Mark Pennington, *Robust Political Economy*:
Classical Liberalism and the Future of Public Policy

Northampton, MA: Edward Elgar Publishing, Inc., 2011.
vii + 302 Pages. USD 40.00 (paper)

Vlad Tarko

It often seems that everyone's political beliefs today are shaped by their fear of what would happen if classical liberalism would happen. What one thinks about the proper role of the state as a manager of various issues is derived from one's fear of what the emergent market and social outcome would be in the absence of those interventions. Economists worry about externalities, the provision of public goods and the problems associated with asymmetric information. Going beyond basic economics, both conservatives and progressives have their concerns. Conservatives worry that impersonal market relations erode traditional morality and that, perhaps, capitalism tends to undermine its own moral foundations of trust and respect for property. Capitalism needs to be protected from itself. Progressives worry that free markets generate too much inequality and that the voice of various disadvantaged groups is not properly taken into account by those who set or change the "rules of the game". Perhaps markets generate such inequalities of income that the rich will be able to buy the government and change the rules such that they will remain forever on top. Once again, capitalism presumably undermines its own foundation and needs to be saved from itself.

It thus seems that, paradoxically, although classical liberals themselves are few and powerless, everybody else defines their own politics relative to their standard of freedom. In a sense, everyone today endorses the liberal ideal, but thinks that, in practice, classical liberalism is an unworkable utopia and going too far in its direction (by deregulation, privatization and social tolerance) is dangerous. "Neoliberalism" is usually used as a term of abuse. The traditional liberal response to those fears is to argue that one needs to have a "presumption" in favor of freedom. The burden of proof should be on those who argue in favor of various restrictions and, given uncertainty, one should err on the side of more freedom, rather than less. This approach, however, tends to frame all political debates as a matter of trade-offs between various values, freedom being just one of them. The liberal argument is

V. Tarko (✉)
Department of Economics, George Mason University, Fairfax, VA 22030, USA
e-mail: vtarko@gmu.edu

useless for convincing those who simply don't share the same "presumption" in favor of freedom and who think that some other values (such as security, equality or voice) should take precedence, at least in some contexts.

Mark Pennington's argument in *Robust Political Economy* goes along a different path, returning to Mises' approach from *Socialism* (1922) and *Interventionism* (1940). In a sense, what Mises has done for socialism, Pennington is now doing for the welfare state. Mises' strategy was not to argue from a liberal moral perspective (he was a radical moral relativist), but instead to take for granted the socialists' goals and argue that, if put into practice, their proposed means could not lead to their stated goals. Similarly, Pennington takes for granted the variety of social goals, as stated by various proponents of the welfare state, and explains why their proposed means cannot achieve any those goals. In a nutshell, Pennington is arguing that all arguments in favor of the welfare state rest on some form or another of wishful thinking, failing to take seriously enough (1) the knowledge and incentives problems faced by the bureaucrats and politicians who are supposed to put into practice the desired public policies (Boettke and Leeson 2004; Leeson and Subrick 2006; Pennington 2011), and (2) the rational ignorance, rational irrationality (Caplan 2001) and preference falsification (Kuran 1995) problems faced by voters who are supposed to keep the political class honest. One can indeed see this book not just as a critique of all the fears of classical liberalism that are floating around, but also as a compendium of the varieties of political wishful thinking.

The book has three parts, a short introduction that lays out the argumentative strategy, a part dealing with theory, and one showcasing a few important public policy applications of the theory. The part dealing with theory discusses four different "challenges to classical liberalism", i.e. four different types of social goals that are presumably undermined if we go too far in the classical liberal direction. The first such challenge comes from economics and the social goal is efficiency. The second challenge comes from proponents of deliberative and participative democracy and the social value is voice. The third challenge comes from conservatives and progressives alike arguing that the impersonal nature of markets undermines trust and social capital. Finally, the fourth challenge comes from social democrats and the social value is equality. The public policy applications deal with poverty and public services, international development, and environmental problems.

Pennington's argumentative strategy goes beyond the classic Misesian utilitarianism by relying, as the title suggests, on the idea of "robust political economy" (Boettke and Leeson 2004; Leeson and Subrick 2006; Pennington 2011). The idea is simple and powerful: When one analyses the merits of any political-economic system or of any public policy proposal, one needs to see whether the system has the proper checks and balances such that its proposed social goals are not undermined by either the self-interested behavior of individual actors gaming the system to their own advantage or by the difficulties to gather and analyze the relevant information necessary for achieving the desired social goals. To give just a few examples, if one tries to achieve economic efficiency by means of Pigouvian pollution taxes, by what mechanism is one to discover the efficient level of that tax and how does one realistically prevent regulatory capture problems? If one tries to promote voice by increasing the domains governed by centralized regulations, and thus increasing the size of the political jurisdiction and the transaction costs associated with exit, doesn't

one make it more rather than less difficult for regular people to participate in the life of the community and, also, give more rather than less power to self-interested elites? If one tries to promote trust and social capital by restricting the realm of voluntary transactions, doesn't this undermine the very process by which people signal and prove their trustworthiness? If one tries to promote equality by means of top-down controls, what guarantees that those controls will not be used to hurt the poor instead of helping them (after all, extractive power structures seem to be the norm rather than the exception), especially considering that the poor are less likely to be well-educated, informed and well-organized, and also that, human psychology being what it is, compassion is more likely to work in smaller communities than in larger ones?

If the past centuries are of any guide, new arguments in favor of state control will keep coming and going. This is why Mises' *Interventionism* sounds a bit outdated today. Far fewer people currently rely on many of the arguments discussed in that book, and, to a modern reader, Mises appears to be eschewing the hard cases. But Pennington does more in this book than just bringing the argument up to date. He provides and showcases the general blueprint for how to analyze the merits of any interventionist policy. The question of robustness and of how exactly to analyze robustness is critical for discerning a wishful-thinking utopia from a workable reform. As such, Pennington provides a very useful guide, I'm tempted to say almost an algorithm, to anyone interested in pursuing institutional analysis in a simple and, yet, deep fashion: On a practical note, analyze the existing knowledge and incentive problems and discover the missing checks and balances that undermine the desired functioning of the social system; and, as a general heuristic, trust competition and bottom-up experimentation more than top-down attempts at benevolent conscious design, because bottom-up processes are not just aggregating knowledge, they are creating knowledge, and top-down use of power is rarely, if ever, benevolent.

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