

Rediscovering Political Economy

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September 1970, the *History* of the United States, 1870-1900, published with the documentary film, *Booker T. Washington*, part of the series, *The American Experience*.

Now, Robert A. Milder, author of *The Making of American Literature: The Story of America's First Novel*, following a long career of teaching at Stanford University and the University of California, Berkeley, has published *The American Experience* in 1970. His work is a continuation of the work of the *History* of the United States.

Rediscovering Political Economy

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For Robert and Betty Postell

Preface

The Forgotten Field of Political Economy

We are not only experiencing an economic crisis; it may be said we are in the midst of a crisis of economic understanding. The two crises are not unrelated. The economic crisis is in some ways easy to apprehend: human hardship abounds, and there is general disquiet about the size, scope, and competence of government. But few people, even in high political or administrative office, grasp the causes of the present problems, or see clearly how to build sounder economic and political foundations for the future. Even economists are often unable to agree on what, exactly, has happened to our economy, and what needs to be done to fix it.

The confusion stems from the fact that different economists bring different presuppositions to the data they measure and manipulate—and economics as a discipline does not have the capability of adjudicating between the presuppositions the economists bring to their task. This points to the necessity of rediscovering political economy. Thomas Carlyle famously dubbed economics “the dismal science,” and it is a name that has stuck, due in part to the fact that economics deals necessarily with the production and consumption of goods and services, and its purview cannot be broader than this. It cannot, in itself, guide us toward human happiness. Yet the proper understanding of economic principles can contribute to our striving for happiness, in the form of playing an appropriate, if limited, role in achieving the best possible political order.

There remains a disconnection between the study of economics and politics. Economists and politicians often talk at cross-purposes, or simply past each other. And much fault can be laid on both sides. The result is that the greatest insights of the discipline of economics often have scant influence on public policy or public opinion. Economists are often ill equipped to present their ideas to non-economists, and political actors remain in a fog about basic

economic principles, and indeed tend to exist within an incentive framework that encourages such ignorance.

It need not be this way, and indeed one might argue that it hasn't always been. Some of the greatest champions of free market economics, from Adam Smith, to Friedrich Hayek, to Milton Friedman, wrote books that were explicitly political rather than economic. Friedrich Hayek's classic work *The Road to Serfdom* opened with the frank admission that it was a political book rather than a treatise on economics. Today, we have lost sight of the integral relationship between economics and politics. The evidence is manifold: Politicians are lauded for seeking to alter fundamentally our economic system—and with it our way of life—as leaders in both major political parties advocate bailouts, stimulus spending, and a government seemingly unlimited in principle.

It is time for a restoration of political economy. Political economy represents a field of inquiry wherein political and economic ideas mutually inform each other, providing a way to reconnect economics to the human good, rather than merely confine it to mathematical formulas purportedly conducive to the maximization of material prosperity.

What is the human good? This is a question that scientific economics cannot answer. Our political and moral principles—including our Constitution—must once again inform our thinking about economic policy. Economic thinkers and political actors need once again to consider how the Constitution and basic principles of our government might give direction and discipline to our thinking about economic matters, and to the economic policies we choose to implement.

Our intent with this book is to begin to reunite economics—the study of how goods and services are produced and distributed—with politics and moral philosophy, in order to place economics, once again, in service of the human good. The contributors are experts in economic history, and the history of economic ideas. They address basic themes of political economy, theoretical and practical: from the relationship between natural law and economics, to how our Founding Fathers approached economics, to questions of banking and monetary policy. It is our hope that their insights will serve as trusty guides to future generations, as well as to our own.

Joseph Postell, Colorado Springs, Colorado
Bradley C. S. Watson, Latrobe, Pennsylvania

Acknowledgments

This book is based on papers presented by leading economic thinkers at a conference held at Saint Vincent College in Latrobe, Pennsylvania. The conference was co-sponsored by the Heritage Foundation, of Washington, D.C., and the Center for Political and Economic Thought, an interdisciplinary public affairs institute of Saint Vincent's Alex G. McKenna School of Business, Economics, and Government. The Center combines the resources of the college's political science and economics departments. It was founded in 1991 to sponsor research and educational programs in politics, economics, and culture. It seeks to advance a free and well-ordered society in the American and Western traditions.

We at the Center are grateful to Saint Vincent College as a whole for providing a wonderful environment for our extensive program of conferences and lectures, all of which deal with the conditions necessary for a free and decent political, social, economic, and moral order. The Benedictine Order did much to preserve and transmit classical learning and thereby lay the foundations for Western civilization. Saint Vincent, America's first Benedictine college, today remains open and receptive to the conversation about ideas that is so central to that civilization. Special mention should be made of the Rt. Rev. Douglas R. Nowicki, O.S.B., the archabbot of Saint Vincent Archabbey and chancellor of the seminary and the college; Mr. Jim Towey, former president of Saint Vincent College; Br. Norman W. Hipps, O.S.B., the current president of the college; and Dr. John Smetanka, vice president for academic affairs and academic dean of the college.

As editors, we owe a great deal of thanks to the foundations and individuals that support us. The conference would have been impossible without the confidence and generous support of The Heritage Foundation, particularly the

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We have also enjoyed the personal support and encouragement of Matthew Spalding, the Director of the B. Kenneth Simon Center; Gary M. Quinlivan, the co-director of the Center for Political and Economic Thought and dean of the McKenna School; and T. William Boxx, the Center for Political and Economic Thought's senior fellow. Their ideas and encouragement ensured the success of the conference on which the book is based. We are also indebted to many other individuals who assisted with the conference and book, in ways large and small. Prime among them is Kim Shumaker, the Center's program coordinator, who handled the daunting logistical tasks associated with staging a major academic conference attended by hundreds. Eva Kunkel, assistant to the dean of the McKenna School, has provided invaluable aid with many of the tasks associated with publishing this volume. The student staff of the Center aided us in ways too numerous to count.

We are grateful too to the editors and staff at the Rowman & Littlefield Publishing Group and its scholarly imprint, Lexington Books, whose efficient decision and production timelines should be a model for academic publishing.

And of course, we are deeply indebted to the contributors themselves, who remind us of the importance of the sometimes forgotten subject of political economy. We also owe thanks to our families, whose futures will be profoundly affected by how we, as citizens and policy makers, come to recapture a proper understanding of that subject.

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Part I

THEORETICAL FOUNDATIONS OF POLITICAL ECONOMY

The Moral Basis for Economic Liberty

Robert A. Sirico

In his widely discussed treatise *The End of History and the Last Man*,¹ Francis Fukuyama predicts that democratic capitalism has won out over its competitors and that it will soon be universally recognized as the most desirable organizational principle of society, economy, and politics. What is left to us in the 21st century, he suggests, falls largely under the rubrics of management: improving the administration of public policy, debating spending priorities, fine-tuning regulations, and sustaining an appropriate mix of liberty and equality that satisfies the most urgent demands of both. The big battles over ideas are over, Fukuyama argues. Capitalism is here to stay, and all that remains to be decided is how to make it run most efficiently.

Few would dispute that events of the past several decades have shown the practical desirability of markets over socialism, and in this, the “end of history” thesis seems correct. Even those who advocate for a great degree of government intrusion into and regulation of our economic life recognize the unreplacable ability of free markets and free enterprise to create widespread prosperity.

Yet there is good reason to doubt that this victory is total. In fact, we have more recently witnessed a resurgence of the old view that a centrally planned economy is desirable. Despite the efforts of many great economists, political philosophers, and historians, economic liberty is far from having captured the moral high ground in public debate.

Perhaps more alarming is the fact that many of those who defend economic liberty do so on a questionable basis. If economic liberty is valued by its defenders, it is rarely because it is considered more just or more proper than any alternative. Today, those who defend free markets and capitalism often do so solely on the kinds of managerial and technical grounds that Fukuyama suggests will consume our efforts in the post-Cold War world.

We freely argue about how many “jobs” this or that piece of legislation creates, but we are squeamish about asking whose property will be used to create these jobs or whether it is better to have property commandeered by political authority or put to voluntary use by market participants. An argument over whether there ought to be ceilings on corporate remuneration typically centers on whether high salaries are economically justifiable, not on whether government ought to have say over such matters in the first place. We might dispute a proposal to force private business to add another function to its list of mandated benefits on grounds of cost, but not on grounds of the right and wrong uses of private enterprise.

Consider the opinions of men and women whose work affords opportunity for philosophical reflection on morality, the two most prominent being academics and ecclesiastics. How many among them can offer—or would even be willing to try—a moral defense of private property and free markets? A safe answer is precious few. And how can the institutions of liberty survive and flourish so long as the moral opinion-makers are so overwhelmingly sympathetic to only one side of the debate?

It is my contention that the loss of a normative defense of liberty introduces a certain instability into the social order. The “efficiency defense” of economic liberty is not enough, and management of a libertarian society without reference to morality will ultimately prove injurious to liberty itself. To ensure that free markets are preserved as much as possible by our public policies, as Samuel Gregg has argued, we must provide “a robust explanation of their moral value.”²

So long as economic liberty—and its requisite institutions of private property, free exchange, capital accumulation, and contract enforcement—is not backed by a generally held set of norms by which it can be defended, it cannot be sustained over the long term. Into the moral vacuum left by capitalism’s defenders rush notions hostile to economic liberty, notions drawn largely from the values and vocabularies of interventionism and socialism.

Further, if a principled defense of markets based on the sanctity of private property and the virtue of voluntarism is absent from public life, it is very likely that the moral center of the buying public has begun to slip as well. In any market, the kinds of goods and services producers provide reflect the values of the consuming public. What consumers are willing to purchase will determine what kinds of goods and services are most prominent in the market.

That is both the virtue and the vice of the consumer sovereignty inherent in market transactions where the consumer is king. Where the values of the buying public are disordered, the products available in the market will be disordered as well. On the other hand, where a free people’s actions and preferences are informed by spiritual concerns, market activity and wealth accumulation present no danger in themselves.

But as Wilhelm Roepke has argued, institutional virtue and public virtue are codependent.³ Societies that have a deep and unyielding respect for the sanctity of private property have traditionally fostered institutions that we associate with a vibrant social and cultural life: for example, intact families, savings and deferred gratification, cooperative social norms, and high standards of morality. Similarly, cultural decadence, family collapse, and widespread secularization have corresponded with statism and socialism more times than an essay of this length could name.

The link is more than suggestive; it is direct. Economic liberty needs a moral defense. This defense must start by making important distinctions between natural rights and government privileges, between natural and positive rights, and between societies which operate through voluntary exchange and collectives which operate through coercion.

Most important, we must begin to rediscover the inherent relation between economic liberty and moral virtue and to see that they are mutually reinforcing. For, historically, the first thinkers who made the argument for free markets were rooted in the moral and religious tradition of Scholasticism. By thinking about economic liberty in this way, we will be able to see clearly the two alternatives we face today: namely, entrepreneurship versus the welfare state.

CRUCIAL DISTINCTIONS

Many of the confusions of our age rest on a loss of certain crucial distinctions. Therefore, we must begin by drawing a few important distinctions which will help us understand the connection between morality and economic liberty more adequately.

Rights Versus Privileges

The most apparent distinction that we fail to make in contemporary politics is the distinction between rights and privileges. John Hospers, my philosophy professor at the University of Southern California, used to say we have undergone a "rights inflation." As in a monetary inflation, the value of the common unit of measurement has been drastically watered down. For all the talk about rights, we lack a clear understanding of what constitutes meaningful rights.

Rights are the claims which the individual has against others. An example is the right to life, which is another way of saying that any one person has a just claim not to be injured by another. Rights represent more than a legal claim. In order for rights to be inalienable, as Jefferson proclaimed them to be, they must exist prior to and independent of any legal or institutional rules, such as the Bill of Rights. Laws and institutions may obfuscate, violate, or

protect an individual's rights, but they can neither grant nor remove rights. Rights, in order to be claims which are inalienable and fundamental, must exist independent of the coercive apparatus of the state. In order for rights to be all that we have just said, they must derive from the nature of the case, which is to say that the human person must possess rights by virtue of his or her very nature.

Many of today's so-called rights have nothing to do with this older idea. Most often, they are the consequence of the political process, as if legislators and civil servants are capable of conferring immutable claims on groups. In the place of natural rights, which are possessed by human beings by virtue of their nature, we have substituted government-created and government-granted rights, which are provided at the whim of the political process.

Furthermore, these government-created rights are often at odds with the natural rights that were defended by the American Founders. We may speak, for example, of the right to cosmetic surgery on demand at a low price. If we assert this right, we are implicitly denying the long-accepted right to the security of private property one has in one's just earnings, that they not be taken by others through force, for the payment of cosmetic services rendered at a low price must be fulfilled by taking the property holdings of members of the general public. It is a right that contradicts other rights and thus cannot be considered a "natural" right, one that flows from our nature as acting human persons.

Government Versus Society and Commune Versus Collective

Another basic distinction is that which exists between a community or a society and a government or political order. A society may exist with or without a particular political arrangement. The Philippine society continued to exist despite the deposition of the Marcos political regime. Even a regime as brutal as that of Soviet Russia left behind a Russian society that has a legitimate claim to continuity with the pre-Soviet one.

Similarly, a community is distinct in that its members hold certain values, mores, customs, and culture in common, but it is not marked by legal recognition or coercive capacity. Yet today, the term "community" is often used to put a humanitarian gloss on what used to be called a political pressure group.

We can make a further distinction between commune and collective. By a commune I simply mean a group of people voluntarily associating in an organization where goods are shared. People can enjoy a life in common, sharing values, homes, property, and philosophy in common, without the requirement that it be held together by force or the threat of force. Collectives are something different in this taxonomy because they require coercion to enact and sustain, typically through legal and governmental means.