

Municipal corporations, economic calculation, and political pricing: exploring a theoretical antinomy

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Abstract Most thinking about political economy treats states as unitary actors. In contrast, this paper treats states as ecologies of politically-based enterprises. Where a market is a congeries of business enterprises, a state is a congeries of political enterprises. Both sets of enterprises compete with one another in a setting where those who manage corporate capital are largely separate from those who supply it. Competition among political enterprises, however, cannot generate market prices because of the inalienability of property rights. In consequence, what arises is a system of pricing and calculation that exists parasitically upon the system of market prices.

Keywords Municipal corporations · Agency theory · Competition among governments · Political pricing · Emergence

JEL Classification D23 · D72 · D78 · H70

1 Introduction

For half a century, Tiebout (1956), in conjunction with claims that elections are instruments of policy choice, has dominated the analytical agenda of public choice within a setting of local government. Any analytical framework shines light on some phenomena, including imaginary phenomena, while shrouding other phenomena in darkness, including phenomena that might not be there. This paper searches for phenomena that are kept in darkness by the dominant analytical framework. Table 1 presents a comparative summary of two analytical frameworks in terms of six conceptual dichotomies. One set of dichotomies I describe as Tieboutian because its elements are widely employed and not because they were created by Tiebout. The other set of dichotomies I describe as Wagnerian, not because I invented them but because I am working with them.

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Table 1 Six Conceptual Dichotomies

Tieboutian Framework	Wagnerian Framework
Modeling via equilibrium and comparative statics	Modeling via non-equilibrium and on-going emergence
Elections as instruments of policy choice via median voter	Elections as non-instrumental and policy as systemic outcome independent of voting
Economics centered on things and resource allocations (rational choice)	Economics centered on thoughts and relationships (social science)
Competition resides in number of stipulated “competitors”	Competition a ubiquitous and ineradicable feature of human nature
Surface level heterogeneity combined with deep level homogeneity	Deep level heterogeneity
Separated political economy	Knotted political economy

While these dichotomies seem mostly self-explanatory and moreover, will be discussed below, it seems useful to provide some preliminary orientation. First, the Tieboutian framework analogizes a fragmented system of local government to the standard model of competitive equilibrium and works with comparative statics; in contrast, the Wagnerian framework works with emergent processes in a non-equilibrium manner.¹ Second, within the Tieboutian framework elections are treated as instruments of policy choice via a median voter; by contrast, elections are treated simply as an arrangement to populate stalls in a bazaar where collective business is subsequently conducted within the Wagnerian framework. Third, and to recur to one of George Shackle’s (1961, 1972) persistent themes, the object of theoretical interest is not resource allocations but human relationships and their governance; after all, resources cannot allocate themselves, for only people can do that and, moreover, can do so only through relationships with other people. Fourth, competition is not a variable quantity that depends on some measure of some stipulated number of “competitors,” as is the case in orthodox treatments of competition; to the contrary, it is an invariant quality of human nature so can take alternative courses historically but can never be eliminated via monopolization. Fifth, societies are treated as variably turbulent in contrast to the placid quality of equilibrium theorizing, and the vehicle for pursuing this turbulent quality is replacement of the standard presumption of deep-level homogeneity with one of deep-level heterogeneity, as explored in Martin and Wagner (2009). Sixth, the compound term political economy denotes a non-separable condition of human interaction, which leads to an alternative formulation of property rights and human governance.

2 States and markets: confronting a theoretical antinomy

Economic theory is grounded in recognition that societies entail orderly and intelligible patterns of activity where those patterns appear to be generally coordinated even though there is no person or office that is in charge of securing that coordination. Economic theory arose in a time when collective activity was a small part of total economic activity, so an economic

¹A non-equilibrium framework is not a disequilibrium framework, for disequilibrium makes sense only if equilibrium is also embraced. See Katzner (1998) for treatment within a macro-theoretic framework and Eusepi and Wagner (2010) for similar treatment with respect to federalism.

theory of markets would account for all but a small portion of organized economic activity. The interest of economists in the collectively organized residual was limited mostly to proffering maxims for some despot who typically was presumed to be benevolent. Governments are, of course, vastly larger today, and yet economic activity retains its generally coordinated pattern.

Public choice theorizing has been in the forefront of efforts to extend the coordination of activity from markets to collective activity. Yet even public choice theorizing has generally pursued formulations that invoke what Mitchel Resnick (1994) calls the “centralized mindset,” by which the perception of organized activity is attributed to some organizing agent as against being treated as an emergent quality of interaction among agents. For public choice theorizing, that organizing agent has typically been a median voter, and with an election serving as an instrument for choosing that voter. What results is a theoretical antinomy whereby market activities are reflections of spontaneous ordering while collective activities are reflections of planning, and with an election being an instrument for choosing between plans.

The alternative to embracing this centralized mindset is to place both market and state on the same ecological plane where all societal activities are governed through interaction among planning entities within a framework of spontaneous ordering, some features of which are sketched in Eusepi and Wagner (forthcoming). Proceeding in this fashion, however, requires a turning away from the orthodox dichotomy between public and private goods, at least to the extent that these have been defined by technical characteristics. What is particularly notable about this theoretical schema is its incongruity with the schema of market theory. With market theory, competition is continuous and knowledge is distributed among participants and never assembled at any one place. No single person can produce even a pencil (Read 1958) for what leads to the production of pencils is commercial interaction within a nexus of relationships; the ability to produce pencils is a *systemic quality* of a set of relationships and cannot be reduced to some person’s competence. It would be purely metaphorical to assert that market outcomes represent some form of median preference or desire. With respect to things collective, however, the theory takes the reverse tack by asserting that political programs represent some such preference.

The theoretical antinomy results because political phenomena are treated as simple products of choice while economic phenomena are treated as complex products of systemic interaction. To speak of systemic interaction is necessarily to speak of an order of organizations that is not reducible to some point-mass entity, other than by postulating that all observations pertain to equilibrium states. Dissolution of the antinomy requires that polity be treated within the same scholarly orientation as economy. As an order, polity contains many organizations within its precincts, and with those organizations interacting both among themselves and with various organizations located within economy. While all organizations are oriented teleologically through plans, the resulting order emerges spontaneously through interaction among participants. Within polity there is no one organization that denotes polity, for polity is plural and not singular with respect to its organizational pattern. Neither a president nor a parliamentary assembly comprises a polity but rather each denotes particular organizations within a polity.

Dissolution of the theoretical antinomy requires an alternative framework where both polity and economy contain numerous enterprises, each of which is teleologically oriented. The order within which those enterprises operate, however, is not some teleological plan but is an emergent product of interaction among those organizations where organizational actions are influenced both by constitutive rules and by the actions of other organizations. Market-based cooperation is only part of the story of social organization. A complete story

requires political enterprises to be brought into the picture to give an account of economic calculation by enterprises organized within the polity.

There is much truth in the adage that markets occupy societal interstices where political interest is absent, or perhaps just weak. Indeed, this was the primary theme of Georg Simmel's (1978) masterful treatment of *The philosophy of money*, which as Simmel explained was not about economics but about where economics started and stopped, as elaborated in the commemorative essays collected in Backhaus and Stadermann (2000). The Edgeworth box model of exchange provides the central framework for the theory of markets, with much of the theory of markets concerned with how different exchange processes influence the selection of positions inside the box. What is left out of the Edgeworthian construction, and what was central to Simmel, was the process through which the dimensions of the box was determined. That determination is made by people other than the participants to a trade. Inside the box, property rights have been defined, but their definition and the conditions under which they can be exchanged, are determined outside the box. A borrower and a lender might execute a credit contract, for instance, but to a large extent the conditions of trade will be imposed on the traders from outside the transaction. A fully developed theory of political economy would speak to both the inside and outside views of the Edgeworth box.

3 Instrumental voting and the centralized mindset

The theoretical antinomy is generated by the seemingly innocent presumption that elections are moments of choice among plans for collective action. This presumption requires that elections represent the efforts of competing politicians to formulate programs to appeal to voters, with the successful candidate being the one who acquires the most support under plurality elections. Subsequent observations of political action are thus described as the implementation of plans that were articulated prior to the election. Political competition is thus about contending plans regarding post-election activity.

To avoid the theoretical antinomy requires severing the connection between elections and policy. Yes, people vote in democratic polities. And yes, politicians compete for electoral support. The conjunction of these two points, however, does not constitute a theory that reasonably analogizes voting to consumer choice. This kind of post hoc formulation can't yield a coherent theory of political competition. What is required is an analytical framework wherein the real work in politics arises through the structured nexus of relationships that are in place within a society, and which in turn operates largely independent of who in particular populates that nexus. Within this type of analytical framework, the centralized mindset can be avoided and both market and political activities can potentially be brought within the same explanatory framework of spontaneously ordered competition among multiple planning entities organized through various institutional processes.

If voting is not an instrument for the selection of policy, what might it accomplish that would not, perhaps, be accomplished through random selection among candidates? Suppose, as illustrated by Wagner (2007), human nature entails desires for both autonomy and solidarity, though with the substantive content of those desires differing among people.² Within this framework, let autonomy map into market action while solidarity maps into non-market action which might be associated with civic association as well as government.

²I should note that I don't treat these as separable, even though it is convenient to do so analytically.

Think back on Shakespeare's character Jacques in *As You Like It*: "All the world's a stage, and the men and women on it are merely players." Suppose we adopt this Shakespearean orientation of all being performers in a drama (or perhaps a comedy, divine or otherwise) in which we write our own parts, though in doing so seek to make connections with other parts and participants. Where on this cosmic stage is a person's action located? Partly this is a matter of preference and choice, though it is also influenced by choices that other people make, much as a person's motion in a crowd of pedestrians is influenced by other pedestrians.

Joseph Schumpeter (1934) noted that in a capitalist society leadership to seize the future is provided largely by entrepreneurs. This claim seems reasonably descriptive of 19th century industrial capitalism. The center of the stage of social life was occupied by entrepreneurs. To follow Shakespeare's analogy, political figures operated largely in the background, serving as stagehands and in similar capacities. All such capacities are necessary for the cosmic drama to proceed, but the differences in roles are noticeable all the same. Schumpeter's time is long behind us, and we have evolved into a different societal arrangement than what Schumpeter designated as capitalist. While societal evolution has proceeded, the same ceaseless contest for space and location on stage continues without end, only with some of the stagehands moving into more central locations, sometimes displacing entrepreneurs while at other times being invited by them (perhaps to keep other entrepreneurs in the background).

Within this framework, might not voting, in contrast to random selection, be something that helps politicians to move more to the center of the stage? With random selection, politics would surely be less prominent. Term limits, moreover, might operate with somewhat similar effect by reducing brand-name recognition. Hence, voting can exert significant effects on society even if it is not an instrument for selecting policies. Voting would do its work by altering the prominence of certain positions in the societal drama, and not by selecting substantively among policy options that emerge within that nexus. Within the context articulated by Norbert Elias (1982), for instance, voting might serve as one civilizing process within society even if it is not an instrument for selecting among policy options.

In raising this prospect, I should note that to speak of a civilizing process is not to offer some kind of welfare judgment. Alexis De Tocqueville (1945) in *Democracy in America*, in his chapter on democratic despotism, described a civilizing process by which people became placid sheep to be herded and guarded. Perhaps such placidity has positive survival value in an increasingly densely populated planet, in which case it might be judged historically to have been beneficial. But whatever that historical judgment, it seems likely that election campaigns, especially in conjunction with modern electronic technology, work to strengthen the political articulation of much of the uneasiness that propels human action and which at an earlier time was perhaps more the province of entrepreneurial articulation and civic association. For instance, political competition has surely created a greater awareness that our activities can influence our global environment even if the outcomes that emerge from that process might be inferior to other outcomes that can be imagined. Stated differently, elections would seem to be part of a continuing process within which societal options are articulated, contested, adopted, revised, and rejected.

4 Societal topography, political competition, and spontaneous ordering

What is the character of the societal topography in which elections occur, and how does this topography influence the substance of political action within a framework of spontaneous ordering? The standard formulation has minimal topography. There are candidates who seek

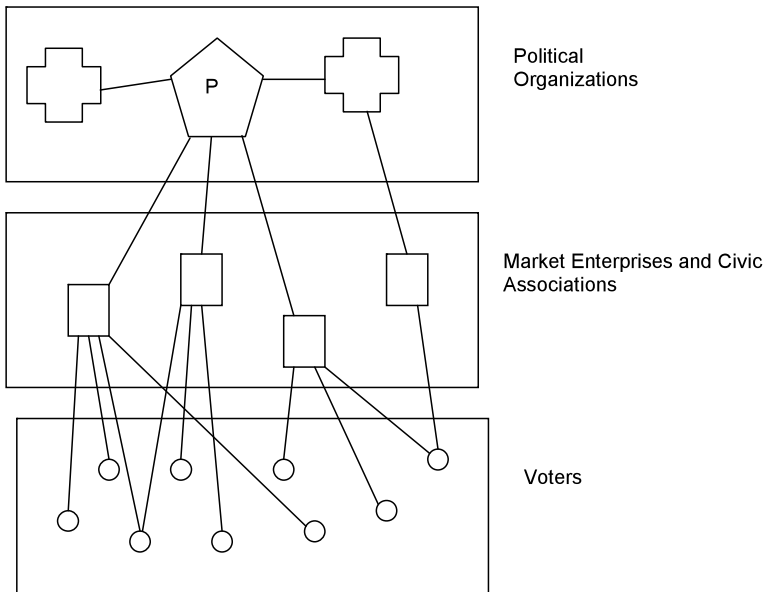


Fig. 1 Tri-Planar Topography of Political Economy

election and voters who cast votes. The societal topography could be represented by a field where voters sit and a platform at the end of the field where candidates proffer their programs. Consistent with the centralized mindset, the programs that are proffered originate in the minds of the candidates who are seeking to locate the median voter. Any more elaborate topography is irrelevant for a theory centered on rational choice because patterns of social connection and interaction are irrelevant to that form of theory.

By contrast, patterns of social connection and interaction are significant for a theory based on social interaction, as sketched in Wagner (2010). Figure 1 sketches a simple tri-planar topography of political economy to convey this idea. The lowest plane contains nine voters. The highest plane contains three political organizations. Within a democracy, one organization on that plane will be a parliamentary assembly, which is denoted by the pentagon.³ The political plane will contain other organizations that are also concerned directly with the articulation and execution of political programs. These organizations can include think tanks, public relations firms, and public bureaus and agencies. Elections involve voters on the lowest plane casting ballots to select people to populate the parliamentary assembly that resides on the highest plane along with other organizations that all participate in the articulation and implementation of political programs.

The intermediate plane lies between voters and political actors, and is populated by commercial enterprises and civic associations. To avoid unduly cluttering Fig. 1, direct connections between politicians and voters are suppressed. While some distortion is created in doing this, it provides a framework for focusing on the forms and processes of social interaction through which political programs emerge, and which cannot be explored through a bi-planar representation of candidates and politicians. This intermediate plane is where

³In Wagner (2009a, 2009b), a parliamentary assembly is treated as a bazaar, similar to Pantaleoni (1911). In this formulation the members are organizations and the assembly is an order.

much rational action and calculation is brought to bear on politics, and where many political programs are articulated as illustrated by the drafting of legislation by lobbyists and trade associations. As a substantive matter, rational calculation is surely more prevalent among enterprises than among consumers. How many consumers keep double-entry accounts, account for accruals and cost-of-goods-sold within their household enterprises, and undertake related types of calculational activities? To ask the question is, of course, to answer it.

While it is individuals who vote for candidates, the casting of votes is but the proverbial tip of the iceberg in this tri-planar framework. The predominant share of the work is done beneath the surface, so to speak, where programs are articulated through interaction among especially interested parties and where potential candidates jockey for recognition. The three planes are connected, of course, and it would be possible to simplify the formulation by eliminating the intermediate plane. Imposing this reduction would, in turn, eliminate social interaction from the political process. To maintain analytical space for social interaction requires an architecture that can hold that interaction, as illustrated by the intermediate plane in Fig. 1. The central idea there is that enterprises compete, and in so doing form alliances with political participants. Suppose elections were replaced with random selection, or perhaps random selection among those who expressed an interest in being selected. If this claim is correct, there would be but modest difference from what we presently experience. There would be fewer political advertisements, political campaigns wouldn't claim media attention, and bookmakers wouldn't list odds on election results. But policy would proceed pretty much as it now does if it is the enterprise plane and not the citizen plane that predominates in the selection of policy. This isn't to claim that election outcomes might be irrelevant, but is only to claim that to a significant extent the substance of political rationality resides in the structured nexus of political relationships and not in the identity of who occupies those positions. Moreover, action on the enterprise plane is on-going, in contrast to the intermittent quality of elections.

It shouldn't be necessary to ask "why" voters vote. We observe that many of them do, and from this observation we must conclude that they prefer to devote that time to voting than to whatever else they might have done with their time. As for the sources of value or the character of the alternative uses of time, they surely differ among people and there is no need to be concerned with such matters because voting is not the instrument of policy choice. People follow athletic teams without thinking that they are choosing winners of contests, as illustrated by the literature on expressive voting exemplified by such works as Brennan and Hamlin (1985) and Brennan and Lomasky (1993). We neither inquire into the choice to follow a team nor seek to connect those choices with the results of athletic contests. The same situation surely pertains to politics and political competition. Political economy becomes a theory of spontaneously ordered catallaxy, inside of which operate numerous enterprises constituted through various institutional channels and processes, and with both cooperative and antagonistic relationships existing among those enterprises.

5 Parasitical calculation and public square catallaxy

Once the centralized mindset and the theoretical antinomy it supports is set aside, it is necessary to treat both market and collective activity as generated through transactional processes that are governed by local and divided knowledge. Economic calculation requires prices as tools of calculation, as surveyed in Boettke (1998). This holds for political enterprises as much as for market enterprises. But prices emerge only in the presence of alienable property. The internal economy of the state cannot generate prices. Thus in a technical sense the state

must act parasitically upon the market economy, as Maffeo Pantaleoni (1911) recognized in his theory of political pricing.

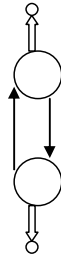
The parasitical quality of political pricing pertains to the distinction between inside and outside orientations toward the Edgeworth box. The inside orientation pertains wholly to private ordering and its rules. The outside orientation comes into play as political processes impose rules on conduct within the box, so to speak. A city might offer a bus service financed by fares. It might turn out that the bus service can't cover its expenses with its fares. When viewed from inside the Edgeworth box, the municipal bus enterprise would dissolve. It can, however, continue to operate by moving outside the box. It has several options for doing this. It could impose restrictions on the routes serviced by market-based carriers. It could prohibit jitney service. It could limit the supply of privately supplied parking spaces in downtown areas. It could take buses off the enterprise's budget and provide them free of charge through budgetary appropriation. Each of these options, and many other possible options, illustrates the parasitical quality of political pricing: politics maintains some semblance of pricing, for economic calculation is impossible without it, and yet politics also modifies market pricing in directions favorable to the enterprises its sponsors.

The fundamental catalactical relationship is an exchange of support for payment. What might a theory of catalactical political economy look like? It would have to disavow both the planning that emanates from the treatment of polity as an organization and the reduction of polity to just another market participant. Polity is different from economy, and yet the resulting political economy must be emergent and transactional to match the nature of the object under examination. Economic calculation is as necessary for political enterprises as it is for market enterprises. A city might sponsor parks, roads, and police. That sponsorship is rife with issues of economic calculation, only the city is not just another market-based entity. It's easy enough to think abstractly of a budget for each activity. But those aren't genuinely activities but rather are vectors of activities whose weights are determined through processes of competition and calculation. Parks face decisions about types of equipment to install and the types of maintenance to perform. Police face decisions about types of vehicles and their maintenance, among numerous matters. And in all instances, a choice in one direction involves a renunciation in another direction. Polity as a complex process of spontaneous ordering among numerous interested participants has the same systemic quality as markets, only with a difference. The central point in any case is that polity is treated as an order of organizations and not as an organization, at least beyond some relatively small scale.

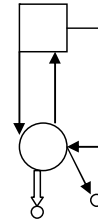
In addition to the parasitical quality of political pricing, I would call upon the theory of tie-in sales to explore public square catalaxy. One use of tied sales is to avoid price controls, as illustrated by tying a rent-controlled apartment to the purchase of furniture. The rent control creates a situation where there is a shortage at the controlled price. Thus demanders seek to gain a competitive advantage, which they can do by paying more in secondary market transactions, as Cheung (1975) explores. In some cases ordinances can seek to prevent such tie-ins, which in turn would set in motion a further search for ways of competing for apartments when competition directly through price is not allowed. Regardless of the particular form that such tied sales might take, the underlying principle in operation is that a restriction on alienability for one service will tend to induce a bundling of services to secure economic calculation in the absence of alienability for the controlled service.

What we should thus expect to find are other types of transactions that operate equivalently to the sale of furniture in cases of rent control. There are many roads to be repaired and limited ability to repair them. Some roads will get repaired before other roads, and perhaps at a higher quality of workmanship. Repair service is offered free of direct charge, and yet economic calculation must be present to allow an ordering of priorities. There are

Fig. 2 Catallactical Relationships in Political Economy



Panel A: Market-confined Catallaxy



Panel B: Mixed Polity-Economy Catallaxy

many channels through which tied sales might arise. Some channels could be quite venal, as in bribery. Other channels would be less so, as illustrated by contributions to political campaigns. Invitations to speak before civic clubs and even charitable contributions that support activities valued highly by relevant politicians are other possible channels that are farther removed from the exchange of service directly for money, and which work to secure prioritized standing all the same.

It is easy to imagine yet other channels that are less direct still, and yet which can be intelligible features of efforts to gain competitive advantage. A vendor might take out a full page advertisement for a high school dramatic production where the relevant bureau chief has children attending school there or possibly even have roles in the production. Virgil Storr (2008) explores the significance of recognizing that the market is a social space. So, too, is a polity. While action outside the Edgeworth box is different from action inside the box, both types of action arise inside the same social space. We are dealing with an open range of possibilities, all of which are intelligible as efforts to gain competitive advantage. There is a deep entanglement achieved between polity and economy in this formulation, as sketched in Wagner (2009b) and Smith et al. (2011).

Figure 2 presents a sketch of this idea, and which is explored for a somewhat different purpose in Eusepi and Wagner (forthcoming). Panel A describes an ordinary market relationship between two enterprises denoted by the large circles. The mutual profitability of that relationship is denoted by the removal of profits denoted by the appended small circles. Panel B portrays a parasitical relationship between a polity-based and a market based enterprise, with the polity-based enterprise denoted by the square. As with Panel A, the relationship is catallactical, and is presumed to be profitable to supporters of both enterprises. Yet the collective enterprise is nominally nonprofit. This does not mean it doesn't return profits, for the expectation of profit is the *raison d'être* for its support. After all, profit is just another word for gain, and it is unreasonable to think of transactions without also thinking that the participants expect to gain from the transaction. The second small circle on the lower right side of the market-based enterprise, in conjunction with the third arrow connecting the two enterprises, indicates that there is some path by which profit is returned to supporters of the collective enterprise, a point put forward cogently by Pauly and Redish (1973) in their analysis of how nonprofit hospitals transfer profits to physicians.

These matters are necessarily more complex than they are for relationships between market-based enterprises, just as the market for rental housing is more complex when rent control is present than when it is absent, and even more complex when rent control is accompanied by prohibitions on side transactions. Yet any effort to explain the operation of public-private interaction in polycentric fashion with widely dispersed and distributed knowledge

must start from the presumption that collective enterprises have sponsors who are a subset of the population and who receive gains in excess of what they could expect to receive through market employments of their share of the capital invested in the enterprise. To be sure, political enterprises bring along forced “investors” as well, and the intensifying opposition of such voters as taxes increase is surely significant in keeping taxes from going higher yet, as explained in Wagner (2007, pp. 134–140).

Within the complexity of modern societies, the ecology of enterprises that inhabit a society must to a considerable extent be organized within an institutional framework of alienable private property, for only then can market prices emerge through exchange. While the ecology of enterprises in a society can include both market-based and polity-based enterprises, the structure of that ecology can be described by spatial references to foreground and background, and with commercial enterprises occupying the foreground and political enterprises the background of a healthy social ecology. This distinction between foreground and background is not some statement of relative normative significance. The distinction is analytical and not normative. It reflects recognition that the demand for the activities of polity-based enterprises is derived from the demand for the activities of market-based enterprises. The value of a marina, for instance, will be affected by the quality with which public agencies provide navigational support, but the demand for such support is derived from the demand for boating that the marina offers.

6 Agency and economic calculation with municipal corporations

Timothy Besley (2006) argues that democratic polities generate nearly perfect efficiency, thus supporting Donald Wittman’s (1989, 1995) earlier formulation of the same claim. The theory of agency provides a useful framework for exploring democratically organized polities. Political practice, like any other form of practice, tends to select among entrants according to how well they practice their craft. Successful democratic politicians tend to be good at doing things that return support when elections are at hand. While democratic polities provide regular opportunities for the submission of take-over bids, the success rate of challengers is low. Successful politicians are good at what they do, which is to convince people to vote for them. But elections aren’t arenas where policies are debated and selected, but are public theater with audience participation. The formal fact of success does not determine substance. After all, all athletic competitions have the same form, namely rivalrous activity, and yet there are huge variations among athletic competitions in their substantive characteristics. In like manner, successful embezzlers and thieves are also good at what they do, as their competence has been demonstrated through competitive selection.

The formal theory of agency posits a common interest among citizens that politicians receive zero rents for their work. Political campaigns, following Persson and Tabellini (2000), can be summarized by the government’s budget constraint supported by each candidate: $B = tY = g^* + r$, where t is a flat-rate tax applied to a comprehensive income base Y , and with g^* denoting the budget that corresponds to some presumed efficiency standard and r denoting the rents that politicians capture. When confined by this formalization, an increase in rents will require some combination of higher taxes and less provision of valued public goods. Political competition will tend to drive rents toward zero under this representative voter framework; moreover, politicians who support rents in the post-election period will be more susceptible to subsequent electoral defeat than politicians who do not.

Within this formal framework, political outcomes are assimilated to standard concepts of economic efficiency, at least as a first-order matter. To be sure, the formal literature also

gives scope for second-order inefficiency and positive political rents, mostly by introducing presumptions that campaign statements don't translate perfectly into political outcomes. My interest here, however, lies not in different formalizations but in bridging the gulf between form and substance. And a wide gulf it is, as Wagner (2009a) explains, due in large measure to an analytical framework that adopts homogeneity (and common knowledge) and not heterogeneity (and particular knowledge) as an analytical point of departure.

The absence of a market for ownership shares in municipal corporations means that competing claims about managerial competence cannot be reduced to a common dimension through monetary calculation. Where corporate campaigns are centered on projections of corporate value, political campaigns are spread across the various attributes of policy that would have fed into corporate value in the presence of transferable ownership. Vectors of programmatic characteristics will not be reducible to a scalar measure of value. Political campaigns reside in the cheap talk world, as no equivalent to a tender offer is advanced. Tender offers would seem to have rectitude on their side, due to the residual claimant position of those who proffer such offers. With political forms of take-over bid being limited to cheap talk, we should surely expect some movement away from rectitude toward verisimilitude or even mendacity to result because those who advance claims are never placed in the position of betting on those claims.

The very notion of a principal carries an ambiguity in politics that it does not have in commerce. Transferable ownership tends to create unanimity among shareholders regarding actions that influence corporate value (De Angelo 1981; Makowski 1983). Participation in business corporations is voluntary; it is involuntary with respect to municipal corporations because people must reside somewhere so will be forced investors even if they are able to select among locations. The unanimity feature of corporate ownership does not operate so strongly in politics because there can be divisions among principals due to wealth transfers among principals. These possibilities are obscured by the representative agent formulation described above by the government's budget constraint, as well as by models of probabilistic voting which accomplish the same thing. Any such formulation that is reducible to a statement about aggregates or averages neuters structure through its initial set up. An agent might be judged positively by some principals and negatively by others, and for reasons that have nothing to do with some aggregate or general value and everything to do with being in the winning or losing end of redistributions of value. Principals need no longer speak with the same voice because they no longer share in the value consequences of corporate choices according to their shareholdings. To put the point differently, what is called "vision" or perhaps ideology becomes more significant for nonprofit enterprises of all forms because vision is a vector of characteristics that is not reduced to a scalar through transferable ownership, as Auteri and Wagner (2007) explain.

Suppose hotel management is deliberating whether to eliminate some rooms to provide daycare facilities for employees and guests, an illustration based on Wagner (2007: 108–110). Both managers and shareholders may well hold different appraisals of the commercial consequence of this decision; nonetheless, they will share in the commercial result of that decision and have good reason to be soberly realistic in their judgments and appraisals. The situation changes when the setting is shifted to a political body. There will never be any firm value against which competing claims could be potentially tested, so people can appraise the choice based on their conjectures about the consequences to them.

This replacement of substantive with formal agency seems likely to produce some diminution of rectitude in personal and public expression (Kuran 1995). With substantive agency, people may honestly hold different conjectures about the future value consequences of present actions. In this setting, people can engage in an open process of conjecture and

refutation (Popper 1972) as best they can, realizing always the inescapable difficulty involved in seeking to compare some past experience with some future that is created as an act of imagination. Where some might think the conversion of some rooms to a daycare facility might increase the value of the enterprise, others can honestly hold the opposite conjecture. Regardless of the particular conjecture held, the value of the enterprise provides a focal point around which the discussion can be organized, as well as providing some subsequent test of past conjectures.

When substantive agency is replaced by purely formal agency, the scope for honest and truthful deliberation would seem to narrow. No one will advocate support for converting rooms to daycare because they will secure personal gain that exceeds their share of the fall in the aggregate value of the enterprise. To be sure, there is no aggregate value of the enterprise because there is no transferable ownership. That aside, the speaker would doubtless seek to camouflage such recognition by arguing in terms of some generalized or aggregate interest that cannot be put to any test, other than an acceptance or rejection of the proposal, which is not the same thing.

In the absence of substantive agency, participants become involved in discourse that easily can become eristic and not genuine, and hidden within an ideological fog (Pareto 1935), some features of which are explored in Backhaus (1978). With respect to Pareto's formulation, the gap between derivations (the public rationalizations people advanced to explain their actions) and residues (the foundational sentiments that inform action) would surely widen. Despite these possibilities, elections will still tend to select for people who are good at winning elections just as commerce selects for people who are good at creating profitable enterprises. To postulate a close similarity if not identity between the two forms of competition is on the one hand a necessary conclusion of a sufficiently abstract formalization, while on the other hand it cannot bridge the chasm that separates form from substance. There is no sense in arguing with the claim that strong competitors tend to win over weak competitors. This gives no reason to think that basketball selects the same personal qualities as nine-ball.

7 Agency within alternative political arrangements

The form of agency appears ubiquitously throughout the gamut of corporate activities and relationships. The substantive conduct of those activities and relationships, and the performance qualities that tend to survive through competition, would seem surely to differ across institutional settings. An invariant abstract formalism can pertain to numerous settings that differ substantively from one another, but such an abstraction necessarily reduces reality to a homogeneity that renders our observations of life unrecognizable. To hear that the average elevation of Colorado is three times that of Nebraska is to render reality unintelligible, for intelligibility requires a bridge from form to substance.

It is possible to imagine an array of ownership structures for a municipal corporation, some of which are quite close to commercial corporations in their agency features while others are quite distant. One setting that would be relatively close to a commercial corporation would be one where a municipal corporation was financed exclusively by a tax on the value of real estate, and with residents having voting shares in proportion to the value of their real estate, and with only owners of real estate having voting rights. In this setting, someone who buys real estate is buying a tied package of real estate and ownership shares in the municipal corporation. Real estate that sells for \$500,000 would be conceptualized as, say, reflecting \$400,000 of value for the anticipated flow of housing services and \$100,000 for the imputed value of the local assets that provide local public services. Someone who

supplies rental housing would acquire additional voting rights proportionate to the value of that housing.

So far as I know, this type of institutional arrangement is nowhere to be found, though Boudreaux and Holcombe (1989) and also Foldvary (1994) argue for the feasibility of transforming municipal corporations into commercial corporations. Until around 1970, moreover, it bore a family resemblance to arrangements in a number of American cities whereby bond referendums required majority approval both of the number of votes cast and of the assessed values represented by those votes. The aforementioned institutional arrangement would extend the treatment of bond referendums to all municipal elections, thereby rendering the divide between business corporations and municipal corporations as small as it could ever be.

Other institutional arrangements widen the chasm between municipal and commercial corporations. Municipal corporations acquire revenue from many sources, including grants from other governments. Votes are never weighted in proportion to investment in a locality. Indeed, investment is no longer necessary for acquiring a right to vote. It would, of course, be possible to inquire into the properties of commercial corporations if they operated under one shareholder-one vote; among other things it would probably lead to numerous public corporations being taken private.

In any case, the presumption of unanimity among residents would vanish under alternative institutional arrangements, and information about the valuation of collective activities would weaken. As a formal matter, all elections are procedures for the submission of take-over bids. But the informational basis on which those bids are evaluated will differ among institutions. Among other things, competition would take place more in terms of a vector of characteristics or attributes, a competition among visions perhaps, because the institutional arrangements work against the reduction of that vector to some scalar. In place of an imputed ownership value for a municipal corporation that is tied with the value of real estate, the value of implicit ownership shares of municipal corporations depends on an amalgam of valuations across such services as road maintenance, traffic control, education, parks and recreation, and the like.

8 Some final remarks

The preponderance of economic scholarship treats government as a welfare-maximizing entity. For the most part what is presumed to be maximized is some notion of social welfare, though much of the public choice literature has substituted the welfare of politicians as an alternative objective. In either case, governance resides in the confrontation between a well-ordered utility function and a list of options and prices. This treatment of government has the virtue of analytical simplicity by its reduction of fiscal phenomena to the choices of a single mind. It also entails a significant vice through its inadequate portrayal of the problem of governance, and for two reasons, once concerning democracy and one concerning complexity.

For democratic regimes there can be no locus of sovereign authority, despite the common characterizations to the contrary, as Vincent Ostrom (1987, 1997) explains. Sovereignty implies a locus of authority that cannot be challenged. It could, of course, be objected that sovereignty resides with the collective entity known as the people. There is nothing wrong with this statement as formality, but it's also empty substantively because a collective can't act. If a collective entity is described as acting, it is because particular individuals inside the entity have been successful in pursuing their intentions within the rules by which that

entity is constituted. This form of sovereignty is polycentric and not hierarchical. Once polycentricity is recognized, it must be acknowledged that the quality of polycentric interaction depends on its particular architecture, as illustrated by Craig Roberts's (1971) recognition that the Soviet Union was not a hierarchical regime but was a polycentric regime with a debilitating architecture with respect to the promotion of general societal flourishing.

Furthermore, the activities of modern governments are too complex to be subject to hierarchical ordering. The activities of governments resemble the turbulence of a crowd of pedestrians rushing through a piazza and not the serenity of a parade. Thus the phenomena of political economy are properly assimilated to a theory of exchange-and-conflict or interaction and not a theory of choice, even if the activities of the individual participants within the processes and institutions of government can be assimilated to a theory of choice. All that exists is some set of procedural rules out of which a decision will emerge at the end. Buchanan (1967, 1968) distinguishes between political and fiscal rules. Political rules pertain to the processes by which a municipal corporation or other collective entity is formed; fiscal rules pertain to processes by which that entity is subsequently managed. There is, of course, interaction between the two types of rules. The distinction is helpful more as a heuristic for organizing thought than as an accurate filing cabinet. In this respect, David Primo (2007: 109) notes that in 1978 Congress enacted, and never repealed, Bryd-Grassley, which abolished deficit spending by 1981. In any case, collective outcomes are products of interaction within some institutional setting, just as are market outcomes. The challenge for a theory of political economy that is suitable for rendering our observations of the world intelligible, as distinct from providing fodder for the articulation of debating points, must come to terms with such ideas as polycentricity, divided knowledge, and spontaneous ordering within an ecology of plans undertaken by both commercial and municipal corporations inside the same societal space, where, moreover, that society is rife with both cooperative and antagonistic relations and actions.

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