

From mixed economy to entangled political economy: a Paretian social-theoretic orientation

Meg Patrick¹ · Richard E. Wagner¹

Received: 8 January 2015 / Accepted: 29 June 2015 / Published online: 15 July 2015
© Springer Science+Business Media New York 2015

Abstract This paper compares and contrasts two visions of political economy. These visions aren't antagonistic, just different. The mixed economy vision associated with Ludwig von Mises and Sanford Ikeda treats politics as intervening into markets. The entangled political economy vision treats politics and markets as overlapping subsystems within a society. Entangled political economy thus descends from a theory of society and social processes. Similarly to quantum entanglement where the state of a particle cannot be described independently of that of other particles, entanglement in political economy means that rational market action cannot be defined independently of rational political action. The focal point of entangled political economy, moreover, is on individual actors and their search for gain within different action environments. Interaction among individuals across those environments generates societal tectonics, thereby adding insights from Vilfredo Pareto about social theory to those of Mises and Ikeda about interventionism.

Keywords Dynamics of intervention · Mixed economy · Entangled political economy · Vilfredo Pareto · Social theory · Societal tectonics · Non-logical action · Political entrepreneurship

JEL Classification D23 · D50 · L32 · P16

✉ Richard E. Wagner
rwagner@gmu.edu

Meg Patrick
mpatric5@gmu.edu

¹ Department of Economics, George Mason University, 3G4, Fairfax, VA 22030, USA

1 Introduction

Mises (1920) heralded the death of belief in a fully collectivized economy without any semblance of property rights, markets, and prices. That death led to what is generally described as a mixed economy, and not to liberalism. Mises (1929) subsequently explained that the admixture of liberalism and collectivism of the mixed economy could not constitute a stable economic system because the internal logic of that admixture generated contradictions and inconsistencies, where an intervention today begat another intervention tomorrow. With no end to the parade of interventions, Mises's analysis of interventionism and the mixed economy bore a family resemblance to the later public choice formulations of cyclical majorities, for in both cases there was no systemic stability grounded in preferences. Mises's critique of interventionism was subsequently taken up by Littlechild (1978) and later by Ikeda (1997, 2005) who extended and amplified Mises's original insights.

In contrast to the mixed economy and its dynamics stands the alternative formulation of an entangled political economy, some recent illustrations of which are Wagner (2007, 2014) and Smith et al. (2011). These alternative analytical frameworks are not antagonistic, but rather they pertain to different domains of inquiry and bring different questions and topics into the analytical foreground. Entangled political economy bears some similarity to quantum entanglement in physics and its recognition that the state of a particle cannot be described independently of that of other particles, for which Susskind and Friedman (2014, pp. 148–234) provide a lucid explanation. To be sure, we do not seek to import formulations from physics into political economy, but rather mention quantum entanglement simply to highlight the claim of entangled political economy that it is generally impossible to describe rational market conduct independently of taking rational political action into consideration, any more than it is possible to describe rational political conduct without taking rational market action into consideration.

Furthermore, interaction within the entangled framework occurs among individual entities and participants. There is no direct interaction between states and markets as systems of relationships. Interaction is a property of acting individuals and not of systems themselves, for those systems are just the arenas inside of which action occurs. In this treatment of action, we embrace the distinction Coleman (1990, p. 28) made in explaining that “the only *action* takes place at the level of individual actors, and the ‘system level’ exists solely as emergent properties characterizing the system of action as a whole. It is only in this sense that there is behavior of the system as a whole. Nevertheless, system-level properties will result, so propositions may be generated at the level of system” (Coleman's italics). For entangled political economy, the relevant system is society. What are commonly described as polity and economy are subsystems within society. Those subsystems are not independent from one another, but are entangled. The degree of entanglement can vary across time and place, and with that variation capable in principle of being explained through ground-level interaction among the members of society. The degree of entanglement can wax and wane, but it will always be present as a feature of society.

2 Entanglement and intervention: some points of contrast

Without doubt, intervention and entanglement are analytical cousins, perhaps more so with respect to normative matters than to explanatory matters. Normatively, both reflect partiality toward the emphasis on the liberty of classical liberalism. But who doesn't support

liberty at the level of principle? We know of no one who advocates serfdom or slavery, even if that might appear to be a destination of an on-going evolutionary process (Hayek 1944). Support for liberty seems nearly universal. Sure, people mean different things by liberty, as illustrated by the distinction between positive and negative notions of liberty (Berlin 1969), and difficulties appear at this point. What liberty entails or requires in the presence of contemporary population densities and modes of communication is contested territory. Still, it is a rare bird who advocates explicit domination of the many by the few.

Whatever course that contestation takes in the coming years, it will be an emergent feature of ground-level actions and interactions within society. It will not reflect some conscious systemic choice. In this respect, there is no genuine choice of system in the modern sense of large and complex systems, for system is an emergent quality of interaction. This doesn't prevent plans from being injected into society, and with such injections sometimes bringing about significant changes in society. For instance, the development of cellular technology in the recent past brought about remarkable changes in the reality that nearly everyone experiences. Similarly, it is possible to imagine a setting in which the American federal government came to operate under an electoral scheme where individuals had votes weighted in proportion to the taxes they paid the preceding year. This kind of ground-level change would surely wreak substantial change at the system level, but it would not itself be an instance of systemic construction. Systems beyond modest levels of complexity rely significantly on emergent features. To refer to a spontaneously generated pattern of activity is not to assert the absence of planned activity. To the contrary, spontaneously generated orders emerge and change through interaction among a multiplicity of plans. It is only that the system itself is not a planned object.

At base, entangled political economy is centered on networks and evolutionary processes of development, where that development is kept in motion by individual efforts to seek gain by putting together deals that often are triadic (Eusepi and Wagner 2011; Podemska-Mikluch and Wagner 2013), meaning that they often feature a winning subset of people gaining at the expense of others in society.¹ While the mixed economy orientation also features evolution, that evolution is more akin to majority cycling than to the continual injection of novelty into society. The prime difference between the two orientations resides in the distinction between the system level and the action level. The mixed economy orientation conceptualizes states that intervene into markets. As Ikeda (1997, p. 55) puts the point: “the operations of government are, in principle, centered around a hierarchy of objectives, consciously chosen and rationally pursued. The catallaxy, on the contrary, is a ‘spontaneous order’.” Polity and market are ideal types that can be kept separate in a theorist's mind. When such a theorist observes the types of action going on in the world, it seems readily apparent that polity intervenes into economy, these days repeatedly so and on a grand scale.

Alternatively and on the same theme, Ikeda (1997, p. 6) states that “because the state discriminates among beneficiaries according to its own criteria when it hands out favors, individuals and groups have an incentive to expend valuable resources to qualify, thereby increasing their chances of prevailing over rivals competing for the same rewards.” From the perspective of entanglement, there is nothing wrong with this as a systemic description. Yet systems are not loci of action but are repositories of the results of action. The analytical imperative of entangled political economy is to trace observed outcomes to particular entrepreneurial actions that are inserted into society at particular places within the social

¹ This is opposed to dyadic exchange, whereby the two parties to the transaction necessarily are better off due to the exchange taking place.

nexus. To limit analysis to the system level is equivalent to staying at the molecular level. There can be analytical purposes for which analysis confined to this level is fine. But there is much that is missed by staying at this level, and which can be uncovered only by penetrating into the atoms that comprise those societal molecules. This is what entangled political economy seeks to do.

Within the framework of entangled political economy, both political and market enterprises operate inside of a society's property rights arrangements. Participation and not intervention is the appropriate description. Entanglement is a property of a society where those societies are populated by people who select themselves into political and economic activities, and do so without rigid separation between the spheres of action. This recognition means that intervention is not an apt characterization because what appears to be intervention is really participation of different entities within the institutional arrangements of a society. Politics and markets describe overlapping subsystems of human interaction within society. A society contains but one economic system, and that system is generated through interaction among many entities, some political and other economic, but all interacting on the same societal landscape.

In this respect, Paganelli (2014) explains that Adam Smith's theory of society and social processes featured an entangled orientation toward political economy. Similarly, Becchio (2014) explains that Carl Menger treated states as emergent and not chosen institutions. Likewise, Podemska-Mikluch (2014) explains that what are described as public policies emerge through interaction among participants and are not instances of some ruler's optimizing choice. In reviewing Friedrich Hayek's *Constitution of Liberty*, Viner (1961, p. 235) mused: "It seems feasible to me to apply Hayek's method of speculative history to government itself, and to treat it, with all its defects and such merits as Hayek may be willing to concede to it, as itself an institution which is in large degree a spontaneous growth, inherently decentralized, experimental, innovating, subject not only to tendencies for costly meddling but also to propensities for inertia and costly inaction." The orientation of entangled political economy derives from a theory of society wherein both polity and market are abstract nouns that are applied to subsets of activity. Political and commercial enterprises both operate inside a society's property-based institutions, and with those institutions only incompletely described by the principles of private property and freedom of contract. One might well wish on normative grounds that the sphere dominated by private property and freedom of contract were wider, but such wishes are irrelevant as a first-order matter for an explanatory theory of political economy.

3 Economizing action, social theory, and entanglement

Entangled political economy theorizes about societies and social processes using the autonomy of economizing action as the entering wedge into such a theory. Economizing action is taken to be a universal quality of humanity, though it is also a purely formal quality. How that quality plays out depends on the environments in which people act, as illustrated by Gigerenzer's (2008) recognition that rational action entails interaction between an actor and an environment, as against being simply a matter of calculation as conveyed by mathematicians playing billiards. As people interact, they form organizations and generate conventions, standards, and numerous other paraphernalia that we associate with the term society. We might observe some areas of activity that seem to be organized largely through private ordering, while in other areas public ordering is rampant.

The explanatory thrust of entangled political economy is to explain these observations from a point of departure grounded in economizing action within the environments in which different people operate. The particular analytical objective of a theory of entangled political economy is to explain what might be described as intervention within the language of the mixed economy, except that we are seeking to explain a structured pattern of participation in economic activity of different types of enterprises within a society. Latour (2005) argues that a social theory cannot reasonably be constructed by postulating relationships among social entities, but rather must be generated through interaction among non-social or asocial entities. To do this is to penetrate theoretically into such societal molecules as firms, bureaus, courts, and legislatures to trace the paths from economizing action by the relevant participants to the observed societal patterns.²

Figure 1 illustrates our claim with respect to the places of private and public ordering within society. Tanzi (2011) provides a wide variety of data on the growth of governments over the twentieth century among the OECD nations. That data is highly aggregated, and the mix of private and public output that Fig. 1 represents corresponds to one particular observation within a set of such aggregate data. The various observations that Tanzi presents each denote an R or a (G, M) combination in Fig. 1 for a particular place and date. Subtended to the two aggregate outputs are the institutional descriptors {private law} and {public law}. Connecting those descriptors, moreover, is a double-ended arrow that has significance to be explained momentarily. Figure 1 gives a simple portrait of a complex process that is well beyond the ability to duplicate through planning. The economic theory of markets gives a reasonable job of explaining how a generally coordinated pattern of production emerges when people interact within the institutional framework denoted by {private law}. The term “market economy” is the name given to that subset of interactions within society.

Figure 1 also shows aggregate collective activity denoted by G, and further shows that this pattern of output is likewise generated through interaction within some complex institutional arrangement denoted as {public law} subtended to G in Fig. 1. Fiscal scholars, however, have made but modest effort to pursue such a research program after Buchanan’s (1967, 1968) initial efforts, no doubt largely reflecting the overwhelming interest of such scholars in normative topics approached in a holistic manner. A truly explanatory theory of collective activity would aspire to explain the structure of G on comparable grounds with the ability of market theory to explain M in Fig. 1. Fragments of explanation exist, but the creation of an explanatory theory of collective activity wherein aggregate observations emerge out of ground-level interaction remains for future scholarship. As an aggregate statement of social equilibrium, one could always assert that the relative sizes of G and M are governed by the same principle of equal marginal profit as economists have long used to characterize market equilibrium. That is surely a reasonable point of analytical departure, but it leaves inside an analytical black box numerous issues regarding how profit accrues to what are nominally nonprofit enterprises.

For now, we would also note that public law and private law do not represent isolated domains, but rather are entangled. The double-ended arrow connecting {private law} and {public law} points toward entanglement between the two types of law. These two types of

² In this respect, Epstein (2006) pursues a research program of generating social configurations through interaction among individuals, in contrast to postulating the existence of those configurations as analytical primitives. Similarly, Aligica and Boettke (2009) explain that the analytical thrust of Elinor and Vincent Ostrom was to penetrate analytically into their material, in contrast to seeking to stand apart from that material.

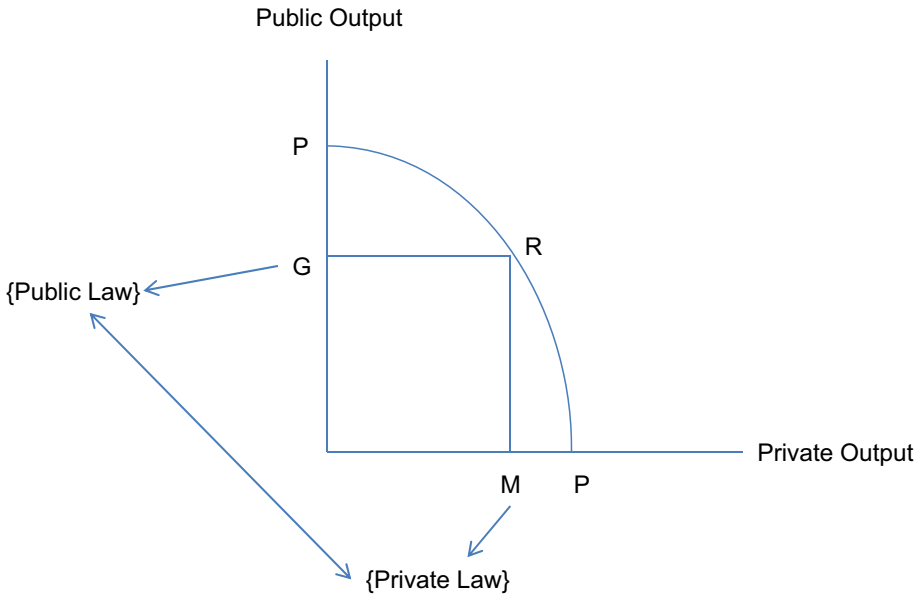


Fig. 1 Standard portrayal of public–private legal ordering and resource allocation

law are ideal–typical statements of alternative sets of institutional arrangements, one governing people in their privately organized activities and the other governing people in their collectively organized activities. These portray a social system as constituted through two distinct sub-systems of institutionally governed relationships. This portrayal does not account for interdependence between the two sub-systems, though the double-ended arrow notes that such interdependence exists. For instance, private law processes generally use publicly provided sheriffs and court-related proceedings. A public agency that constructs a new office will work with a private contractor to do so, often imposing various political requirements on private contractors in the process (Epstein 1993). According to Wagner (2007) entanglement ultimately resides in human nature as entailing both a desire for personal accomplishment, which provides space for private property, and recognition that the quality of our lives depends on the activities of other people, which provides space for collective property of some form.

4 Pareto, rationality, and social theory

Figure 1 presents social reality as having a boundary between private and collective activity. As an *ex post* matter, such boundaries can always be defined. As an *ex ante* matter, however, boundaries are emergent products of economizing actors seeking gain, where part of that search for gain concerns the choice of arena to sponsor action. It is here where we come to Vilfredo Pareto and his effort to construct a general theory of social equilibrium where private and collective activity are emergent products of the ceaseless search for entrepreneurial gain which supports an entangled orientation toward political economy.

Pareto's (1923) two-thousand page treatise on general sociology, translated into English as *The Mind and Society*, was an extension of his earlier work on economic theory.³ Convinced about the merits of economic liberalism, Pareto turned to sociology to understand why liberal principles didn't exert stronger influence over society. Pareto's turn to sociology did not reflect an embrace of any holistic mode of thought that many sociologists of his time embraced in explicit opposition to economic theory. While Pareto considered his sociological work as contributing to the scientific study of society and social relationships, he distinguished his sociological investigations from those of his contemporaries. Unlike others writing on sociology during this time, Pareto did not undertake his study in order to distance himself from the methods of economics, but rather to complement his earlier economic investigations. Indeed, he begins *The Mind and Society* by describing his sociology as the synthesis of his various studies of human society, including law, political economy, and history.

Pareto sought to explain how rational action by individuals could generate unintended consequences at the societal level that could be widely regarded by those individuals as undesirable (Backhaus 1978). Pareto's scheme of thought was based on two observed properties of human action: you can observe what people do and you can observe the reasons they give for what they do. You cannot, however, observe the sentiments that induce that action. These sentiments Pareto described as residues. The reasons people give for their actions Pareto described as derivations, and which today would be described as rationalizations. The distinction between derivations and residues in Pareto's scheme of thought is summarized by the aphorism: while the derivations range widely, the residues are pretty much stable. In other words, Pareto thought in terms of a human nature that was nearly invariant in conjunction with a highly elastic ability to adapt effectively to alternative environmental situations. For Pareto, all action was rational in that it was faithful to the residues that drove action, but the substance of action was contingent on the environment in which people acted, similar to Gigerenzer's (2008) treatment of the environmental context for rational action and to Smith's (2008) similar treatment of ecological rationality.

There can be many matters a theory of society might seek to explain. For theories relating to political economy, a central topic of analytical interest will surely derive from the general recognition that patterns of activity within societies have a generally coherent quality even though it is easy to recognize that societies in no way resemble orchestras whose members respond to a conductor. Economizing action is actuated by the desire of people to replace less desired with more desired states of being. Such actions, moreover, include activities organized through politically-based enterprises as well as activities organized through market-based enterprises. It is the entire pattern of activities, moreover, that fits the image of general coordination, and not just the activities of market-based enterprises.

What Ostrom (1990) later described as action environments was present in Pareto's distinction between social equilibrium and economic equilibrium. These were different environments within which people acted, though with the same people generally acting within both environments. With respect to economic equilibrium, there was little if any gap between the actions people took and the derivations through which people explained their

³ Aron (1967, pp. 101–176) summarizes Pareto's *Treatise* lucidly, as does Bongiorno (1930). Campbell (1986) detects four distinct versions of Pareto in Aron's long career where he returned to Pareto off and on. McLure (2007) surveys the relation between Pareto and the Italian tradition in the theory of public finance that was a precursor to public choice.

actions. Pareto described such actions as being logical. By this, Pareto meant the presence of an if–then correspondence that could be tested by experience and observation. Several retailers carry armchairs that a customer is examining. They carry different prices and they have different chair-like qualities. It is reasonable to claim that the customer is engaged in a logical-type of activity in selecting among the chairs. At the same time, the vendors operate in this same environment. While those vendors might understandably engage in puffery, they also recognize that the customer will bear the value consequences of his or her choice. A vendor who provides explanations for his product that do not correspond to reality will soon find that he has lost business. In an environment characterized by logical action, puffery will be muted by reality.

For social equilibrium, Pareto introduced the category of non-logical action. This category bears some relationship to the public choice notion of rational ignorance. Non-logical action pertains to an environment where the logico-experimental method is not relevant because the relevant choices concern credence and not experience goods.⁴ To borrow a phrase from Hume (2000 [1748]), there is no “constant conjunction” between the ends observed and the means employed, meaning there is no way of understanding a causal connection with respect to these types of undertakings. By way of illustrating non-logical actions, consider a charity seeking donations or a politician seeking votes. The charity might claim to promote relief from hunger. The politician could well claim to do the same thing. To describe these environments as ones of non-logical action is not to deny that people might give some thought to their actions. To the contrary, they typically will give such actions some thought, even if perhaps not a great deal. What is central for non-logical action is that the action of supporting one particular charity or politician does not causally produce an outcome that the actor desires. The actor’s donation doesn’t produce some experienced alleviation of hunger, nor does the actor’s vote for a politician; a person’s action in donating money or time bears no causal link that runs from action to desired consequence.

In all cases, sentiment precedes reason with respect to taking action. It is sentiment that advances matters for reason to think about. Among the many things that sentiment brings into conscious attention, some of them will be suitable candidates for the application of reason within the purview of the logico-experimental method, as illustrated by buying a pair of shoes. Within logical environments, entrepreneurs may very well puff their products through advertising, and yet they will also have to deliver products that fulfill the images that buyers captured from those advertisements. It is different with environments dominated by non-logical action. Logical environments pertain to actions aimed at inspection or search goods; in contrast, non-logical environments pertain to credence goods (Nelson 1970).⁵ Entrepreneurial action will proceed differently in the two types of environments.

In all cases, Pareto recognized a universal desire of people to feel good about themselves and their actions. For non-logical environments, this means that people want to be able to use rational sounding statements to explain their actions to others as well as to themselves. Within this environment, competition among entrepreneurs consists of seeking to articulate programs and actions that resonate with the underlying sentiments that govern

⁴ With respect to market activity, there is clear feedback via the price mechanism that the means employed have a causal relationship with the ends attained. This is what Pareto meant in referring to market action as reflecting the logico-experimental method.

⁵ An anonymous reviewer brought up the fact that credence goods, too, may be priced. Yet the feedback mechanism for credence goods is much less direct than it is for inspection and search goods.

action. Entrepreneurial competition will consist of seeking articulations that will resonate with sentiments, for it is the image that is the product, so to speak (Boulding 1956), and with that image being created through entrepreneurial competition in domains where the logico-experimental method is not applicable.

The Paretian distinction between logical and non-logical action as pertaining to distinct domains of action raises significant questions regarding what happens at the various boundaries where those domains come into contact. It would, of course, be possible simply to point out that such boundaries exist and leave the point there. Yet those boundaries are themselves determined through human interaction, and are subject to continual pressures for change that in principle are open to scientific examination. For instance, over the past century the place of government within the totality of economic activity has grown from around ten percent to around 50 percent of total economic activity, as measured by standard accounting data.⁶ Neither reason nor experience gives reason to think that existing boundaries will stay where they are. To recognize that boundaries will surely move means that collisions will occur at various places along these boundaries, which means that societal tectonics will arise at various margins between private and public ordering.

5 Exploring some boundary tectonics

Pantaleoni (1911) explained that political action necessarily was parasitical on market action. Political entities do not generate revenue through direct sale to customers, but rather derive their revenue through parasitical attachment to market transactions. There are many particular forms such attachment can take because there are many particular types of taxation. For instance, a flat tax on income, which Pantaleoni used in his analysis, would create a system of discriminatory political pricing where “prices” for collective activity varied directly with income, recognizing that these prices were forms of shadow prices and not real prices. Different tax forms would operate to different effect. Whatever the type of tax, political enterprises operate through parasitical attachment to market transactions.

In his two-bazaar model, Pantaleoni (1911) explained that the political bazaar organized as a form of common property needed the market bazaar organized through private property to extract revenues and engage in economic calculation. Since market enterprises operate in the same social space as political enterprises, this leads to tectonic clashes on the boundaries where these types of enterprises meet. To the extent political enterprises come into direct competition with market-based enterprises, boundary tectonics arise whereby the enterprises change their operating characteristics through some combination of market enterprises taking on political characteristics and political enterprises taking on market characteristics. Just as the clash between two tectonic plates in the Earth’s lithosphere can create an entirely new topographical formation, the interaction of political and market enterprises can likewise result in a different topography of enterprise organization. An insolvent automobile company that at one time might have reorganized through bankruptcy now finds its management making deals with government agencies which allows them to keep their positions.

⁶ Total government spending as a percent of GDP accounts for more than 20 % of GDP, up from 3.4 % in 1930, and is projected to rise over the coming years (GPO 2015). Further, state and local spending ranges from a low of 14.3 % of GSP in South Dakota to a high of 26.7 % of GSP in Mississippi (Census 2012). This doesn’t even account for the burden that legislative and regulatory actions impose on the economy (Fichtner and McLaughlin 2015). Government participation in economic activity is clearly pervasive.

As a simple illustration of boundary tectonics, compare the social organization of credit markets under present institutional arrangements with their organization under idealized wholly private ordering. With privately ordered credit markets, credit transactions require agreement between only two parties to go forward: a lender and a borrower. Credit transactions are rental contracts whereby the owner of an asset cedes control of that asset to a borrower on mutually agreeable terms. A contract will only be undertaken if both parties find the terms mutually beneficial. Prior to the 1930s, credit market transactions were largely private affairs, as entanglement among political and market entities was comparatively modest. Around the time of the Great Depression, governmental agents and market participants converted numerous dyadic relationships into triadic relationships. While this system of private ordering might have been working well in the sense that people attained loans for which banks and businesses were willing to lend, we may also be sure that there were significant numbers of people who could imagine better outcomes for themselves. For instance, someone who anticipates being wealthier in the future but currently lacks adequate collateral may have been unable to obtain a loan on terms he found agreeable.

People in this and similar situations provide a latent demand for political involvement in credit markets, thereby transforming credit markets from dyadic into triadic relationships. In this situation we might often expect political entrepreneurs to emerge in order to gain from this latent demand. One open question with respect to political entrepreneurship is the ability of those entrepreneurs to capitalize on their efforts when their enterprises are organized through inalienable property rights. To be sure, there are numerous ways of going about doing this. However this might be done, it is implausible to think that a political enterprise could serve such demands if it had to act competitively against a market-based enterprise in attracting capital from willing investors. But political enterprises can operate with forced investors. For market exchanges, the magic number is two, to indicate voluntary agreement among enterprise participants. For political transactions, however, the magic number is three. In other words, market transactions are fundamentally dyadic but political transactions fundamentally are triadic, with gainers imposing cost on losers (Podemska-Mikluch and Wagner 2013).

The most recent financial crisis manifested the inherent tectonic nature of this triadic exchange. Banks that would have been unwilling to lend to suspect loan seekers absent political incentives were more than willing to lend within the current institutional framework (Congleton 2009). Over many years, the political system had continuously expanded credit options to high-risk borrowers on terms that did not match their underlying riskiness. Banks were willing to make such loans because they had the implicit backing of the US government: if a borrower failed to repay in full, the banks did not bear all the losses of this transaction. The incompatible principles on which the private loans and the politically sanctioned loans were made resulted in particularly intense boundary tectonics.

6 The non-logical quality of humanitarian action

Pareto was ahead of his time in understanding the destructive potential of humanitarian efforts. Though non-logical action manifested itself in many areas of social life, it was especially particularly prevalent in the realms of politics, religion, and humanitarianism. Pareto considered humanitarian action to be characteristically the same as religious dogma: one starts from belief and then rationalizes that belief by squaring it with whatever observation is at hand. Pareto did not doubt that religion and humanitarian efforts could

have social utility, but thought they operated in the realm of the non-logical all the same. Competition in the non-logical realm of credence goods operates through the creation of images and ideologies that resonate with the intended audience, who in turn are unable to test competing claims effectively.

Easterly (2001) has documented manifold examples of humanitarian efforts by economists in developed nations to help individuals in underdeveloped nations. According to Easterly, those economists rationalize humanitarian action by claiming that markets are failing to provide socially beneficial goods and services in impoverished nations. These humanitarians are often bewildered to find that their substantial investments have failed to achieve the desired outcomes. Coyne (2013, p. 81) provides a list of quotations from World Bank reports over the past fifty years in which the organization details the failures of centrally led aid efforts. Yet rather than recognizing that selective intervention into social processes is a flawed mental model, they press on instead with ever larger projects.

Those groups who seek to provide humanitarian relief suffer from the problem of thinking in terms of holistic entities. They see a problem at the aggregate level, and think that by application of the proper tools they can alleviate the problem. “Economists have tried,” says Easterly,

to find the precious object, the key that would enable the poor tropics to become rich ... The precious objects we offered ranged from foreign aid to investment in machines, from fostering education to controlling population growth, from giving loans conditional on reforms to giving debt relief conditional on reforms. None has delivered as promised. (2001, p. xi).

Easterly goes on to distinguish between two types of groups that seek to alleviate poverty in poor nations: the planners and the searchers. Planners think of poverty as an aggregate phenomenon, and thus tend to think that the best way to alleviate it is thorough large-scale aid projects. In this model, since poverty is a big problem it necessarily requires a big solution. Searchers, on the other hand, understand that macroprocesses are made up of microphenomena. In order to alleviate human suffering, searchers understand that they must penetrate the social realities of those they are trying to help. Both planners and searchers are quick to provide strong rationalizations for their actions; but the outcomes of their efforts reflect the different level of generality on which they operate. Furthermore, both types of humanitarian projects tend to attract substantial backers, since those funding the projects cannot directly evaluate whether or not their donations were well spent.

The problem is compounded once it is recognized that humanitarian actors are not dealing with inanimate objects, for rather human actors are the subjects towards whom their actions are directed. Thus, they often fail to take into account how individuals will respond to their allegedly helpful acts. Humanitarian action is rife with Samaritan’s dilemmas (Buchanan 1975). Whether operating in the market or not, human beings respond to the incentives they perceive in their environment. As Easterly and Coyne illuminate, humanitarian organizations often distort the incentives of those individuals who they are trying to help. This creates a situation in which individuals may change their behavior in order to improve the likelihood that they will be eligible to receive further aid. When individuals begin to take on political characteristics, the line between the private and public spheres of action begins to blur. Incompatibilities between the logic of the public and the private sphere take little time to manifest themselves, and often lead to an exacerbation of the problem that the aid is claimed as being instrumental in alleviating. Yet because those funding these aid projects hear only rationalizations and do not directly experience what their donations have purchased, there is a likelihood that they will

continue providing funding as long as the rationalization of humanitarian action is believable. This is how tectonic clashing between the private and public spheres of action can grow over time, despite the best intentions of humanitarian actors.

7 Concluding remarks

The logic and the dynamics of the mixed economy have received thorough and systematic treatments by such scholars as Mises and Ikeda. We think that Pareto's approach to social theory and the vision of entangled political economy to which it leads also offers significant insights into public choice and political economy. For Pareto, social systems are not objects of choice but rather emerge through interaction among the individuals who are the choosing subjects. Those choices, however, are made across different environments. In some environments, there is a clear connection between the action someone takes and the consequence that the chooser experiences. This is the realm of logical action. In other environments, there is no such connection; these are environments of non-logical action. Environments of non-logical action are dominated by sentiments or residues, and yet the societal settings in which people operate require them to give rationalizations for their actions despite the absence of any causal connection between action and consequence. This setting creates questions regarding actions along the boundaries, which is where expansions and contractions in the relative extents of private and public ordering occur.

To a large extent, political competition occurs through the articulation of images that resonate with voters who in turn are largely looking for derivations or rationalizations that will allow them to sound reasonable while doing what sentiment instructs them to do. While market competition entails puffery as vendors seek to gain attention from potential consumers, the environmental setting of logical action imports a high degree of substantive rationality into such action. Within political environments, by contrast, there can be no testing of any claims about links between actions and consequences. Any testing resides in the realm of sentiment, with successful political candidates being those who present images that voters can accept.⁷

Acknowledgments We are grateful to the three referees who provided valuable suggestions that helped us to see more clearly than we had originally seen just what it was we were trying to accomplish in this paper.

References

- Aligica, P. D., & Boettke, P. J. (2009). *Challenging institutional analysis and development: The Bloomington school*. London: Routledge.
- Aron, R. (1967). *Main currents in sociological thought* (Vol. II). New York: Basic Books.
- Backhaus, J. G. (1978). Pareto and public choice. *Public Choice*, 33, 5–17.
- Becchio, G. (2014). Carl Menger on states as orders, not organizations: Entangled political economy into a neo-Mengerian approach. *Advances in Austrian Economics*, 18, 55–66.
- Berlin, I. (1969). *Four essays on liberty*. Oxford: Oxford University Press.

⁷ Contrary to Caplan (2007), the resulting outcome need not be abject ignorance. The logical and non-logical domains are not commensurable, and with this non-commensurability being a source of boundary tectonics. Similar to Brennan and Lomasky (1993), voting is an expressive act within the Paretian analytical framework, though what resonates with voter sentiments is a challenge for political entrepreneurship in non-logical realms of action.

- Bongiorno, A. (1930). A study of Pareto's treatise on general sociology. *American Journal of Sociology*, 36, 249–270.
- Boulding, K. E. (1956). *The image: Knowledge in life and society*. Ann Arbor: University of Michigan Press.
- Brennan, G., & Lomasky, L. (1993). *Democracy and decision: The pure theory of electoral preference*. Cambridge: Cambridge University Press.
- Buchanan, J. M. (1967). *Public finance in democratic process*. Chapel Hill: University of North Carolina Press.
- Buchanan, J. M. (1968). *The demand and supply of public goods*. Chicago: Rand McNally.
- Buchanan, J. M. (1975). The Samaritan's dilemma. In E. Phelps (Ed.), *Altruism, morality, and economic theory* (pp. 71–85). New York: Russell Sage.
- Campbell, S. (1986). The four Paretos of Raymond Aron. *Journal of the History of Ideas*, 47, 287–298.
- Caplan, B. (2007). *The myth of the rational voter*. Princeton, NJ: Princeton University Press.
- Coleman, J. S. (1990). *Foundations of social theory*. Cambridge, MA: Harvard University Press.
- Congleton, R. D. (2009). On the political economy of the financial crisis and bailout of 2008–2009. *Public Choice*, 140, 287–317.
- Coyne, C. J. (2013). *Doing bad by doing good: Why humanitarian action fails*. Stanford, CA: Stanford University Press.
- Easterly, W. (2001). *The elusive quest for growth: Economists' adventures and misadventures in the tropics*. Cambridge, MA: MIT Press.
- Epstein, R. A. (1993). *Bargaining with the state*. Princeton, NJ: Princeton University Press.
- Epstein, J. M. (Ed.). (2006). *Generative social science*. Princeton, NJ: Princeton University Press.
- Eusepi, G., & Wagner, R. E. (2011). States as ecologies of political enterprises. *Review of Political Economy*, 23, 573–585.
- Fichtner, J. J., & McLaughlin, P. A. (2015). *Legislative impact accounting: rethinking how to account for policies' economic costs in the federal budget process*. Arlington, VA: Mercatus Center.
- Gigerenzer, G. (2008). *Rationality for mortals*. New York: Oxford University Press.
- Hayek, F. A. (2007 [1944]). *The road to serfdom*. London: Routledge.
- Hume, D. (2000 [1748]). *An enquiry concerning human understanding*. New York: Oxford University Press.
- Ikeda, S. (1997). *The dynamics of the mixed economy: Toward a theory of interventionism*. London: Routledge.
- Ikeda, S. (2005). The dynamics of interventionism. *Advances in Austrian Economics*, 8, 21–57.
- Latour, B. (2005). *Reassembling the social: An introduction to actor-network theory*. Oxford: Oxford University Press.
- Littlechild, S. C. (1978). *The fallacy of the mixed economy*. London: Institute of Economic Affairs.
- McLure, M. (2007). *The Paretian school and Italian fiscal sociology*. Houndsmill: Palgrave Macmillan.
- Mises, L. (1990 [1920]). *Economic calculation in the socialist commonwealth*. Auburn, AL: Ludwig von Mises Institute.
- Mises, L. (1996 [1929]). *A critique of intervention*. Irvington-on-Hudson, NY: Foundation for Economic Education.
- Nelson, P. (1970). Information and consumer behavior. *Journal of Political Economy*, 78, 311–329.
- Ostrom, E. (1990). *Governing the commons*. Cambridge: Cambridge University Press.
- Pagenelli, M. P. (2014). Adam Smith and entangled political economy. *Advances in Austrian Economics*, 16, 37–54.
- Pantaleoni, M. (1911). Considerazioni sulle proprietà di un sistema di prezzi politici. *Giornale degli Economisti*, 42(9–29), 114–133.
- Pareto, V. (1935 [1923]). *The mind and society: A treatise on general sociology*. New York: Harcourt Brace.
- Podemska-Mikluch, M. (2014). Public policy: Object of choice or emergent phenomena? *Advances in Austrian Economics*, 18, 93–110.
- Podemska-Mikluch, M., & Wagner, R. E. (2013). Dyads, triads, and the theory of exchange: Between liberty and coercion. *Review of Austrian Economics*, 26, 171–182.
- Smith, V. L. (2008). *Rationality in economics*. Cambridge: Cambridge University Press.
- Smith, A., Wagner, R. E., & Yandle, B. (2011). A theory of entangled political economy, with application to TARP and NRA. *Public Choice*, 148, 45–66.
- Susskind, L., & Friedman, A. (2014). *Quantum mechanics: The theoretical minimum*. New York: Basic Books.
- Tanzi, V. (2011). *Government versus markets: The changing economic role of the state*. Cambridge: Cambridge University Press.
- U.S. Census Bureau. (2012). Census of Governments: *State and local finances*. Retrieved from: <http://www.census.gov/govs/local/>.

- U.S. Government Printing Office. (2014). Fiscal Year 2015 Historical Tables. Retrieved from: <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/hist.pdf>.
- Viner, J. (1961). Hayek on freedom and coercion. *Southern Economic Journal*, 27, 230–236.
- Wagner, R. E. (2007). *Fiscal sociology and the theory of public finance*. Cheltenham: Edward Elgar.
- Wagner, R. E. (2014). Entangled political economy: A keynote address. *Advances in Austrian Economics*, 16, 15–36.