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# Realism, Ideology, and the Convulsions of Democracy

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# Toward a Constitutional Theory of Property Rights to Escape the Transitional Gains Trap: A View from the Machiavellians



Rosolino A. Candela

*The uniqueness of the status quo lies in the simple fact of its existence. The rules and institutions of sociolegal order that are in being have an existential reality. No alternative set exists. This elementary distinction between the status quo and its idealized alternatives is often overlooked. Independent of existence, there may be many institutional-legal structures that might be preferred, by some or many persons. But the choice is never carte blanche. The choice among alternative structures, insofar as one is presented at all, is between what is and what might be. Any proposal for change involves the status quo as the necessary starting point. "We start from here," and not from someplace else.*

– James M. Buchanan (1975: 78)

## Introduction

Since at least Adam Smith, political economists have inquired into the nature and causes of the wealth of nations. In recent years, a growing literature in both state capacity theory and the economics of violence have arisen to explain the institutional conditions and the historical circumstances that gave rise to economic development, constitutional democracy, and the rule of law, first in Western Europe. Taken together, these two theoretical approaches seem to run orthogonal to classical liberalism as an analytic point of departure, since, from a classical liberal standpoint, voluntary exchange is the organizing principle of both political and economic processes. To suggest that violence can be a productive means for organizing society, as argued by Frederic Lane (1958: 402), seems to lend credence to the notion

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that only the coercive power of the state can establish the preconditions necessary for economic development.

Fortunately, James Burnham's *The Machiavellians: Defenders of Freedom* (1943) covered the same analytical ground that has been resurrected by state capacity theory and the economics of violence, and in a manner consistent with classical liberal scholars working in the public choice tradition. Burnham provides a Machiavellian basis of political realism, which frames political theory in terms of a struggle of ruling classes striving to maintain their own power and privilege. But as suggested by the subtitle of the book, Burnham provides the theoretical tools to construct a realistic historical account of how and why the institutional conditions for economic and political liberty have emerged against the intent and self-interest of political elites. "If the political truths stated or approximated by Machiavelli were widely known by men," Burnham states, "the success of tyranny and all the other forms of oppressive political rule would become much less likely. A deeper freedom would be possible in society than Machiavelli himself believed attainable" ([1943] 2020: 69–70).

From a public choice perspective, Burnham's thesis could be understood as an account about the economic transition from poverty to wealth but framed in terms of an escape from the transitional gains trap (Tullock 1975; Tollison and Wagner 1991). Understood this way, the question of why the West first escaped from poverty is a question into how the political process gradually transformed from a means to secure privileges among political elites into a means to secure private property rights under constitutional democracy. Such an inquiry implies that any realistic inquiry into economic and political development must entail a study of how and why violence becomes organized throughout society in the foreground of analysis. Taking inspiration from Burnham's *The Machiavellians* (1943), I will offer a *constitutional theory of property rights* grounded in classical liberal theory, one that emerges as a by-product of political exchange and entrepreneurship (Wagner 1966). From a constitutional perspective, I argue that private property rights emerge to internalize the cost of using violence, particularly to minimize rent dissipation from escaping the transitional gains trap. I illustrate this argument through the lens of entangled political economy by explaining the emergence of constitutional democracy in Western Europe as by-product of political exchange.

## **James Burnham and the Machiavellians: An "Imperfect" Vision of Political Processes**

Although Burnham's *The Machiavellians* is not meant to be an explicit contribution to classical liberal political theory, in this section, I will attempt to render explicit in Burnham particular aspects of a theory of political processes that illustrates the historical evolution towards political and economic liberty, particularly as it first emerged in the West. One way of doing so is by beginning with a quote from Frank

Knight, often used by James Buchanan, which goes as follows: “To call a situation hopeless is equivalent to calling it ideal” (Buchanan and Tullock 1962: 204). Though not implied by Knight, such an understanding of public choice theory lends itself to a standard interpretation, to quote one textbook, that “the characterization of the political process by public-choice theorists is, perhaps, excessively cynical” (Salvatore 2003: 622). However, to assume behavioral symmetry between actors across market and non-market settings implies neither cynicism nor an inevitability of dysfunction in political processes. Rather, it is quite the opposite.

An appropriate understanding of the public choice revolution, as reflected in the work of its pioneers, James Buchanan and Gordon Tullock, can be illustrated by taking the inverse of Knight’s quote: a situation that is non-ideal, or “imperfect” in the sense of being “incomplete” or “not thoroughly done” according to its etymological roots in Latin, is one that builds hope into its narrative! Such hope for improvement has a non-normative basis in political entrepreneurship (Wagner 1966). The meaning of “imperfect” alluded to here is clearly implied in Burnham: “Political life, according to Machiavelli, is never static, but in continual change. There is no way of avoiding this change. Any idea of a perfect state, or even of a reasonably good state, much short of perfection, that could last indefinitely, is an allusion” (Burnham [1943] 2020: 56). Though there is no explicit account of political entrepreneurship in Burnham, he draws his inspiration from Machiavelli as follows: “political man of the ruler-type<sup>1</sup> is skilled at adapting himself to the times. In passage after passage, Machiavelli returns to this essential ability: neither cruelty nor humaneness, neither rashness nor caution, neither liberality nor avarice avails in the struggle for power unless the times are suited” (Burnham [1943] 2020: 55). Thus, if political theory is a science about the means to acquire and preserve power among ruling elites, then the political entrepreneur is an agent that discovers opportunities to apply the most appropriate means to increase their wealth and security.

However much Burnham’s Machiavellian-inspired account of “political man” may be motivated by their self-interest, namely to acquire and preserve power, like in public choice economics, this is an analytical device intended “not for its accuracy in prediction, but for its assistance in helping to identify and to classify patterns of outcomes attributable directly to institutional differences” (Brennan and Buchanan 1981: 163). As Burnham writes, as “protectors of liberty, Machiavelli has no confidence in individual men as such; driven by unlimited ambition, deceiving even themselves, they are always corrupted by power. But individuals can, to some extent and at least for a while, be disciplined within the established framework of wise laws” ([1943] 2020: 63). An understanding of how such institutional conditions can emerge in an incentive-compatible manner, but also in a manner that sows the seeds for constitutional democracy and private property, requires that political entrepreneurship moves to the foreground of analysis. This, in turn, requires that the

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<sup>1</sup>Elsewhere, Burnham draws a distinction between two types of political man: The “ruler-type” who occupy positions of power or aspire to occupy such positions if presented the opportunity to do so; and the “ruled-type” that consist of the masses of the population, who neither lead nor are capable of leading ([1943] 2020: 47).

political status quo be taken as given as a matter of scientific analysis, rather than suggesting that the status quo has any normative importance in the sense of either being “good” or “bad.” From this status quo, it becomes possible to understand how Pareto-improving rule changes from that status quo can take place as by-product of political entrepreneurship. Such a scientific analysis of political processes is consistent with a classical-liberal vision of society, one that is predicated on productive social cooperation under the division of labor as its organizing principle.

In recent years, the political foundations of economic development have been framed in two ways. According to one theoretical approach, the use of violence can be a productive activity if it used as a means to define and enforce property rights, or it can unproductive if violence is used to engage in wealth transfers in the form of public predation or private predation (Lane 1958). From this perspective, the fundamental basis for securing and defining property rights, and hence economic development, is the minimization of the returns to violence in the first place. Hence, the analytical point of departure for understanding economic and political development becomes an inquiry into how and why a society escapes a “violence trap” (North et al. 2009; Cox et al. 2019). Such a framing of political processes in terms of organizing violence is not inconsistent with Burnham’s understanding of politics, inspired by Machiavelli, as “primarily the study of the struggles for power among men” (Burnham [1943] 2020: 37).

According to another theoretical approach, known as state capacity theory, economic and political development is dependent upon the power of the state to raise revenue (see Tilly 1975), but more broadly refers to “the wider range of competencies that the state acquires in the development process, which includes the power to enforce contracts and support markets” (Besley and Persson 2010: 1; see also Johnson and Koyama 2014, 2017, 2019). “Just as private physical and human capital accumulation is a key engine of private sector growth”, Besley and Persson state further on the same page, “the buildup of public capital is also an engine of state expansion”, specifically an expansion in its effectiveness to raise revenue, not only for the provision of public goods, but also for enforcing of property rights and contractual exchange. Although not stated in terms of state capacity, Burnham’s analysis parallels the historical conclusions made according to state capacity theory about political and economic development in Western Europe. Prior to the fifteenth century, “state power of the cities, and their armed forces were not no strong enough to police transportation routes, guard the sea lanes, put down brigandage, and the vagaries of barons who did not realize that their world was ending. Uniform systems of taxation and stable, standardized money for large areas were now required. *For all such tasks only the modern nation-state could adequately provide*” (emphasis added; [1943] 2020: 33).

There are two ways to reframe the analytic points from which each of these theoretical approaches are departing, both employed with greater analytical effect by Burnham. This is by treating them as conceptual parts of the same theoretical story. First, both the economics of violence and state capacity theory implicitly share a common denominator; implicitly, they are both inquiries about the necessity for societies to escape a transitional gains trap in order to realize the conditions of a

market economy and constitutional democracy under the rule of law.<sup>2</sup> The transitional gains trap, according to Gordon Tullock, refers to a process by which the creation of monopoly privilege creates a transitional gain in the form of an artificial rent for an initial holder of such privileges. However, competition for such privileges will create a situation in which the value of the rent will tend to be capitalized into the resale value of the privileges, such that subsequent owners are no better off than if the privilege had not been created in the first place. However, the removal of such privileges would result in a concentrated cost on the special interest group, the benefits of which are dispersed onto the masses of the population. This means that the transaction costs of collective action, associated with directly “buying out” current benefactors of the existing system may be too high relative to any potential gains to society (see Tollison and Wagner 1991). The transitional gains trap introduces a paradox in the following sense. If an institutional transition in the form of nation-state is a public good in the sense of controlling societal violence by monopolizing it, and state capacity is necessary for the capacity to deliver this public good, then each require a prior credible commitment to the rule of law, the prior creation of which is a public good itself. It is in this sense misleading to speak of a nation-state governing *over* a market economy, when in fact both the institutional conditions of well-functioning nation-states in the West and their corresponding market economies, governed by private property rights, are entangled, since, historically, they coevolved as *byproducts within the same social process*: an evolution toward the rule of law.

Moreover, if the process of economic and political development is fundamentally one of institutional transition, particularly one of eliminating political and legal privileges that redirect entrepreneurship from unproductive to productive activities, then the counterintuitive policy implication for transitional political economy may be particularly frustrating for a classical liberal policy reformer. This is because attempts to change the rules of the game, and eliminate monopoly privileges through political discretion, will only incite rent seeking, generating greater dissipation of wealth than if the transfer had not been initiated. The key point here is that, since political discretion is the very source of monopoly privileges created by the state, political discretion cannot also be the source of its abolition. Political discretion used as an instrument to abolish legal privilege cannot occur without simultaneously creating another legal privilege, since political discretion, by its very nature, intends to benefit one party at the expense of another. Does this imply that the classical-liberal minded reformer should be left to “do nothing”? Quite the opposite. As Tollison and Wagner argue, “the most efficient instrument for ‘reforming’ existing monopolies is the competitive market process itself” (Tollison and Wagner 1991: 69, fn. 10). The counterintuitive implication here is that monopoly privileges are the very source of their own erosion, since barriers to entry intended to shield a special interest group unintendedly create the very profit opportunities to erode the

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<sup>2</sup>For additional overlaps and potential complementarities for future research between public choice and state capacity theory, see Piano (2019).

rents derived from such privileges. I will elaborate on the entangled nature of this process in the next section.

Alternatively, another manner in which to reframe the economics of violence and state capacity theory is to situate them as starting points and end points of a particular process, respectively. That is, rather than regarding the nation-state as the prerequisite for modern economic growth, and therefore analytically antecedent to the market, *both* the state's capacity to tax and finance the provision of public goods as well as a market economy co-evolved together as *by-products* of an evolution toward the rule of law. It is in this sense, from Burnham's standpoint, that liberty is born out of a violent struggle for power ([1943] 2020: 63). "This seeming paradox," Burnham states, "that the frank recognition of the function of violence in social conflicts may have as a consequence a reduction in the actual amount of violence, is a great mystery to all those whose approach to society is formalistic" ([1943] 2020: 117).

Though preceding their later work on the economics of violence, nor stated in terms of state capacity, the account offered by Douglass North and Barry Weingast (1989) regarding the political and economic consequences of the Glorious Revolution illustrates what is incomplete about these literatures, treated separately, and how Burnham offers a way, however implicit, to treat them as a coherent whole. Following the Glorious Revolution of 1688, in which the Parliament of England deposed James II for his increasingly arbitrary behavior fiscal policy, "not only did the government become financially solvent, but it gained access to an unprecedented level of funds" (North and Weingast 1989: 805) by borrowing on the market at increasingly lower interest rates, reflecting a substantial increase in the state's capacity to tax and finance for the provision of public goods. To be clear, the point here is *not* consistent with what might be referred to as a "neoliberal" narrative,<sup>3</sup> since the policy implications of such a narrative would suggest that violence can be used as a means to *deliberately* impose market-oriented reforms *exogenously* and *by design*. Rather, the account by North and Weingast illustrates quite the *opposite*, that state capacity evolved unintendedly and endogenously as a *by-product* of a perceived commitment by the government to honor its agreements among investors. Such political constraints that emerged in England, in turn, were preceded and contingent, as Barzel (2002: 35) would argue, on the existence of a collective action mechanism with sufficient power to oppose the ruler in the first place (see also Barzel 2002: 115; Kiser and Barzel 1991). The puzzle, then, becomes, why would it ever be in the self-interest of a ruling political elite to allow a collective action mechanism, such as parliamentary body, as a check on its predatory power in the first place? From Burnham's standpoint, such state-capacity is born out of a violent struggle for power between "ruler-types", or political elites, requiring an entangled political economy approach to understand how society escaped a transitional grains trap.

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<sup>3</sup>For an excellent engagement of the literature on "neoliberalism," which disentangles the various misleading confluences of neoliberalism with classical liberalism, see Leeson and Harris (2023).



## A Constitutional Theory of Property Rights: Insights from Entangled Political Economy

“Only out of the continuing clash of opposing groups,” Burnham states, “can liberty flow” ([1943] 2020: 63). Given that scarcity implies competition, and that competition itself is a process of resolving conflicting ends, violence and the use of political power is just one form of competition to fulfill an individual’s ends, whether that includes greater wealth, social status, or security. For this reason, entangled political economy is a well-suited theoretical approach to understand how the institutional conditions that credibly constrain arbitrary discretion among political elites can evolve out of the threat of violence. “Entangled political economy,” according to Richard Wagner, “seeks only to achieve consilience between politics and economics by exploring some implications of the recognition that good commercial practice often requires political involvement just as good political practice often requires cultivation of commercial organizations” (2020: 8; see also Wagner 2014, 2016).

The entangled political economy approach can trace its direct roots back to the work of Vilfredo Pareto, but also has antecedents in classical political economy. Joseph Schumpeter has argued about Pareto that “primarily and fundamentally his sociology was a sociology of the political process” (Schumpeter 1949: 168). This would seem to suggest that Pareto’s economics and his broader social theory are separate rather than overlapping parts of a broader theory of human action. However, as he points out, in “political economy itself, theories of pure or mathematical economics have to be supplemented – not replaced – by the theories of applied economics” (Pareto [1916] 1963: 20). This “logico-experimental” method of social science, according to Pareto, applied not only to his understanding of economics but also applied no less to the other social sciences, particularly political science.

The logico-experimental method, according to Pareto, traces the unintended consequences of social interaction under alternative institutional arrangements (i.e., the realm of applied theory) back to the choices of individuals, who are attempting to fulfill their separate ends through the purposive applications of means to such ends (i.e., the realm of pure theory). Though Pareto distinguishes between logical action and non-logical action, the distinction is not between rational action and irrational action. Rather, the terms describe the pure form of human action, the substance of which is manifested under different institutional contexts. Whereas logical action manifests itself in the realm of markets within a context of private property and price signals, non-logical action manifests itself in the realm of politics, which is outside the context of market exchange and price signals. Thus, the outcomes in Pareto’s general theory of human action, or sociology as he refers to it, is not based upon an aggregation of atomistic individuals, maximizing given means to given ends in isolation. This would be the case if Pareto collapsed his understanding of “pure economics,” or what Hayek refers to as the “pure logic of choice,” onto the outcomes of social interaction. Yet no one-to-one relationship between rational action and outcomes exists in Pareto’s sociology. The link between the two is indirect, yet bridged by an institutional analysis of time and circumstance. Therefore, to

conclude that Pareto's general theory of human action was based upon the "perfection" of Walrasian general equilibrium only characterizes his understanding of pure theory and cannot be superimposed upon his broader understanding of political economy.

Burnham suggests that Pareto "defended, for some while, the point of view of orthodox 'liberal' economics – not what is nowadays called 'liberalism,' that strange mélange of sentimental confusion, but the classical liberalism of free trade and free markets. This point of view he gradually abandoned" (Burnham [1943] 2020: 155–156). This may be the case because Pareto's alleged association with fascism was implied by his increasing interest in force. However, from a Paretian perspective, force is another set of means to compete for scarce resources that can be traced back to logical action. If Pareto's classical liberalism was inconsistent, it is only because it was "imperfect" in the sense of his failure to complete his positive analysis of human interaction by carrying it to its logical conclusion, which was to modify the political rules of the game in a way that minimizes the gains from rent-seeking. Such an interpretation of Pareto lends itself to an inherent puzzle in Burnham, in which he states the following:

Two opposing tendencies always operate in the case of every élite: (a) an aristocratic tendency whereby the élite seeks to preserve the ruling position of its members and their descendants, and to prevent others from entering its ranks; (b) a democratic tendency whereby new elements force their way into the élite from below. ([1943] 2020: 205–206)

And Burnham continues:

In the long run, the second of these tendencies always prevails. From this it follows that no social structure is permanent and no static utopia is possible. The social or class struggle always continues, and its record is history. ([1943] 2020: 206)

How can Pareto's theory of social interaction resolve this puzzle? According to Pareto, the character of any society rests in the character of its elite; the accomplishments of a particular society "are the accomplishments of its élite...successful predictions about its future are based upon evidence drawn from the study of the composition and structure of its élite. Pareto's conclusions here are the same as those reached by Mosca in his analysis of the narrower but similar concept of the 'ruling class'" ([1943] 2020: 188). Thus, from Burnham's standpoint, the gradual tendency towards democracy and free markets under the rule of law is *not* a function of abolishing elites, but redirecting the entrepreneurial talent of the political elite away from rent-seeking behavior and toward profit-seeking behavior (see Buchanan 1980).

The key to understanding this redirection in entrepreneurial activity can be understood through the lens of property rights. According to Harold Demsetz, individuals will devise private property rights arrangements in response to changes in the transaction costs of internalizing an externality. As Demsetz puts it (1967, p. 350), "property rights develop to internalize externalities when the gains of internalization become larger than the cost of internalization." His example of the emergence of property rights, due to the rise of the fur trade throughout the eighteenth century among the Montagnes inhabiting regions around Quebec, illustrates this

previous point. Prior to the rise of the fur trade, hunting only took place primarily for the purposes of food, the significance of which, in terms of externalities, was small enough that it did not pay for anyone to take account of them. With the rise of the fur trade, the lack of private property over beavers led to overhunting in the sense that no individual finds it in their self-interest to take full account of the costs imposed on subsequent hunters, resulting in a negative externality. The advent of the fur trade led to an increase in the relative price of furs as well as hunting activity, both of which incentivized the emergence of property rights to internalize the externality of hunting. This resulted from the expected gains of internalization exceeding the expected transaction costs of devising and enforcing property rights arrangements over beaver pelts.

The theoretical argument and historical illustration provides a straightforward and powerful lesson of how property rights replace potential competition for resources in the form of violent conflict for peaceful competition for resources in the form of productive specialization and voluntary exchange. I say the word “potential” for a very specific reason, since the example in this paper provides yet another puzzle, one that I’m paraphrasing from Professor Richard Wagner’s fantastic book, *Mind, Society, and Human Action* (2010: 41–42): why are not the Native Americans in this historical example not incentivized to fight when furs become more valuable? Or, to put it another way, what are the institutional arrangements precluding the Native Americans from fighting between each other, or for that matter, between the Native Americans and Europeans who would later colonize the area for such resources? These questions are not meant in anyway to undermine the theoretical validity of Demsetz’s argument.

Rather, what I’m suggesting here is that the outcome illustrated in Demsetz’s example is predicated on an implicit assumption, namely there exists a set of institutional preconditions that internalize another negative externality, *namely the costs of violent conflict itself* (such costs being the foregone opportunity to engage in productive specialization and exchange). Understood this way, the emergence of property rights in Demsetz’s example is contingent on a set of rules that internalize the cost of using violence, or put another way, minimize the returns to using violence, as a means to define and allocate property rights. What all this implies is that Demsetz’s story can be incorporated into framework of constitutional political economy, developed by James Buchanan and Gordon Tullock (1962) as well as F.A. Hayek (1960), one that redirects attention to a rule-level of analysis, which govern the emergence of property rights as by-product of interaction within a set of rules. As Hayek best states this point in *The Constitution of Liberty* (1960: 151): “from the delimitation of a private sphere by rules, a right like that of property will emerge.” Hence, in order to understand Burnham’s thesis about the tendency towards democratization and liberty, a constitutional theory of rules governing the formation of property rights is necessary for understanding how the transitional gains trap was overcome in the West.

The underlying basis for this institutional evolution beginning in Medieval Europe begins with modelling an autocratic ruler and what Pareto refers to as “governing élites” and “non-governing élites.” The governing elites are constituted by

the barons and landed aristocracy, and the non-governing elites are rivaling for political power, constituted by the burghers and merchants. As political entrepreneurs, these individuals are adjudicating a trade-off between their own personal security and personal wealth. In a world of zero transaction costs, a ruler could confiscate the entire value of their subjects' wealth. This unrealistic scenario neglects two facts. First, predation leads to rent dissipation as the ruler must expend time and resources to capture such transfers of wealth and avert potential rebellion from his or her subjects. Secondly, such activity also stifles the conditions for economic calculation, productive specialization and exchange, and hence wealth creation, which is required for the acquisition of resources necessary for an autocrat's defense from foreign aggression in the first place. This assumes that an autocrat is a residual claimant, which is consistent with the fact that under feudalism the distinction between political rights and economic rights was blurred, and economic wealth was derived from political jurisdiction over land, from which feudal lords earned their income. To the extent that a ruler is secure in his or her power, he or she is willing to trade off some personal security by allowing his or her subjects to accumulate wealth through productive specialization and exchange. This implies, however, a credible commitment on the part of the ruler to enforce property rights, and not confiscate wealth. Assuming also the absence of third-party enforcement or any precedent to establish such a credible commitment, a secure ruler can establish this by providing the means through which to constrain himself via independent collective action from their subjects. This manifested itself in Western Europe in the Middle Ages in the formation of early parliaments, which were not democratic institutions as understood today. Rather, such forerunners to modern democratic institutions provided political elites voting rights over revenues required for defense and other "public goods" in exchange for the enforcement of their property rights over their respective manors (see Congleton 2011; Salter 2015).

Though such voting rights initially manifested itself as political privileges initially exclusive to an aristocratic elite, a credible commitment to constraints on predation cannot be excluded from nonelites residing in a jurisdiction, manifesting itself as a public good, or a positive externality, from which nonelites may accumulate wealth. However, the very basis for such "free-riding" presented a political profit opportunity for monarchies to centralize their authority, namely by further extending political enfranchisement to the bourgeois with voting rights in parliaments, in exchange for tax revenue. Thus, the accumulation of wealth among the burghers, merchants, and other bourgeois became "internalized" by monarchs in Western Europe, and unintendedly generated the conditions consistent with the emergence not only of the state and "national defense," but also the coevolution of liberal democracy and economic development. As Burnham elaborates on this political process:

All of the European nations were consolidated through a Prince – rather, a succession of Princes<sup>4</sup> – and it is hard to see how it could have been otherwise. So it was in France, so in England, so in Spain. The feudal lords did not want nation-states, which in the end were sure to bring the destruction of their power and privileges. The masses were too inarticulate, too ignorant, too weak, to function as a leading political force. The Church knew that its international overlordship was gravely threatened if the national system were successful. The one great social group that required the national system was the new and spreading class of the burghers, the business men, the merchants, the early capitalists. This class, however, was too young, too untried, too unused to rule, to take on the job by itself. But the monarchy also—the King and those immediately associated with the King—was ready for the nation, through which the full political sovereignty of the monarch could be centralized and brought to bear against the centrifugal pull of feudalism. Therefore a *de facto* alliance was made, and around the monarchy the nation was pulled together. (emphasis original; Burnham [1943] 2020: 34)

Moreover, Rosenberg and Birdzell (1986: 101) elaborate on this process as follows: “economic growth was a force for democratization and eventually produced a society unmanageable by the old landed elite and their political devices.” Our point here is neither to justify the emergence of the state, nor to claim that the state’s capacity to deliver public goods was historically necessary to deliver the conditions necessary for economic development. However tempting it may be, analytically speaking, to take the nation-state as analytically primary, such an analytic point of departure is misleading for two reasons. First, it proceeds on the assumption that there is a strict dichotomy between the market and the state, and secondly, that the state analytically precedes the existence of markets in the provision of public goods. Rather, by reframing public goods theory through a process paradigm, rather than a comparative static paradigm, what I’m suggesting here is that the emergence of the state, with the capacity to provide public goods, is itself a public goods problem, a problem that transcends the traditional dichotomy between the notion of a state intervening to correct a “market failure” or the notion of a “government failure” to enforce given property rights. Since the historical illustration presented here implies that questions of economic development cannot take either the state or markets as given, then, as suggested by Furton and Martin (2019), the fundamental problem of economic and political transition is one of “institutional mismatch,” or a situation in which a feasible set of rule changes are possible over a prevailing set of rules. Thus, a *perceived* mismatch presents a profit opportunity for a political entrepreneur, one in which institutions *become* more aligned to match the goals of Pareto’s “governing élites” and “non-governing élites” via political exchange to constitutionally condition the terms and conditions of coercion. Thus, the non-rivalrous and non-excludable nature of the outcome associated with the emergence of “public goods,” whether couched in terms of state capacity or otherwise, cannot be understood

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<sup>4</sup>Also of crucial importance for this unintended political process was political fragmentation in Europe, which created the conditions for interjurisdictional competition. Rosenberg and Birdzell argue that in the West, “individual centers of competing political power had a great deal to gain from introducing technological changes that promised commercial or industrial advantage and, hence, greater government revenues, and much to lose from allowing others to introduce them first” (1986: 137).

without rivalry in the production and consumption of public goods in the first place, and that such rivalry may include the threat of violence. Thus, the historical emergence of the state and other public goods cannot be disentangled from each other, as they have been part of the same evolutionary process.

## Conclusion and Implications

“If men generally understood as much of the mechanism of rule and privilege as Machiavelli understood,” Burnham argues, “they would no longer be deceived into accepting that rule and privilege, and they would know what steps to take to overcome them” ([1943] 2020: 70). From Burnham’s standpoint, public choice should not be perceived as a justification for despair and cynicism, but an analytical point of departure for hope in the faith that institutional constraints can be subject to reflection and choice, and not always accident and force. Moreover, if we understand the entangled nature of social processes from which constitutional democracy and a market economy have emerged, then we can become better informed about the pitfalls of attempting to eliminate what are inherent characteristics to such social processes. That is, if (1) competition is ubiquitous to all human interaction, (2) violence is a form of competitive behavior, and (3) all societies consist of elites that are competing for power, then the question for political economy is not how to abolish violent competition between elites. Rather, the question becomes how to channel the threat of violence into a means by which competition between political elites evolves into positive-sum processes rather than negative processes. From an entangled political economy standpoint, this is ultimately where the answer to the inquiry into the nature and causes of the wealth of nations resides.

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