
Inequality, Entanglement, and Entrepreneurship—the Role of Voluntary and Forced Investors

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Abstract: In her recent book *Inequality: An Entangled Political Economy Perspective*, Mikayla Novak provides a new way to understand, and analyze, income and wealth inequality. By adopting Richard Wagner’s framework of Entangled Political Economy, Novak creates a connection between inequality—an aggregate outcome - and social interactions that generate it. Novak’s approach highlights the crucial difference between socially hurtful and socially beneficial, or neutral, forms of inequality. Subsequently, Novak’s work makes it possible to recognize the vulnerability of free societies to the emergence of socially hurtful forms of inequality, in particular, as a consequence of constitutional erosion. In analyzing the importance of regulatory constitution in preventing the emergence of socially hurtful forms of inequality, Novak recognizes the embedded public choice problems. One obstacle to counterbalancing constitutional erosion is the challenge of recognizing and anticipating which activities contribute to it. I argue that the adoption of Richard Wagner’s distinction between voluntary and forced support for new entrepreneurial ventures will help scholars recognize projects that threaten the regulatory constitution and contribute to the emergence of socially hurtful forms of inequality.

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INTRODUCTION

As Mikayla Novak outlines in her recent book *Inequality: An Entangled Political Economy Perspective*, concerns regarding income and wealth inequality abound in the social science literature as well as in the media and in political debates. In fact, inequality has become a focal point of scholarly disputes, public attention, and political movements. In these popular accounts, unequal distribution of income and wealth is frequently linked to the variety of social ills. Among them are the inverse relationship between inequality and economic growth, systemic exclusion of low income groups, and degradation of social capital and health indicators. However, while there is substantial literature supporting the casual link between inequality and the diverse social ills, numerous authors dispute these claims (for an overview of the literature see Novak 2018; Geloso and Horwitz 2017).

In making sense of the conflicting empirical findings, it is important to recognize that similar aggregate outcomes might result from very different social processes. By adopting Richard Wagner’s framework of entangled political economy, Novak illuminates a complex relationship between inequality—an aggregate outcome - and social inter-

actions that generate it. As a result, Novak’s approach furthers the scholarly understanding of the crucial difference between socially hurtful and socially beneficial, or neutral, forms of inequality. Consequently, Novak’s work makes it possible to recognize the vulnerability of free societies to the emergence of socially hurtful forms of inequality, in particular, as a consequence of constitutional erosion. In analyzing the importance of regulatory constitution in preventing the emergence of socially hurtful forms of inequality, Novak recognizes the embedded public choice problems. One obstacle to counterbalancing constitutional erosion is the challenge of recognizing and anticipating which activities contribute to it. Building on this intricate foundation, I argue that the adoption of Richard Wagner’s distinction between voluntary and forced investors will help scholars recognize entrepreneurial projects that threaten the regulatory constitution and contribute to the emergence of socially hurtful forms of inequality.

The paper starts with a discussion of whether, and under what conditions, inequality might be harmful to individual wellbeing. I also look at the inability of income and wealth distribution ratios to answer this question. Then the attention turns to the analysis of inequality from the perspective of entangled political economy, focusing on what processes

would generate inequality in an idealized free society, followed by a discussion of what that looks like in an authoritarian society. Finally, I focus on the susceptibility of free societies to constitutional erosion and what that means for the nature of inequality. I conclude with the discussion of Wagner's distinction between voluntary and forced support for new entrepreneurial ventures and its implications for the nature of resulting inequalities.

WHEN IS INEQUALITY A PROBLEM?

Most research on the social harm associated with income and wealth inequality focuses on the degree of inequality. Presumably, the more unequal the distribution of wealth, the worse the associated social ills. As inequality grows, so does the extent of social harm. However, this approach presumes that similar levels of inequality are associated with the same social processes. In other words, the macro-level outcome in the form of a specific inequality measure is supposed to directly map to the social interactions that generated it. Yet, it is possible that similar ratios of income or wealth distribution are generated by very different social processes. In contrast to this standard approach, Novak argues that what matters is the source of inequality, not so much its extent. It is the source of inequality that determines whether the particular form of inequality ends up being socially harmful.

Indeed, the position adopted in this book is that the decomposition of inequalities by source—interpreting which are socially harmful, especially with regard to the exercise of liberties—is a far more rigorous strategy for classical liberals to embrace when engaging with the inequality issue. (Novak 2018, p. 16)

From the classical liberal perspective, inequality is an unavoidable feature of social life. Since we all have different skills and different preferences, inequality of wealth and income is bound to emerge. This is not to say that inequality of income is never a problem for classical liberals. It becomes a problem when it imposes restrictions on individual liberty. When wealth or income differences are correlated to significant differences in access to various opportunities, or in unequal treatment of individuals, then inequality becomes a concern for classical liberals. This focus on inequality of opportunities is well illustrated by the preoccupation of classical liberals with minimum wage regulations, which is thought to destroy entry level jobs and therefore

further disadvantages those at the bottom of income and wealth distribution (Williams 2011).

There are many challenges associated with the measurement of inequality, which Novak eloquently outlines in the book. Because of these challenges, the answer to the question of when inequality is a problem is not easily supplied with the use of statistical analysis. While notions of fairness and justice have accompanied humans since the beginning of civilization, the attempts to express these notions with a single number fall short of the expectations. Measures of inequality, such as Gini coefficient, are the tip of the iceberg. They provide no information about what is beneath the surface. Therefore it is impossible to learn what has caused a particular distribution of income by looking at a single number. Similar aggregate outcomes might be indicative of very different social structures and processes.

Novak's adoption of entangled political economy approach solves this problem. The entangled political economy framework turns the attention to the nature of interactions between various entities within the economy (Wagner 2009, 2016). By using this approach, we can trace the relationship between inequality and the nature of interactions between individuals. entangled political economy builds on network theory. The adoption of the network theory allows for the analysis of the nature of individual interactions, the context in which individuals live, the opportunities they enjoy, and how these opportunities might differ between different individuals within the network. From the perspective of entangled political economy, it is not relevant who owns what at a particular moment but rather what opportunities individuals have to improve their wellbeing. Based on this approach, Novak construes of inequality as an incomplete structure of networks. As Novak explains, more equal networks are more complete. For example, standard notions of wealth distribution do not shed any light on the differences in the opportunities available to little girls and boys in low income countries. In contrast, from the perspective of network theory, girls are clearly at a disadvantage as they are the first to be pulled out of school, must take care of younger siblings, and have little control over their futures. From the network theory perspective, this would be expressed by the lower number of connections that girls can form.

INEQUALITY IN A FREE SOCIETY

In a society of free individuals, characterized by voluntary interactions between all members, those who serve others end up with a greater share of resources. Individuals more

skilled at recognizing the needs of others and at addressing these needs are rewarded for their abilities and efforts. However, inequality of this nature is self-correcting due to competition and creative destruction. At any time someone can provide a better solution to any particular problem. Concentration of wealth attracts intensified entrepreneurship and challenge. Because serving others is rewarded in a free society, there is a propensity to experiment and innovate. There is an ongoing threat to the status quo. In the 62 years between 1955 and 2017, fewer than 12 percent of the Fortune 500 companies remained on the list (Anthony et al., 2016). Moreover, two of the most dynamic of the modern startups, Uber and Airbnb, have been built in less than a decade, contributing to the displacement of well-established, entrenched industries (Stone 2017). These dynamic changes are well illustrated by a quote from Ludwig Lachman that Novak also cites in the book but that is also worth repeating here:

Market competition limits concentration of wealth. It encourages the circulation of the elites. The owners of wealth, are like the guests at a hotel or the passengers in a train: They are always there but are never for long the same people (Lachmann [1956] 2008, p. 180)

In many ways, the idea of free society being less susceptible to the emergence of harmful forms of inequality is related to the point Wagner makes regarding the turbulent nature of markets. In Wagner's view, the features of the market that make it turbulent, also make it resilient to that turbulence (Wagner 2012). Similarly, while a free society can be highly unequal, it is also characterized by great social mobility. At any one point there could be significant differences in wealth and income among individuals but individuals would also enjoy access to opportunities to change their position on the income and wealth distribution scale.

However, while in an idealized free society, concentration of wealth is never a long lasting concern. It would be naive to ignore the possibility that those who enjoy the greater share of resources would want to secure their position. In the entangled political economy, an effort to secure one's privileged position can be viewed as an effort to turn a dyadic relationship into a triad. Dyadic relationships are voluntary in nature and occur in the world of wholly private ordering where the guardian does nothing more than maintain the ordered relationships that the participants have established. In contrast, the setting of triadic exchange differs from dyadic exchange because the guardian becomes

an active participant in the exchange process (Podemska-Mikluch and Wagner 2013)

In the network of triadic relationships, any challenge to the status quo is much more difficult than in the world of dyadic relationships. When concentration of wealth comes with the control of power, challenging it is much more difficult. Even if challenges do happen, the nature of social networks does not necessarily change. Fidel Castro might be replaced by Raul but this change does not increase the connectivity of nodes in the network. Control over the tools of coercion allows for the protection from transitional losses.

While researchers who use aggregate stats have difficulty distinguishing between socially acceptable and socially hurtful forms of inequality, the distinction is quite clear from the perspective of entangled political economy. The socially harmful forms of inequality are those that are persistent in nature. Persistent inequality occurs when some of the dyads are turned into triads because reversing this process is much more difficult. As the share of triadic relationships increases in the network, the degeneracy of the system decreases, and the harmful, long-lasting form of inequality becomes more entrenched.

INOCULATION TO THE EMERGENCE OF TRIADS

So how do we ensure that the temporary inequalities of a free society are not turned into the permanent inequalities of an authoritarian society? The omnipresent support for public work projects, agricultural subsidies, trade restrictions, minimum wage and other regulations that restrict social mobility and reinforce permanent inequality, highlights the failure of social scientists to elucidate the processes that threaten free society and that lead to the emergence of persistent, long-lasting, forms of inequality.

To prevent the drift towards the harmful forms of inequality, Novak suggests non-interference with relative prices, and more broadly, a regulatory constitution. However, Novak also acknowledges the many challenges of protecting the regulatory constitution and the susceptibility of free societies to the emergence of harmful forms of inequality. So what can social scientists do in light of this vulnerability? The first step must be to supply the tools that facilitate a better recognition of processes that lead to the emergence of triads. Here, I agree with Buchanan that the primary goal of economists is to design and maintain institutions, and provide the intellectual tools that allow indi-

viduals the opportunity to make their own choices and to engage in voluntary cooperation (Buchanan 1964).

One obstacle to counterbalancing constitutional erosion is the challenge of recognizing and anticipating which activities contribute to it. Richard Wagner's distinction between voluntary and forced investors helps recognize entrepreneurial projects that threaten the regulatory constitution and contribute to the emergence of socially hurtful forms of inequality. Most entrepreneurship scholarship focuses on the outcome based distinction of entrepreneurship: political, market, social. In organizing the inquiry around this supposedly distinct types of entrepreneurship, scholars tend to focus on the goals entrepreneurs pursue: market entrepreneurs are portrayed as seeking to make a profit, political entrepreneurs are driven by rents, and social entrepreneurs are thought to be driven by other, supposedly less venal, motivations. In contrast, Wagner offers a distinction between entrepreneurship that is based on the means; on whether new ventures are supported by either voluntary or forced investors. The latter projects are likely to contribute to socially harmful forms of inequality. Following Wagner, taxonomy of entrepreneurship should focus on means, in particular, on whether the resources that support the venture were obtained through cooperation or coercion.

Wagner postulates that the shared characteristics of political and market enterprises are the reason for why we should think of political enterprises as peculiar forms of business (Wagner 2016). To be successful in either the market or politics, entrepreneurs require resources in the form of support from investors. As Wagner notes, entrepreneurial activity of any kind comes at a cost, at the very least, there is the opportunity cost of time spent on developing and testing the idea. Whether motivated by the expectations of financial gain or by any other objective, entrepreneurs need resources to launch and support their projects. The need for an operational budget is common to all types of enterprises, independent of what goals they pursue.

These resources can be obtained in the market; however, they can also be obtained in the fiscal commons. In either case, investors are attracted by a prospect of financial returns. This is true both of market and political enterprises. As Buchanan and Tullock argue, special-interest group activity is a direct function of expected gains (Buchanan and Tullock 1962). Similarly, Wagner suggests that at the most fundamental level investment in political enterprises occurs when it offers higher returns than other forms of investment (Wagner op.cit.).

However, this is where the similarities end. Working with alienable property, market enterprises engage in reciprocal, mutually beneficial, exchange. They engage in dyadic, voluntary interactions. In contrast, the value of a political enterprise to an investor lies in its ability to alter the relative prices of various market offerings. As Wagner notes, in order for that to happen, others—the forced investors—must face a worsening in the terms of exchange (Ibid.).

Forced investors are coerced to support the political enterprise through changes in regulatory or fiscal policy. There are endless examples of regulatory policies that accomplish this goal, i.e. increased safety standards that benefit incumbent firms and discourage entry of competitors. Subsidies are an even more direct form of generating returns for voluntary investors at the expense of forced investors. Since it is not always easy to identify the cause for the worsening in the terms of trade, forced investors are often ignorant of the support they provide.

It is the source of support that offers a multitude of implications for the nature of sponsored enterprise, creating a productive foundation for the taxonomy of entrepreneurships. Paying more attention to the means entrepreneurs use provides more insight into whether they are actually consensual and wealth-creating or coercive and wealth-destroying. Consider the case of state and federal contraceptive mandates. The rhetoric of gender equality and reproductive justice, combined with the religious freedom debate, hid from view the redistributive aspects of the promoted policies, in particular, the expected payoffs to the pharmaceutical manufacturers (Podemska-Mikluch 2018). Similarly, in the case of Grameen Bank, the social entrepreneurship rhetoric highlighted the benefits of micro-credit, while hiding from view the low effectiveness of the program, despite the fact that founders were successful in obtaining generous contributions from donor organizations and governments (Schreiner 2003).

CONCLUSION

Those who work outside the entangled political economy framework will likely continue to search for ways to more effectively measure inequality and its relationship to other social aggregates. But Mikayla Novak's innovative work creates a foundation for a new, more productive direction in the research on inequality and societal implications. Here I sketched out one such possibility: the adoption of Wagner's distinction between voluntary and forced support for new entrepreneurial ventures as a tool for the recognition

of projects that lead to the more entrenched and harmful forms of inequality.

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