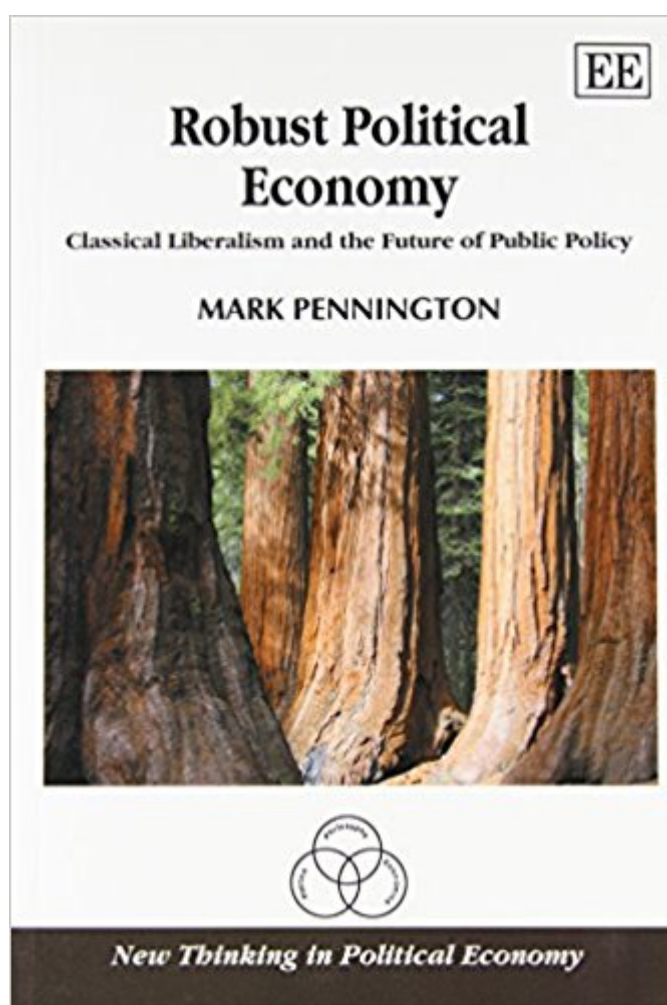


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# Robust Political Economy: Classical Liberalism And The Future Of Public Policy (New Thinking In Political Economy Series)



## Synopsis

This important book offers a comprehensive defence of classical liberalism against contemporary challenges. It sets out an analytical framework of 'robust political economy' that explores the economic and political problems that arise from the phenomena of imperfect knowledge and imperfect incentives. Using this framework, the book defends the classical liberal focus on markets and the minimal state from the critiques presented by 'market failure' economics and communitarian and egalitarian variants of political theory. Mark Pennington expertly applies the lessons learned from responding to these challenges in the context of contemporary discussions surrounding the welfare state, international development, and environmental protection. Written in an accessible style, this authoritative book would be useful for both undergraduate and graduate students of political economy and public policy as a standard reference work for classical liberal analysis and a defence of its normative prescriptions. The book's distinctive approach will ensure that academic practitioners of economics and political science, political theory and public policy will also find its controversial conclusions insightful.

Contents: 1. Introduction: Classical Liberalism and Robust Political Economy; Part I: Challenges to Classical Liberalism; 2. Market Failures 'Old' and 'New': The Challenge of Neo-Classical Economics; 3. Exit, Voice and Communicative Rationality: The Challenge of Communitarianism I; 4. Exit, Trust and Social Capital: The Challenge of Communitarianism II; 5. Equality and Social Justice: The Challenge of Egalitarianism; Part II: Towards the Minimal State; 6. Poverty Relief and Public Services: Welfare State or Minimal State?; 7. Institutions and International Development: Global Governance or the Minimal State?; 8. Environmental Protection: Green Leviathan or the Minimal State?; 9. Conclusion; Bibliography; Index

## Book Information

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## Customer Reviews

'I really enjoyed reading Mark Pennington's book. Really, really enjoyed it. He nicely blends public choice and Austrian insights, the notion of robust political economy as something that takes into account self-interest, knowledge, and incentives. Pennington expertly highlights the comparative institutional arrangements and the plurality of choices that a system with several property and exit possibilities provides. Uniquely, he discusses how neither straight neoclassical economics nor the Stiglitz variety gets it. This is an important book because it attempts to address the critics directly. It is a book almost custom-made for those who want to defend classical liberalism against the common arguments.' - --Bruce J. Caldwell, Duke University, US

Mark Pennington presents a wide ranging and imaginative treatment of the superiority of classical liberalism over the various state-centered ideologies that presently enjoy wide currency. Among other things, we learn why people who are concerned with inequality and social solidarity should embrace the minimal state of classical liberalism and reject today's total states with their unlimited domains. I was delighted to have been able to read this book as I learned much from it, and I am confident other readers will have the same experience.' - --Richard E. Wagner, George Mason University, US

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Mark Pennington, Reader in Public Policy and Political Economy, Department of Politics, Queen Mary, University of London, UK

This is a great book that synthesizes the work of many thinkers in the classical liberal tradition while actively engaging with their critics. The book mixes both theory and practice and I found myself highlighting material on almost every page. Mark Pennington lays out a model of classical liberalism

based on what he calls "Robust Political Economy" which seeks to answer 3 questions: 1. Which institutions perform best when people are not omniscient? 2. Which institutions perform best when people are motivated by self-interest? 3. Which institutions perform best when people have limited knowledge and are prone to self-interested behavior? He starts by noting that two of the fundamental organizing principles of classical liberalism are the freedom to associate and disassociate with others and the private or several ownership of private property. He then points out that this leads to the development of "spontaneous orders" which have 3 key benefits: 1. They are better placed to cope with conditions of imperfect knowledge and bounded rationality 2. They allow for experimental evolution 3. They provide safeguards against the abuse of power where people do act out of their self-interest

There are valuable insights throughout the book and I found myself highlighting and making margin notes on just about every page. Here are 2 brief quotes that demonstrate what I mean: "In a process which removes the 'exit' option, the costs of supporting irrational policies are spread across all other members of society rather than being concentrated on those holding to false beliefs. "The 'weak' interactions that characterize commercial relationships bring together people from many different social and cultural backgrounds and in so doing may create opportunities for the development of new social bonds and shifting identities. "The author actively engages with the critics of classical liberalism throughout the book. These includes market failure, social justice, communitarian, and egalitarian critics and his observations often demonstrate the shortcomings within those positions and some cases where their values would actually be better served within the classical liberal framework.

The second half of the book applies classical liberalism to current public policy challenges (poverty relief, international development, and environmental protection). I really learned a lot in this section both in regard to some things that are working as well as what does not work at all. The chapter on poverty relief has very valuable discussions on health and education. The section on international development highlights the fact that "institutions matter" and we should start with a "do no harm" principle (for more in the regard, see "Doing Bad by Doing Good" by Christopher Coyne). The author concludes that "ideas matter in political economy" and he has provided a deep synthesis of many of the core ideas of classical liberalism. In discussing how these ideas can be applied to current public policy issues and the "movement towards the minimal state", he is clear about the need for classical liberals to remain consistent with decentralized, discovery processes. This is a very powerful work that deserves the widest possible readership.

Postscript "I recommend Randy Barnett's "The Structure of Liberty" for those who would like another

interesting work on the problems of knowledge, interest and power. I recommend James Tooley's *The Beautiful Tree* for those who want to better understand how the world's poor are educating themselves.

This book, by professor Mark Pennington, makes very clear what causes the fundamental conflict between classical liberalism and today's anti-market egalitarians and communitarians. The former begin with a realistic assessment of the flawed nature of human beings. Any society that hopes to succeed in providing freedom and affluence to its citizens must deal with what author Pennington refers to as the "two human imperfections" that make any community fragile: First, is our all too human "limited rationality" that renders decision-making so problematic, and the second failing is our "limited benevolence," which asserts a recurring self-interest in each of us that works against optimum social cooperation. The basic error in thinking of the anti-market people, who advocate central government planning, is that an elite at the top can correct for the two human failings by making all decisions for the citizenry and redistributing the wealth that the selfish individuals want to keep for themselves. Thus today's liberals seek to maintain a parent-child relation with the people of the country with themselves as parents dictating massive regulations and rules of behavior. Obviously, this denies freedom to most everyone and runs counter to American traditions of liberty. The chasm that separates these two factions is that one side takes an abstract concept--a perfectly ordered world--and sets it up as a goal. Then, in looking at the real world, imperfections from that ideal world are obvious, so the need for government to correct things becomes in their minds an essential and noble goal. What they miss is that human nature must be dealt with, and no perfect society may ever be designed. It is the old utopian-idealist's dream world versus the practical reality of what is possible. It is the "Conflict of Vision" that Thomas Sowell writes about. What distinguishes this book is that the author explains why a free market system works best in dealing with the two flaws in human nature. First, the free market allows a maximum degree of trial-and-error learning which overcomes the recurring nature of bad decision making. The wide dispersal of actors in the manufacturing and financial realm allow a competition of ideas which weeds out the failures. Quite differently, a centralized government planning process mandates widespread policies which when counter-productive, are difficult to reverse. And recent history shows just how inflexible and determined our governing elites are in continuing massive government programs even in the face of constant failure to achieve their desired ends. The other human failure that Pennington addresses, the limited benevolence of all of us, raises the question of how do we moderate the all to human desire to exploit opportunistic behavior so that abuses do not

hurt the society. Historically, Americans have adopted laws that minimize monopolies, restrict usurious interest charges, inspect food and drugs for safety, and maintained court systems to enforce contracts and protect private property. Thus, by maintaining a level playing field, competition has been restrained so certain rules of fairness apply and limit excess self enrichment from unethical conduct. That fair competition lies at the heart of effective capitalism. That need to maintain fairness may be the best illustration of why a free market is better than a centrally controlled environment. In 1933, for example, the sins of financiers on Wall Street led to rules that separated stock brokers from underwriters, two occupations where the conflict of interest between the two was apparent. That worked fairly well until the 1990's when those geniuses in Washington, supposedly managing things "perfectly" from the top, decided to allow the banking world to consolidate so that individual Wall Street firms could earn fees from assembling worthless securities AND then earn even more from selling the junk to their customers. Then, to leave no doubt about how the frailty of an elite surpasses the aggregate frailty of the entire remaining citizenry, the Washington insiders bailed out the Wall Street security dealers who got stuck with some of their own worthless securities! We already had 70 years of evidence within the Soviet Communist hierarchy as evidence that, when it comes to maintaining a level playing field, central planning elites have the most "limited benevolence" of all. In any centrally controlled system you get the foxes guarding the hen house. Professor Pennington lays out with good academic thoroughness how we must recognize the underlying nature of human behavior in order to evaluate the best system of government. He warns that we must not be tricked into expecting a perfect standard when limited information and limited rationality render all decision-making uncertain. It is only by creating the straw horse of a perfect world that today's leftists can criticize the operation of free markets, and even then, they fail to show why an expert cadre at the top will somehow be immune to making the same errors of judgment that they find fault with.

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