersal, far beyond the ability of any one mind to grasp, that makes the extended social order—at least by default—an environment with relatively loose feedback. Adam Smith reminds us that man “in civilized society... stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons.” (Smith 1776: 26) Interactions with those precious few people we deal with face to face are subject to relatively tight feedback. But the vast nexus of multitudes more on whom we depend but will never know does not reveal its secrets so easily. Thus, Hayek distinguishes these speculative ideas about “the whole” from constitutive ideas, such as whether a green piece of paper counts as money (Hayek 1952: 64).

It would be a grave error to argue that such considerations only come to bear on the narrowly defined conception of economic coordination. How the social division of labor is coordinated to generate goods and services is still the best understood process that would be characterized in terms of an extended order, but it is not the only one. The extended order is shaped by political, legal, cultural, and economic activity alike. Both in and between these spheres, the actions of other individuals can either enhance or impede the success of an agent's plans. The activities of EPA bureaucrats affect the success of local politicians. Local politicians affect the realization of the EPA's objectives. Business plans affect and are affected by both the bureaucrat and politicians near and far. The interdependence of plans is not a narrowly economic consideration. Concomitantly, the *division of knowledge*, “which is quite analogous to, and at least as important as, the division of labor” (Hayek 1937: 50) is a general feature of all spheres comprising the extended order. As Polanyi argues, “the co-ordinating functions of the market are but a special case of co-ordination by mutual adjustment” (Polanyi 1962).

I follow Hayek in treating the extended order in the singular. If this is troubling, consider it an analytical convenience. But it should not be taken to mean that the extended order is a singular environment for action (as defined above). Remember that an environment is defined relative to types of plans.

In what follows I focus on two such types of environments: markets and polities. They constitute different environments because different institutions govern them. Thus, they grapple with the division of knowledge quite differently. I am not claiming that market and political enterprises rely on the same types of knowledge, though certainly there would exist some overlap. Rather, I compare them because they are the social environments which most clearly exhibit extension. They both bear non-extensive features (e.g., prices must be non-extensive but convey knowledge of extensive conditions), but the success of enterprises originating from either sphere depends largely on the activity of multitudes.

This is also not to say that success in markets and polities is *only* predicated on extensive factors. A plan of action can be situated in any number of causal environments simultaneously. Plans in the market and polity alike are subject to physical, chemical, and biological constraints on their success, not to mention non-extensive social factors (as will be the topic in Section 3.4 below). Thus, what I have to say about the differential access of market and political enterprises to the conditions of the extended order does not necessarily cross-apply to other sorts of environments. I am not arguing that political enterprises cannot produce engineering marvels, only that political institutions coordinate the social division of knowledge less effectively than do markets.

III. Feedback in Market and Political Processes

Public and Private Enterprise

Having outlined the basic distinction between tight and loose feedback systems, I argue in this section that markets offer far tighter feedback mechanisms (regarding the extended order) than do polities. Agents in market environments are equipped with prices as *ex ante* signals to guide their conjectures and profits as *ex post* selection mechanisms to separate the wheat from the chaff. Combined with residual claimancy and transferrable ownership, these constitute a tight feedback mechanism whereby individuals adjust their plans to conditions of scarcity determined on a global scale. Polities lack these key institutional features as well as any close substitutes. Agents launching enterprises in the political sphere thus stand in the default state of ignorance regarding the contours of the extended order.

Positing differential feedback between markets and polities requires some analytical apparatus to assay their knowledge-generating properties. The standard economics of information (e.g., Stigler 1961) simply will not do because it homogenizes epistemic environments as well as knowledge. Agents

simply accumulate knowledge until the marginal cost exceeds the marginal benefit.² It thus rules out *ex hypothesi* deep epistemic differences between social environments, generating the market-polity isomorphism mentioned above. The only epistemic difference between social environments would be the degree to which costs and benefits of more information are internalized. These incentives are surely important, but not the whole story. Other approaches to information theory, which try to quantify the information passed along a given channel, may allow for different environments to pass along different quantities of information (Mirowski 2002). But this approach too necessarily homogenizes all knowledge in order to arrive at a quantity.³ Mental models themselves are part of our question, not merely the data that gets plugged into them. My purpose is also to get at the quality of ideas and their *ex post* selection, which necessarily entails a concern with more than just raw data. For these reasons—and to satisfy the the concern for coping with novelty expressed above—a more intuitive, verbal approach seems best. Unable to quantify the knowledge-generating properties of markets and polities, an “explanation of the principle” must suffice (c.f. Hayek 1964). The inherent limitations and imprecision of this method are compensated for by its modest aim: a mere comparison of feedback mechanisms rather than a point prediction. Are market enterprises or political enterprises subject to tighter environmental feedback from the extended order? To answer this question, I consider the differences between Kirznerian entrepreneurs and Tullockian bureaucrats.

Why entrepreneurs and bureaucrats? Surely the former are largely esteemed, the latter reviled. Is this not a rigged and obviously ideologically motivated setup? I submit not, but rather that this approach is the best first approximation for dealing with creative agents and genuine knowledge problems as they operate in both polities and markets. Richard Wagner (2007) lays out the basics in his reformulation of public finance theory from an emergent orientation. The plans of creative agents—their wishful conjectures—are projected into the social world in the form of enterprises (roughly, Hayekian organizations).⁴ These enterprises may be either public or private, depending on the institutional environment in which they are situated. They are also conjunctive and coeval—they coexist and interconnect—rather than sequential (as in traditional public finance theory, wherein the state operates to alter a preexisting market distribution of income). The two spheres overlap and interpenetrate one another, and society as a whole is characterized as an emergent ecology of both state and market enterprises.⁵

What distinguishes market from state enterprises is whether they are organized within an institutional framework of private property or of common (or public) property. Private property is characterized by individual autonomy,

that sphere in which a person need not gain the approval of specific others in order to undertake an enterprise. Relationships are contractual and entry is free. This institutional framework is the usual domain of economic analysis,⁶ but remains woefully inadequate for analyzing the borders between market and political processes:

The pure theory of a market economy and private property is a tale that is woven around property-governed relationships among solipsistic creatures. All objects of ownership are partitioned among people, and those people relate to each other contractually. In this formulation, the objects of economizing action are limited to things. Yet our social character affirms that people and relationships are also objects of economizing action.

Our social nature surely places some limit on the domain of private property because what is proper etiquette is ultimately socially adjudicated, and property is a form of etiquette that speaks to propriety in personal conduct. This social nature, moreover, by no means implies harmony because conflict is also a social activity. (Wagner 2007: 43)

The commons, that institutional sphere which political activity inhabits, is characterized by “the absence of forbearance regarding individual conduct” (*ibid.*: 52).⁷ Both spheres always coexist: private property always operates through a medium of public property. After all, property rights themselves, as noted in the passage above, are inherently defined within the commons. But their close relationship in no way implies a lack of distinction. Enterprises organized according to private property—including market enterprises—are constituted by relationships *across* the commons, while public enterprises—including state enterprises—are organized *within* the commons. The boundary between the common and private property of course varies from one society to the next, itself being a product of interaction.

This brief synopsis of how state and market enterprises are distinguished is necessary to dispel potential misunderstandings of my meaning. I am arguing for neither an analytical nor an actual reduction of political relationships to market relationships. Political arrangements may vary radically from one society to the next, but a medium of common property always connects spheres of individual autonomy. Nor am I arguing that private property-governed relations can accomplish *any* end with more facility than political relations. Some enterprises are inherently social, in that they eschew forbearance on individual conduct. And, as mentioned above, the extended order is not the only causal environment in which market and state enterprises

are situated, and one can probably argue that there are many situations in which it is not the normatively relevant one. What I am arguing is that the institutional arrangements governing market relationships allow much tighter feedback from the conditions determining plan success on the extended order. And while the worthiness of the ends that feedback allows individuals to pursue is of course a value judgment—as is the worthiness of ends effectively pursued by state enterprises—I submit that the tightness of that feedback is a purely positive matter.

But why bureaucrats? Should I not be comparing market entrepreneurs to political entrepreneurs, perhaps plucked from a theory such as Jouvenal's (1958) or Dahl's (1961)? The political entrepreneur, after all, would be the originator of the wishful conjecture in the polity. Such a comparison might serve many fruitful purposes, but I posit that it would not deal head on with the problem of creative agency in the extended order. To treat agency as truly creative, it is exactly the wishful conjecture on which the analyst must remain silent. Creativity cannot be anticipated. As argued above, what matters is the environment into which those wishful conjectures are projected. Wagner's framework provides a tractable starting point by identifying the enterprise as a mode of conjecture-projection common to both markets and polities. In either sphere, a plan that interacts significantly with the extended order will be attached to some organizational form. For market enterprises, that means a firm. For political enterprises, it means a bureau. Either an existing bureau will have to administer the plan or a new one created to carry it out. What I am concerned with is how these different types of enterprises, corresponding to different institutional environments, provide access to feedback from the extended order to those whose conjectures are attempted (or to their stewards). It is also crucial to remember that, since the environment in question is the extended order, the relevant conditions that affect plan success are constantly changing. The ability to respond to these changes will be a function of environmental feedback rather than the idiosyncratic quality of an entrepreneurial conjecture. “[W]hen we study a social system, we have to focus on the method of mutual coordination among the individuals, and not on the intelligence of the average individual, in order to determine the system's social intelligence” (Lavoie 1985: 28). It is the doing, not the imagining, that must be compared. Hence the bureaucrats.

It is for this same reason that I chose these two particular models: Kirzner's entrepreneur and Tullock's bureaucrat. More than alternative theories, these two models of agency treat knowledge problems as institutionally situated. Kirzner's entrepreneur is far more dependent on his institutional environment than any of his theoretical competitors. Entrepreneurship is a part of all action, but the entrepreneurial arbitrage

process by which plans are coordinated depends entirely on market institutions of prices, property, and profits. Other theories of entrepreneurship ignore this institutional dependency, and are thus less useful for comparative institutional analysis. The case for Tullock's bureaucrat is even more straightforward. Other models of bureaucrats simply ignore genuine knowledge problems, whereas Tullock's "Virginia school" approach includes Austrian-style knowledge problems (Mitchell 2001).

In addition, the comparison between Kirznerian entrepreneurs and Tullockian bureaucrats allows for the sharpest possible contrast. Crucially, this approach allows for the construction of a spectrum useful beyond but one comparison. The distinction is between "tight" and "loose" feedback, not perfect knowledge and absolute ignorance. Nonetheless, the stark contrast developed below provides the endpoints of a spectrum between tight and loose feedback, two possible forms of which appears at the end of this section.

Kirznerian Entrepreneurs

Israel Kirzner's theory of the market process can best be summed up as: Misesian entrepreneurs solve Hayekian knowledge problems (Hayek 1945, Mises 1949, Kirzner 1973). The knowledge problem to be solved is the coordination of the division of labor. Economics 101 teaches us the principle of comparative advantage, which the possibility of gains from specialization and trade exist wherever individuals have different opportunity costs of production. But exploiting these potential gains requires correctly identifying least cost producers and methods of production. Further complicating the problem, relative scarcities constantly change due to changes in technology, shifting preferences, and supply shocks. Lacking direct apprehension of these scarcities and their relative magnitude, agents in an extended order need some way of coordinating their activities. Relative scarcities are the refractory reality against which the conjectures of market actors must be tested.

Market prices reveal relative scarcities. A willingness to sell at a low price indicates a low opportunity cost. But this is true even in a barter economy. The unique feature of money is the ability to compare the scarcity of heterogeneous goods and, most importantly, heterogeneous bundles of goods. Advanced material production that exploits the division of labor requires combinations of intermediate goods. Money prices for these goods allow entrepreneurs to add up outlays of different production plans to arrive at a better picture of the opportunity cost of various modes of production. Mises (1920) famously argues that this requires a market in capital goods. Markets create the prices which allow for calculations of profitability, providing an *ex*

ante signpost towards exploiting the gains from trade. The idea for the production plan itself must originate from the entrepreneur, but must be compared to conditions on the market to test its feasibility. The entrepreneur is “the first to understand that there is a discrepancy between what is done and what could be done” (Mises 1951). But entrepreneurs rely on price signals. By recognizing and arbitraging profit opportunities they bring prices more fully into correspondence with relative scarcities.

Present entrepreneurial conjectures may appear sound given present prices but prove otherwise when goods hit the shelves. In the face of constantly changing conditions, forward-looking price signals alone may not be sufficient to constitute a tight feedback mechanism. Production always takes time. Ergo, perfect adjustment is never possible. This is where *ex post* selection mechanisms play a crucial role. At any given time, it is no random sample of entrepreneurs making guesses about how to best deploy scarce resources. The wealthy can gamble with more resources than the poor. Those currently deciding how intermediate goods ought to be deployed are drawn largely from those who have been successful at deploying them profitably in the past, meaning that the average quality of their conjectures is probably higher than the population mean. Current prices reflect the best guesses of the most able entrepreneurs (Kirzner 1985, 1996). Thus *realized* profits, rather than merely expected profits, add to the feedback quality of the market (Alchian 1950). This mechanism of course relies on residual claimancy: the able entrepreneur must actually accumulate wealth.

The institution of transferrable ownership (i.e., private property) also underpins these *ex post* mechanisms. Transferrable ownership allows those who believe they know a better use for durable production goods to make a tender offer, with residual claimancy providing a bulwark against cheap talk (Wagner 2007). Conjectures of market participants are thus subject to a real-time filtering process which tests their ideas against the knowledge of relative scarcities dispersed through the economy. The conjunction of these *ex post* filters with *ex ante* price signals is what constitutes an intricate and tight feedback mechanism.

Tullockian Bureaucrats

Politics lacks the institutional trappings to facilitate such tight feedback from the extended order. The absence of transferrable property rights precludes money prices, profit calculations, and residual claimancy. Like market enterprises, political enterprises begin with a wishful conjecture of how things could be different than they are. Unlike markets, polities sport no automatic adjustment process to guide and select those conjectures in accordance with the

refractory reality of the extended order. The argument here is straightforward: the knowledge-generating properties of the market process are ultimately dependent on the institution of private property, which, by definition, is absent from political enterprises. But mere absence of feedback is not all. Bureaucracies not only lack the ability to align knowledge and incentives with the shifting conditions of the extended order; they also—relative to their stated goals—systematically generate perverse incentives and select for ineffectual knowledge.

Mises (1944) cross-applies his argument concerning the impossibility of socialist calculation to bureaucracy. Bureaucrats suffer from a miniature version of the calculation problem faced by socialist planners. Bureaus that exist side-by-side with market enterprises have some access to the knowledge generated by markets, which Wagner (1998) has called “parasitical pricing.” But this is only for inputs. Their output is not itself priced, meaning that while costs can be added up, potential profits cannot. That critical ability of monetary calculation to make comparisons between different plans remains unrealized. Measurements of technical efficacy can always be concocted, but bureaus lack any clear metric for determining *ex ante* the relative worthiness of different plans. Prices enable them to measure costs as an *ex ante* signal, but without the concomitant ability to tell whether an extra cost is worth incurring.

Of course, the inability to calculate expected profits goes hand in hand with the inability to realize actual profits. Bureaus lack the residual claimancy that provides such a powerful *ex post* check on wishful conjectures in the market. There is no automatic selection mechanism giving control of more resources to those best able to grasp the conditions of the extended order. Without transferrable property and given their unique legal status, those who feel they could do a better job than existing bureaus in realizing the ends they strive cannot make tender offers for their assets. Relative to market enterprises, the impossibility of takeover deprives political entrepreneurs of an important feedback signal. And, perhaps most importantly, bureaus are funded by tax revenue. The power to tax means that there is no built in check whereby those with bad ideas lose the resources that allow them to try out those bad ideas. Satisfying customers does not directly translate into survival, and even if rival enterprises are permitted they must compete with the bureau's access to the public purse. All of these features of public enterprises entail that—as opposed to an institutional environment characterized by private property—the wishful conjectures of political entrepreneurs will be subject only to loose feedback from the extended order.

Political enterprises exist within the broader emergent ecology of enterprises that comprises the extended order. Because that extended order is

emergent from the interactions between individual enterprises, it is important to remember the key feature of irreducibility. The extended order offers—by default—only loose feedback. But this is not to say that only loose feedback exists in politics; the extended order may not offer tight feedback to political enterprises, but its component parts do. The problem is instead that, where there is tight feedback in politics, it runs contrary to aligning plans with the contours of the extended order. Arguing that bureaucrats do not have access to dispersed knowledge of extensive changing conditions is not sufficient. In order to understand how they operate, it is necessary to consider what feedback bureaucrats *do* have. Mises argues that bureaucracies do not enable calculation in the way markets do, but it is the work of Tullock (1965) that examines what they do enable.

Bureaus are typically entrusted with some task that engages and attempts to alter in some way emergent patterns of private interaction. But the tight feedback they receive only corresponds to the day-to-day activities around the office. Those aspects of the polity are non-extensive and thus imminently knowable. As argued above, *non-extensive* social environments can provide tight feedback simply from face to face interaction. Even a well-intentioned bureaucrat cannot remain informed about changing conditions around the globe that affect the organization's plans, but he can participate in everyday social interaction with his office-mates. Tullock emphasizes the hierarchical nature of these relationships. Of course, hierarchical relationships exist in market enterprises, but organizational forms on the market are as subject to the tests of profitability and calculation as any other aspect of a business plan. Not so in the polity. Bureaus are hierarchy gone wild.

The hierarchical organization of bureaus sharply limits their ability to usefully gather and deploy knowledge. The information that bureaucrats at the top have is a miniscule fraction of what is scattered through the bottom tier. Each superior has several inferiors, so the inferiors must condense the knowledge they have when making reports. This process continues up the chain until enough knowledge is squeezed out that it can fit in one or a few minds. But it is not mere data that gets passed up. Sorting and interpreting the data into “takeaways” and “punchiness” is a critical part of the process. Since interpretations get passed up the chain, by the time they reach the top they are interpretations of interpretations of... and so on. Tullock calls this the problem of “whispering down the lane,” pointing out that even simple messages interpreted by sympathetic agents can become mangled beyond recognition as they pass from one person to the next. This process can be further exacerbated when different bureaus or subdivisions of bureaus have conflicts of vision, each one fighting for its own interpretations of immensely complex situations (c.f. Coyne 2007). Even with a legion of data gatherers and analysts,

this process has no hope of keeping up with changing conditions in a system with the sheer scope of the extended order.

Without a bottom line, input prices for bureaucratic production processes can only be used for cost accounting. If this meant minimizing outlays, it would still be a distant second best to true profitability calculations at mobilizing dispersed knowledge. Sometimes higher costs are worth incurring because they promise a greater return (i.e., opportunity cost can diverge from accounting cost). Due to the feedback they do have access to, bureaus cannot even live up to that standard. Following the signals available to him leads the bureaucrat to maximize budgets rather than cut costs. From an *ex ante* perspective, a bureaucrat cannot see the opportunity cost of the resources he wastes. Those are borne in a decentralized fashion by taxpayers. But he can look the colleague whom he has to fire in the eye because he failed to secure a large enough budget. Even the most public-spirited civil servants do not want to fire their coworkers.

Reinforcing this tendency is an *ex post* filtering process. Whereas standard public choice theory simply assumes that bureaucrats are self-serving budget maximizers, Tullock offers a selection story. Markets punish cheats and frauds by denying them future transactions. The ambitious must rise by offering services to customers or employers. Free from competition, bureaus have much less reliable checks against this sort of behavior. Echoing Hayek's argument of "why the worst get on top" (Hayek 1944, Ch. 10), Tullock argues that the immoral man will rise in a hierarchy simply because he is willing to do everything the moral man is and more. Those with an eye toward career advancement will take actions to advance their careers rather than the ends of the organization. The result is that those who most want to carry out the organization's goals will drift toward the bottom. It is precisely those who have the most authority that were willing to do the most to get it. Again, it is the lack of a residual claimant that allows this natural pull of hierarchies to go largely unchecked.

Of course, I have not mentioned the external checks that bureaus face. Contemporary political economists frequently assert that elections effectively check the excesses of public enterprises (Wittman 1995, Besley 2006). There is indeed good reason to suppose that opportunism is at least somewhat curbed by congressional oversight of bureaus, with congressmen in turn subject to the oversight of the electorate. But to argue that these checks operate with anything like "efficiency" is to treat politics as if they really had residual claimancy (Martin and Wagner 2009). Surely bureaus with democratic oversight are far less corrupt than in dictatorial regimes. But regardless of how well opportunism is curtailed, what these theories lack is an explanation for the

efficacy of oversight in securing feedback from the extended order. With regard to the Hayekian knowledge problem, democratic oversight is only as effective as the ability of elections to aggregate knowledge about the extended order and for the congressional committee process to communicate that knowledge in turn to the bureaucrats. The final section of this essay will deal somewhat with that possibility, though a detailed investigation is well beyond the scope of this essay.

Intermediate Enterprises

With the relative position of these two points defined—private enterprises having tighter feedback from the extended order than public enterprises—it is perhaps valuable to briefly sketch a broader portrait. The analysis thus far has hinged on the difference between private and common property. But in assaying the relative position more than two notable landmarks in the relevant space, differences of degree will shed more light than differences of kind. The relevant metric is the ability to utilize economic calculation. This is not abandoning the importance of the distinction between public and private, but rather expanding on the logic why private property matters in determining the strength of feedback from the extended order. Economic calculation is the substantive mechanism by which enterprises organized in an institutional framework of private property receive tight feedback, but this is not to say that all private activities or organizational forms are equal in this regard. Finer distinctions can be made. Here I lay out two possible continua based on this metric: the first in terms of types of activities, and the second in terms of organizational forms.⁸

Why the focus on economic calculation? As stated above, the interdependence of plans is a facet of social processes in any sphere; those plans (or aspects of plans) which can be coordinated by the price mechanism certainly do not constitute the whole of social coordination, even with special regard to the extended order. In particular, two other sorts of mechanisms for coordinating *extensive* activity spring to mind. The first is general institutions or rules themselves, which serve as focal points for coordinating potentially divergent expectations. However, what is unique about the price system is that it transmits feedback regarding the *constantly changing conditions of time and place* in a worldwide division of knowledge. Institutions are, by necessity, relatively static. They are a critical part of the division of knowledge but do not concern day to day changes in conditions:

In fact, the collaboration of individuals under common rules rests on a sort of division of knowledge, where the individual must take account of particular circumstances but the law [AM: or any

institution] ensures that their action will be adapted to certain *general or permanent characteristics* of their society. (Hayek 1960: 157, emphasis added)

The second mechanism is simply communication technology itself, at whatever stage of advancement it may be. Much could be said about the differences between these modes of communication and prices, but one difference alone is sufficient for my (comparative institutional) purpose: these communication mechanisms are available to agents operating in any institutional sphere. Mass media reports on both politics and markets. Businessmen and politicians alike can pick up the telephone or receive an email. Absent any compelling argument as to how one institutional sphere or another utilizes these technologies, their influence should be held constant.

The other reason that ability to engage in economic calculation serves as an adequate independent variable with which to construct a continuum is the coexistence of the private and public spheres. In its strict original form, the Austrian argument against the possibility of socialist calculation assumes worldwide socialism (Mises 1920). This caveat is crucial. So long as socialist planners have outside prices for the factors of production to draw on, some amount of calculation is possible, however distorted. Likewise, even the most unwieldy of bureaus have access to price data. The feedback that political enterprises do have from the extended order comes from their interface with the catallaxy. Thus *loose* feedback, not its complete absence.

One other assumption from Mises' 1920 paper is also crucial: that there would exist in a socialist commonwealth a market for consumer goods. In Austrian economics, these are also known as *first order goods*. Producer's goods, or the means of production, are *higher order goods* (second, third, and so on). Important for our purposes is that markets in producer goods are what enable profit calculations. Those calculations are the tightest form of feedback that I am aware of from the extended order. Privately organized enterprises unable to engage in such calculations with thus have looser feedback. With these distinctions and qualifications in mind, it is possible to assay the relative feedback of various sorts of activities:

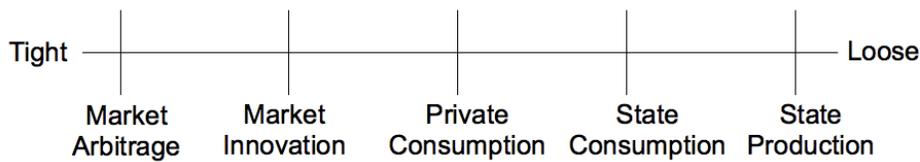


Figure 1: Feedback to Catallactic Activity

In Figure 1, the two leftmost points correspond to two theories of market-based entrepreneurship. “Market Arbitrage,” that form of activity with the tightest feedback from the extended order, is simply Kirznerian entrepreneurship. Kirzner's entrepreneur interprets price data to discover existing profit opportunities which are dissipated by his acting on them. “Market Innovation” corresponds to what goes by Schumpeterian entrepreneurship. Rather than recognizing an opportunity for arbitraging between a price difference in existing goods, this form of entrepreneurship involves creating a new good. Despite introducing a novelty into the catallactic nexus, this type of activity can still exploit economic calculation.⁹ The prices of substitutes can still be observed. This is true whether the novelty is a consumer good or of a higher order. While a going price for the good would offer tighter feedback, the marginal introduction of a new good still benefits from profitability calculations.

“Private Consumption” occupies the middle position on this spectrum of activities. This category is meant to be quite broad, encompassing the private use of priced means toward any end other than monetary profits. This ranges from household activity to charity to academics, all of which use consumer goods for the achievement of non-monetary ends. Note that these are consumer goods, or first order goods, insofar as they are exit points from the nexus of catallactic activity, not because they are ends in themselves or are not productive in other senses. Prices for consumer goods do enable significant extended coordination. If a hurricane hits down the road and the price of strawberry pastries goes up, consumers outside the disaster area do adjust their consumption to the activities of those caught in the path of the storm. But they do not allow profitability calculations. Consumer good purchases are the outermost nodes in the nexus of monetized relationships. Their pattern is that to which the division of labor is coordinated. They are not guided by profit signals, but are the source of profit signals. Economization still takes place, but across values with no clear metric for deciding when an extra cost is worth incurring. Once again Mises (1920) was ahead of the curve here, pointing out that only higher order goods benefit from profitability calculations. The ends that first order goods serve are compared in kind. Access to prices enhances

the feedback to these comparisons, but not sufficiently to reveal unambiguous opportunity costs.¹⁰

The right half of the spectrum is where the transition from private to public property takes place. Like consumption activity, activity in the public sphere uses means with market prices (parasitical pricing). Just as with private consumption, these priced means give some access to feedback from the extended order without enabling profitability calculations. The difference is access to the public coffers. Price signals of all sorts require interpretation, and the incentive to achieve a given end with a smaller outlay is an important interpretive key. Absent that key the signal is distorted in its reception. Thus, as argued above, public enterprises cannot even engage in the second best kind of social coordination, outlay minimization. This is not to say that outlays will always be maximized, but rather that the tragedy of the commons will abrogate by some degree the feedback offered by consumer good prices.

But even given the tragedy of the commons, it seems that some government activities are closer to private consumption in their nature than other activities. That is to say, they, like private consumption, are more like trying to utilize the fruits of the division of knowledge than to further enhance and coordinate the division of knowledge. Thus, perhaps it may be helpful to distinguish between consumption-like activities of government, which can use the feedback from consumer prices in similar manner to private consumption activities, and between those activities of government that replace or systematically attempt to alter production processes. These latter enterprises would include both regulation and production proper. When government intervenes at the periphery of the catallaxy, it displaces less knowledge than when it intervenes at stages of production of a higher order. Intervention at a lower order may cause imputational adjustments through higher orders (Rothbard 2004: 1161-1163), but higher order interventions displace those adjustment processes themselves with looser political feedback mechanisms. Though speculative, this distinction seems plausible. It is hard to imagine that the Hayekian knowledge problem applies nearly as forcefully to a state-sponsored ticker tape parade than to nationalizing the steel industry (or even a given factory). Both enterprises can utilize parasitical pricing, but one displaces part of the very process by which prices transmit feedback.

A continuum of tight and loose feedback may also be used to compare organizational forms. Figure 2 depicts the extent to which a range of organizational forms approximate autonomous action guided by price signals. Deviations from these institutional prerequisites entail a loosening of feedback relative to idealized Kirznerian entrepreneurship:

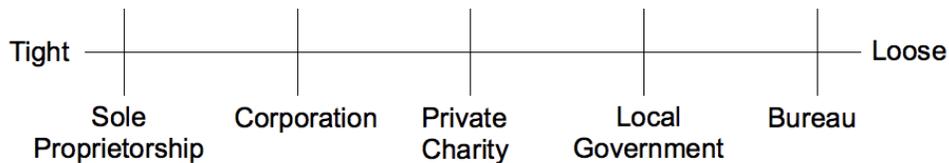


Figure 2: Feedback to Organizational Form

As with Figure 1, the two leftmost points represent private commercial activity. The sole proprietorship most closely resembles the Kirznerian entrepreneur, tightly linking control over resources and residual claimancy to the profits from their use. Given free entry, these businesses embody degeneracy down to the individual level and thus maximize experimentation. The corporation, on the other hand, operates with a medium of common property at its heart. Shareholders throw their lot in with one another and with hired management. This is a deviation from perfect autonomy, however temporary and reversible. Still, the power of profitability calculations and freedom of entry (including the possibility of buyouts) offer powerful feedback to corporate enterprises.

That corporations may be internalize feedback from the extended order less effectively than sole proprietorships does, however, raise an interesting point. Maximal feedback at the individual level does not imply maximal feedback at the system level. Remember that emergence implies irreducibility. Even if corporations have effectively looser feedback than sole proprietorships, it does not follow that a system of all sole proprietorships will offer tighter feedback than one with a mix of both forms. In addition, as stated above, not all sorts of institutional or organizational frameworks permit the pursuit of all sorts of enterprises. A mix of organizational forms may expand the range of kinds of enterprises that have scope to be attempted, increasing experimentation and thus (potentially) system-wide, baseline feedback to all enterprises.

The middle position of Figure 2 is occupied by private charity organizations. More broadly, this may include any sort of private non-profit endeavor. These sorts of organizations sport autonomy and free entry without profitability calculations. In catallactic terms, their endeavors are a form of consumption, subject to the limitations noted above. They may, however, feature some form of reputational residual claimancy. And since they involve free entry there is scope for experimentation in how to achieve different kinds of ends. Success can be imitated and donor funds must usually be won in competition with other non-profits, thus enabling a genuine social learning process (Hayek 1960). Still, as in household consumption, there is no

unambiguous metric for success. Their environmental feedback thus lies somewhere between market enterprises and bureaus.

And again the rightmost part of Figure 2 is occupied by public organizations. Bureaus—assumed here to be at the level of the whole polity under consideration—offer the least amount of feedback. The intuition for placing local government to the left of national bureaus is straightforward. Local government enterprises in a federalist system are subject to greater competition than is the national government itself. This allows some experimentation and imitation at the local level. Their relative proximity to non-profits rather than bureaus may be influenced by their access to or reliance on funds from a more centralized organization in the polity. In addition, the mere fact that they are more local means that, even at their clumsiest, their more limited scope probably displaces less of the knowledge-generating market process than is possible at the national level.

One final point can be made before moving on: since feedback from the extended order decreases as one moves rightward along these continua, the importance of mental models should follow the same trajectory. Whereas the arbitrageur compares prices for existing goods, the Schumpeterian innovator must surmise which existing goods are substitutes in order to use price feedback most effectively. The effectiveness of non-profits may be more affected by social scientists' models of spontaneous order than are the activities of private business, and corporate culture may have some real impact on organizational performance. I leave these ideas undeveloped, returning in the next section to a more dichotomous notion of public vs. private, in order to capture peculiar institutional aspects of how enterprises within the commons are affected by the power of ideas.

IV. Politics and the Power of Ideas

Intersubjectivity and Ideas

Imagine the following situation: an ECON 101 teacher explains the basic process of market clearing whereby quantity supplied comes to equal quantity demanded. But troublemakers always sit in the back row. Perhaps in this case it is a meddling philosophy student. The student raises his hand and asks a most unexpected question: “What if some of the suppliers are Friedman students and the others are Keynesians?” The teacher, growing impatient, may repeat his previous analysis: at any price other than the market clearing price, there is an incentive for at least one buyer or seller to change his behavior. The price not only gives an incentive, it also sends a clear signal that a profit

opportunity exists. The rest of the class nods in approval. But philosophy students do not thrive on acquiescence to magisterial authority. The reply comes back: “But what if the Keynesian does not think a disequilibrium price means that? What would he do then?” Most hypotheticals of this form, appearing in essays much like the present one, are constructed to challenge the conventional wisdom of the blackboard. The teacher is revealed to be missing a subtlety that the student has discerned. But not this hypothetical.

The student is wrong. The principles of ECON 101 are right. Markets offer tight feedback to agents within them, feedback that not only guides action (the profit signal) but also selects successful strategies (realized profits). Agents on the market are free to think they should buy high and sell low. But these agents will soon find that they have no more resources with which to flout the wisdom of their economics professors. This is not to say that ideas do not matter at all in markets, only that they matter relatively little because they tend to work themselves out. Very “thin” models will usually do when interpreting market signals: “buy low and sell high.” Successful ideas—at least those that are not based on peculiar conditions of time and place—can be imitated. In principle any number of accounting methods could be tried, yet a researcher would be hard pressed to find a successful firm that does not practice double-entry bookkeeping. Keynesian entrepreneurs will react to changing prices much the same as Misesian entrepreneurs. This is a fuller version of what economists mean when they argue that markets are *self-adjusting*. They offer tight feedback that guides plan formation and punishes those who will not play along. Just like hot stoves.

If we fast-forward a few years, to the same professor's public choice class—assuming our philosophy major maintains his economic studies that long—his question becomes far more poignant. How does the Friedmanite politician behave differently from the Keynesian? In answering this question, it is important to remember one of the key insights of public choice: policy is the result of an emergent process, not an object of choice. Ideas do not translate one to one into policies in the same way they would for an individual. Politics is not purposive; but political agents are. In an intersubjective process not unlike a barter economy, that is crucial. Political agents lack profits as a goal and clear metric for success. Ideas must supply the missing *ex ante* signals and *ex post* filters. In politics, rationales are important, both to individuals and between individuals.

On the individual level, ideas matter more in politics for precisely the reasons outlined in Section 3.2 above. Political enterprises lack tight, automatic feedback regarding the constantly shifting conditions of the extended order. Plan evaluation—insofar as the plan is nested in the social division of knowledge—must then rely more heavily on some sort of mental model. Is

pursuing this end relatively worthwhile, given what must be sacrificed to attain it? Is there a better way of serving the same end? What other solutions might peacefully or even fruitfully coexist with this one? What are subsequently complementary projects? The relatively unambiguous summing of red and black ink answers these questions in the market process. But the most well-intentioned, well-informed, and creative of political entrepreneurs must rely on their own mental models to judge whether their plans have succeeded.¹¹ It is hard to argue that successful business enterprises have lured resources away from more highly valued uses, but economists still bicker about the efficacy of New Deal programs. But this individual reliance on mental models is not the whole of the story, for there are unique institutional features of politics that magnify and shape the impact of ideas.

Politics differs from the market process in that—at least in a democratic polity—the reasons for taking an action must be capable of adequate articulation and acceptance. When a lone entrepreneur is asked why he is deploying his capital in a certain way, he can answer, “Because I expect to profit, even if you disagree.” Or, more simply: “Because it is mine.” The politician who justifies his policies in this way will soon be out of a job. Tullock's bureaucrat faces not merely those above, below, or near him in the hierarchy: he also must contend with “spectators” (Tullock 1965, Ch. 4), individuals removed from his particular job but whose opinions matter for his career advancement. Within the polity more broadly, spectators are endemic. Spectators may exist *within* market enterprises. But in politics they also deeply affect the interaction between enterprises. They exert more influence not only because of the absence of tight feedback, but also by the nature of organizing activity within the commons.

Recall that the absence of forbearance regarding others' conduct constitutes the commons. Rather than respecting the autonomy of a demarcated private sphere, political entrepreneurship seeks to initiate or alter activities in the public domain or to change boundaries between domains both public and private.¹² Wagner notes that these sorts of activities, usually involving forums such as courts or legislatures, are usually “activated by a complaint” (Wagner 2007: 47). Jouvenal's attempt to locate the elementary unit of political activity settled on instigation: “*A* tells *B* to do *H*” (Jouvenal 1963: 91-2). What these two (arguably parallel) explanations have hit upon is the centrality of public articulation to political activity. Presumably some limited forms of interaction and boundary disputes can take place without language, but in any modern setting it is safe to assume that political activity is inherently linguistic. Language has a double force in politics: one predicated on its inherently intersubjective nature, and another in that mental models are

articulated linguistically. In autonomous action more intuitive models may do, but public activity requires that plans be evaluated in some explicit manner.¹³ In most all cases this involves Tullockian spectators. From this foundation one could go on to examine how various aspects of the democratic process—political parties, mass media, advocacy groups, etc.—embody the public adjudication of articulated reasons for engaging in an enterprise.

But how is this different from the arguments of modern public choice theorists, such as Wittman and Besley, that even bureaucrats are ultimately (and thus efficiently) subject to popular control? Martin and Wagner (2009) argue that these models assume a “deep-level” homogeneity in preferences over political outcomes which is entirely unfounded, especially when we think of politics as a spontaneous order. Equally important, I posit, is the argument developed throughout this essay: even where such agreement might exist, no political agents have direct epistemic access to variables that would reasonably lead them to or measure “goodness” in policy. In modern political economy models, voters are capable of directly observing (or indirectly inferring) the quality of governance as a scalar variable. This assumes they know the effects of a policy throughout the extended order. Contrariwise, I have argued that the reality of the extended order is far beyond any man's ability to grasp. Markets aggregate and condense this sort of knowledge automatically. Politics, lacking money prices, does not.

Politicians of all sorts *are* subject to popular control. But that control itself is exercised by those who have *no greater knowledge* of the conditions of the extended order than do the politicians. Votes aggregate only information, not knowledge. The vaunted “miracle of aggregation” assumes that crowds know what they are measuring; their estimates of the parameter value merely differ. In a tight feedback environment that may be a reasonable assumption. But when dealing with the extended order, we must first discover the fundamental mental models that tell political agents what the questions (and therefore measures of success) are.

From a spontaneous order or process perspective, democratic governance may then have less to do with collective choice mechanisms and more to do with the multiplication of Tullockian spectators. This is not to say that collective decision-making (and its associated rational choice analysis) play no role in understanding political activity. Rather, as with market process analysis, the point of emphasizing public articulation is to show how the relevant options in such models are converged upon. Once we include public articulation, for instance, we see that mechanisms normally thought only to distribute information to voters—mass media, for instance—may have a powerful influence on underlying mental models. Since choice sets are defined within those mental models, there is no reason to believe that the political

process consists predominantly in the effective provision of unambiguous public goods. Democratic institutions subject political activity only to acceptable articulation, not objective social coordination.

Constitutional Ideas

Ideas adjudicate the validity of speech acts by political agents. The mental models that people have about society determine what sorts of arguments are valid or invalid when discussing policy options. Those mental models may be positive or normative, all-consuming or piecemeal, and are frequently contradictory. And to shape enterprises that interface with the extended order, they need not themselves have anything to do with the extended order. Ideas about natural rights or the environment can have a powerful influence on a policy debate without any actual reference to extensive social forces. But no matter their origin, those mental models form the space in which policy stances must be articulated. A conception of society as a family will admit the legitimacy of far different policies than a conception of society as a contract.

Taken to its limit, this approach implies that ideas are the ultimate constitution, for they set the ultimate parameters within which the political process works. Ideas serve as the hermeneutic by which a written constitution will be interpreted. This should not be taken to mean that ideas determine events in a simple or even predictable manner. Stressing that mental models come to bear constitutionally actually implies the opposite, because it leaves post-constitutional activity to other mechanisms. Constitutions constrain and structure, rather than determine, interactions between political agents. This is especially true when the ideas governing the polity are a piecemeal conglomeration of contradictory, incommensurable, and incomplete mental models. But even a given mental model can give rise to any number of different political enterprises, whether sincere or opportunistic. The prescriptions of mental models, in particular, rarely translate one to one into policies.

Positing ideas as the ultimate constitution thus in no way undermines the importance of incentives in the formation of policy. As stated above, the incentives of political agents constitute part of the refractory reality of the extended order into which wishful conjectures are projected. But the originators of public choice clearly recognized that, absent a common denominator of value in money, *what* those incentives are is more ambiguous. Ideas do not override incentives, they generate them. This is especially true when we consider that mental models must also be deployed to determine

whether an attempted policy was successful or not. Ideas adjudicate *ex post* evaluation as much as *ex ante* justification. Is the United States in a recession? Even if we agree that the notion of a “recession” has meaning apart from its political definition, answering this question requires deploying some sort of mental model that draws a meaning out of the extended order that does not present itself. Even the present conditions of social reality are not self-interpreting.

The best scholarly example of how ideas play out constitutionally appears in *Democracy in Deficit* (Buchanan and Wagner, 1977). It explores how a Keynesian vision of the economy framed the debate over budget deficits since World War II. The Keynesian notion of counter-cyclical government spending to mitigate the vagaries of the business cycle held sway both in political discourse and in formal documents, such as the Employment Act of 1946. The triumph of Keynesianism embodied a *de facto* constitutional shift, making the federal government the steward of macroeconomic aggregate variables. Just as with other constitutional mechanisms, however, the prescriptions and predictions of blackboard models were removed from reality by at least two steps. The ordinary course of democratic politics generates the first disjoint: while cutting taxes and increasing spending during a recession is popular and electorally rewarding, tightening the belt in rough times is not. Political incentives drive a wedge between the prescription of the model and its actual implementation in a democratic polity. The joint operation of Keynesian ideas and electoral politics results in an ever-growing deficit. One consequence of this deficit is monetary inflation, which bypasses unpopular tax hikes or spending cuts. Inflation in turn results in the second, descriptive disjoint between the Keynesian model and the reality of Keynesian policy. In a model only concerned with aggregates the impact of inflation on relative prices is glossed. In the real world, these relative price effects disturb the tight feedback offered by market prices, generating wasteful misallocations of resources that may themselves cause business cycles. This analysis is helpful, not only because it demonstrates the power of an idea, but also the complex process it sets in motion within and between the polity and the market.

Policies do not converge to some common set, but rather evolve, are overturned, and (most commonly) accumulate as ideas about the social order change. As with the formation of sedimentary rock, a process operating by common principles does not imply that the resulting structure will be cohesive or coherent. Through this process, mental models play a critical role. Yet—even supplemented with voluminous data gathering—they do not give real-time knowledge of the conditions of the extended order. Thus, even when new ideas are used to examine old policies, it is not the result of a tight feedback mechanism. The bottom line is: markets are self-adjusting, polities are not.

Rather than being dissipated, divergences between the environmental conditions assumed in a political enterprise's plan and actual conditions tend to accumulate. Again, this is not a state of no feedback. Bad effects are often revealed sooner or later. But it is a situation of loose feedback. Sometimes consequences only become apparent at a crisis point, or constitutional moment.¹⁴ Market enterprises adjust their activities from day to day. It takes a catastrophe for political enterprises to reevaluate their plans. Milton Friedman says it best:

Now, you never have real changes unless you have a time of crisis. And when you have a time of crisis what happens depends on what ideas are floating around, and what ideas have been developed, and thought through, and are made effective. And I believe the role that people like myself have played in the transformation of public opinion has been by persistently presenting a different point of view, a point of view which stresses the importance of private markets, of individual freedom, and the distorting effect of governmental policy. That may not persuade anybody, in one sense, but it provides an alternative when the time comes that you have a crisis and people realize that you have to change.¹⁵

Ideas matter far more in politics than in markets. Entrepreneurs were being guided by invisible hands in 1775 as well as 1777, but politics was never the same after Marx. The market process requires only very thin mental models which are easily selected for. The political process is a slave to ideas. These ideas are projected into a refractory reality best characterized as a worldwide division of knowledge. The divergence of between political agents' mental models of this reality and its true contours are revealed not day to day, but only at crisis points that result from accumulated errors. This may lead to a mental model being overturned, but there is no guarantee that the ideas which displace it will be any better.

V. Conclusion: The Role of the Liberal Social Scientist

Most economists have believed firmly in the power of ideas to shape the world, for good or ill. The vast majority have focused on the ability of economic ideas to influence policy.¹⁶ Landsburg (1993, Ch. 14) refers to it as "the policy vice." Given what has been argued above, this practice makes some sense. After all, what is the likelihood that an economist will revolutionize the way business is done? Probably far less than the chance of

contributing to better policy. Where economists differ is in their interpretation of how ideas matter.

There are two dominant stories about the power of ideas. The first is summarized by John Neville Keynes (1893, Ch. 2). Keynes, attempting to clarify confusions within the broader economics profession, argues that there is an important distinction between the *positive science* of political economy and the *art* of political economy.¹⁷ While the positive science offers explanations and predictions, the art of political economy offers practical precepts for accomplishing certain ends. Those precepts come from combining the findings of the positive science with an understanding of existing conditions to formulate policies. In the twentieth century, this belief took the extreme forms of scientism, technocratic fine-tuning, and even full-on socialism. This is by far the dominant story that economists tell about the power of ideas. It is completely wrong.

As I have repeatedly emphasized in this essay, the extended order does not, by default, offer tight feedback. The conditions of relative scarcity are known only through the proxy of market prices. How, then, is it possible to develop something so sophisticated as an *art*? An art requires some sort of knowledge of particular conditions. That knowledge may be tacit—such as in the art of making pottery—but it always relies on tight feedback. An art is something one learns by doing, which assumes that there are signals to follow during the activity in question and the errors are obvious afterwards. No matter how well-informed a policy-maker may be, his knowledge can never be anything but a small fraction of the factors that affect the desirability of his policies. There can be no such thing as an art of political economy.

The alternative vision is offered by James Buchanan (1996). He argues that economics is a “public science,” and that the didactic purpose of the economist is to teach the principles of spontaneous order so that citizens may become informed participants in their own democratic process. In other words, the economist's comparative advantage is help correct the mental models of the citizenry and point out the unfeasibility of certain schemes. It is not to decide policy as an engineer or “artist,” but rather to help define the space within which political rationales must be made. Since the extended order does not offer tight feedback, these ideas will not assert themselves. The economist is not an artist who shapes the world into an aesthetically pleasing form. His role is far more roundabout. It is on the level of fundamental ideas, not concrete policies. Fundamental among those ideas are the frequently disastrous consequences of attempting to project constructivist conjectures in an emergent reality. As Buchanan says in his foreword to Tullock's *Politics of Bureaucracy*:

Man in the West, as well as in the East, must learn that

governments, even governments by the people, can do so many things poorly, and many things not at all. If this very simple fact could be more widely recognized by the public at large (the ultimate sovereign in any society over the long run), a genuinely free society of individuals and groups might again become a realizable goal for the organization of man's cooperative endeavors. *We do not yet know the structure of this society, and we may have to grope our way along for decades.* (Buchanan in Tullock 1965: 10, emphasis added).

The liberal social scientist does not lay claim to an art for fixing society. What he knows is that it will take free people trying different things to improve the world. In addition to singling out the principle of spontaneous order, this view of the role of ideas in politics is consistent with the recognition that policy is emergent. Hope is here balanced with humility. Politics, in the long run, is not a slave to interests but to ideas. Real change is possible, but—consonant with liberal values—must be the result of individuals changing their own minds.

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Notes

¹ Some slight modifications are made to the framework as presented in Wagner (2007) due to concerns I raise in my review of the book (Martin 2009) and in line with conversations with Wagner. Specifically, Wagner (2007) uses “market” and “state” as forums of action, whereas here “polity” is used to denote the sphere that coincides with the commons, while the state is understood as a hierarchically organized network of enterprises that exercises legal dominion over the commons (including, most importantly, barring entry to rivals).

² One reason to find Stiglerian information theory lacking is that what we find out is not always what we would most like to find. Bad thermodynamics has caused fewer deaths by heat than bad medicine has caused deaths by disease. This is due to a difference in available feedback, not a difference in relative benefit.

³ Without real parameter estimates, this sort of formalization would be nothing more than proof by assumption. But there are seemingly insurmountable problems in empirically estimating information

transmission in markets vs. government: how do you measure the information? How do you decide which knowledge is relevant, when that itself is an outcome of the process?

⁴Of course, one historical organization may be a composite of several enterprises, which are distinguished teleologically. At this level of abstraction, the distinction can largely be ignored, but see below on differences in feedback between corporations and sole proprietorships.

⁵In Wagner's framework, market-based enterprises include non-profits (Wagner 2007, p. 28). Private property is the relevant and sufficient criterion for distinguishing market and state enterprises. In what follows, I further subdivide enterprises according to the kind of projects they are engaged in (production vs. consumption, for example).

⁶Including that which falsely analogizes politics to markets.

⁷This definition seems isomorphic to Jouvenal's (1963) distinction between activities that are merely incompatible at the level of the individual and those that are incompatible at the level of the set. When individuals perceive the latter to hold, the activity necessarily becomes situated in a framework of common property. For instance, an individual's religious practice may be considered a private matter in one society; one individual may serve God and another Mammon with no contradiction. But freedom of religion may appear incompatible with being a "Christian nation," making one's religious practice the object of others' activity.

⁸In constructing two diagrams along an identical vector, I am not asserting identity or comparability across the two. All I am concerned with is relative positions on each.

⁹For this reason, Kirzner (1999) argues that Schumpeter's vision of entrepreneurship is sociological rather than analytic, and that his own theory more accurately captures the catalactic function of entrepreneurship. Innovation too is arbitrage. While it is an effective rebuttal to the claim that entrepreneurship can be discoordinating, it perhaps goes too far such that the line between errors and non-errors is drawn too much by an exogenous perspective.

¹⁰This should dispel any potentially remaining illusions that I am positing feedback as some sort of normative maximand. The highest level of feedback is ultimately only ever feedback over means, not the ends that give those means their value.

¹¹What about votes as a metric for electoral success, or discretionary budget for bureaucratic success? Indeed, such metrics undoubtedly come into play, but the point is that they reveal nothing about the effects of an enterprise in the wider extended order, only whether others equally reliant on mental models thought the plans were a good idea. Or even more realistically, that others thought the net package (prospective and retrospective) of plans the political agent is responsible for are superior to the alternatives.

¹²Privatization of a firm or industry, to be clear, would be an act of political entrepreneurship.

¹³NB: articulation implies neither coherence nor completeness.

¹⁴Note that with ideas, rather than formalized rules, constituting the constitution, these crisis points have less to do with interests being shocked (when did a revolution pay attention to vested interests?) and more to do with popular models governing political action breaking down.

¹⁵ From an interview for the series *The First Measured Century*, accessed at <http://www.pbs.org/fmc/interviews/friedman.htm>.

¹⁶ Of course, there are economic forecasters, but their job is to try to guess at the future values of variables already deemed to be relevant according to a given business plan. That is quite different from plan formation, and relies on actual market signals.

¹⁷ I am not trying to pick on John Neville. I cite him because he (still) aptly describes the broad consensus in economics. He actually goes to some lengths to warn his reader about the dangers of overreaching with this “art.”

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