

## ROBUST POLITICAL ECONOMY AND THE QUESTION OF MOTIVATIONS

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*ABSTRACT:* Boettke, Leeson and Subrick (Boettke and Leeson 2004; Leeson and Subrick 2006) describe institutional robustness as the ability of a given system of social organization to stand up to the test of the so-called “hard cases,” i.e., hypothetical scenarios under which the ideal assumptions concerning, e.g., information and motivation possessed by the members of a given society are relaxed. In this paper I employ the methodology used by these authors in order to undermine their contention that the best-case version of socialism is based on benevolence and the worst-case version of liberalism is grounded in selfishness. My argument contends that the pursuance of self-interest is a beneficial and robustness-enhancing force in both of these systems. Moreover, I delineate several dimensions of motivation other than the one associated with the spectrum of benevolence and selfishness, and suggest that their relationship with the question of institutional robustness is worthy of further exploration. Finally, I endeavor to show that with regard to each of these dimensions worst-case liberalism, unlike best-case socialism, proves stable and robust.

*KEYWORDS:* institutional robustness, comparative economic systems, motivation, information, calculation debate, entrepreneurship, suboptimal conditions

*JEL CLASSIFICATION:* A10, B53, P16, P26

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**I**nstitutional robustness is the ability of a given system of social organization to stand up to the test of the so-called “hard cases,” i.e., hypothetical scenarios under which the ideal assumptions concerning, e.g., information and motivation possessed by the members of a given society are relaxed (Boettke and Leeson, 2004; Leeson and Subrick, 2006). Drawing on the above notion and the attendant framework of testing various forms of political economy against scenarios involving less-than-optimal conditions, the aforesaid authors argue that (classical) liberalism is always more robust than socialism, even if the former prevails in a community populated by agents that are selfish and ignorant, while the latter prevails in a community controlled by benevolent and wise planners.

I am in substantial agreement with that part of the abovementioned argument which focuses on the inability of the socialist commonwealth to allocate resources rationally due to the nonexistence of a genuine price system, generated by the interplay of the subjective valuations of the totality of market participants (Mises, 1920, 1966). The only small reservation I might have in this context is that Ludwig von Mises is probably even more of a practitioner of the “robustness approach” than the aforementioned authors suggest—it seems to me that he not so much “grants the socialists part of the solution to the information problem” (Boettke and Leeson, 2004, p. 108), as grants them total solution to this problem. He allows them to know everything about consumer valuations (and their future shape) as well as about the available supply of capital goods and technological knowledge (Mises, 1920, pp. 25–26). Thus, their information is essentially complete.

However, the crucial thing that the planners still cannot do is to convert the said information into a single scale of value expressible in terms of cardinal numbers and reflective of socially meaningful utility appraisals. Absent private property rights and free exchange of private property titles, no such scale can emerge, and thus rational allocation of resources becomes literally impossible (no matter how much knowledge about the supply of and demand for any given pool of resources one might have). This seems to me to be the pivotal point of Mises’s argument, which makes it different from Hayek’s (1945, 1948) insofar as the latter appears to be focusing more on the practical, real-world problems with gathering the

totality of relevant information by the central planning bureau in a vast, locally heterogeneous and dynamically changing economic system. These problems are no doubt formidable in themselves, but any argument making reference to them seems to be geared primarily towards investigating the deficiencies of socialism “in the actual world” (so to speak) rather than probing its robustness under hypothetical, optimal conditions.

This, however, is a relatively minor point. My main disagreement with Boettke, Leeson and Subrick (hereafter BLS, for the sake of brevity) concerns their analysis of motivational conditions of various systems of social organization. Perhaps, by extension, my criticism applies to the whole classical liberal tradition that BLS draw on (Smith, Hume, Mandeville), provided that their interpretation of it in this respect is correct. According to BLS and their reading of the abovementioned classical liberal writers, the worst-case scenario for liberalism, when speaking about incentives, is the one involving a society dominated by utter selfishness. The said authors contend that selfishness is a knavish characteristic, and that its opposite—benevolence—is much more contributive to the satisfaction of societal desires.

I fail to see why this should be the case. It is worthwhile to remember that the pursuit of profit is essentially nothing else than the willingness to substitute a more satisfactory state of affairs for a less satisfactory one, which Mises takes to be the defining feature of acting man (1966, p. 13, 19). If Mises is correct on this, why should the essence of rational agency be called knavish? Since it concerns itself with the relationship between means and ends, not with the normative evaluation of any specific means or end, it seems morally neutral at worst. Moreover, only if the desire one aims to satisfy is, strictly speaking, self-centered (i.e., aimed at achieving something exclusively for the desirer, not for others), a meaningful subjective value can be attached to it. This is because only intrapersonal appraisals of utility can be made, and only through the mutual interplay of such appraisals, made by individual consumers, producers and entrepreneurs, a tool that allows for making cardinal, interpersonal appraisals of utility—namely, the price system—has a chance to emerge. Thus, only selfish adherence to the profit-and-loss system enables one to allocate

resources rationally, so that one's customers can receive what they want and reciprocate by giving their supplier what he wants.

A totally selfless individual, on the other hand, willing to give away all the fruits of his labor, is unlikely to generate the where-withal necessary to produce a steady stream of valuables ready for charitable distribution. To put it very simply, one cannot give away what one did not produce first, and there seems to be no other compass for sustainable production than the market procedure of profit-and-loss.

As suggested by a referee, we may in this context consider another meaning of selfishness, that is, grasping behavior, or lack of proper regard for the interests of others. In this usage someone who, for instance, grabs all the desserts at a party, leaving none for others, would be said to be selfish. Is such a meaning more in line with the criticisms found in the classical liberal tradition and invoked by BLS, thus making their arguments more cogent?

If we consider the behavior in question in the moral sense, i.e., in the sense of violating an unwritten, non-enforceable convention that everybody else implicitly agrees to follow, then it seems to me that we can classify it as "knavish" (immoral) to the extent that it is logically indefensible. In other words, it might be said to run afoul of the Kantian principle "act in accord with the generic rights of your recipients as well as of yourself"<sup>1</sup> (Gewirth, 1978, p. 135), since it presupposes that the grasper has more rights than the rest of those who implicitly agreed to be bound by a certain convention (e.g., the convention of leaving enough food for others at a party table), even though there is no logically cogent reason for affirming such a presupposition.

It is important to bear in mind, however, that the final moral evaluation of selfishness present in the tradition of Smith, Hume and Mandeville is informed chiefly by the extent to which it sees economic efficiency (i.e., the ability to satisfy societal desires) as a prime moral virtue. It certainly seems that in this sense, selfishness understood as a propensity to grasping behavior cannot be seen as characteristic of optimal social conditions, since it cannot be seen as

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<sup>1</sup> Recipients are to be understood as those who stand opposite agents and who are affected by their actions.

contributing to the emergence of a prosperous and entrepreneurial economy. This is because such an economy requires for its sustenance a sufficient degree of trust and respect for contracts and interpersonal conventions, including the “soft,” implicit and unwritten ones.

On the other hand, such observations make it clear that the abovementioned classical liberal authors could not possibly refer to the kind of selfishness just considered, since, far from promoting the benefits of commerce and entrepreneurship, it encourages misanthropy, autarky and isolationism. Hence, it appears obvious that the variety of self-interestedness praised by Smith, Hume and Mandeville is not grasping behavior, inconsiderate of the interests of others, but the more familiar profit-seeking drive, which need not regard satisfying the interests of others as its ultimate goal, but which regards it as the most efficient means of satisfying one’s own interests. By extension, it seems clear that the former understanding of selfishness cannot inform the arguments put forward by BLS.

To sum up the preceding paragraphs, it appears impossible, contrary to what BLS suggest, to disentangle and analyze separately the motivational and the informational (or calculational) aspects of any given system of political economy. Another conclusion that follows from my above remarks is that in the context of investigating the systemic robustness of liberalism any scenario of pure selfishness is actually better than any scenario of pure selflessness, even though the best-case scenario would probably involve some balanced combination of the entrepreneurial penchant for (monetary) profit seeking and Samaritan benevolence.

Furthermore, there are other motivation-related, in my opinion more promising dimensions against which robustness in political economies can be tested. For instance, it might be useful to distinguish between peaceful (i.e., involved in acts of voluntary cooperation) and aggressive (i.e., involved in acts of fraud, coercion and non-defensive violence) motivations, where the best-case scenario would enjoy the prevalence of the former and the worst-case scenario would be plagued by the prevalence of the latter. Likewise, it might be advisable to mark the difference between the environment in which aspiring entrepreneurs exhibit a high degree of diligence, self-discipline, creative thinking, etc., and the environment in which they still exist, but are dull, sluggish and intellectually barren.

My impression is that exploring the above motivational dimensions promises a fair share of fresh insights into the area of comparative economic systems, but here let me just sketch a very brief account of whether liberalism can prove robust under the worst-case conditions of the sorts just described.

With regard to the spectrum of peaceful and aggressive dispositions, it might be argued that a liberal society populated by aggressors and cheaters is a *contradictio in adiecto*, so in this particular area there cannot be a worst-case scenario almost by definition. This, however, seems too easy an answer—I do not think that it is impossible to imagine a society in which there exists a legal framework recognizing the importance of private property rights, freedom of contract, etc., but where there is also a widespread tendency of attempting to free ride by means of disregarding the said framework. Could the community in question fend off such tendencies?

My answer is positive. A horizontally integrated community composed of a multitude of independent decision-making units allows for a very quick and efficient transmission of information, so cheaters tend to be revealed and ostracized before causing too much damage to its economic stability. Moreover, powerful disincentives against cheating are created in the process. With regard to outright, physical aggressors, on the other hand, it has to be kept in mind that aggression is always more costly than non-aggression. Consequently, in the long run, violent agents can be expected to lose out in a competition with non-violent agents, especially if the latter mount up a united defense against the former and if the clients of the latter boycott any dealings with those of the former.<sup>2</sup> In sum, it appears that even the most aggressive inclinations boiling under the surface of a liberal community can be reined in by a variety of techniques based on the framework of voluntarism and contractualism.

Now let us turn to the question of whether liberalism can maintain its robustness in the environment that is not so much devoid of entrepreneurship, but inhabited by people whose entrepreneurial skills are very poor. My answer is again positive. Firstly, no matter how lazy, irresponsible and uninventive the aforementioned people

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<sup>2</sup> This is just a short selection of liberal techniques of countering aggression, many more of which can be found in Stringham (2007).

could be, they still have at their disposal the free market framework, complete with the price structure, which allows for cost accounting and rational allocation of resources (which, even if done badly, is still better than not being able to do it at all). Secondly, they still live in a freely competitive environment, which by its very nature is bound to trigger the movement of capital into the hands of the least sluggish of the sluggards and the least dull of the dullards (Kirzner, 1973). This, in turn, is likely to initiate the evolutionary process of developing an entrepreneurial culture and making its participants progressively more possessed of the characteristics typical of mature businessmen. And even if the latter were not to happen, the economy under consideration would perhaps remain static and primitive, but its grounding in the regime of private property would nonetheless make it sustainable and immune to disasters such as the ones known to have occurred under Soviet-style socialism.

Speaking of socialism, let us now employ the strategy used by BLS to assess its prospects for robustness under best-case (motivational) conditions, including all the dimensions mentioned in the previous paragraphs.

Let us start from the spectrum of peace and aggression. In this connection one might argue that a non-violent form of socialism is another *contradictio in adiecto*, since coercion is the very foundation of the system in question. In other words, the argument might go, *ex hypothesi* there can be no best-case scenario here. This, however, is another oversimplified answer. True, all politically influential forms of socialism have been fundamentally based on coercion, but we should not forget that there also exist small-scale, essentially depoliticized varieties of voluntary socialism (Block, 1992), such as the commune, the kibbutz or the monastery. People who participate in such social structures are clearly guided by peaceful motivations. Is it enough to keep these structures robust?

The answer seems somewhat ambiguous—on the one hand, Mises conceded that a simple household economy can dispense with monetary calculation (1920, p. 12) and thus also with the institution of private property. On the other hand, it is impossible for a modern, large-scale economy to abandon the tool for meaningful cost accounting and survive; as noted by Mises, “the human mind cannot orientate itself properly among the bewildering mass of intermediate products and potentialities of production without

such aid. It would simply stand perplexed before the problems of management and location" (1920, p. 13). In sum, voluntary worldwide socialism is not robust—the peacefulness of motivations that guide its creation is not enough to ensure its sustainability.

What about a socialist society full of people who are well equipped with all the skills characteristic of full-blooded entrepreneurs (calculative skills, predictive abilities, information-gathering aptitude, etc.)?<sup>3</sup> Here, again, all this potential is bound to be wasted unless the people in question are able to rely on a meaningful price system, grounded in the regime of private property, to guide their actions. The existence of such a system, however, is incompatible with the requirements of socialism. In conclusion, even the best of entrepreneurial motivations cannot make an economy devoid of private property robust.

Finally, let us turn our attention back to the issue of benevolence versus self-interest. I have argued, *contra* BLS, that the conditions prevailing in a thoroughly selfish community do not constitute the worst-case scenario for liberalism in this particular dimension. In fact, it seems that such conditions are highly conducive to the sustainability of liberalism. Now, let us ask a similar question with regard to socialism: does it assume its most resilient form when it develops in a society full of good Samaritans? Here my answer is negative. As I indicated earlier, as soon as one becomes completely unconcerned with monetary profit, one cannot sustain an efficient production of any good or service. Since *purely* benevolent actions have to dispense with monetary cost-benefit analyses, a purely selfless (and voluntary!) society might be morally upstanding, but not materially prosperous—in fact, it appears that the only form in which it could survive is that of a collection of primitive, self-sufficient household economies.

Fortunately for the former Soviet republics, the adherence of their system to the principle of pure benevolence was merely a crude ideological façade. In reality, Soviet state officials attended assiduously to their private interests and readily accepted bribes for turning a blind eye to the existence of extensive black markets in the economy (Rothbard, 1991, p. 73). This, coupled with attempts

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<sup>3</sup> For an excellent elaboration of the list of skills and roles required of an entrepreneur, see Salerno (2008).



to copy the prices arrived at through the profit-and-loss mechanism present in the capitalist countries, enabled the nominally socialist system to become much more resilient and long-lived than it otherwise would have been. Thus, it appears that the amount of selfishness present in a collectivist society is directly rather than inversely proportional to its robustness.

This essentially concludes my brief exploration of the relationship between various dimensions of motivation and the question of institutional robustness. To sum up the main points of this paper, I have employed the methodology used by BLS in order to undermine their contention that the best-case version of socialism is based on benevolence and the worst-case version of liberalism is grounded in selfishness. My argument contends that the pursuance of self-interest is a beneficial and robustness-enhancing force in both of these systems. Moreover, I have pointed to what I take to be other dimensions of motivation whose relationship with the issue of institutional robustness seems worthy of further exploration. Finally, I have endeavored to show that with regard to each of the abovementioned dimensions best-case socialism proves unsustainable and vastly inferior to worst-case liberalism, which further corroborates the status of liberalism as a highly stable and resilient system of political economy.

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