

States as Ecologies of Political Enterprises

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Abstract

This paper seeks to overcome an antinomy within the theory of political economy: while market outcomes are treated as resulting from polycentric competition, political outcomes are treated as resulting from hierarchic planning. We seek to overcome this antinomy by treating political outcomes as likewise resulting from polycentric competition, taking due account of relevant institutional differences. For example, a parliamentary assembly is treated as an extraordinary form of investment bank that intermediates between the sponsors of enterprises and those within the citizenry who have means to support those enterprises. What results is a theory in which political programs emerge in largely bottom-up fashion through complex networks of transactions. Much of the inspiration for this paper arises from the Italian School of Public Finance, particularly Ugo Mazzola, Giovanni Montemartini, Maffeo Pantaleoni, and Antonio De Viti de Marco.

Keywords: political pricing, political-economic interaction, polycentric politics, economic calculation, emergence, spontaneous order, order vs. organization

JEL Codes: B13, D23, D78, H11

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1. Introduction

Contemporary treatments of political economy commonly entail a theoretical antinomy in dealing with politics and the economy. The economy is treated as an order (Hayek 1973) organized through polycentric processes of competition. In contrast, the polity is treated as an organization that imposes teleologically guided planning onto market-generated outcomes. The relation between market and state is thus sequential, with state acting to modify previously established market outcomes.

Our alternative treatment seeks to eliminate this antinomy by treating polity using the same approach as economists use when treating the economy. The polity is also thus conceived as an order of actions among its constituent organizations, with each of those organizations interacting among themselves and with various market organizations. The relation between market and state is thus simultaneous, with mutual interactions operating among enterprises in both the public and private spheres.

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 represent a polity but rather denote particular organizations within a polity. For instance, a parliamentary assembly is like a

¹ We are grateful to two referees for sharing their thoughts and insights with us, which proved of high value in clarifying and sharpening some of the themes presented here.

peculiar form of investment bank that operates inside a polity: people come to a parliament to secure support for the enterprises they are sponsoring, and parliament intermediates between the sponsors of those enterprises and those among the citizenry who have means to support those enterprises. That those who have the means are often forced investors is what makes parliament a peculiar and not a regular form of investment bank. Budgetary outcomes thus emerge in largely bottom-up fashion through complex networks of transactions, and not in the top-down fashion conveyed by such notions as a planner's maximization of a social welfare function or a median voter's domination of an election.

The core of this theoretical effort entails dissolution of the theoretical antinomy within the orthodox model of political economy. It should be noted that this antinomy was recognized in Paul Samuelson's (1954, 1955) formulations of the theory of public goods, where he noted the institutional disjuncture between polity and economy. Subsequent work has not bridged that gap but has evaded it. The most common evasion is the claim that an election selects the set of policies that maximizes utility for the median voter, as illustrated nicely by Persson & Tabellini (2000). Dissolution of this theoretical antinomy requires an alternative framework where both polity and economy contain numerous enterprises, each teleologically oriented, and with all such enterprises operating within a non-teleological order where organizational actions are framed by some set of constitutive rules. The earlier portions of this paper explain the theoretical distinction between these alternative orientations; the later portions explore some

possible avenues for pursuing an integrated, order-based orientation toward the material of political economy.

2. Society as an Emergent Ecology of Enterprises

The conventional polarization fails to capture the ecological nature of human activity, wherein a society contains an entangled set of enterprises constituted under differing institutional arrangements, some commercial and others political, some profit seeking and others not. Those enterprises don't operate independently of one another in separate ponds of activity. They are entangled in a complex ecology, as illustrated by Vincent Ostrom's (1987, 1997) treatment of polities as polycentric processes of interaction. Prices emerge through commercial interaction in the presence of alienable property. The core of economic theory explains how competition among commercial enterprises facilitates social cooperation. Complex forms of societal organization are made possible through information that is generated by the market prices that emerge through commercial transactions. Those prices provide navigational aids that promote the growth of complex commercial ecologies.

Market-based cooperation, however, is only part of the story of social cooperation. A complete story requires political enterprises to be brought into the picture. Suppose you stay at a resort and rent a boat at a nearby marina. These activities are organized by businesses and supplied through market transactions. But you travel between the resort and the marina over roads that are built and maintained by governments. Moreover, the marina may be adjacent to the mouth

of a river that requires dredging by some public agency to remain usable. The full societal ecology in which people are observed to do such things as visit marinas thus requires cooperation and coordination throughout an array of enterprises, private and public.

Within the complexity of modern societies, that ecology must necessarily rest heavily on alienable private property. Given the informational significance of market prices, the geography of a healthy societal ecology might be described as locating commercial enterprises in the foreground and political enterprises in the background. The value of a marina and of commercial activity generally is determined directly by the desire of people to obtain the services provided by the marina. The value of those services, however, also depends on the quality of the highway and dredging services that are complementary to use of the marina. The value of those collectively supplied services is derived from the demand for the marina's services. The full societal ecology entails coordination among enterprises constituted through different institutional frameworks, and the challenge for political economy is to explain the systemic features of that societal ecology.

All theories of political economy treat an economy as a complex organism that is self-organized through interaction among people in the presence of private property. To say something like "the market works" is to engage in metaphorical and not material speech. There is no market that does anything. "Market" is an abstract noun that is used to denote processes of commercial interaction. When it comes to polity, however, theorists typically treat the state as some optimizing

entity. This is the state as a mechanic who tunes the social engine.² To be sure, the literature contains extensive debates over how competent the mechanic-state might actually be, but those debates occur within the presumed antinomy between polity and economy.

The alternative orientation that we pursue here treats political entities as operating on the same plane as commercial entities. Polity, just like economy, denotes multiple participants who differ both in what they know and in what they desire and yet who operate within the same social order. It is just as metaphorical to assert that the state does something as it is to assert that the market does something. What we denote as state activities are emergent outcomes of interactions among interested participants just as we recognize that market activities emerge out of complex patterns of interaction.

3. Pricing and Calculation in Political Economy

The economic theory of markets treats only a subset of all economic relationships. This theory enables us to explain the operation of the coordinated network of activities through which food is delivered to hotel restaurants and nearby fishing boats are stocked with bait and gear, and without there being some central coordinator. What this theory doesn't allow us to do is explain the full range of societal coordination because complementary state activities are missing from this framework and are inserted instead through some imagined act of planning. What results is a theoretical antinomy where market participants act

²For presentations of this orientation, see Barzel (2002), Drazen (2000), and Persson and Tabellini (2000).

on the basis of localized knowledge to generate societal patterns that no one intended directly to create, with political action inserted into the market in unitary fashion based on global knowledge to do such things as plug what are regarded as holes in the market order. This theoretical antinomy reflects what Resnick (1994, pp. 119-44) calls the “centralized mindset,” where order is attributed to some specific ordering agency when it really arises through some process of self-organization. Once it is recognized that polities are likewise self-organized, because there is really no option to self-organization for contemporary levels of societal complexity, it is necessary to overcome this antinomy by achieving some integration of political and economic activity while avoiding the centralized mindset.

Useful instruction in this respect was present in the classical Italian approach to public finance during roughly 1880-1940, which is surveyed in Buchanan (1960), Bellanca (1993), Fausto (2003), and Wagner (2003). This orientation toward political economy treats all relationships in society as transactional in nature and governed universally by local and divided knowledge.³ With respect to the preceding picture, deliveries of food and guests to the hotels in the city come over roads that are maintained by states. The harbor may lie at the mouth of a river, so the ability of boats to move in and out depends on a state agency to keep the harbor clear of silt deposits. The conceptual challenge is how to incorporate such state activity into this societal portrait when that incorporation expressly is not achieved through systemic

³ For an extensive treatment of Pareto in relation to this Italian tradition, see McLure (2007). For a wide-ranging survey of fiscal sociology, see Cainzos (2006).

planning, as distinct from planning by individual enterprises. Relationships among market entities are directly transactional in the exchange of service for money or other consideration. When political entities enter, the relationships are still transactional, only less directly so because of the absence of alienable property. The central point, however, is that the political component of social organization does not acquire its shape through systemic planning but through networks of transactions among interested entities. By contrast, the treatment of policy as reflecting the preferences of a median voter selected through electoral competition is effectively to explain political outcomes as products of systemic planning.

Escaping this antinomy is not an easy task; yet it is one that must be undertaken if there is to be an integrated theory of political economy that accounts for the general orderliness of society in a polycentric, bottom-up fashion where no enterprise possesses all of the knowledge that is necessary to achieve coordination among the enterprises within a society. Such an integrated theory requires a “sewing together” of the market and public squares that Samuelson separated with his pure theory of public goods. Sewing together the public and the private does not mean eliminating one by reducing it to the other. It means overcoming the antinomy by illuminating the interconnections that link market and public squares. Such interconnections would make explicit the processes by which the two squares are intertwined.

It would still be possible to theorize about the abstract entities we denote as market squares and public squares; however, the two forms of theorizing

would be subject to a test of congruency whereby activities within both squares map into generally coordinated patterns of activity without the presence of any locus of systemic planning. What concerns us is not the coexistence of the two squares, but the separation of economics and politics, as the theory of public goods has managed to do. In Samuelsonian-type formulations, the separation is categorical and not simply marginal. This sequential mode of thought clashes with our analysis which takes simultaneity in action in polity and economy as an analytical point of departure.

The alternative is to analyze a political economy as an ecology of enterprises, wherein individuals and the enterprises they establish interact simultaneously within and across the two squares. Historically, this orientation toward fiscal phenomena was set in motion within the classical Italian school of democratic public finance. For expository purposes, we shall focus on Ugo Mazzola because his work seems to be more familiar to contemporary theorists than such other Italian theorists as Antonio de Viti De Marco or Luigi Einaudi, whose works were closer to the orientation toward political economy we carry forward here, as explained in Eusepi & Wagner (2010).⁴

Mazzola, a contemporary of De Viti's, gets off on the right foot in noting that in conceptualizing market equilibrium the provision of public goods must be part of that equilibrium rather than standing outside it. From this point of departure, however, Mazzola claims that from the viewpoint of any particular

⁴ We should also note that Donald Wittman's (1989, 1995) treatment of democratic politics as similar to competitive market processes reflects a Mazzola-like formulation where public and market squares merge into a single social square. While we think there is much merit in Wittman's treatment, just as we do Mazzola's, we think that an integrated political economy should also seek to take account of the differences.

individual a unit of income will yield equal utility at the margin, regardless of whether it is directed toward the public or the market square. This claim means that Mazzola treats the two squares as replicas of one another, which means that the distinction between the squares is merely semantic. Despite the promising character of Mazzola's contribution, he was thus unable to sew together the two squares. Instead, he reduced the public square to the market square by reducing politics to a mere calculation of marginal utility, thereby rendering public outcomes just a particular form of market outcome.⁵

While Mazzola's formulation failed to separate the public square from the market square, his extension of the marginal utility calculus to the state helps to clarify why we should not cling to Samuelson's dual architecture whereby economics is separated from politics. For different but related reasons, the Mazzola-Samuelson approach prevents the emergence of a genuine political economy. Mazzola sees the value of incorporating political processes into the theory of public finance, but in his effort to do this he eliminates the distinctively political by reducing politics to just a particular instance of a market. Samuelson recognizes the problematical feature of Mazzola's reduction, but then disconnects the public square from the market square rather than seeking to develop paths of theoretical connection between the squares.

A genuine political economy would require a conjunctive and not a disjunctive relationship between the two squares. In this respect, there is a significant difference between the approaches taken by Mazzola and Samuelson.

⁵ Bart Engelen (2007) explains that this reduction characterizes a great deal of theorizing in public choice.

Mazzola recognized that the two squares had to be sewn together, only his stitching folded the public square into the market square. In contrast, Samuelson invoked an existential antinomy whereby market and public squares would operate according to theoretical principles that were orthogonal to one another.

Mazzola's *reductio ad unum* precludes markets from being sewed together, yet his conceptual framework recognized simultaneous action by enterprises organized within both market and public squares. Mazzola's orientation is open to an enterprise-based political economy even if his theoretical contribution fell short of establishing such a framework. An enterprise-based political economy would entail a societal ecology of enterprises where politically-based enterprises operate alongside market-based enterprises. This societal ecology would be limited neither to exclusively voluntary relationships nor to private property. Indeed, private property is a relative and not an absolute concept. Forms of common property are essential for society, recognition of which brings into the analytical foreground questions regarding governance between private and common property, with such governance being central in exploring the relationship between market and public squares. After all, not even in a condominium is all property private; common spaces are necessary to make the property usable to each joint owner.

4. Parasitical Calculation and Public Square Catallaxy

Theorists of political economy largely pursue a sequential mode of analysis where people write the first draft of the manuscript of social life, as it were,

through their efforts in the precincts of market and civil society, and with the state subsequently revising and polishing the manuscript. The alternative, polycentric mode of analysis would have the manuscript of social life generated through simultaneous interaction among participants throughout the intersecting precincts of market, state, and civil society. The framework for economic calculation is of particular significance when all entities are presumed to act on the basis of incomplete knowledge. Market prices are aids to economic calculation, but these arise only in the presence of alienable property. With collective property being inalienable, the internal economy of the state cannot generate prices. In a technical sense, political entities must act parasitically upon the market economy in using the price information generated through market activity, as Pantaleoni (1911) explored and Schumpeter (1918) noted.⁶ Political entities must use market prices as calculational aids even if they make incomplete use or seek to modify them through regulation.⁷

How much support will a highway department or a dredging department acquire from parliament? How will these enterprises choose their patterns of activity? How can such activities be given a catallactical explanation without falling into the snare, which trapped Mazzola, of treating them as if they were

⁶ The divide between Pantaleoni and De Viti in the treatment of prices in public services may be associated with their different methodological approaches. Pantaleoni conceives of political prices as different from market prices since he is anchored to the idea of explaining government behaviours as they were (or, better say, as they still are in a centralized polity). De Viti contrastingly introduces tax-price as a means of financing his cooperative state, where a fundamental role is played by citizens' demands for public goods and services and where, therefore, tax-price plays a disciplining role. For an extensive treatment of this point see Eusepi & Wagner (2010).

⁷ Hughes (1977) explains that regulation was robust in the American political economy since colonial times.

ordinary market outcomes? The fundamental catallactical relationship is an exchange of support for payment.⁸ We can explain the size of marinas, hotels, restaurants, and such things in this manner. But what about road maintenance, beach replenishment, and harbor dredging? There are publicly organized enterprises that provide such services. An enterprise-based theory of political economy must avoid both treatment of polity as a unified planning entity and the reduction of political enterprises to ordinary market participants. Political enterprises differ from market enterprises, and yet the resulting political economy must be emergent and transactional if its polycentric character is to be captured.

To start on such an endeavor, we call upon two analytical tools. One is Pantaleoni's formulation of parasitical political pricing; the other is the theory of tie-in sales. Each of these tools offers insight that seems potentially useful for approaching a polycentric-centered theory of political economy. Political agencies that maintain highways and dredge harbors don't sell their services directly, so there is no direct registration of the value of services by clients. Still, there are limits on the ability of agencies to dredge silt or replenish beaches, so choices must be made. Economic calculation will still be reflected in the pattern of public activity even if that pattern differs from what might have emerged through market-based activity. All transactions reflect some calculation of advantage by participants even if only a subset of those transactions generates market prices.

⁸ Our stress on transactional political economy brings to mind John Commons's (1934) treatment of the transaction as the unit of analysis. On the relation of Commons to the recent literature on constitutional economics, see Viktor Vanberg (1997).

Pantaleoni conceived of a system of political prices established through taxation that was attached parasitically to the system of market prices.

Pantaleoni's prime concern was the relation between public production and market production, and this relationship generated a dual price system that involved collisions between the systems. For instance, political services financed by a proportional tax on income would represent a political price system where the price of the same service varied among people in proportion to their taxable income. Pantaleoni's prime interest resided in interaction between the two price systems. Ours is different but related: political transactions don't generate prices and yet indicators of valuation must be established to guide action. Market prices can still provide calculational guidance, though they do so in peculiar and indirect ways, which follows from our treatment of parliamentary assemblies as peculiar investment banks.

It is here where the theory of tie-in sales enters. One use of tied sales is to avoid price controls. The classic illustration is a rent-controlled apartment that can be leased only by also buying furniture at a price that exceeds the market price. The rent control creates a situation where there is a shortage at the controlled price. Thus demanders can seek to gain competitive advantage by offering to pay more in secondary market transactions. In some cases legislation might be enacted to prevent such tie-ins, which in turn would set in motion a further search for ways of competing for apartments when competition by 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.

Getting a road repaired or a harbor dredged is particularly valuable to enterprises whose operations depend on those facilities. We may think of the demand for marina services as a variable that depends on the quality of beach and harbor, both of which require periodic maintenance from enterprises operated in the public square. In an open market, a marina owner would purchase the amount of such service that obtains the maximum value for the marina. But these services are not directly priced. Public-private interaction must still be catallactical, only this must be indirect and involve secondary markets, as with tied sales. Indeed, road and harbor maintenance is available at a marginal price of zero when financed through ordinary budgetary operations, which is clearly below what would have been the market clearing price.

In this situation, we should expect to find other types of transaction that operate equivalently to the sale of furniture in cases of rent control. As a conceptual matter, such channels must exist for harbors to get dredged and in orderly fashion, with some people getting dredging done more quickly than others. What can't be determined is the particular channel that might be used. Indeed, there are probably multiple channels in use. Some channels could be quite venal, as in bribery. Other channels would be less so, such as contributions to political campaigns. Invitations to speak before civic clubs and even charitable contributions that support activities valued highly by relevant politicians are other

channels farther removed from the exchange of service directly for money, and yet which work to secure standing and status all the same.

It is easy to imagine yet other channels that are less direct, and yet can also be intelligible features of efforts to gain competitive advantage. The marina 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. We are dealing with an open range of possibilities here, all of which are intelligible as efforts to gain competitive advantage. There is a deep entanglement achieved between polity and economy in this formulation. Figure 1 illustrates what we have just described. 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 illustrates a parasitical relationship between polity-based and 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 non-profit. 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 one particular form of the universal search for gain. 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.

These matters are necessarily more complex than they are for relationships between market-based enterprises. 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 receive gains in excess of what they could expect to receive through market employments of their capital, as was central to Montemartini's (1900) suggestions for an enterprise-based orientation toward political economy. To be sure, political enterprises bring along forced investors as well, but our interest here resides only with those who support the enterprise and who are its effective owners.⁹

Publicly sponsored firms compete both with one another and with market-based firms, while at the same time fabricating networks of cooperative and mutually supportive relationships. Budgeting isn't a top-down, hierarchical process; it is an interactive, polycentric process. For instance, publicly sponsored firms advertise as methods of garnering support. Much of this advertisement is denoted as public relations, but it also extends to such things as assisting market-based firms in producing movies and television programming. It also includes such activities as providing speakers for a wide variety of civic forums. Not only might a marina owner contribute to political campaigns, but might also belong to civic clubs that invites speakers from particular public agencies, while

⁹ We could say that the political enterprise and the related political entrepreneur belong to a sort of an *ante litteram* polycentric order. Moreover, the distinction between small, average, and large public political enterprises does not result from some a priori assignment of responsibilities among governments but rather is an emergent result of competition among political enterprises. In this formulation, Montemartini (1902, part 3) anticipates the subsequently articulated notion of competitive federalism.

also contributing selectively to charities that in turn have connections that impact positively both the marina and the relevant public enterprises. This is a further illustration of what we mean by entanglement between state-based and market-based enterprises.

As one final illustration, consider the following examination question that was asked recently at George Mason University: “The revenue that Amtrak receives from passengers falls considerably short of the amount of revenue required to provide its rail services. The difference is supplied from appropriations from Congress. By the principle of survivorship, would not Amtrak be judged to be a successful enterprise, in that it is able to attract sufficient revenue from its various customers and clients to enable it to continue as a going concern?” The point of this question was to get students to think about a transactional approach to political economy, as against resting content with voicing normative statements about markets and subsidies.

What is known as the “Rail Safety Improvement Act of 2008” provided \$2.6 billion annually to Amtrak through 2013. Amtrak received this appropriation in competition with other politically sponsored enterprises, and so was the beneficiary of some type of calculation that led to this degree of support. There is no reason to think that all participants in the budgetary process agreed with this outcome, anymore than there is reason to think that all market participants agree with all market outcomes. Both market and political outcomes emerge out of complex processes of interaction and are not direct objects of choice.¹⁰ There is

¹⁰ For a thoughtful and imaginative effort similarly to treat macroeconomics from this bottom-up orientation in place of the customary top-down orientation, see De Grauwe (2010).

no representative or median voter who decides to approve this level of appropriation. Rather, Amtrak has legislative champions within Congress who in turns have allies outside Congress who are engaged in a competitive budgetary process, and with this particular program being one outcome of that process. Parliamentary processes are deeply transactional, only those transactions are often complex and not the simple ones envisioned by price theory.¹¹ While members of a parliamentary assembly differ in their weight in determining parliamentary outcomes, those outcomes nonetheless reflect myriad calculations about the valuation of different possible actions, as sketched more fully in Wagner (2007, pp. 125-54).

5. Some Constitutional Considerations

Our formulation treats polities as orders and not as organizations (Hayek 1973). Organizations have choice-theoretic coherence and not systemic coherence. In contrast, orders lack choice-theoretic coherence while possessing systemic coherence (or else we wouldn't even recognize an order). We don't observe coherence within markets: market processes support both butchers and vegetarian chefs. It is the same with polities: there are programs that support job retraining while there are also programs that support unemployment. Thinking about orders and their reform is different from thinking about organizations and their reform.

¹¹ On this point it is worth recalling Oskar Morgenstern's (1963, pp. 181-94) treatment of the accuracy of data on market prices. While price theory treats prices as simple scalars, Morgenstern explained that it is often difficult to determine prices because they are often vectors that are not readily reducible to a number.

Thomas Schelling (1978) presents a wide ranging treatment of cases where the spontaneous order generated through interaction among participants yields emergent patterns that plausibly would be regarded by the participants as undesirable when compared to an alternative pattern that could have been generated. How to attain superior outcomes in this setting is a knotty issue. Legend tells us that when faced with King Gordius's devilishly gnarled knot, Alexander simply sliced it rather than trying to unravel it. Slicing the knot represents the standard approach to the articulation of public policy, wherein state power, perhaps guided by benefit-cost calculations, is called upon to shift society to some alternative configuration.

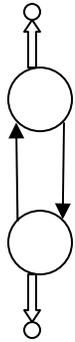
This approach might be suitable for reforming an organization, but reforming an order presents different problems and challenges. Reforming an organization is like changing the direction of a parade's movement, which a parade marshal can do in little more than an instant. In contrast, reforming an order is like changing the pattern created by the surging crowd of pedestrians passing through a piazza, where those pedestrians are marching to their own plans and not to the parade marshal's. The crowd is an order that contains numerous organizations (an individual is an organization), and the impact of any reform depends on reactions by those organizations, as well as new patterns of interaction among organizations that might emerge. For the emergent phenomena that are characteristic of orders, the constitutional rules of the game, and the order of actions that emerge out of those rules, replaces the position of the ruler-as-conductor as the focal point for addressing issues arising out of

recognition that an emergent order might have generated undesirable features. At this point an enterprise-based theory of political economy makes contact with constitutional political economy (Buchanan, 1990)(Runst & Wagner, 2011). We would also recommend that the Schelling-type considerations about the sometimes negative qualities of spontaneous ordering processes be refracted through Jane Jacobs's (1992) treatment of different patterns of interaction between carriers of commercial and guardian sentiments within a society.

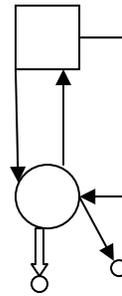
6. A Concluding Remark

Overcoming the theoretical antinomy between market order and political organization is the distant target at which this paper aims. Central to this effort is our extension of the concept of catallaxy, which was originally limited to voluntary exchange, to collective phenomena. These phenomena arise through exchanges that are not entirely voluntary due to institutional differences, *not antinomies*, between the constitutive frameworks of market squares and public squares. Pursuit of this catallactical orientation calls for a re-conceptualization of the relationship between economics and politics wherein political economy reflects an enterprise-based and polycentric orientation. While this position might appear out of step with respect to contemporary theorizing about political economy, we would note that it is very much in line with the so-called democratic Italian tradition in public finance (Montemartini, Pantaleoni and, above all, De Viti de Marco). It is also in line with the polycentric political economy that informed the American constitutional founding, as Vincent Ostrom (1987, 1997) explains with

particular cogency. We have simply dug into the Italian tradition that market order and political order are intertwined and contemporaneous rather than sequential. But to understand the process underlying this sort of entanglement requires that attention be placed on the institutional setting within which the phenomena of political economy are generated.



Panel A: Market-confined
Catalallaxy



Panel B: Mixed Polity-
Economy Catalallaxy

Figure 1: Catallactical Relationships in Political Economy

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