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Robust political economy

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Abstract This paper introduces the idea of "robust political economy." In the context of political economic systems, "robustness" refers to a political economic arrangement's ability to produce social welfare-enhancing outcomes in the face of deviations from ideal assumptions about individuals' motivations and information. Since standard assumptions about complete and perfect information, instantaneous market adjustment, perfect agent rationality, political actor benevolence, etc., rarely, if ever actually hold, a realistic picture and accurate assessment of the desirability of alternative political economic systems requires an analysis of alternative systems' robustness. The Mises-Hayek critique of socialism forms the foundation for investigations of robustness that relax ideal informational assumptions. The Buchanan-Tullock public choice approach complements this foundation in forming the basis for investigations of robustness that relax ideal motivational assumptions.

Keywords Austrian economics · Public choice · Robustness

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1. Introduction

The idea of robustness finds itself in nearly every science and is employed to indicate a system's ability to perform well when subjected to high degrees of stress. The application of robustness to political economic systems refers to the ability of various political economic arrangements to generate prosperity in the face of less than ideal conditions. Less than ideal conditions include any form of imperfections that could create difficulty for political

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economic actors. In particular, robust political economy examines deviations from ideal conditions with respect to (but need not be limited to) actor motivation and information. It is "easy" for a political economy populated by perfectly omniscient and benevolent individuals to perform well. But what if individuals have cognitive limitations or are self interested? In this case, reasonable political economic performance becomes more difficult. While a robust political economy can handle these imperfections, a fragile political economy cannot and will produce poverty where ideal conditions do not hold. Examining the robustness of political economies therefore requires researchers to relax "best-case" assumptions about actor benevolence and information. Only by doing this can we determine the relative robustness or fragility of various political economic arrangements.

2. Why does robustness matter?

Systemic robustness is a critically important, though often overlooked, component of political economic analysis. Examinations of robustness in political economy are crucial because the "best-case" assumptions that underlie some of economics' most powerful propositions—from the existence of an efficient general equilibrium, to the notion that government intervention can "correct" market failures—never actually hold. The question thus emerges, how well do the traditional social welfare claims offered by political economists fare when less generous assumptions about actor motivation and information are substituted for ideal assumptions?

On the one hand, competing political economic arrangements that perform equally well under ideal conditions may exhibit widely different social welfare implications under less than ideal conditions. Perhaps even more significantly, however, a political economic arrangement that performs better than an alternative arrangement under ideal conditions may generate lower social welfare than this alternative when both systems are considered in light of motivational and cognitive imperfections. Examining the desirability of competing political economic organizations when only "best-case" assumptions are used may therefore be misleading. A more complete and accurate picture of social welfare under various political economic arrangements requires that we consider systemic robustness.

3. The Austrian connection

Austrian economics is in a unique position to engage the robust political economy research agenda. In the 1920s and 30s Ludwig von Mises and F.A. Hayek engaged in an intellectual battle over the desirability and feasibility of liberalism vs. socialism. Liberalism, they agued, presents no particular problem from an economic point of view. Because liberalism is founded on the principles of private property and exchange, in the unhampered marketplace prices emerge via the actions of trading parties. Market prices serve to guide the actions of producers in such a way that resources tend to flow to those areas where consumers desire them most urgently. This results in a tendency toward an efficient allocation of resources in a market economy, which leads to increasing material wealth. In contrast, Mises and Hayek pointed out, because socialism lacks private ownership in the means of production, no market prices indicating the relative scarcity of resources in alternative employments could emerge under this political economic system to guide the activities of producers. Rational economic calculation under socialism is therefore impossible, making advanced material production impossible as well.[1]

As Boettke and Leeson (2004, 2006) have pointed out, at its core, the Mises-Hayek argument is one about the robustness of liberal political economy and the fragility of socialist political economic organization. On the one hand, when information is imperfect and incomplete, and must be generated endogenously by the system rather than being given exogenously to it through the researcher by assumption, liberalism, via the price system, enables rational economic calculation. This in turn leads to economic progress. Liberalism is therefore robust. Under these less than ideal informational conditions, however, socialism fails since it cannot cope with imperfect, fragmented, and dispersed knowledge. Socialism is therefore fragile.

On the other hand, the Mises-Hayek argument pointed out that the fragility of socialist political economy was true *even* under ideal motivational assumptions. In the course of their debate with the socialists, both Mises and Hayek never impugned the intentions or character of the would-be central planners under socialism. Although both argued elsewhere why there is good reason to suspect that those who come to power under socialist political economic organization are likely to have less than pure motives, for rhetorical purposes, to highlight the importance of the information issue, and to make clear the value-freedom of their own argument, in making their critique, Mises and Hayek assumed that the socialist directors were angels. As Mises put it, "We may admit that the director or the board of directors are people with superior ability, wise and full of good intentions. But it would be nothing short of idiocy to assume they are omniscient and infallible" (1966: 696).

The point of the Mises-Hayek "knowledge critique" was that even if socialism's central planners are perfectly benevolent and socialist workers confront no ill incentive effects from severing the link between production and remuneration that exists under liberalism (as subsequent work would demonstrate, both very unrealistic assumptions indeed), the informational obstacle that socialism confronts when information must be created from within the system rather than being given to central planners *ex ante* is enough to prevent socialism from being able to improve material prosperity. Thus, even in under "best-case" assumptions about actor motivations, socialism's inability to cope with less than "best-case" assumptions about actor information rendered this political economic system fragile.

In leveling this critique the Mises-Hayek argument created the foundation for examinations of political economic robustness that relax ideal assumptions about individuals' information.[2] It also opened up a broader research program of generally exploring the robustness of political economic systems. The traditional Austrian focus on features of the "real" economic world, which emphasizes elements such as the importance time (and thus non-instantaneous adjustments), uncertain change (and thus the possibility of human error), processes (and thus movement towards and away from constantly evolving equilibria), and purposive, acting humans (and thus fallible, imperfect decision making), naturally predisposes Austrian analyses to inquiries into political economic robustness. In many ways, the starting points of traditional Austrian research are starting points of potential investigations into the robustness of various political economy systems.

[1] For more on this see, Boettke and Leeson (2005).

[2] Austrian work on robustness need not be, and has not been confined exclusively to considerations of robustness and fragility under liberalism vs. socialism. Any political economic arrangement is open to examinations of robustness. Mises' (1966, 1990, 1996, 1998) arguments regarding the dynamics of intervention in "mixed" economies, for example, may be considered pioneering work investigating the robustness of political economies organized under the "third way."

Although the Mises-Hayek argument highlights the informational side of robust political economic analyses, the public choice approach pioneered by James Buchanan and Gordon Tullock—itself closely connected to the ideas of Mises and Hayek[3] —provides an excellent complement highlighting the motivational side of inquiries regarding political economic robustness.[4] Since examining robustness requires that we relax both ideal informational and motivational assumptions, it is important that examinations of robustness incorporate insights from both the Mises-Hayek Austrian approach and the Buchanan-Tullock Virginia Political Economy approach.

4. Broadening the robust political economy agenda

The papers in this symposium draw on ideas from both of these related perspectives. In the first paper in this issue, Richard Wagner examines political economic robustness from an "emergent perspective." Wagner builds his argument on a distinction he draws between "disjunctive" and "conjunctive" maps of political economy. The former views the state and market as separate entities, the state acting on the market from the outside. The latter views the state as existing, and intervening from, within the market. This disjunctive perspective sees the state as an order rather than an organization. Wagner argues that polycentric political economic organizations that entail a multitude of nodes of potential relations between political economic actors are robust, while those with greater hierarchy in generating fewer such nodes display fragility.

David Levy and Sandra Peart discuss the fragility of disciplines when a single model comes to dominate their explanations. When this is the case, they argue, the falsification of the model would mean falsification of the discipline. Researchers in the discipline who do not want to see their science come to an end have strong incentives to propose *ad hoc* explanations for the model's failure. To test their claim, Levy and Peart examine economic forecasts of the comparative Soviet and American growth rates in the years before a public choice model of central planning was a viable alternative to the public interest model.

In the third paper in this symposium, Peter Leeson, Christopher Coyne and Peter Boettke address the issue of systemic robustness in the context of focal points. They argue that focal points convert situations of potential conflict into situations of cooperation, and in doing so transform "worst-case scenarios" into "better-case scenarios," which are easier for political economic systems to handle. Bruce Benson examines the robustness of political economic systems in the face of efficiency-inhibiting government rules. He persuasively argues that if individuals are able to establish private sources of credibility, they can contract around the state, enhancing economic robustness. In contrast, where state action limits private trust building and thus the potential for contractually nullifying harmful government rules, fragility is introduced.

[3] On the connection between Austrian economics and public choice see, Boettke and Leeson (2003).

[4] The argument for liberalism made by its 'founding fathers' in the 18th century was the first to examine how alternative political economic arrangements performed in the face of "worst-case" assumptions about individuals' motivations. Classical economists like Adam Smith and David Hume asked, how does the unhampered market perform when men are not angels? Smith's "invisible hand" showed how under liberal institutions of private property men's self-interest was harnessed and their knavishness actually became a source for the public good. The classical economists, however, for the most part restricted the relaxation of the benevolence assumption to market actors. The public choice approach of Buchanan and Tullock may be seen as the symmetrical extension of this "worst-case" assumption to actors in the political arena as well.

Randall Holcombe investigates political economic robustness in the context of entrepreneurial activity. A robust political economy, he argues, is one in which entrepreneurial activity can keep pace with continually changing market conditions, allowing for resources to tend over time to their (continually changing) highest valued uses. In the next paper, Stefan Voigt applies robust political economy to the case of antitrust. Voigt concludes that to pass both the incentive and information tests of robustness, the rules of antitrust policy must be universalizable.

In the final paper of this symposium, Scott Beaulier and J. Robert Subrick discuss robustness in the context of poverty traps and development assistance. They argue that "big push" models of industrializing the developing world exhibit fragility. In their paper, Beaulier and Subrick argue that in addition to an incentive and information problem, policymakers also confront a decision-making problem. Thus, bounded rationality, in addition to incentive and information issues, is an important element to consider when evaluating robustness.

5. Conclusion

Each of the papers in this volume contributes an important advance in the robust political economy research agenda. Though their applications are diverse, they are all bound together by the common theme of considering performance in the face of deviations from ideal conditions. We very much hope that this special issue is the beginning of additional work that draws on the Austrian and Virginia Political Economy traditions to examine questions about political economic robustness and fragility. The papers contained here will hopefully provoke thoughts and serve as potential starting points for other work in this burgeoning area of political economy.

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