

## Back to the bog? Subrick, self-interest, and socialist calculation

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We welcome the opportunity to clarify our argument (CF 2006) and to respond to Bob Subrick's pointed queries regarding robust political economy. In particular we shall focus on Subrick's claim (2006, p. 96) that the Austrian theory of how the worst get on top has not been refuted by the empirical record. We will address Subrick's claim in the conclusion to this response. Firstly, however, we wish to clarify certain points in our argument (CF 2006), points which Subrick argues lead us to "overstate the implications of . . . [our] results" (Subrick 2006, p. 96).

Subrick (pp. 97–8) challenges our simple perfectly-price discriminating monopolist/monopolist planner analogy, suggesting that we simply assert diminishing marginal utility of income. Whether or not DMU occurs at one hundred thousand, one million, or one trillion dollars per year is largely immaterial to the intuitively plausible claim that in an economy where one agent (our monopoly planner) extracts all surplus, the said planner places a lower marginal valuation on a dollar than does a hapless citizen selected at random. Subrick (p. 98) also argues that all "is not well" with our median welfare standard. While Subrick's point and arguments are well taken, we are explicit that we use the median so as to avoid the problem of outliers in the distribution (namely, the monopoly planner). While the median is not computed by incorporating all sample observations, we argue that under the conditions we posit—a monopoly planner able to engage in perfect inframarginal surplus or rent extraction—all sample observations bar one (the monopoly planner) enjoy epsilon utility. Diminishing marginal utility of income aside in this example, use of a mean welfare standard would overstate the welfare of the average citizen. While the planner allocates resources such as to replicate the first-best competitive outcome, the modal citizen enjoys epsilon surplus. We agree with Subrick that our "highly stylized" example is ultimately inadequate for empirically examining problems of imperfect information and planner self-interest in order to make social

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welfare comparisons.<sup>1</sup> That said, however, our aim was rather one of initiating—as Subrick recognizes—a discussion of the way in which imperfect information (less than perfect calculative efficacy) “exacerbates or inhibits the self-interest of public officials” (Subrick, 2004 p. 100).

Subrick (pp. 99) challenges our use of Olson’s roaming/stationary bandit model. We do not—contra Subrick (p. 99)—envisage our perfectly price discriminating monopolist-planner as akin to Olson’s roaming bandit, but rather as more akin to Olson’s model (2000, pp. 113–123) of a Soviet-type autocracy seeking to engage in inframarginal taxation or surplus extraction. A roaming bandit simply plunders whatever there is to plunder while paying little attention to incentives for future production (the available ‘surplus’ is akin to a common pool resource), whereas our Stalinist planner is extremely concerned with incentives at the margin: The greater the degree of calculative efficacy, the more fine-tuned is inframarginal surplus extraction. We envisage our planner as having an Olsonian “encompassing interest”—thus allowing for greater surplus to extract. Subrick (p. 99) correctly notes that the time-horizon of the bandit or planner plays a crucial role in determining any welfare ranking deriving from Olson’s model; our highly stylized example, however, presupposes that the planner has perfectly secure tenure in office. Since our autocratic planner is perfectly extracting, it is unclear that reducing his time horizons would substantially reduce citizen utility. Under shorter time horizons, our planner still transfers everything to himself, but makes fewer capital investments having long-run payoffs. Under still shorter time horizons, he begins selling off the capital stock. Under all of these scenarios, citizen utility remains at epsilon. Only under the shortest of time horizons—where the planner literally sells the seed corn prior to absconding—will citizen utility drop from epsilon to negative: starvation soon following.

We turn now to Subrick’s discussion of Austrian political economy and the empirical record (pp. 96–7). We wholeheartedly agree with Subrick that Austrian political economy avoids providing explicit “institutional foundations for their analysis” (Subrick p. 99). In the section of his paper ‘Do the Worst Get on Top?’ however, Subrick argues that while we challenge the Austrian hypothesis (the type of argument that Hayek makes in his 1944 classic *The Road to Serfdom*) on empirical grounds (p. 97), the evidence does not cut either way. We disagree, however, and argue that the Austrian argument of why the worst get on top is incoherent on its own grounds (namely, starting from a supposition of planner benevolence conjunct with a democratic polity), and that the history of the post-war Western democracies provide a test (albeit a rough and ready one) for Hayek’s claims.

Subrick describes Boettke’s mechanism whereby benevolent planner inability to engage in economic calculation leads them to self-interested behavior (Boettke, 2001, p. 52). Because planners lack the knowledge or information—the calculative efficacy—to maximize the utility of citizens, they consequently maximize their own utility instead. Subrick contends “that no controversial claim has been made” (p. 97). It seems incoherent to us, however, that planner self-interest should be viewed as coming into effect *only* when the planners realize their inability to rationally plan the economy, and that once they discover they lack the information to implement the socially efficient plan they pursue their private interest. We suggest that Boettke’s logic is analogous to that which might argue that private monopolists only set price at the profit-maximizing point because they lack the full knowledge of consumer demand schedules that would allow them to maximize each individual consumer’s surplus.

In more nuanced versions of Boettke’s argument, benevolent planners do not simply become self-interested when confronted with their inability to calculate. Instead, the economic

<sup>1</sup> Can “social welfare states” even be ‘truly’ ranked from an Austrian perspective?

failure resulting from attempts at planning causes a political vacuum into which malevolent agents quickly rise. We agree that the logic Hayek sets out in chapter 10 of *The Road to Serfdom* applies to a polity that institutes a *totalitarian* political system: The worst will get on top in a polity where those “single-minded idealists” (Hayek 1994, p. 61) united by a zeal for planning are allowed access to the levers of power.<sup>2</sup> We suggest that neither Hayek nor Boettke (2001, p. 52), however, adequately explain how selection effects conjunct with democratic politics work to get these “single-minded idealists” into the candidate pool (let alone into office). Austrian political economy fails to provide an account (model)—implicit or otherwise—of the way in which democratic constraints select candidates for office and for implemented policy. Subrick argues (p. 97) that selection effects inherent to political markets may select into office “low-quality” (dishonest and incompetent) individuals. Presumably, however, the selection mechanisms characterizing “political markets” as diverse as Nazi Germany, Saddam’s Iraq, Britain circa 1945, New Zealand in 1984, and Sweden circa 2004 will not select for a uniformly “low quality” set of candidates for office nor for uniformly “low quality” policy.

When a democratically elected benevolent planner encounters the failure of planning, we argue that a retreat from planning should prove more attractive an option than handing the levers of power over to a tyrant. It is at this point that the empirical question becomes directly relevant. How many Western European countries tried planning in Hayek’s sense? How many democratic polities went totalitarian as the price of enjoying the fruits of wholesale government planning? Plus, we remind the reader that Hayek *does* argue that the welfare state leads to serfdom—simply “more slowly, indirectly, and imperfectly” (Hayek 1994 [1976], p. xxiii). Hayek’s argument that the worst will rise to the top in a planned economy is not intended as a purely abstract argument: The argument provided in *The Road to Serfdom* is supposed to apply to the post 1945 Labour government in Britain (Hayek 1994 [1956], pp. xxxvii–xxxviii). Despite writing that “what the British experience convinces me ... to be true, is that the unforeseen but *inevitable* consequences of socialist planning create a state of affairs in which, *if* the policy is to be pursued, totalitarian forces will get the upper hand” (Hayek 1994 [1956], p. xliii, italics added) Hayek simply does not ask whether ‘planning’ of the sort he has in mind (wholesale economic planning)<sup>3</sup> is even an option on the menu of policy choices realistically available to any British government (Wiles, 1967, p. 18).<sup>4</sup>

Finally, Subrick argues for a move away from highly stylized models (implicit or otherwise) of the type we provide in our paper (CF 2006), and towards the “realm of robust political economy” (Subrick p. 99), an analytical realm that allows for the “dark side of the force” (p. 99). We agree with Subrick that ever greater efforts are needed to accurately specify the planner objective function (Is the planner purely self-interested? A pure power maximizer? Or characterized by a far more complex utility function?) Thus, we wholeheartedly

<sup>2</sup> Indeed, we argue (CF, pp. 84–5) that Hayek’s malign selection mechanism works to ensure that the worst will get on top where planners have calculative efficacy.

<sup>3</sup> Hayek (1994 [1976], p. xxiii).

<sup>4</sup> Lavoie (1985, p. 21, italics added) suggests that “[I]t *does not matter who initially is put in charge or how much that person and his or her employees emphasize or love democracy.*” Presumably, however, the selection mechanisms which select for those who actually get to vote for or against implementing a policy of wholesale planning are of the utmost importance. Similarly, the extent to which such agents “love democracy” will determine their marginal willingness to trade-off the constraints of democratic politics for an ever more rigorous plan. Lavoie, of course, presupposes that a central planning authority is already in place, yet for us, why central planning is adopted is the question we suggest the Austrians fail to adequately answer.

endorse Subrick's call for political economists (Austrian or otherwise) to make explicit the institutional foundations underlying their analysis.

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