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# PREFACE TO THE MERCATUS CENTER EDITION

I am delighted that the Mercatus Center at George Mason University has chosen to reissue my 1989 book, *To Promote the General Welfare: Market Processes vs. Political Transfers*, which was published initially by the Pacific Research Institute in San Francisco, California. The terms of the agreement between Pacific and Mercatus call for reissue and not revision. This means that the original text must remain unchanged, but a short preface can be added to update some features of the original text.

The material examined in its 10 chapters gives the impression that the book is about what is commonly described as “the welfare state.” In this respect, there are chapters on the justificatory arguments typically advanced in support of the welfare state and chapters that examine the impact of taxation, public spending, and regulation on the distribution of income. There are also chapters that explore bureaucracy, Social Security, and welfare legislation as peculiar forms of the market process. Someone reading this book could reasonably conclude that its subject is income redistribution and the welfare state.

This conclusion wouldn’t be wrong, but neither would it be wholly accurate. In this respect, it is necessary to distinguish between foreground and background regarding the book’s subject matter. The political programs and activities that are typically thought to comprise what is denoted as the

welfare state are examined in the book, but this examination occupies the book's background. The book's foreground is occupied by a conceptual framework regarding political economy and public choice, and this theoretical framework is used to illuminate the programs and activities of the welfare state.

I set forth this relation of foreground to background in the book's original preface. There, I explain that "[t]his book, I should perhaps note at the outset, is *not* about the transfer programs of the welfare state per se. Its central concern is democracy and the operation of democratic institutions" (p. xiv, italics in original). Later in the preface I further explain that "what is unique about this book is not the material it examines, but the *constitutional perspective* it brings to bear on that material" (p. xiv, italics in original). The book is an exercise in comparative political economy, where what are being compared are two different forms or visions of democracy.

One form can reasonably be described as a *constitution of liberty*, such as that characterized by the American constitutional founding starting in 1776 and continuing to 1789. Within a constitution of liberty, governmental action is limited by the prior rights of citizens to liberty, leading to a form of what can be denoted as "consensual democracy." In contrast, modern democracy could be described as a *constitution of control* wherein there is no principled limit on the reach of dominant political coalitions, leading to what can be described as a system of "majoritarian democracy."

As I summarize in the original preface, "This book has two primary themes, one predominantly economic and one mainly political. The economic theme is that government has little ability to change the distribution of income, at least within the framework of what remains essentially a self-organized economy, because efforts to do so will be largely offset as people interact through various market processes. The political theme is that benevolence is unlikely to dominate collective choices anyway, and that the reality of collective choices will diverge sharply from the justifications commonly given for the transfer programs of the welfare state" (p. xv).

In reading over the book 30 years after its publication, I find no errors of commission that I would like to remove or retract. This book has aged remarkably well, in my judgment. There are what perhaps could be called errors of omission, of two types. One type of omission would call for an updating of programs and numbers. Most of the data in the

book come from the late 1970s and early to mid-1980s. Moreover, some stalwart programs associated with the welfare state when the book was written, such as Aid to Families with Dependent Children (AFDC), have now been replaced with new programs. AFDC was replaced in 1996 by the Personal Responsibility and Work Opportunity Reconciliation Act, which led to the creation of a program titled Temporary Assistance for Needy Families. While programmatic forms have changed in some cases, however, the analytical principles that undergird the forms remain unchanged.

The second error of omission really reflects a growth of knowledge that cannot truly be called an error of omission. Here, I refer to my development and elaboration of the principle of entangled political economy, the clearest statement of which is in *Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy*<sup>1</sup> but which has been in the process of development for some 20 years, and which Mikayla Novak explores to good effect in *Inequality: An Entangled Political Economy Perspective*.<sup>2</sup> What is now described as entangled political economy was only inchoate in *To Promote the General Welfare*.

The principal theoretical difference between *To Promote the General Welfare* and *Politics as a Peculiar Business* is that the more recent book reflects a far sharper recognition of the distinction between the micro and macro levels of social theorizing. All economic theories conceive of society as constituted through a set of agents who act according to principles of economizing action, whereby people seek continually to replace circumstances they value less highly with circumstances they value more highly.<sup>3</sup> This conceptualization is often portrayed as the principle of utility maximization, but other theoretical portraits are possible. At this point, theorists confront one of those forks in the theoretical road.

Down the most commonly traveled branch, theorists assume the presence of some set of systemic qualities and characteristics and seek to explain those qualities as products of optimizing choices consistent with systemic equilibrium. System-level properties are taken as data, leaving

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1. Richard E. Wagner, *Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy* (Cheltenham, UK: Edward Elgar, 2016).

2. Mikayla Novak, *Inequality: An Entangled Political Economy Perspective* (Basingstoke, UK: Palgrave Macmillan, 2018).

3. See James M. Buchanan, *Cost and Choice: An Inquiry in Economic Theory* (Chicago: University of Chicago Press, 1969).

the theoretical problem as one of explaining how those properties are consistent with utility-maximizing individual action. This branch of analysis represents a top-down mode of thinking where postulated system properties are examined in terms of their consistency with individual rationality.

The alternative and less-traveled branch starts from individual action and seeks to derive system properties through interaction among those individuals. This alternative approach moves in a bottom-up direction and is illustrated by the canonical work in the vein of Joshua Epstein and Robert Axtell's *Growing Artificial Societies: Social Science from the Bottom Up*.<sup>4</sup> System properties are derived from individual actions, in distinction from those properties being invoked as data, in which case the theoretical problem is to reconcile the presumed system properties with the presumption of rational individual action.

Both approaches have problematic features. The top-down approach operates by assuming knowledge of systemic properties that are impossible to know in their entirety due to the overwhelming complexity of modern societies. Theorists have access to the data collected within the National Income and Product Accounts and similar sources of data, but these data are summaries of past actions and are incomplete in any case. Even more, economizing action is based on the beliefs people hold about possible future conditions, which can be only inadequately gauged by historical data.

The bottom-up approach deals with the same issues regarding the incompleteness of knowledge but deals with them in a different manner. One method to doing this that is growing in popularity is agent-based computational modeling. This modeling platform assigns rules of action to agents and allows system properties to emerge through interaction among those agents, as illustrated by the canonical exposition of Epstein and Axtell. Any specification of behavioral rules and routines will be limited by the theorist's imagination and by computational limits.

Neither the top-down nor the bottom-up approach is obviously superior in all instances to the alternative, which entails keeping both in play. In a similar vein, portraits necessarily have both foreground and background. It is the same with economic theories. Entangled political economy operates in a bottom-up theoretical direction where system-level

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4. Joshua M. Epstein and Robert Axtell, *Growing Artificial Societies: Social Science from the Bottom Up* (Cambridge, MA: MIT Press, 1996).

observations are derived from interaction among agents within the system. Those system observations are emergent and not chosen variables. A governmental agency might change the procedures it follows in monitoring adherence to its requirements by recipients of payments. We should also, however, expect a good number of those recipients to change their behavior in response to the new monitoring procedures. How those changes unfold and who among the recipients makes such changes depends on a variety of local circumstances that are outside the scope of reasonably ascertainable knowledge. Hence, systemic outcomes emerge through complex patterns of interaction and not through the choices of some public official.

Viewed this way, *To Promote a General Welfare* examines the broader order that emerges with the existence of a welfare state as well as the individual components. This complex and alternative approach should be of interest to students, scholars, and policy analysts who hope to better understand the entangled nature of political economy.