

The Origins of Public Choice and Virginia Political Economy: What Might Arthur Lovejoy have Thought?

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Abstract

Drawing inspiration from Ross Emmett's (2006) imaginative construction of what Frank Knight might have thought about the Stigler-Becker formulation of *Die Gustibus*, I ask what Arthur Lovejoy (1936) might have thought about the origin of public choice. He would surely have denied that public choice denoted a "unit idea." Public choice is a generic term, like Enlightenment, Romanticism, and similar terms that cover many different and often inconsistent ideas. In its generic form, public choice descends from the neoclassical focus on rational action applied to voting. While the scholars associated with Virginia political economy likewise displayed an interest in rationality and voting, their core ideas descended from the confluence between the classical tradition of political economy and the Italian tradition of public finance. The significance of origins resides in the orientation it provides for future scholarship. An analytical core drawn from a neoclassical theory of rationality and voting based on demonstrative reasoning reflects a different analytical vision than does a classical theory of creative action and societal organization based on plausible reasoning. This latter location of origin points toward an integrated treatment of the economic, political, and social aspects of the perennial problem of people living together in close geographical proximity where cooperation and antagonism are both always in play.

Keywords: Antonio de Viti de Marco; Maffeo Pantaleoni; Vilfredo Pareto; James Buchanan; Arthur Lovejoy; fiscal sociology; interdependence between method and substance; emergent order vs. stipulated order

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There is something unavoidably arbitrary about locating the origin of any scheme of thought. A thinker's thought always takes place against a background of preceding thought, even if it also entails a projection of a thinker's imagination into new analytical territory. While today's thought might have some original aspects, it also will bear the imprint of preceding thought that can reasonably be described as precursory to the present thought (Lovejoy 1936). Despite this unavoidable arbitrariness, it is often informative for readers to know something about the most significant precursors of a particular scheme of thought to locate that scheme within the broader *Commons of the Mind* (Annette Baier 1997) in which all thought occurs. With this caveat in mind and donning my Arthur Lovejoy hat, I locate the origins of public choice not in the neoclassical theory of rationality applied to voting and politics, but in the confluence of classical political economy and Italian public finance, though with modest reservations I could also extend that origin to the 19th century tradition of *Staatwissenschaften*, along the lines of Backhaus and Wagner's (2005a,b) examinations of the Continental tradition of public finance in contrast to the Anglo-Saxon tradition. One significant reason for selecting this point of origin, in addition to its truth value, is that it opens naturally into a multi-faceted exploration of the problems involved in people living together in close geographical proximity, and with such explanation being by-passed by the standard neoclassical orientation toward comparative statics in contrast to emergent dynamics (Wagner 2010).

Constructing scholarly genealogy entails significant subjective elements that are absent from biological genealogy. At any moment, a scholar stands inside a chain of being (Lovejoy 1936), where one end points backward to some sense of origin while the other end points forward to work that remains to be done. The construction of such chains belongs not to the realm of necessity but to the realm of volition, out of recognition of the ability of language to encapsulate sentiment and emotion and not to serve simply as an instrument for conveying fact, as Viktor Klemperer (2006) illustrates beautifully in his examination of the use of language in Nazi Germany. Alternative narratives regarding origins point toward different directions for future scholarship as part of the highly contested quality of scholarly activity, as Melvin Reder (1999) explores for economics in particular and Randall Collins (1998) examines for scholarly competition in general. In presenting my thesis, I open with Kenneth Boulding's (1971) treatment of past thought as belonging to what he called the "extended present." After this, I explore some problems of understanding past scholarship when the tools of thought in play between then and now have changed, and when scholarly contestation at any moment often yields work with a mixed-metaphor quality because the existing tools of thought are not fully suitable for illuminating the intuitions behind that thought. This is the problem of index numbers as applied to the growth of scholarly understanding.

In particular, I explore the problem of appraising the contribution of the *The Calculus of Consent*. This book is universally cited as one of the half-dozen or so canonical works of public choice, and is undoubtedly the Ur-text of Virginia political economy. That book reflects in spades the problems I have just mentioned. It was

constructed using mostly simple neoclassical tools of thought that were in wide use at the time. Among other things, this generated a focus on representative agents and median voters. Yet the intuition behind the book was to use economic logic to make sense of the complex construction of the American constitutional system of 1789, where power was divided in numerous ways and not concentrated in some image of a median voter. All scholars have the problem of making themselves understood in light of the tools of thought that are in play among their cohorts. Below, I explain that *The Calculus of Consent* and the vision of public choice it enables is best understood as a confluence of the liberal political economy of classical times (Robbins 1952, Samuels 1966) and the public finance orientation of the classical Italian theorists (De Viti de Marco 1888).¹ In saying this, I don't deny sensibility to the standard reading, but rather assert that the alternative reading is more consistent with the authors' intuitions and their later bodies of work, including a predilection for the classical use of plausible reasoning over the neoclassical predilection for demonstrative reasoning, which Polya (1954) explains and which Wagner (2015a) illustrates with respect to welfare economics..

1. Past Economics as Economics of the Extended Present

Economists are notorious for having disdain for old books. Few doctoral programs offer fields in the history of economic analysis and many of them don't even offer courses on the topic. Many reading lists feature few items more than five years old, and with many of the featured items having yet to be published. The image created by such reading lists is that past scholarship has little to offer present scholars. This image

¹ Knut Wicksell (1896) wrote after De Viti (1888) and, moreover, used Ugo Mazzola (1890) rather than De Viti as his example of the Italian orientation at the time. Yet De Viti was clearly superior to Mazzola, as I shall explore later in commenting further on Wicksell in relation to public choice and the Italian theorists.

reflects what appears to be the widely-held presumption that whatever was once valuable in the past has already been incorporated into present economic theory, so avoiding old books avoids wasting time in exploring blind alleys, which in turn makes economic theory more progressive than it would otherwise be. We can honor the past by recognizing that we are standing on the shoulders of giants, but there is no need to read the contributions of those giants because those of their formulations that are still useful are already incorporated into current theory.

This widely held belief is just that, a belief or an article of faith. It has neither theory nor evidence in its support. Indeed, as theory it entails a thoroughgoing embrace of the theory of perfect competition applied to the present state of economic scholarship, along with the claim that perfect competition pertains to that generation in each and every instant of time. Yet very few economists believe, and for good reason, that the theory of perfect competition gives a good description of actual economic processes or arrangements. Furthermore, that belief runs afoul of the micro-theoretic basis of the constitution of economic theories, as Arthur Lovejoy (1936: 3-23) explains in his treatment of "The Study of the History of Ideas." An economic theory is packaged as a macro-theoretic entity. That entity, however, is constituted as a string of micro-theoretic entities. Consider the use by some theorists to explain involuntary unemployment as a consequence of firms paying efficiency wages above the competitive wage. While this idea is packaged as a macro entity, or what Lovejoy described as a "unit-idea," it is actually constituted through stringing together a number of micro bits of theory. Among those bits are assumptions about business firms, agency theory, compensation schemes, marginal productivity theory and its alternatives, and

the meaning of competition, among other bits, all of which can be combined in numerous ways.

The construction of an economic theory is thus an exercise in combinatorial arithmetic. A deck of cards can provide a simple illustration of the complexity that arises quickly from this type of arithmetic. There are some 635 billion ways that a sequence of 13 cards can be drawn from a deck of 52 cards. Keeping with this illustration, suppose a theory of involuntary unemployment of the efficiency wage variety requires a sequence of 13 micro bits to be strung together from among 52 bits that are available. If so, there are some 635 billion ways a theory of efficiency wages can be articulated. Furthermore, suppose it takes a speedy theorist one day to organize and articulate one such theory. If a thousand scholars are involved in constructing efficiency wage theories, it will take 635 million days to articulate all such theories, or around two million years. It is surely implausible and even unreasonable to claim logical support for thinking that present theory inexorably incorporates the best from the past. To be sure, one could recur to argument about statistical sampling to assert that full enumeration would be wasteful. Even a sample size of one percent, however, would require 20,000 years to allow an inference reasonably to be made by standard statistical procedures. Claims on behalf of the proposition that competition among theorists generates some objective notion of Truth are undecidable, as Chaitin, da Costa, and Doria (2012) explain in their exploration of the world of undecidability that arises in pursuing Kurt Gödel's insights about the unavoidably arbitrary character of any closed scheme of thought.

Kenneth Boulding (1971) asked: "After Samuelson, who needs Adam Smith?" Boulding's effective answer was "everyone," and he justified his response by locating

Smith within what he called the “extended present.” Boulding’s poetic prose and my combinatorial arithmetic lead to the same recognition that past scholarly contributions and formulations can often provide valuable insight for current theoretical efforts. There is no guarantee that what is carried forward from past to present will prove to be the most useful of all the possibilities. Someone in 1876 looking back to 1776 might select some things for usefulness and discard others. Yet someone in 1976 looking back to 1776 might make a different selection due to any number of things: the questions to be addressed by current theories might have changed; alternatively, new methods of analysis might have been created that brought tractability to formerly intractable ideas. Adam Smith’s use of the diamond-water paradox was kept alive for the better part of a century before being abandoned. Adam Smith’s interest in increasing returns was set aside in favor of the tractability of constant returns, with increasing returns revived two centuries later when new schemes of thought made it possible to work with those ideas, as Paul Romer (1986) set forth and with Buchanan and Yoon (1994) collecting a set of essays on increasing returns.

Nicholas Vriend (2002) illustrated nicely Boulding’s theme about the extended present when he asked: “Is Hayek an ace?” By “ace,” Vriend meant an economist who works with agent-based computational models. As a literal matter, there is no way Hayek could have been an ace because those techniques weren’t around when Hayek (1937, 1945) argued that the central problem of economic theory is to explain how coherent macro patterns can emerge in societies when no micro entity knows but a pittance of the knowledge that would be needed actually to construct that pattern. In doing this, Hayek was, among other things, denying the meaningfulness and usefulness

of standard theories of perfect competition as based on postulated conditions of full awareness of relevant knowledge. The analytical challenge for Hayek was to explain how orderly patterns tended to emerge in the face of limited and divided knowledge. This challenge could never be met by postulating equilibrium and supporting that postulation with econometrics because doing that gave no insight into the actual workings of the social world. Hence, Vriend argued that Hayek most surely would have been an ace had those schemes of thought been available when he was wrestling with his ideas about divided and distributed knowledge. Someone who can now work with agent-based computational models can find illuminating formulations in Hayek, and formulations that are much more open to agent-based techniques than the subsequent equilibrium-centered presumptions that such economists as Grossman and Stiglitz (1976, 1980) have worked with, though it should also be recognized that agent-based modeling also unavoidably butts against the same problems of unavoidable incompleteness, as Stephen DeCanio (2014) examines in exploring the limits of genuine knowledge about economy and society.

2. Interpreting Old Texts after Half a Century: *The Calculus of Consent*

James Buchanan and Gordon Tullock's (1962) *The Calculus of Consent* is undoubtedly the Ur-text of Virginia political economy. Yet several forms of political economy are in play, and with those forms pointing in different analytical directions. In recognition of this situation, Blankart and Koester (2006) distinguished between public choice and political economics as alternative forms of political economy. Yet the opening line of the Preface to *The Calculus of Consent* reads: "This is a book about the

political organization of a society of free men (italics in original).” It’s clear that there are different ways of bringing economic theory to bear on politics just as there are different ways of constructing economic theories. Any such act of construction will start with some pre-analytical cognitive vision (Schumpeter 1954: 41) which the scholar then seeks to articulate so as to make it intelligible to others. The articulation of that vision will occur through some ordered string of units of thought. How those units are strung together and how they are conceptualized will depend on the tools of thought that an author has available to work with. Vriend (2002) explains that agent-based computational modeling offers a good platform for working with some of Hayek’s ideas about knowledge that is fragmented and distributed and nowhere possessed by one person or scholar. Yet such tools of thought weren’t available to Hayek, so he had to resort to literary reasoning that was easily reducible to a statement of equilibrium conditions, the incoherence of which was subsequently illustrated by Grossman and Stiglitz’s (1976, 1980) claiming to have explained that Hayek erred when they actually ignored Hayek and did not contest his formulation. Where Hayek reasoned about emergent dynamics over some interval of time using plausible reasoning, Grossman and Stiglitz eliminated action through time by working with comparative statics at some particular instant using demonstrative reasoning. The ability to extract implications from a pre-analytical cognitive vision depends on the tools of thought the author possesses. Hayek lacked some tools that could have facilitated his construction; Grossman and Stiglitz worked with tools that denied by assumption Hayek’s cognitive vision.

The interpretation of *The Calculus of Consent* and its significance for Virginia political economy and public choice is likewise influenced by tools of thought. Ideas

about complex systems and agent-based computational modeling were not available to Buchanan and Tullock, though some game theoretic models were then available. What resulted was an effort at articulation that had a mixed-metaphor quality about it that is subject to misinterpretation, as Wagner (2013, 2015b) explains. *The Calculus of Consent* was conceived as an effort to explain that the complex constitutional arrangement that was founded in 1789 reflected a coherent economic logic of governance through divided and separated powers. Indeed, Vincent Ostrom's (1987) *Political Theory of a Compound Republic*, first published in 1971, is effectively a flying buttress to *The Calculus of Consent*. Where Buchanan and Tullock took recourse to some of the simple equilibrium models that were then used by economists to illustrate some of their arguments, Ostrom maintained contact with the complex constitutional arrangements that were established in 1789.

The schemes of thought associated with any scholarly tradition that is a progressive research program can be likened to a river into which numerous scholars contribute. With multiple schemes of thought and research programs being in play at any moment, it is not unusual to find admixtures among schemes sometimes occurring due to strategic and competitive elements entailed in the generation of scholarship as scholars compete for attention space (Collins 1998), and with schools of thought emerging in consequence of that competition. As the Virginia tradition developed over the half-century following publication of *The Calculus of Consent* (Buchanan and Tullock 1962), the mainline currents of its thought became mixed with currents from the mainstream of economic thought (invoking Peter Boettke's (2007) distinction between the mainline and mainstream branches of economic theory).

The constitutional scheme of separated and divided powers meant that the median voter model was more a fictional construction than a reasonable model of a constitutional arrangement. A median voter model might pertain for a five-member town council that has the sole authority to allocate tax revenues among expenditure items. It would not, however, apply to complex arrangements of separated and divided powers where concurrence among different entities is required before collective action can be undertaken. In these kinds of settings, outcomes are products of interaction and negotiation and not products of choice. The American constitutional system created a complex structure of divided and separated powers that required concurrence among different sets of people. Within a bicameral legislature, for instance, the degree of concurrence that is required varies with the principles by which the two chambers are selected. Within the original constitutional setting, the federal Senate was selected by state legislatures while the House was selected directly through election. In consequence of constitutional amendment in 1913, the federal Senate also became selected directly through election. This change surely created more commonality among the electorates than had previously existed. In a two chamber system where both chambers are staffed through at-large elections, selection is likely to operate similarly in both chambers. Quite different properties would result should one chamber be populated, for instance, by property owners and the other by renters, and with legislation requiring concurrence between both chambers. In this respect, one well cited game-theoretic exposition of fair division occurs where one person slices a cake and the other person takes the first slice. This formulation is similar to requiring concurrence between differently constituted chambers.

In any case, the prime purpose of *The Calculus of Consent* was to explain that the complex system of government that the American Constitution established and which had been under strenuous attack by Progressives at least since when Woodrow Wilson (1885) wrote *Congressional Government*, where he extolled the virtues of a strong administrative apparatus in place of continual congressional negotiation. *The Calculus of Consent* was conveyed mostly by equilibrium formulations of a relatively simple sort, even though the purpose of the book was to explain how the complex American constitutional system made sense from the perspective of economic logic and even though that sense would vanish if the system were actually reduced to conform to the simplicity of the logic, as Vincent Ostrom (1973, 1987, 1997) recognized with especial cogency. *The Calculus of Consent* was penned as an antidote to the call for centralization that the Progressivists had been promoting for around half a century, and to reduce collective action to a choice by a median voter is to embrace the core of Progressivism, as Vincent Ostrom (1997) explained.

3. The Entangled Quality of Method and Substance

All social theories refer to objects that no one can apprehend directly. No one has ever seen a society, a polity, an economy, or other similar objects to which social theories repeatedly make references. Those objects are creations of prior theoretical construction, and with social theorizing proceeding in the aftermath of that prior construction. Once this situation is recognized, it becomes immediately apparent that there are different ways of constructing the objects that social theories are subsequently employed in examining. The substantive statements that are generated within a social

theorist's mind thus depend on the methods he or she uses to construct objects which the theory examines. Method and substance are entangled. This situation poses, in turn, questions regarding the usefulness or helpfulness of different conceptual frameworks to use in apprehending societal reality.

Arthur Lovejoy (1936: 7) explains that the nominal features of theories rest on and reflect “implicit or incompletely explicit *assumptions*, or more or less *unconscious mental habits*. . . (Lovejoy’s italics).” With respect to these habits of mind, Lovejoy distinguished between two within the Western philosophical tradition, both present in Plato. One was a simple and other-worldly scheme of thought that appears robustly in much Enlightenment-style thinking, and which posits a vision of societal perfection. The other was a complex, this-worldly scheme of thought which replaced fables about perfecting reality with emphasis on vigorous action within this life. With respect to Erik Reinert’s (www.othercanon.org) distinction between two canons for economic theory, Lovejoy’s this-worldly scheme of thought fits within the Renaissance canon, which is a non-equilibrium scheme of thought suitable for capturing the turbulence of a crowd of energetic pedestrians pursuing their myriad and distinct plans, and which contrasts with the placidity of a parade.

As Lovejoy explains, alternative unconscious mental habits channel social theory in different directions, each bringing different material into the analytical foreground. The Enlightenment mental habit is the predominant habit within contemporary economics. This scheme of thought is other-worldly in that it compares an imperfect reality with some vision of perfection, and which in turn often leads to the advancement of suggestions of how power might be used to nudge society closer to some imagined

state of perfection. This unconscious mental habit has led to the generation of various schemes of thought that reflect that mental habit. General equilibrium theory, particularly of the stochastic sort, is one such reflection. This scheme of thought sets forth a vision of perfection in conjunction with recognition that reality falls short of perfection and so requires the insertion of power to move society closer to perfection. The stochastic quality of the theory is necessary to explain why perfection is never attained, meaning that the insertion of power into society will always be warranted.

The non-equilibrium alternative scheme of thought reflects a this-worldly orientation where a directional belief in progress is replaced by a non-directional belief in experimentation and change. Within this mental habit, there is no source for the injection of power into society because power is always resident within society (Weiser 1926; Schmitt 1932). Hence, polity and economy refer to autonomous features of societal interaction wherein people are continually engaged in activities that are generating the reality they will live with and experience, and with no end in sight for this process. It is worth noting that change is present in either scheme of thought. Within the other-worldly scheme, change is the consequence of those reflexive characters who seek to remove sources of imperfection their theories have identified. In this case, the “their” refers to some intellectual vanguard who must bring society along with their plans and schemes toward greater conformity with some external image, as befits the Progressive vision of political leadership. In contrast, change within a this-worldly scheme is the activity of everyone as they act in their various ways and precincts. People are naturally curious and inquisitive, some more than others, and they experiment in numerous ways, some small and others large, and all of which generates

on-going societal change. Some people might change their patterns of consumption, as in shifting from meat to vegan diets. Other people might develop new products or enterprises. The full range of such change promotes on-going societal evolution in bottom-up fashion.

4. Moving forward by going backward

Public choice as a scientific term originated in 1968 in Chicago at a meeting of what until then had been known as the Committee on Non-Market Decision Making. This Committee was established by James Buchanan and Gordon Tullock in 1963 and 1964 to bring together scholars who were interested in bringing economic-theoretic insights to bear on non-market phenomena. From this initial meeting, the annual volume *Papers on Non-Market Decision Making* was established, with the first issue published in 1966. When the Committee was formalized as the Public Choice Society in 1968, the journal Tullock edited was renamed *Public Choice*. While the term was embraced in Chicago in 1968, several years would have to pass before public choice styles of thinking became an object of general scholarly awareness.

In those early meetings of the Committee on Non-Market Decision Making, the participants were aware that they were dealing with distinctive material that did not fit within established disciplinary boundaries. Indeed, the Preface to the *Calculus of Consent* noted this quality by referring to plowing a field next to a fence. The Committee participants recognized their being out of step with ordinary disciplinary conventions with respect to American academic practice circa 1960. The material that was discussed in those early days stood clearly outside the territory of conventional thinking

about economics, politics, and political economy, as Tullock (2005: 11-31) set forth in his discussion of “Origins of Public Choice.” But this reality speaks only to American academia circa 1960. As an act of conjectural imagination, suppose a set of such Italian scholars as Antonio de Viti de Marco, Maffeo Pantaleoni, Vilfredo Pareto, Amilcare Puviani, and Attilio Da Empoli fell asleep in Rip Van Winkle fashion, only to awaken in 1968 in Chicago at the meetings during which the Committee on Non-Market Decision Making transformed itself into the Public Choice Society. I do not think it takes any daring leap of faith to conclude that those Italian scholars would have felt quite at home with respect both to the topics that were discussed and to the orientations taken toward those topics. Nor do I think the assembled participants would have thought that the Italian participants were visitors from some different scholarly planet. To be sure, the breadth of the public choice enterprise would have widened and acquired new topics in the presence of those visitors, as I shall consider later in this essay.

For now, let me use Amilcare Puviani to support my conjecture about Italian origins. In 1960, Gunter Schmölders, known at the time for work on what he called fiscal psychology, and with fiscal psychology being a precursor of behavioral economics, sponsored a German translation of Amilcare Puviani’s (1903) *Teoria della illusione finanziaria* [Theory of Fiscal Illusion]. In his Forward to Puviani’s book, Schmölders explained that “over the last century *Italian public finance has had an essentially political science character*. The political character of fiscal activity stands always in the foreground This work [Puviani’s book] is a *typical product of Italian public finance*, especially a typical product at the end of the 19th century. Above all, it is the science of *public finance combined with fiscal politics*, in many cases giving a good fit with reality

(my translation and italics). It should be noted that Schmölders recognized that Puviani's book was not some unusual outlier, but rather was a typical illustration of how the Italian theorists of the time had been working to bring political and fiscal phenomena within the same conceptual ambit, making due allowance for differences in institutional arrangements, both between political and market interaction and between governments today and governments in feudal times.

Had he been so inclined, Schmölders would surely have written to similar effect in writing a Foreword to Giovanni Montemartini's (1902) book on the municipal provision of rail services, not to mention Antonio de Viti de Marco's (1888) initial effort to articulate his vision of the theoretical character of public finance, a treatment that he revised and expanded four times until 1934, and with the 1934 version translated into English in 1936. Similar statements could be made about such Italian notables as Maffeo Pantaleoni, Attilio Da Empoli, and Vilfredo Pareto, among others. These scholars and their contributions are surely part of the extended present of public choice theorizing, and one that points in some different analytical directions from what would arise from other notions of the core of public choice, and with Wagner (2007, 2016) illustrating some of those differences in direction.

5. Public Choice, Economizing Action, and Virginia Political Economy

Individual theorists rarely assign themselves explicitly to a school of thought, for they mostly think of themselves as forming their own traditions. A school of thought is a construction someone applies to a group of scholars to facilitate the making of points about a particular body of scholarship, even if those points pertain to no particular

scholar in precise detail. Sometimes the points made are negative, with the designation of a school serving to concentrate the negative energy on a particular set of scholars and ideas. Virginia political economy became a recognizable term in this manner. As David Levy and Sandra Peart (2013) document, around 1961 or 1962 the central administration of the University of Virginia hired a consultant to prepare a report to give the administration leverage to undermine the program that had been under construction in Charlottesville since 1956 when James Buchanan and Warren Nutter joined the faculty. That report opened by stating that: “It is generally recognized that at the top professorial levels this Department is staffed by unquestionably capable men and that it enjoys a considerable repute in the profession. On the other hand, the Committee has received considerable adverse criticism of this Department by reason of its close association with a particular viewpoint; and we have been given to understand that the repute enjoyed is regarded by the vast majority of economists as of a distinctly unfavorable character. It does not need to be emphasized here that the Economics Department has associated itself firmly with an outlook now known as that of the ‘Virginia school’.” In identifying a distinctive Virginia approach to political economy, that report helped to marshal the administrative force required to destroy the program in Charlottesville, though part of that program resurfaced in Blacksburg at Virginia Polytechnic Institute under the rubric public choice.

Such negative association aside, schools of thought are an emergent feature of scholarly completion for scarce attention space, as Randall Collins (1998) explains in his analysis of the birth and death of schools of thought. The contours of that attention space can be constructed in various ways, as those contours are products of human

craftsmanship. For instance, several distinct forms of attention space can be constructed through the marriage of principles of economizing action and an interest in bringing together political and economic phenomena. One such space can be organized around the twin presumptions of utility maximization and societal equilibrium, as illustrated by the well-known Stigler-Becker proposition about utility being invariant across people and time. Another such space can be organized by inverting that Stigler-Becker proposition, as Ross Emmett (2006) illustrates.

The tradition of Virginia political economy, which is only one attention space within the territory of political economy, clearly falls within the Knight-Buchanan-Tullock-Nutter ambit of political economy, as Emmett recognizes. Any scholarly tradition can be identified in terms of a hard core of ideas from which various lines of thought are fashioned. As both Boettke and Marciano (2015) and Wagner (2015b) explore from different but complementary angles, the hard core of Virginia political economy incorporates recognition of the limited and divided quality of knowledge in conjunction with human creativity, both of which lead to inquiry within a mode of plausible reasoning. That hard core further treats collective action within the same comprehensive vision of collective action that emerged within the Italian tradition of public finance and fiscal sociology. To be sure, public choice and Virginia political economy arose during the height of the neoclassical period in economic theory, and has been often misidentified with ordinary neoclassical economics. But misidentification it is, for the central theoretical claim of neoclassical economics is the formal identity of liberalism and collectivism as systems of economic order. This formal identity reflected recognition that the first-order conditions for an optimal allocation of resources was the

same under capitalism and socialism. This identity of liberalism and collectivism was not a claim that would have been advanced within the classical tradition, nor was it a claim that appeared sensible within the tradition of Virginia political economy, for reasons Milton Friedman (1953: 277-319) identified in his reviews of separate books by the socialist writers Oskar Lange and Abba Lerner, where Friedman contrasts a focus on the technical identity of necessary conditions with a focus on the different operating properties of alternative institutional arrangements for the governance of human interactions. In this regard, Nathan Rosenberg's (1960) recognition that Adam Smith's analytical foreground focused on institutional arrangements, and with resource allocations being relegated to the analytical background surely comports with the analytical core of Virginia political economy.

Particularly relevant for the origin of the Virginia political economy is the Italian tradition in public finance that arose with De Viti de Marco (1888), and with Buchanan (1960) and Fausto (2003) surveying this body of scholarship, with Manuela Mosca (2011) presenting an informative treatment of De Viti's character and work, and with Giuseppe Eusepi and Richard Wagner (2013) locating De Viti as a significant precursor to public choice theory.² De Viti sought to locate public finance as an explanatory and not a hortatory theory. He did so by conceptualizing alternative forms of political-fiscal process, and with reality being some admixture of those forms. One form treated political-fiscal processes as reflecting something like consensus within society, while the other form construed political-fiscal processes as operating for the particular advantage of ruling sets of people within a society. De Viti's framework of consensual governance,

² Also relevant is Michael McLure's (2007) survey of the Paretian-inspired orientation toward the material of public finance and fiscal sociology.

it is worth noting, is similar to Wicksell's notion of approximate unanimity. To be sure, Wicksell didn't recognize this affinity with De Viti, perhaps because Wicksell took Ugo Mazzola and not De Viti to be the prime representative of Italian fiscal scholarship. It is also worth noting that a principle of consensual governance is not the same as a rule of unanimity because the former pertains to plausible reasoning while the latter pertains to demonstrative reasoning (Polya 1954).

In 1888, De Viti published *Il carattere teorico dell'economia finanziaria* [The theoretical character of public finance]. This small book was expanded three further times during De Viti's lifetime, culminating finally in the 1934 publication of *Principii di economia finanziaria*. This book was translated into English (De Viti 1936), and is the only book-length statement of the classical Italian orientation toward public finance available in English. In the Preface, De Viti explains that "I treat public finance as a theoretical science, assigning to it the task of *explaining* the phenomena of public finance in their historical setting" (De Viti's italics). James Buchanan (1960) was the primary source of bringing attention of English readers to the Italian tradition. To be sure, the Italian theorists did not speak with a single voice with respect to political economy, other than to treat the political within society as an object to be examined and understood. McLure (2007), for instance, contrasts the comparatively hedonistic constructions of De Viti and Pantaleoni with that of Pareto and Fasiani (1949). These kinds of differences aside, the Italian tradition in public finance arose as an effort to incorporate political activity into the explanatory framework of economic theory. Within this tradition, political processes reflected the same principle of economizing action as did market processes, and with differences between market phenomena and fiscal

phenomena arising because of differences in the institutional environments that governed interactions among participants. The schemes of thought associated with any scholarly tradition resemble a river into which numerous scholars contribute. With multiple schemes of thought and research programs being in play at any moment, it is not unusual to find admixtures among schemes sometimes occurring due to strategic and competitive elements entailed in the generation of scholarship (Collins 1998) as scholars compete for attention space, sometimes making tactical borrowings from other analytical cores despite inconsistencies between those borrowings and the cores of the parental research programs.

In the following three sections I shall illustrate a few Italianate themes that speak directly to topics that arise almost naturally within the core of Virginia political economy, with the qualifier “almost” denoting that themes never truly arise “naturally” but arise because scholars insert them into the scholarly conversation. In particular, I shall offer some brief illustrations from Attilio da Empoli, Maffeo Pantaleoni, and Vilfredo Pareto.

6. Attilio da Empoli and Italianate Fiscal Catallactics

Attilio da Empoli was in the process of making significant contributions to the classical Italian tradition of public finance when he died in 1948 at the age of 44. His conceptual orientation, moreover, sought continually to develop means of theorizing in bottom-up fashion. For instance, in his *Teoria dell' incidenza delle imposte* Da Empoli (1926) set forth the concept of oblique incidence. This concept stands in sharp contrast to the standard dichotomy of forward and backward shifting, and illustrates how Da Empoli stood apart from the standard neoclassical orientation by thinking in terms of

structured patterns of interaction rather than working with the standard dichotomy where those interactions are reduced to a single relationship between consumers and producers. Within the standard dichotomy, taxes are shifted either forward to consumers or backward to producers. In developing his concept of oblique incidence, da Empoli not only sought to develop analyses of types of horizontal shifting but also in so doing thought in terms of a disaggregated network of economic interaction that was ahead of his time because the tools and techniques of network-based theorizing were not in play at that time.

In Chapter 8 (pp. 91-136) of his *Lineamenti teorici dell'economia corporativa finanziaria*, Da Empoli (1941), building on De Viti, sought to establish a framework for integrating collective action into the economic process. Da Empoli explained that any such effort to incorporate collective action into the economic process must confront two snares that beckon the theorist and which must be avoided if a genuinely explanatory theory is to be developed. One snare is to by-pass the analytical challenge by proceeding without any effort to construct any bridge between the taxing and spending sides of the budget. To treat a tax as an uncaused cause (*imposta grandine*) is one illustration of this avoidance. Yet taxes are always caused by desires held by someone somewhere in a society that becomes manifested through political action. Those desires, moreover, are not some kind of representative desire but rather are desires that typically vary among people. A related form of this snare is to postulate that collective action is not susceptible to economic explanation. This is the approach Paul Samuelson (1954, 1955) took, and which James Buchanan sought to oppose in setting forth an approach to fiscal catallactics (1967, 1968). With respect to Buchanan and fiscal

catallactics, moreover, Marianne Johnson (2014) explains that from his student years in Chicago Buchanan wanted to do public finance differently from what then passed as public finance. That desire to be different was quickly put on display in Buchanan (1949).

The other snare is to assume that fiscal processes are just market process by another name or means. It's easy enough to understand the power of this snare to capture a theorist's attention. Figure 1 presents one simple illustration of this analytical situation. That figure presents a standard depiction of an equilibrium distribution of societal output between public and private activities, each conceptualized as undifferentiated aggregates. If private output is generated through a market process that is organized through the institutions of private law, collective output could be described as originating through a political process organized through the institutions of public law. This form of snare would lead directly into various claims of political and market outcomes as both reflecting Pareto efficiency. Yet public law and private law are not independent of one another, as the double arrow at the southwestern part of the Figure illustrates, so the explanation of collective activity cannot be reduced to just another instance of market-based organization, at least not without some ground-level form of explanation that avoids what Mitchel Resnick (1994) calls the centralized mindset.

The image of a parliamentary assembly as a *peculiar* form of investment bank is one way to avoid both of these snares. This assembly could not be a simple investment bank, for this would be to fuse the taxing and spending sides. Yet it is an arena within which the conflicting desires of people for programs are intermediated. In many respects, a parliament is like a partnership of investment bankers, in that it

intermediates between the political enterprises that supply services on one side and the citizens who provide revenues to support those enterprises on the other side, as explained in McCormick and Tollison (1981) and Leibowitz and Tollison (1980).

As an investment bank, the legislative partners seek to develop connections between people who have enterprises for which they are seeking support and people who have the means available to support political enterprises. To say they have the means of support does not imply that they turn it over voluntarily, for if they did that the polity would be a regular investment bank and not a *peculiar* investment bank. It is almost surely the case that there is complementarity between decisions about the support of enterprises and the ability of legislatures to generate revenue, which provides a budgetary bridge between the two sides of the fiscal account, provided only that people who are attracted into the legislative form of investment banking prefer to do more business rather than to do less.

A bridge always exists that connects sources of revenue provided by citizens to sources of service provided by political enterprises. To be sure, political enterprises do not operate by the same rules that govern market-based enterprises, but the connection between revenue and service must be there all the same. It would always be possible to make that connection as direct as it is with ordinary commercial transactions. Knut Wicksell's (1896, [1958]) well-cited formulation articulated one particular approach to doing just this. In Wicksell's formulation, the legislature would serve explicitly as an intermediary to connect those who supply services with those who demand them. The organization of legislatures along non-Wicksellian lines does not deny the connection between service and revenue, but it does render that connection complex and

ambiguous, and something to be explored and illuminated. A good deal of that complexity comes about because of the large number of political enterprises that run some of their financing through the legislature, along with the large number of revenue sources that legislatures tap.

As Eusepi and Wagner (2011) explain, a society contains numerous enterprises distributed across public and market squares. Some of those enterprises are supported through a legislative process and so operate with inalienable ownership. These enterprises bear a parasitical relationship to the system of market pricing (Pantaleoni 1911): they don't generate prices and yet must use prices to guide economic calculation. All of the enterprises are seeking to expand their custom, only with the different forms of enterprise governed by different rules of organization that in turn generate differing patterns of conduct. Zones of conflict and cooperation would arise among different enterprises, and the political arena would expand or contract depending on the particular organizational efficiency this peculiar investment bank is able to attain. Government would be a factor of production in society, and its operation within society would radiate throughout society in thoroughly oblique and knotted fashion, to recur to Da Empoli's analysis of oblique incidence. Governments would be participants within the complex adaptive system that society represents, not necessarily all to the good by any means but there all the same as societal phenomena to be explained.

7. Maffeo Pantaleoni and Systems of Political Pricing

Both market and fiscal activities occur within the same society, and the analytical challenge is to create some kind of bridge between the two sets of activities, only to do

so without reducing fiscal activity to an instance of market activity. Maffeo Pantaleoni (1911) advanced one such effort to do so. The key feature in Pantaleoni's framework was his recognition that fiscal activities are not financed through direct market transactions. Fiscal activity does not entail customers who pay market prices at the time of particular transactions; political revenue is not generated directly through transactions and with the sum of those transactions generating a public budget. Political revenues are generated through taxes which are parasitical attachments to market transactions. The particular type of parasitical relationship varies with the form of tax, but political revenues are generated through parasitical attachment to market transactions in any case.

With respect to Figure 1, Pantaleoni treated private output as being generated within a market bazaar and political output as being generated within a political bazaar. For Pantaleoni, the shops in the market bazaar charged what Pantaleoni called economic prices, by which he meant prices equal to marginal cost. In contrast, political revenues were collected through what Pantaleoni described as a system of political prices which were parasitical attachments to the system of market pricing. To illustrate his argument, Pantaleoni worked with a flat rate of tax on all income. Different forms of taxation would tend to enable different patterns of collective activity to emerge within the political bazaar. Within the contemporary US, for instance, approximately half the adult population pays no federal income tax. This situation would elicit a different pattern of collective output than would emerge under a scheme were all income was taxed at the same rate. Buchanan (1964) is an analytical cousin to Pantaleoni's analysis. Buchanan created a model under which everyone would prefer the same sized budget under a flat-

rate tax on all income. This outcome was based on everyone having unitary price and income elasticities of demand. A doubling of income would lead to a doubling of the amount demanded, but the doubling of price that resulted would cut that amount in half, bringing about a situation where everyone would support the same collective output despite variation in income among the citizenry.

While Buchanan's framework seems clearly to have little direct applicability, it represents a progressive step in the direction of a fiscal catallactics all the same, and so falls within the spirit of Italianate public finance. With respect to Figure 1, patterns of collective activity emerge through transactional or catallactical processes just as do market patterns. In Figure 1, private law denotes such legal arrangements as private property and contractual liberty, which are the arrangements that generate a market economy. Public law in that figure denotes the unspecified institutional arrangements inside of which collective activities emerge through competition among the enterprises that operate on the public square. All choices require some framework for ranking options. Market prices are indispensable for arriving at such rankings, even if calculation requires judgment in addition to the information that prices provide. Collective entities face the same necessity for choice as do market entities, only interaction among collective entities within what might be called a collective economy cannot generate prices, nor does such interaction generate valuations of political enterprises. Yet such calculation is unavoidable for political enterprises to act, even if that action occurs through parasitical attachment whereby political enterprises use market valuations as guides in constructing their programs.

8. Pareto, Rationality, and Fiscal Sociology

In the early days of public choice, voting was conceptualized as a form of consumer choice. It was quickly recognized that the ability truly to make an electoral choice was rare, leading to presumptions about voters being rationally ignorant or voting expressively. Had public choice been informed by Paretian ideas, many false steps could have been avoided. Pareto treated action as playing out differently as between political and market settings. Market activity was the realm of logical action; political activity was the realm of non-logical action. To refer to action as non-logical is not to refer to it as irrational. For Pareto, all action was rational, only in different ways in different environments along the lines of Gerd Gigerenzer's (2008) treatment of rationality as a confluence of calculation and environment.

In market environments people face options, pay prices, and make choices. They bear the value consequences of their action and live with the consequences of their choices. In non-market environments, people don't truly make choices in the standard sense of the term. Yet there was rationality in the actions people undertook, as there always is. That rationality in this setting resides in sentiments that people hold in conjunction with the ability of candidates to construct ideological images that resonate with those sentiments. Political competition was a process through which candidates competed for positions of rulership by trying to craft ideological images that would appeal to voter sentiments. To get along in the social environments in which they live, moreover, voters need to give logical-sounding reasons for their actions. That action, however, is not of the logical cause-effect form but rather is of the non-logical desire-rationalization form.

In a related vein, there is a similarity to two distinct approaches to affirming the existence of God. The common approach follows the form of logical action by seeking to use logic to demonstrate why someone should choose to believe in the existence of God. One instance of this approach is Pascal's wager, based on the infinitely large value of a very small sum at any instant becoming infinitely large over an indefinitely long period of time. Another instance recurs to temporal notions of causation that culminates in the notion of a first cause, even with a notion of a Big Bang being such a possible first cause. The alternative approach to the existence of God has the same form as Pareto's notion of non-logical action, and is illustrated by Karl Barth's (1960 [1931]) treatment of Anselm's formulation of "faith seeking understanding" [*Fides Quaerens Intellectum*]. In this approach, belief in God is a point of departure and not a conclusion, and the challenge is to grow in understanding what this profession entails. Pareto's formulation of non-logical action pertains to such environments, and sets in motion tectonic clashing that is generated through interactions between the two environments. Pareto had and still has much insight awaiting incorporation into Virginia political economy, as Backhaus (1978) once set forth and as Patrick and Wagner (2015) explain in their treatment of some of Pareto's contributions to entangled political economy.

9. A Concluding Comment

Arthur Lovejoy stood against the main current of his and still our time in its seeking to reduce the ecology of human thought to a few stylized schools of thought. There are purposes for which such reduction is useful because our brains can handle

only so much information. Reduction of a number of nuanced formulations to a single, generic formulation might be useful for people who want to know a little but not a lot about that generic formulation, perhaps because they don't plan to work with those formulations. But for those who might want to work with them, recognition of such nuances are valuable inputs into the competitive organization of scholarly activity where what is regarded as Truth at any instant is an emergent quality of an open process of scholarly competition. Just as economics features competition for attention space among several research programs, so does political economy and public choice. Among those research programs, it is possible to have some that are based on the analytical presumption that all observations pertain to states of equilibrium among agents who maximize given objective functions, while also acknowledging that other research programs treat people as inquisitive creatures who learn through time, have nosy and quarrelsome sentiments, among other sentiments, and where meaning is manifested not in some instantaneous state but in action over some interval. The former type of research program fits within a recognizable Walrasian, neoclassical, or Stigler-Becker motif. The latter type calls into play an affinity for classical political economy and Italian public finance and could be described as reflecting a Knightian motif with respect to its underlying pre-analytical cognitive vision when that program is projected backward. Where that program might head in the coming years will be an emergent feature of the processes of scholarly competition, about which today we can offer speculation and conjecture but not knowledge, recalling, however, a Frank Knight statement to the effect that the primary problems of human living together in closed geographical proximity results not from what we don't know but from what we know that is not true. Pareto

would have recognized this, as is conveyed in the closing paragraph of Fasiani's (1949) survey of Pareto's contribution to public finance.

Public output

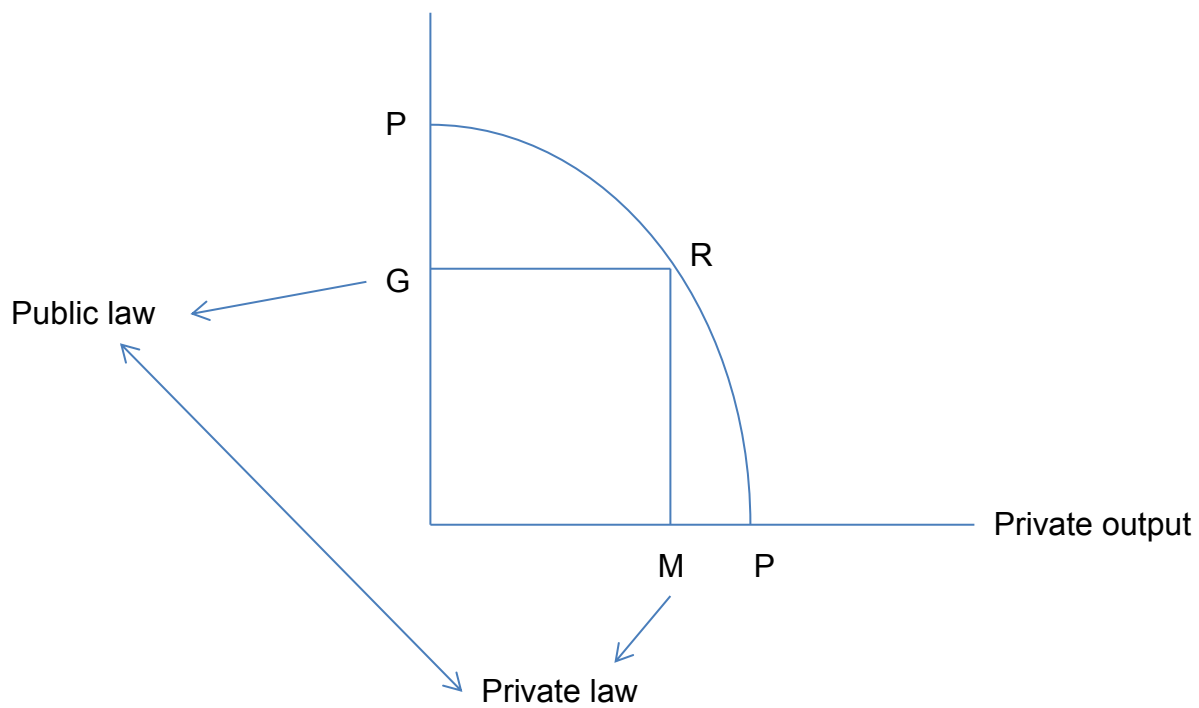


Figure 1: An Italianate Vision of Political-Economic Equilibrium

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