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Why be robust? The contribution of market process theory to the Robust Political Economy research program

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Abstract: How can liberal political theorists combine their normative commitments with realistic assumptions of human behaviour and capacities? This is an important question for scholars who wish to use their theories to evaluate existing political institutions and recommend practical alternatives. This chapter describes a particular approach to realism in political theory by using the notion of ‘robustness’ from the Robust Political Economy framework. Robust institutions are those that perform well even when people are neither omniscient nor perfectly motivated to follow the common good. I argue that these problems, of limited knowledge and self-interest, emerge from three assumptions about the constitution of human beings commonly found in the liberal theoretical tradition: methodological individualism, subjectivism and analytical egalitarianism. I propose a combination of public choice and market process theory as best suited to the task of evaluating the robustness of normative political theories because they allow us to apply these assumptions systematically to all domains of human activity. Compared to standard neo-classical methodology, this approach offers an enriched account of the epistemic challenge to social co-operation that individuals face and the role of institutions, including private property and voluntary exchange, in ameliorating this challenge. I show how this systematic evaluation of the motivational and epistemic properties of institutions can help critique and extend Rawls’ contractarian theory of justice and offer a new perspective on the role of realism in political theory.

Key words: robust political economy, political theory methods, realism, Rawls, liberalism, market process, public choice

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The purpose of this chapter is to show how the robust political economy framework can provide a unique perspective to political theory. The premise of RPE is that institutions should be evaluated by comparing their capacities to solve knowledge and incentive problems. I argue that these problems are also important concerns for political theorists that would like their research to reflect realistic challenges to economic co-operation. This raises a question: through what conceptual framework should different institutions be compared? My case is that a combined application of Austrian market process theory and public choice is the most promising way of comparing the robustness of institutions. This combination offers an enriched account of individual behaviour in political settings compared to traditional public choice analysis and neo-classical economic approaches to institutional analysis.

The structure of this chapter is as follows. I begin with a vignette of an experience playing a prisoners' dilemma game in a behavioural economics laboratory that illustrates some limits of formal rational choice analysis. I link this description to Vincent Ostrom's critical appraisal of the public choice research program, where he proposed absorbing Austrian market process insights into the analysis of individual behaviour in collective decision settings. I then describe RPE as such a combination, its characteristic features and its underlying assumptions.

My approach highlights the epistemic properties of market institutions as opposed to their more commonly recognised role in aligning individual incentives with socially beneficial outcomes. In order to do this, I make use of Kirzner's (1987, 46; 2000, 264) two levels of spontaneous order analysis, codified by Boettke (2014) as the market process and the market order. This approach has parallels with Buchanan's distinction between constitutional and post-constitutional arenas of political exchange (Boettke 2014, 243; Buchanan and Tullock 1999) but recognises in greater depth the epistemic barriers to constitutional formation (Pennington 2015).

This division between the market process and the market order allows us to differentiate accounts of agents co-ordinating within a given institutional framework of private property and voluntary exchange, and the much more challenging collective task agents face when establishing that protective framework in the absence of an informative price mechanism. This explains how RPE can extend neo-classical accounts of the performance, development and failure of political institutions. I argue that this epistemic account offers a wider role for normative ideas, including ideas in political theory, as mechanisms for understanding each

other's behaviour and co-ordinating modes of social co-operation, than other more incentive-led or materialist accounts of institutions. I show what this perspective can contribute to Rawls' contractarian theory of justice and to realism in political theory.

The limits of a neo-classical framework

Some years ago, I took a methodology course in rational choice theory. As part of our first class we were taken to a new, gleaming behavioural economics laboratory to play a repeated prisoners' dilemma game. The system randomly paired anonymous members of the class to play against each other. We were told the objective of the game was to maximise our individual scores. Thinking that there were clear gains to make from co-operation and plenty of opportunities to punish a defector over the course of repeated interactions, I attempted to co-operate on the first round. My partner defected. I defected a couple of times subsequently to show I was not a sucker. Then I tried co-operating once more. My partner defected every single time in the repeated series.

At the end of the game, we were de-anonymised and it turned out, unsurprisingly, that I had the lowest score in the class. My partner had the second lowest. I asked her why she engaged in an evidently sub-optimal strategy. She explained: 'I didn't think we were playing to get the most points. I was just trying to beat you!'

Game theoretic models like the prisoners' dilemma have proved to be compelling and productive analytical tools in social science, clarifying the core of many challenges to collective action. The prisoners' dilemma illustrates how given certain situations, or rules of the game, self-interested agents will be stymied from reaching optimal or mutually beneficial outcomes. But my experience illustrates a general finding that there is often something more complex going on even in relatively simple social interactions.

The laboratory situation replicated the formal prisoners' dilemma model as closely as possible with explicit rules, quantified 'objective' (though admittedly, in this case, low-value) payoffs, and a situation designed to isolate players as if they were prisoners in different cells. Yet even in these carefully controlled circumstances, it turns out that the situation is subject to multiple interpretations and understandings. Whatever the textual explanation accompanying the game, the score on the screen could mean something different to the various players. The payoffs for the representative agents in the game were not the same as the payoffs in the minds of the human players. In a sense, my partner and I were unwittingly playing different games (although I lost within either rules of the game!).

When we engage with the social world, it is not only the case that our interests may not align with other people, whether it's a question of who gets a seat on the bus or the last chocolate torte at the buffet. We are also uncertain as to what people's interests and motivations are. Social interaction is open-ended. We do not know all the possible moves in the game, and we do not know much about the preference set of everyone else who is playing. Indeed, neither they nor we know what a 'complete' set of preferences and payoffs would look like, even of our own (Shackle 1970, 100). We can map out a few options and likely outcomes through reflection and experience but even then we may face outcomes we do not anticipate. As Boettke (2014, 236) explains: 'we strive not only to pursue our ends with a judicious selection of the means, but also to discover what ends that we hope to pursue.'

In addition, the rules of the game themselves are not, in the final analysis, merely exogenous impositions on us as agents. They are constituted inter-subjectively by the practices, beliefs and values of the actors that are also participants in the social game (Grube and Storr 2015; Boettke and Storr 2002). The social world thus presents inherent uncertainty and change that cannot be captured in a formal model that assumes fixed rules of the game and the given knowledge of the players.

This account illustrates some limits to a neo-classical economic framework that assumes given preferences, utility maximising agents who act independently with complete information (Weintraub 1993). I now turn briefly to why these limits are relevant for behaviour in political settings in particular.

Ostrom's challenge to public choice

What is left unexplained by the formal rational choice approach? In 'Epistemic Choice and Public Choice', Ostrom (1993) considered how these sorts of limits to modelling human behaviour within given rules, actions and beliefs impact on the economic analysis of politics. He assessed the prospects of the public choice research program as he then saw it. On his account, public choice made substantial contributions to understanding collective choice through the application of neo-classical economic analysis to non-market situations (Cf. V. Ostrom and Ostrom 1971, 205). It showed that a simple account of empirical or theoretical 'market failures' was insufficient to show that a government alternative was more efficient or inevitably preferable to voluntary exchange. In order to know whether government or market institutions are superior for a particular case requires a more systematic comparison of institutions where behavioural assumptions can be clarified.

At the same time, public choice throws up some problems of its own, notably a conceptual ambiguity with regards to rationality. Are all human decisions rational by definition or do rational actors possess some empirically falsifiable characteristics such as a tendency to selfishness (Kogelmann 2015)? How can actors commit to, or carry out, actions that, on most plausible definitions, diverge significantly from their self-interest such as self-sacrifice (Sen 1977)?

This sort of behaviour is more relevant in collective decision settings where publicly shared values are at stake. Such situations stretch the assumptions of rational action as applied classically to market exchange. One result of this is that it has proved relatively easy for sceptics of public choice methodology to dismiss its insights as an irrelevant, abstract and implausibly cynical way of modelling political actors (Dunleavy 2002).

Ostrom notes that these limits to public choice are known and acknowledged amongst its founding theorists. Buchanan and Vanberg (1991), for example, expound on the non-economising aspects of individual production and exchange behaviour. When discussing an idealised constitutional framework, Buchanan (2001, 184) presumes actors have social values and motivations that extend far beyond any narrow selfish conception of individual welfare. Nevertheless, thinking around these issues has taken place on what Ostrom calls the ‘periphery’ of the public choice research program because it lies outside the relative comfort of thin formal modelling and statistical empirical testing that makes up a great deal of public choice research, as well as the dominant quantitative approaches of contemporary political science.

In response to these sorts of challenges, Ostrom asks theorists to consider more thoroughly the assumptions underlying the logic of public choice, a program he calls ‘epistemic choice’. He suggests that the capacity for individuals to engage in collective choice depends on their ability to generate and share information about themselves, and subsequently frame and influence each other’s individual desires and capacities. He calls for an exploration of how human beings are capable of transforming their understanding of the world such that their observable ‘interests’ that guide action can be transformed as well, noting the significance of ‘the Austrian emphasis upon the information-generating aspects of free trade in the presence of stable monetized exchange relationships’ (V. Ostrom 1993, 169) for this endeavour. RPE is one answer to this challenge.

What is robust political economy?

RPE is a framework of analysis inspired by the broad research program of ‘mainline’ economics (Boettke 2012). It has been used to make a specific defence of classical liberal approaches to public policy (Pennington 2011). The core presumption of RPE is that, in order to be commendable, institutions aiming at human welfare should be *robust* to realistic challenges that are significant features of human political and social life.

Proponents characterise robustness as institutions capable of dealing with ‘hard’ cases rather than merely ‘easy’ cases in public policy (Boettke and Leeson 2004, 100). This means evaluating institutions on the basis of a range of possible conditions rather than the ideal conditions to which they are perfectly suited. They impute the two core realistic problems facing a political community to be those of knowledge and incentives (Pennington 2011; Leeson and Subrick 2006). Thus robust institutions are those able to induce successful social co-operation even when participants lack important relevant information and have divergent individual interests of their own. In this sense, robustness is a ‘stress-test’ for institutions and theories. By focusing on these problems, RPE avoids political romanticism (Buchanan 1999, 45; Levy 2002) and utilises instead the ‘worst-case scenario’ theorising that is embedded in much traditional liberal political thought (Farrant and Crampton 2008).

Communities have ameliorated these challenges through the use of social institutions, that is formal and informal rules and norms that guide individual conduct (Pennington 2011, 192). For proponents of robustness, these institutions are primarily private property and voluntary exchange within a framework of the rule of law. Such a regime establishes domains of exclusive, but alienable, control over resources. This allows individuals to engage in productive activity and exchange on the presumption that they will not be interfering with the similar activity of others in different domains and are, at the same time, themselves protected from predation and interference. This facilitates individually beneficial activity and social co-operation, generates and shares dispersed knowledge, and aligns individual incentives with activity that subjectively benefits all participants.

Why knowledge and incentives?

Why does RPE identify the key social problems as knowledge and incentives? My contention is that these two problems emerge from three key compelling, though inevitably contested (Lukes 1968; Hodgson 2007), assumptions, or constraints on our form of explanation:

- methodological individualism,

- subjectivism, and
- analytical egalitarianism.

By methodological individualism, I mean the assumption that social activity is constituted, in the final analysis though not necessarily at all points in an explanation, by embodied human beings, rather than aggregated structures. By subjectivism, I mean the notion that individuals act on the basis of their own separate beliefs, experiences and values (Hayek 1937; Hayek 1943, 5) that can only ever at best be partially articulated and shared with other agents. Our methods of communicating our thoughts and feelings are not given, and even when present, imperfect. By analytical egalitarianism, I mean a presumption of rough equality of power or capacity between individuals. This excludes the examination of inherent individual characteristics as an explanation of different social outcomes.

The problems of knowledge and incentives are two sources of disorder, or lack of co-ordination, that emerge from these assumptions. That is, they are present when humans have the characteristics of embodied individuals with their own mental lives and rough equality of power between them. There is no special agent that can naturally overpower the others and dictate the outcomes of the interaction. The knowledge problem is the result of these individuals encountering and interpreting a dynamic natural and social world through their limited senses and cognitive capacities. They face radical uncertainty as to the opportunities and threats they face, and bounded rationality when processing relevant information to guide their actions. The incentive problem emerges as a result of individuals or groups encountering others with subjective interests and objectives that are unreconciled with their own.

Although knowledge and incentive problems are distinct, their influence on each other means that considering them together allows us to better understand the challenge of human sociability (Cf. Gamble 1989, 1). The knowledge problem extends to ignorance of the intentions and interests of others so that individuals are uncertain, for example, as to what might constitute an effective incentive for other individuals or groups. At the same time, lack of knowledge heavily influences the incentives that individuals face. In some contexts, this generates narrow, defensive attitudes that prevent potentially productive co-operation.

The market process as a solution to the knowledge problem

The knowledge problem, alongside incentives problems, is a barrier to social co-ordination that formal models cannot capture in their entirety. This is because such models assume a given range of choices and cannot include unknown choices within a set that have yet to be

discovered. An institutional framework that enables the market process helps to ameliorate this problem.

How does the market process operate? In the first instance, markets allow actors to summarise some of the relevant characteristics of their inarticulate knowledge in a way that can usefully guide the choices of others throughout a community. An actor may need widgets as part of a production plan but lack the personal knowledge or skill to create them. Market prices inform the actor what the going rate for a widget is which is a sufficient guide so far as their particular business plan is concerned. It means that dispersed knowledge that are relevant for evaluating a range of given choices become accessible to decision-makers.

Moreover, prices also act as a signal to potential price-makers, or entrepreneurs, showing them where demand for particular resources is currently outstripping supply (Kirzner 1997; Kirzner 2013). It represents a signal of unmet needs that someone with relevant knowledge or expertise can use as a guide to where their efforts could be productively employed. These entrepreneurs are alert to how the given price data may fail to reflect other observations that they have based on their particular circumstances. In this sense, entrepreneurs act in disagreement with the given price, believing it to be erroneous from their subjective standpoint (Kirzner 1978, 11).

This aspect of the process is not one of narrowly, rational economising precisely because agents are not optimising their choices within budgetary constraints (Kirzner 1996, 127). Instead, these agents engage in the creative and speculative activity of challenging publicised prices, winning profits should they be correct and experiencing loss should they turn out to be mistaken. It is this open-ended feature of the market process, impossible to conceptualise in a formal rational choice model, that allows for the discovery of previously unknown options in a given choice situation. It is a mechanism that does not merely discover what choice produces the best outcome within a given set, but also allows people to identify and explore 'blank' or hidden areas in the choice set.

This market process understanding adds an epistemic emphasis to prevailing neo-classical economic accounts of the function of market institutions. The cornerstone of neo-classical economic theory is the notion of competitive equilibrium. On this account, institutions that support market activity work because they are technically efficient. Assuming rational agents and perfect information, markets allocate resources to their most valuable uses and encourage self-interested actors to accumulate capital without fear of expropriation (Alston, Eggertsson,

and North 1996; North 1990). They remove ‘dollars from the sidewalk’. Institutions that unnecessarily impede the price mechanism, fail to address transaction costs, or enable predation reduce long-run economic welfare (Olson 1996). For sure, economists in this tradition do not ascribe such simplistic notions to reality. They only suggest that the abstraction is sufficient to explain a great deal of the variation between regimes.

For the RPE account, this is lacking part of the answer because it fails to explain how individuals with bounded rationality and limited information could ever even approach, much less satisfy, the conditions required for this model to be relevant. The presumption that markets work only to co-ordinate given information suggests that they are apt to fail in cases where such information is absent, calling for a different explanation of what makes liberal markets historically workable. It would also mean that, in principle, any institutions similarly designed to follow price signals (such as market socialism) could serve in the place of liberal market institutions (Meade 1945). Yet, historical observation suggests that only regimes with substantial allowance for market activity within a system of private property have consistent welfare gains (Boettke 1993).

This is where the contribution of market process theory differs from neo-classical approaches. As Hayek (1945; 2014) and Kirzner (1996) describe, market institutions facilitate a process of social learning whereby agents discover more valuable uses of resources. In participating in this process, people seeking to satisfy their own ends come to contribute to the ends of their fellow participants. Although limited knowledge is the primary economic problem to be overcome on this account, incentives remain central. Without objective, stable, given information, incentives, the subjective experience of gains and losses, provide essential feedback to individual decision-makers: ‘What renders the market process a systematic process of co-ordination is the circumstances that each gap in market co-ordination expresses itself as a pure profit opportunity’ (Kirzner 1996, 12).

Critically, this establishes a realistic baseline for comparing institutional efficacy and viability. A model of markets based on perfect competition implies that any observed deviation from equilibrium, such as supra-normal profits, is a sign of a market failure, whether the result of a diseconomy or information asymmetry. On a market process account, optimality is not the relevant baseline for judgement. Instead, the question is whether the framework in place allows alert actors to discover inefficiencies and failings, and engage in an on-going open-ended process of experimentation in an attempt to ameliorate them. In this

sense, the market process bears some similarity to theories of democratic processes which, under certain conditions, possess similar opportunities for piece-meal experimentation and self-correction (J. Knight and Johnson 2007; Cf. Pennington 2003; 2010).

The market order as a perilous pre-condition for social co-operation

A second limitation to simple rational choice analysis is that the rules of the social game are typically assumed as given and exogenous to the decisions of the participants. For example, players in the classic prisoners' dilemma situation do not have a role in establishing the rules and nor are they given an opportunity to revise the rules. In the real social world, the rules of an encounter or set of social circumstances are not given but constituted by the beliefs and practices of the participants (Trantidis 2016, 22). So rational choice analysis can show the significance of the rules of the game for determining outcomes but has less of an account of how agents determine the rules of the game. Yet the rules themselves are absolutely critical. Depending on the rules, the same actors could end up co-operating successfully as a community, or falling into desperate conflict.

Buchanan and Tullock (1999) offer a quasi-normative solution within the public choice framework by distinguishing between constitutional and post-constitutional stages in the political process. They conceptualise agents mutually agreeing the rules of their interactions prior to playing, competing and co-operating, self-interestedly within the rules. The weakness is that the constitutional stage in this framework is implausibly idealised. It involves far-sighted actors convening at a constitutional moment and coming to unanimous agreement (Meadowcroft 2014) on a shared institutional framework in a way that is completely unlike any real constitutional convention. For this reason, Buchanan (2000, 100) ultimately treats this scenario as a hypothetical contract which, in some sense, legitimises a status quo that has some relatively stable rules of the game, regardless of the real origins of those institutions. The actual development of institutions remains somewhat mysterious.

How might agents go about the process of institutional development in a more realistic scenario? This is where the market process's second level of analysis, the market order, can supplement the public choice account. The same agents that participate in the market process engage in a process of political entrepreneurship, attempting to develop modes of co-operation that better protect their interests. Institutions of communication, co-ordination and dispute resolution emerge through trial-and-error processes combining spontaneous experimentation and bargaining between groups in a way that parallels acting within a pre-

existing set of rules (Pennington 2015, 470). When sufficiently advanced and productive, these institutions can disseminate useful guidance and co-ordinating information that is beyond the direct comprehension of any single individual that participates in and benefits from them.

Unlike individual action within a pre-established framework of voluntary exchange, there is no expectation that institutional formation will work spontaneously in the direction of an efficient, or even generally socially beneficial, outcome. There is no pre-established prohibition on exploitation or predation, or their formalisation in institutions such as slavery. Indeed, Kirzner (2000, 77) is suspicious of any attempts to apply economic analysis to the creation of private property institutions rather than exchange activity within them. Boettke and Leeson (2009) are more open to an account of market governance that is endogenous to entrepreneurial activity but acknowledge the contingency of convergence on institutions that facilitate, rather than impede, exchange. Entrepreneurial activity, the actor's pursuit of more effective ways of discovering and achieving their interests, is omnipresent. However, it is only within a given framework of market institutions that such pursuit leads systematically towards socially beneficial outcomes:

[i]n social evolution, without recourse to the mechanisms provided by property rights, freely adjusting prices, and the lure of profit and the discipline of loss, all we can say is that practices that evolve serve as focal points of action. (Boettke 2014, 241)

Pace this still open question regarding the differences and similarities between political and market entrepreneurship, these unguided, non-rational, evolutionary accounts contribute to a richer description of the emergence of institutions (Boettke and Storr 2002, 164) than neo-classical accounts. Within a neo-classical lens, elite or powerful actors establish institutions on the basis of their interests and capacities (North 1991, 104). This is classically modelled as Olson's (1993) account of the transition of roving bandits, to stationary bandits to the despotism of the primitive state. This is an evolutionary account of institutions but it is driven primarily by self-interested actors, especially those attempting to engage in more efficient forms of predation. So when, for example, Acemoglu *et al.* (2001) attempt to demonstrate that institutions are an important factor determining long-run economic progress, it is based on the presumption that individuals facing different incentives will settle on different institutional compromises, thus inducing exogenous variation.

A potential paradox of this neo-classical approach is that, in so far as institutions are tightly determined by the incentives and capacities of elites at critical points in time, they actually

weaken the relevance of the ‘institutions matter’ hypothesis (Przeworski 2004). The institutions become merely the mechanism through which powerful actors attempt to reap relative rewards, with some configurations of incentives and given resources contingently generating more attractive growth outcomes over the long-run.

By contrast, an RPE account suggests that institutions need not be, and indeed usually are not, the result of conscious design, nor strictly determined by the self-interest of actors. Institutions such as language, law, property and money more often emerge through bottom-up practices and traditions that, in some cases, solve social problems for those participating in them (Pennington 2011, 42). This means that the range of people capable of participating in institutional innovation (the ‘policymakers’) is larger than those with pre-existing forms of political power. While innovators are likely to face conflict with those that subjectively benefit or approve of existing institutions, this conflict need not be intractable as the disagreement may be the result of an epistemic deficit rather than genuinely divisive interests. Interestingly, in one of his lesser known essays, Olson (1989) recognises the importance of ideas, as opposed to interests, but also acknowledges this point is somewhat at odds with the thrust of his general work.

So why be robust?

Why should we commend robustness? One justification is that we are looking for sound social scientific explanations of real-world outcomes. Levels of human welfare vary enormously across space and time. For a great deal of human history, severe poverty (McCloskey 2011) and violent conflict (Pinker 2012) were prevalent features of the human experience. This prompts the central question in political economy of how some regions and regimes underwent a change from a bad state of affairs to a comparatively remarkable degree of prosperity, or from what Adam Smith (1981, chap. 1) called a ‘rude state’ to an ‘improved one’?

It is this broadly Hobbesian recognition that conflict and poverty are in some sense common or ‘natural’ elements of the human experience that inspires part of the RPE stance. The RPE focus on worst-case scenarios is not necessarily a pessimistic undertaking as such but a mode of analysis for exploring possible causal explanations for transitions away from this natural condition. For most of history, and in many parts of the present world, this worst-case scenario is a realistic scenario. This means that we need an explanation for how people, similar in key respects to ourselves, who are ignorant of their environment, lacking scientific

know-how, technology, physical resources, personal security and assurance, are nevertheless in some circumstances able to improve their condition, typically over the course of many generations but sometimes much more rapidly. The best answer is robust institutions. By contrast, a theory that explains how people of goodwill and already in possession of essential knowledge for social co-operation is not as convincing an explanation of this real-world phenomena.

Cognisance of the possible depths of human experience also provides a normative justification for considering worst-case scenarios. It means critically evaluating potential changes in policy not just with a view to what they could achieve if they succeed, but what the outcome would be if they failed. This precautionary principle is more attractive once we recognise that political institutions are the result of path-dependent, incremental evolutionary processes rather than the product of rational design alone. Policies that alter the incentive structures of actors, or deprive them of information that was previously known or even assumed, may mean that it is impossible to undo changes that turn out to produce poorer outcomes than anticipated. It is possible for ‘public capital’ (Buchanan 2000, 163) to be destroyed and made unrecoverable.

Robustness also represents an attempt to integrate humility into scholarly research itself. It suggests we recognise that aspects of any model we are using to defend a causal narrative or justify a particular public policy could be wrong. While we cannot eliminate error from our analysis, we can approach problems in such a way that our answers remain relevant even if our model is substantially miss-specified or our measurements of its parameters mistaken in crucial respects. In this way, a robust research methodology has similar virtues to robust statistical analysis that sacrifices point precision for greater confidence in the general pattern of a result (Levy 2002). Robust results are those that remain trustworthy and valid even after accounting for the likely errors and biases that are generated by any inevitably imperfect research project. In this respect, robustness has parallels with the use of triangulation in research approaches, whereby findings are validated by using evidence from multiple perspectives and sources (Blau 2015).

Applied to Rawls’ contractarian theory of justice

My account suggests that institutions matter but, in addition, *ideas* about institutions matter, because the content of institutions are merely influenced, not structurally determined, by the power dynamics of political compromises. Better institutions are possible if they can be

conceptualised: if they become ‘thinkable’. My approach recognises a space in which better ideas of the social world can lead to better collective outcomes because they can help people reformulate their own subjective interests. Scholarship in political theory can help us map out possible constitutional bargaining spaces and contribute to more desirable institutional arrangements by furnishing political actors, or anyone with some capacity to influence social processes, with the knowledge of possible alternative rules of the game.

Pennington (2011) applies the insights of robust political economy to several key issues in public policy, namely problems of market failure, environmental policy, the welfare state and international development. His account includes analysis of some key issues in political theory, including distributive justice. His perspective is mainly critical. He points out how normative commitments to some institutions that aim to support distributive justice, deliberative democracy (2003), social capital or multiculturalism are likely to fail the stress-tests of robustness at the point of implementation as public policies. This leaves his preferred alternative, classical liberalism as the more commendable. I propose an extension to this approach to RPE. Robustness can be applied to political theories at a higher level of abstraction than the policy implications of the theories alone.

Applying this approach to Rawls’ theory of justice can be particularly fruitful since even his idealised theory includes problems of knowledge (2005, 56–57) and self-interest (2001a, 175) as challenges that social institutions should overcome. Rawls’ central philosophical aim is to establish what just social institutions would look like and be expected to achieve. He defines just institutions as those under which a community of free and equal citizens would agree to be governed and that would stably reproduce the conditions of their public acceptance over indefinite future generations (2001b, sec. 7).

As a mechanism for discovering what free and equal citizens would choose, Rawls proposes a hypothetical contract situation, the Original Position, whereby representative agents go behind a veil of ignorance that removes from them knowledge of their personal characteristics, social position and conception of the good (2001b, sec. 6). However, they are aware of certain basic facts of social theory. In this condition, they engage in a bargaining process that selects the principles that should guide the establishment of social institutions. As such, both the means (a hypothetical social contract) and the ends, allowing free and equal citizens to engage in respectful and productive social co-operation are similar to Buchanan’s.

The veil of ignorance in Rawls' theory plays a parallel role to a veil of uncertainty in Buchanan's constitutional choice situation (Buchanan 2001, 180).

Rawls (2001b, sec. 13) proposes that these representative agents would agree to two principles of justice. First, the Liberty Principle which guarantees as part of a basic constitutional framework a significant range of civil liberties (including freedom of speech, religion, association, political participation) equally to all. Second, the Difference Principle which requires all social positions to be available to all on the basis of fair equality of opportunity, and that any inequalities of social resources be arranged so as to benefit the least advantaged in society.

Critically, the application of Rawls' theory is restricted to reasonably ideal conditions where agents have a shared commitment to justice, have sufficient knowledge to judge the effectiveness of institutions, and where citizens can hold the political system to account. When it comes to less than ideal conditions, Rawls still believes that the ideal should represent a benchmark that is, in principle, achievable and against which real institutions should be judged.

However, the sort of institutions that exhibit robustness when defending justice may be quite different from the kind that reflect the principles of justice in an ideal setting. For Rawls, justice is best enshrined in the constitution of a centralised unitary democratic state with an independent judiciary to protect basic liberties and powerful branches of government that exert ultimate control over the economy. On an RPE account, lack of relevant knowledge and the presence of opportunistic political behaviour renders such a scheme apt to fail. A more decentralised federal regime where powers are separated in such a way that citizens can hold institutions to account through exit powers may not permit the same fine-tuned distribution of rights and resources that justice commends in an ideal setting. However, it may be more likely to protect basic liberties in the less than ideal setting where political actors cannot be perfectly trusted.

RPE also offers a different perspective on the interests of the least advantaged. Rawls considers how different institutional choices would impact the least advantaged in various ideal scenarios. He concludes that only a liberal socialism or radically redistributive property-owning democracy could be just. He rules capitalism out as unjust because of its insensitivity to wealth inequality (Rawls 2001b, 136). A robust approach compares alternatives like socialism and capitalism in the non-ideal as well as the ideal setting. If the failures of

socialism in non-ideal settings are much more substantial than the failures of capitalism, then it turns out that the worst conceivable social position is to be amongst the disadvantaged under a socialism that fails to reach its objectives. By contrast, being amongst the disadvantaged under an imperfect capitalism may turn out to be the far less risky option. Hence, using similar rationales of ‘maximin’ (Rawls 2001b, sec. 28; Cf. Buchanan and Faith 1980) and political stability that underpin Rawls’ Difference Principle and justify socialism in the ideal setting could justify capitalism in the non-ideal setting which is more relevant for establishing the relevant position of the least advantaged.

In making robustness a commendable criterion for institutions, I help clarify the normative case for constitutional principles (Rawls 2005, 161) and decentralisation of power rather than following more narrowly expedient utilitarian rationales. The recognition of robustness as a commendable property of institutions can also aid in Rawls’ (2001b, 3) philosophical task of reconciling individuals with the real political world that they encounter.

Applied to political realism

Political realism is a loosely related group of approaches to normative political theory that has emerged out of dissatisfaction with the apparent irrelevance of political philosophy for evaluating real-world politics and orienting actors towards practical goals (Geuss 2008; Galston 2010; Williams 2008). A common feature of this literature is a rejection of a conception of political theory as a form of applied ethics. Within the framework of applied ethics, the purpose of political institutions is typically to establish justice. Institutions are, therefore, evaluated on their ability to allow individuals to discharge each other’s moral duties as members of a community. Political realism, by contrast, suggests that there is a more basic shared interest in establishing a social order that is the primary function of political institutions. Realists wish to evaluate political decisions and regimes on the basis of this more fundamental concern (Jubb 2015).

Political realism thus has many of the same concerns of RPE. Unlike more idealistic approaches, realism recognises violence and conflict as possible scenarios when institutions fail. The key question, therefore, is what additional contribution RPE can offer to existing forms of realism political theory.

The first is an additional justification for the realist focus on seeking a minimally legitimate regime rather than morally just institutions as such. RPE’s evolutionary understanding of the social order suggests that institutional development is fraught with difficulties because that

development takes place outside a framework that copes with problems of dispersed knowledge and opportunistic actors. Any significant institutional shift will necessarily present agents with significant costs, as well as inherent risk and uncertainty. This suggests that rather than theorising and affirming the perfect institutional outcome and rejecting all others, a realistic approach commends convergence around a focal point of minimally legitimate institutions that extend the basic benefits of peace and tranquillity to those subject to them (Hardin 2003).

There is a more optimistic side to the RPE account on this point. Once established, even minimal conditions that are from ideal are nevertheless capable of generating incremental improvements in human welfare if they permit a market process to operate. Purposive actors in a civil society do not require the constant deliberate support and direction of political institutions in order to set about co-operating to improve their lives, and the lives of those around them. They merely require a framework that discourages predation and allows the sharing of dispersed knowledge. In this sense, conditions of peace, toleration and the rule of law can lead over the long-run to more substantive welfare improvements.

A second contribution for RPE is an observation about the nature of the problem that politics must solve. For a great many realists, it is the problem of moral disagreement amongst human beings. On the realist account, theories in the applied ethics tradition assume away this problem of disagreement by suggesting that, at least in principle, everyone would agree to the same set of moral principles (or a workable shared subset of principles for a community). In so doing, realists suggest that idealists lose sight of the coercive nature of real politics. In suitably ideal circumstances, where agents comply with both the letter and the spirit of a shared sense of justice, it can appear that there is hardly any distinctive role for political institutions at all, as opposed to voluntary governance. Realists, by contrast, suggest that institutions must be able to legitimise themselves in the absence of such agreement.

The deep subjectivist stance that RPE draws from market process theory suggests a more basic problem of co-ordination: the primitive fact that people each have the same capacity and desire to lay their hands on objects and resources. In the absence of communication, there is no possibility of co-ordination but nor is there any space for moral disagreement as such. In this sense, the emergent institution of language is the first mechanism of co-ordination.

Subsequently, communication mechanisms used to establish co-ordination, such as oaths, rituals and shared moral norms, become sources of discursive disagreement. Individuals can

come to blows not over resources themselves but over misunderstanding (or perhaps worse, correctly understanding) the beliefs, desires and values of others once it is possible for them to be articulated. Silent actors ‘disagree’ over what is mine and thine through attempting to follow their uncoordinated desires. Discursive actors, by contrast, can disagree over what *makes* mine and thine.

Looked at from this perspective, one might see moral disagreement not always as a problem in need of a solution, but rather as an outcome and contributor to successful co-ordination. The fact that people can successfully communicate disagreement demonstrates the existence of some shared institutions, at least a shared language of moral concepts. Discourse about morality and conduct may be a part of an institutional background that permits ongoing productive co-operation while highlighting areas of dispute.

There is a parallel here between the profit and loss signals of the market process and the protest and debate of political environments. In the ideal circumstances of perfect competition, profits and losses should not exist. They are a sign of error, ignorance or miscalculation, that, in principle, could be ameliorated through state intervention or redistribution. On a market process account, it is only through those signals that error and ignorance can be made known both to market and political actors. A regime that intervenes constantly and arbitrarily to fix market failures ends up depriving itself of the social knowledge necessary to identify them in the first place. Similarly, on many ideal accounts of politics, the presence of widespread disagreement is a sign of failure of a set of institutions to justify its rules to those bound by them. A more robust account suggests that voicing such disagreement, as well as allowing actors to pursue alternatives through exit rights, may be the only realistic way of discovering superior rules by which to live.

Finally, RPE offers a methodological rejoinder to some realist theorising by insisting on an explicitly comparative (Boettke, Coyne, and Leeson 2013; Boettke et al. 2005) element to the examination of worst-case scenarios, and not simply critique of existing regimes. To take one example of how this difference applies in practice, consider Geuss’s explanation of how his realist approach was influenced by a:

growing conviction that the present political, social, and economic situation of our world is desperate. The combination of already intolerable overpopulation and effectively irreversible pollution and degradation of the environment which may have no “solution”... minimally acceptable for the human species... If complexly organized social life survives at all, political agencies will have the task of exercising much of the discipline needed to force people in the West to adopt drastic reductions

in their absolute level of consumption... a solution... will not lie in any scheme that permits the continuation of... the so-called "free market". (Geuss 2010, xii–xiii)

Geuss (2002; 2008) has a strong claim to dealing with worst-case scenarios and premises his work on a fierce rejection of romantic ideological illusions. Yet, as one can imagine, Geuss's proposals (such as they are) stand almost at a polar opposite of the liberal ideas that RPE commends. From Geuss's standpoint, one can imagine that the supposed robustness on offer from Pennington *et al* at best relies on the naïve belief in the ability of imperfect human beings to produce defensible outcomes in the absence of the continual deliberate exercise of political force. At worst, it is an ideologically motivated defence of unsustainable and unjustifiable market institutions.

Geuss is correct to identify ecological problems as a kind that are unlikely to be ameliorated alone through the undirected, spontaneous activity of the market process. Environmental problems are beset with epistemic and motivational challenges of a particular kind that makes generating knowledge of the relevant costs of individual decisions difficult. A great deal of environmental damage occurs through the unintentional, uncoordinated and unobserved decisions of large numbers of people over long periods of time. These harms are, at least, resistant to the private property solution of establishing exclusive domains of activity and control.

For these reasons, it is almost inevitable that the market process's incremental, marginal adjustments on the basis of local knowledge will fail to address adequately some environmental problems. This applies especially to global ecological problems such as climate change. A commendable public policy is informed by the systematic scientific knowledge of the likely long-run impact of human activity on the environment and not just the implicit knowledge embedded in market prices.

However, there are critical weaknesses to Geuss' approach as well. A simple counsel of despair does not have any practical implications for public policy and reflects an attitude more than a motivation to action. As Knight (1939, 1) writes, 'to call a situation hopeless is for practical purposes the same thing as calling it ideal'. In so far as political realism identifies bad features of political life that cannot possibly be overcome, it is rendered as irrelevant as its mirror image, ideal theories that describe perfect political conditions that could never be attained even in principle.

RPE also suggests that establishing that a particular regime has failed is insufficient to suggest an authoritarian alternative. In order to commend harsh disciplinary solutions, that would intentionally dramatically reduce the material welfare of human beings subject to the new regime, we would need some account of how that solution would deal more adequately with the epistemic challenges of ecology than the imperfect results observed under liberalism. As Shahar (2015) argues, the poor record of authoritarian solutions to ecological problems suggests that liberal market solutions may turn out to be superior even if they remain far from ideal. The question prompted by the claim that our present situation is ‘desperate’ is simply ‘compared to what?’ An RPE approach is more rounded in considering the worst-case scenario of the proposed solution as well as the problem.

The notion of the market process as necessarily taking place within an institutional framework, the market order, allows us to avoid the simple binary of an unbounded ‘free market’ versus centralised authoritarian political solutions to social problems. Individual freedom within a private property framework is instead one point along a continuum of possible institutional frameworks that includes various forms of common ownership and forms of subsidiary governance and federalism before reaching unitary government. We can also distinguish between policies that attempt to command individual conduct directly, and policy approaches that change the rules of the game, that is the underlying order, in a way that allows agents to experiment and discover solutions for policy problems (E. Ostrom 1990).

My approach does not prescribe any particular set of rules as such, and is quite compatible with a variety of distributions of rights and powers over resources, some of which will be better at dealing with environmental problems than others. My argument is for the use of rules in general, rather than arbitrary discretion, without which actors will be exposed to predatory behaviour and not be able to produce the knowledge necessary for even basic co-operation.

Conclusion

This chapter has outlined the contribution that RPE can make to understanding realistic social problems that should concern political theory. It shows how the particular contribution of market process theory to RPE helps to improve existing economic accounts of individual behaviour in political settings. RPE can be seen as one response to the Ostromian challenge to produce a richer approach human interaction that better explores how humans interact in

exchange settings where assumptions of rational utility maximisation do not satisfactorily explain agent motivation and behaviour. Market process theory's emphasis on subjective valuation shows the challenge of facilitating social co-operation and contributes to RPE's emphasis on the need to address 'worst-case scenarios'.

However, a market process approach also offers cause for optimism. It suggests that humans acting within a satisfactory institutional framework are able to use their limited faculties to adapt, albeit imperfectly, to an ever-changing social world and co-operate in enormously inventive ways. A particular social situation is never perfect, but only rarely is it desperate. Social conflicts, or institutional failures, are not the result of intractable divergences of interest, but more often differences of opinion brought about by epistemic challenges that can, in principle, be resolved through peaceful means, including the persuasive application of better political theory.

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