

Introduction to Symposium on Mikayla Novak's *Inequality: An Entangled Political Economy Perspective*

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Abstract: Mikayla Novak's *Inequality: An Entangled Political Economy Perspective* is a valuable contribution to the public debate on one of the single most important issues confronting society today. She is to be congratulated for her contribution to positive economic theory insofar as she applies the perspective of entangled political economy to understanding the causes and effects of inequality within an economic order which emerges from an entangled set of institutions. Her contribution to revealing inequality to be a non-exotic phenomenon, and to providing a criterion whereby we can distinguish the deleterious effects of inequality on the functioning of the economic system is to be admired. We have collected a wealth of commentary on her important contribution for a special issue of *Cosmos + Taxis* in the belief that this is a contribution to be savoured, considered at length, and engaged with.

Keywords: Inequality, causes, effects, entangled political economy, institutions.

"We are the 99%" is a catchphrase which continues to dominate the public sphere seven years after it was adopted as the slogan of the Occupy Wall Street movement. A smouldering, resentful tension continues to permeate politics the world over among the discontents of neoliberalism and globalisation. Especially when coupled with the potent tonic that is identity politics, it won't be going anywhere any time soon.

At the heart of the spectre which haunts our political discussion is the rising inequality of income and wealth within economic systems. Outside of Joseph Stiglitz's *The Price of Inequality*, and of course Thomas Piketty's *Capital in the Twenty-First Century* economists have tended to be relatively quiet on this particularly salient social problem. In particular, what has been to my mind lacking (with a few exceptions—for instance Bertola et al. 2006; Rajan 2010; and Dutt 2012) has been an attempt to provide a compelling, coherent and complete theoretical statement on the causes and effects of inequality on the socioeconomic system absent (to the extent that is possible) the motivation of a particular political philosophy. Studies such as Stiglitz's tend to be pretty openly motivated by a political agenda, while studies such as Piketty's or the late Tony Atkinson's (surveyed in his 2015 contribution) have tended to be more fo-

cussed on the empirical definition, measurement and decomposition of factors in inequality.

I have thought for some time that we are in need of a compelling, coherent and complete theoretical framework for understanding inequality so that we may better ground our political discussion in a better scientific narrative about the facts. The importance of this discussion for society at large is overwhelming, and demands that we raise the standard of debate beyond the histrionic exchange of banal platitudes typical of discussions in the modern public sphere. Dr. Mikayla Novak, with her *Inequality: An Entangled Political Economy Perspective* has substantially addressed that lacunae.

I am very grateful to Dr. Novak for this contribution, not least because it goes well beyond my own rudimentary early attempts to address this problem (about which she is far too lenient in this volume). Dr. Novak has, simply put, achieved what it was that I had set out to do in those studies. For this I think we who are interested in the economics underlying this most prescient social problem must be very grateful. I think that it is therefore very fitting that we take this opportunity to discuss and debate her work in a special issue of *Cosmos + Taxis*.

In the rest of this introduction, I shall first take the opportunity to wholeheartedly abuse my privilege as guest ed-

itor of this special issue to offer my personal perspective on what Dr. Novak has achieved, for I have to admit that I am very excited by her work. I shall then offer a brief overview of the commentary we have assembled in this special issue from a range of authors across the globe on this book. I hope that readers of *Cosmos + Taxis* will be assured that Dr. Novak's is a major statement on the economics of inequality and one to be ruminated upon and debated for some time yet.

WHAT DOES *INEQUALITY* ACHIEVE? A PERSONAL PERSPECTIVE

This book will be particularly satisfying to readers of *Cosmos + Taxis*, focussing as it does on offering a theory of inequality as a phenomenon arising within the emergent order of economic systems. Dr. Novak is open about her adherence to the political philosophy of classical liberalism in this book, but I think that her major contribution in this work is positive rather than normative. Her major achievement is to provide a positive, theoretical account of the origins and effects of inequality within economic systems.

Dr. Novak adopts the perspective of entangled political economy to analyse the origins and effects of inequality within economic systems. To those who aren't familiar with this perspective, it has been pioneered by Richard Wagner of George Mason University, particularly in his *Mind, Society and Human Action* (2010). One might almost say that it is a mirror of the "Brisbane Club" perspective on socioeconomic systems pioneered by Jason Potts (2000), John Foster (2005), Kurt Dopfer (see Dopfer, Foster and Potts 2004; Dopfer and Potts 2008), Stan Metcalfe (see Foster and Metcalfe 2012) and Peter Earl (see Earl and Wakeley 2010) in particular and formalised, I might gratuitously say, by myself (Markey-Towler 2016). The Brisbane Club adopts the perspective that economic systems are complex evolving networks formed by individuals interacting within their socioeconomic environment as a result of the interaction of their psychology with that environment. From these interactions emerge the social institutions which dominate the psychology of individuals as rules for proper thought and action in society. Entangled political economy adopts a similar perspective, which we might say is more intensely grounded in the contributions of the Austrian school of thought, where the Brisbane Club is more intensely grounded in the contributions of Nelson and Winter (1982) in the first instance.

Entangled political economy, at least to my mind, emphasises the entanglement of the various institutional systems from which socioeconomic networks emerge and evolve through individual interaction. In particular, it emphasises alongside others, an aspect of that entangled institutional system which I will admit we have tended to leave somewhat implicit in the Brisbane Club perspective. That is political institutions, by which the government affects the formation of economic systems. As interactions form as a result of individuals acting out the underlying entangled institutional structure of society, socioeconomic systems emerge and evolve, and as those structures evolve as a result of those very interactions, they create evolutionary pressures in the economy.

As a mode of economic analysis, entangled political economy is almost uniquely suited to understanding inequality in socioeconomic systems compared with neoclassical economics. Attempts to model the causes and effects of inequality using neoclassical perspectives in which a system of utility-optimising agents (typically one representative agent) respond to prices to decide their behaviour in a fully connected network (Mirowski 1989) can feel clumsy and unsatisfying. The results are often, albeit useful enough, variations on the equi-marginal principle—"differential human capital creates inequality", "Brownian motion in production functions yield inequality", "unique skills can create 'superstar' effects"—and reveal no immediate relation to one another. Entangled political economy allows us to incorporate these insights as elements of a broader entangled institutional system which includes the particularly salient effects of politics and that gives rise to the systems in which economic inequality manifests.

In what I (personally as a theorist) find to be the most satisfying portion of Dr. Novak's work, her remarkable chapter 3, she shows this to be the case by applying entangled political economy to arrive at a succinct and compelling analysis of the origins and effects of inequality in economic systems. In no more than 20 pages! I can do no better than to simply quote her conclusion to chapter 3:

Entangled political economy is an ideal framework to study economic inequality because the distribution of income and wealth is, ultimately, relational and dynamic in nature. Inequality is commonplace throughout society as heterogeneous agents interact with each other across the associational, commercial, and political divides, developing relationships embodying

structures that bear the hallmark of unequal distributional patterns (Novak 2018, p. 74).

One almost feels the desire to add “QED” to this statement.

What Dr. Novak shows (consistent with the data) is that economic inequality is no exotic state of affairs which results from “market failure”. It is perfectly natural *and to be expected* as individuals act within the particular portion of the entangled institutions which applies to them. Inequality will naturally manifest within a spontaneous, emergent economic system due to the different talents and knowledge people develop and apply to the interactions they form with others within it, and the different interactions which are acceptable to them within the prevailing system of entangled institutions. How could it not?

So much for the causes of inequality. Now what of the effects? Again I can do no better than to simply quote Dr. Novak in her conclusion to chapter 3:

Voluntary activities undertaken in the pursuit of mutual gains may give rise to ‘good inequalities,’ in the sense that the underlying activities, let alone the resultant dispersion of income and wealth, do not necessarily hamper the ability of others to copy or modify them. Other inequalities, however can emerge as the result of successful efforts by special interests to lobby and pressure governments to reallocate and redistribute economic resources so that they can enjoy advantages and benefits at the expense of all others (Novak 2018, p. 75).

So, in essence, Dr. Novak provides us with a straightforward, economic criterion for distinguishing between the effects of inequality. Inequality which is a simple reflection of voluntary interaction within economic systems it does not necessarily impede the ability of others to coordinate voluntary interaction, and thus the functioning of the economic system. Something more is needed before inequality has a deleterious effect on the economic system itself, and that something is the use of surplus resources inequality may make available to influence the design the political institutions entangled within the institutional structure which creates the economic system so as to impede the ability of others to coordinate voluntary interaction. And of course, as Dr. Novak makes clear using the micro-meso-macro framework, such political institutions can rapidly spread to shape others within the entanglement which un-

derlies the formation of economic systems to become firmly entrenched and impede the ability of others to coordinate voluntary interaction.

In 20 pages, Dr. Novak has given us a more compelling, complete, coherent yet also succinct perspective than any number of equations could ever give. On the basis of this alone, and the clarity of understanding she offers on the causes and effects of inequality I congratulate her and recommend her book to any and all who feel they would like to comment on inequality. If you want to comment on inequality either in academic or public debate, you need to read this book.

Dr. Novak then goes on in Part II to apply the insights gained in the core chapter 3 to analyse the ways in which inequality can begin to have a deleterious impact on the functioning of the economic system—and it’s not the way that one might think were one only to pay attention to the banal platitudes spouted by the members of the political system. Entangled political economy, recognising that economic systems emerge from an underlying institutional structure in which political institutions in particular are entangled, recognises that inequality begins to have a deleterious impact on the functioning of the economic system through the actions of the government. Counterintuitively, entangled political economy reveals to us that the very institutional system meant to *address* the effects inequality is in fact the primary progenitor of them. It is really rather simple: the state provides the sole means of legitimate coercion in society, so any attempts to prevent voluntary interaction must originate within the political institutions entangled into the system from which the economic order emerges. Dr. Novak shows that where inequality has deleterious effects on the functioning of economic systems, this is achieved by the use of spare resources made available by inequality to impact the design of tax and expenditure (chapter 4), regulation (chapter 5), and social policy (chapter 6).

In Part III of her work, Dr. Novak provides us with a fascinating extension of her arguments over the preceding chapters, as they naturally suggest a means by which the deleterious effects of inequality on the functioning of the economic system may be mitigated. As inequality impedes the function of the economic system wherever it facilitates the dedication of resources to designing exclusionary political institutions, what is needed is a constitutional system which precludes the design of political institutions in this manner. The constitutional system must be written, difficult to change, and multipolar so as to make it difficult to obtain control over the design of the political institutions

entangled within the set from which the economic system emerges. But it must also be fundamentally liberal, precluding the design of political institutions which prohibit what would otherwise be voluntary interaction from becoming entangled within the institutional system from which the economic system emerges. Should these principles be ignored, it is very easy for inequality to facilitate the perpetuation of exclusion and discrimination as the political institutions designed to exclude and discriminate become social institutions too. That means that liberalism, constitutionalism and federalism are crucial for mitigating the negative effects of inequality on economic systems.

At the conclusion of *Inequality: An Entangled Political Economy Perspective*, I closed the book with a feeling of immense intellectual satisfaction. Here at last is a contribution to the study of inequality which provides a compelling, positive theory of its origins as a natural phenomenon within an emergent economic order. But not only that, it provides a compelling, positive theory of the effects that inequality has and a criterion for determining when those effects impede the functioning of the economic system. And, finally, that analysis presents us naturally and with ease a basic attitude toward the problem and its solution which is a vital starting point for this most important of political discussions in the modern era. I congratulate Dr. Novak for her contribution, commend her work to the reader, and trust you will find it equally satisfying.

WHAT DOES *INEQUALITY* ACHIEVE? AN OVERVIEW OF OUR COMMENTARY

It should be apparent now that Dr. Novak's is a major statement on the economic causes and effects on inequality, and one which ought to be very satisfying for readers of *Cosmos + Taxis*, and therefore is very much deserving of an extended examination and commentary. The remainder of this symposium is intended to serve just this purpose. The reader ought to find themselves well satisfied by the conclusion of this symposium and keen to find out for themselves how Dr. Novak's contribution will stimulate their thinking on this vital issue.

We begin, as would only be appropriate, with commentary from Professor Richard Wagner, whose entangled political economy perspective provides the basis for Dr. Novak's contribution. Professor Wagner examines how, by recognising that political and economic institutions are entangled rather than separable, allows Dr. Novak to neatly *disentangle* the tension between fact and value which is

here so very pointed, and discern the perhaps counterintuitive importance of *liberty from* government intervention to mitigating deleterious inequality. Dr. Marta Podemska-Mikluch continues in this vein, discussing how Dr. Novak's application of entangled political economy to understand the origins of inequality gives us a perspective on how it comes to have negative effects on economic systems through the interaction between the entangled institutions which order society and entrepreneurial ventures. Professor Steven Horwitz then provides a discussion of what scholars of classical liberalism can take from Dr. Novak's book. Though somewhat sceptical of the value-added by the entangled political economy approach can offer relative to traditional modes of analysis, he argues that her contribution is valuable for bringing inequality to the attention of classical liberal scholars as a topic worthy of study, and substantially beginning the process of that study. Associate Professor Laurent Dobuzinskis continues this discussion of the contribution of Dr. Novak to the normative debate on inequality by considering how classical liberal scholars can draw on *Inequality: An Entangled Political Economy Perspective* to renew a dialogue with "liberal egalitarian" thinkers such as Rawls, Dworkin and Sen who emphasise the importance of *fairness* in the organisation of social affairs. Professor Vincent Geloso, finally, pushes back against the taking of a normative approach to inequality to suggest that, while Dr. Novak's is an important contribution, taking a more purely economic approach to the problem of inequality free of the normative content of a classical liberal approach would yield more value for the public debate due to its more universal appeal.

CONCLUSION

Inequality won't be going anywhere anytime soon. Even Christ said "the poor you will always have with you". And while it exists there will be smouldering discontent and resentment haunting our political discourse. So we would do well to get our understanding of it straight, so that we can rise above banal platitudes to have an informed debate about the causes and effects of inequality.

Dr. Novak has done us a great service with her *Inequality: An Entangled Political Economy Perspective* in this regard, and I congratulate her for it. It is a book which is exciting for the intellectual satisfaction it brings, and the clarity of vision it offers around this most important of economic problems. It shows us that inequality is a natural phenomenon in economic systems using a view of the economy as an

emergent order from an underlying entangled institutional system. It offers us a compelling criterion for identifying when the effects of inequality on the economic system become deleterious by impeding its function. It is a book to be read, contended with, savoured, and incorporated into the public discourse as a major achievement.

It is our hope that this special issue of *Cosmos + Taxis* will do justice to this achievement, and serve as a valuable symposium for commentary on Dr. Novak's work.

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