

Economic theories of state or 'economics imperialism': Rent- seeking analysis as an exemplar

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Abstract

'State' and 'market' are concepts so grossly abused that they have almost lost their heuristic value as analytical categories. They have also come to symbolise not only alternative strategies of capitalist development, but also rival premises upon which hegemonic strategies were to be developed. In the era of neoliberal hegemony, it has been contended that a 'theory of state' is required so as to make up for the deficiencies of the mainstream economics. This study focuses on the antinomies of an influential attempt to develop an economic theory of politics, namely, the rent-seeking analysis. It highlights the fact that the concept of the state as a neutral guarantor of contractual relations is no more than a 'mental construct', hardly relevant to account for the phenomena in question, but one which would be instrumental in providing the circumstances conducive for the 'rational economic man' to operate according to the assumptions of a particular model. This, in turn, indicates the need for conceptual categories to come to terms with 'collective action' in ways in which theories premised on individualistic foundations and/or limited by empiricist epistemologies could not provide.

Keywords: State, market, property rights, rent-seeking, choice-theoretic, second-best.

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1. Introduction

'State' and 'market' are concepts so grossly abused by the politicians and the media in many countries as well as to a certain extent by the academia that they have almost lost even their heuristic

value as analytical categories. They have also come to symbolise over the course of the twentieth century, not only alternative strategies of capitalist development, but also rival premises upon which the dominant classes in different capitalist countries have attempted to build hegemonic strategies so as to maintain various forms of the state and/or regimes.

A typical example in this regard is the debates regarding the 'role' of the state within the capitalist development process in the era of neoliberal hegemony. Indeed, as part of a critique of the neo-classical economics, it has been argued that the latter lacks a 'theory of state', that is, such a theory is needed to make up for the deficiencies of the mainstream economics. This seems to be a challenge, in a sense, duly confronted within the neoclassical framework, especially in its neo-liberal mould, which insists for the applicability of an 'individual choice theory' - based on a conception of 'the abstract individual' who is solely motivated by a calculus of (maximisation via) exchange - that would be universally valid, irrespective of historically specific development patterns and would, moreover, provide a 'unified theoretical view of politics and economics' (cf. Von Mises 1960, p.146; Baysinger et al.1980; Alt & Shepsle 1990). Thus, it is contemplated that the diagnosed failure of neoclassical economics will have been remedied by taking into account 'the economic significance of nonmarket institutions' (Bates 1989, p.150; cf. Chang 2002). For some this meant that 'the scope of economics to be permanently enlarged to include studies in other social sciences ... [so as] to enable us to understand better the working of the economic system'.¹ For others, it meant that the neoclassical technical apparatus should be applied more widely than within economics alone (Fine 2007).

Although the proponents of the 'neoclassical political economy' differed among themselves in terms of the ways in which they would 'endogenise' the so-called exogenous variables of the neoclassical framework, they share the motivation to develop an 'economic theory of politics' by extending the domain of the 'choice theoretic' approach to non-market institutions (cf. North 1984; Eggertsson 1990; Buchanan 1991, p.31). This would, in turn, be duly criticised as an attempt 'to colonise the subject matter of other disciplines' and dubbed as 'economics imperialism' (Fine 2007; cf. Helm 1990). It also finds its echo in the so-called New Right's reformulation of liberalism not only

¹ Ronald Coase as quoted by Fine 2007.

as an ideology, but also as a ‘theory of history’ with universal applicability, while ‘individuality’ emerges within this framework as an ‘eternal verity’, i.e., as a trans-historical category (cf. Barry 1987, p.67; Clark 1990; Gray 1989, p.192). This also reiterates the old creed of the modernisation approach that all societies would sooner or later converge along a single path of development, namely, liberal capitalism.

This study intends to focus on the antinomies of one particularly influential attempt to develop an economic theory of politics, namely, the rent-seeking analysis as an off-shoot of public choice theory. It will attempt to highlight the contradictions of such attempts, firstly, by undertaking a brief methodological excursion so as to disclose the discrepancy between their adherence to positivist methodology and their practice on the part of the neoclassical economists. Secondly, it will contend that the proponents of rent-seeking analysis have tended to disregard the second-best reasoning in neoclassical economics when encountered by market failures, which justifies interference by the state with the market mechanism. Thirdly, it will show the further inconsistency of rent-seeking analysis to the extent that it incorporates a system of property rights into its conceptual framework to contemplate its proposition for the state to act as a ‘third party’. Thus, it will emphasize that such incorporation, ironically, places the state right at the centre of the capitalist system as the basic determinant of the structure of property rights. Finally, it will underline the predicaments of the New Right thinking in general in coming to terms with the social reality.

2. Susceptibility of positivist economics

[T]he principle of the second-best indicates that we cannot be assured that any given reform taken on its own can be guaranteed to be welfare promoting, in the presence of multitudes of economic distortions. (Rodrik et al. 2005)

It is widely recognised that while the mainstream neoclassical economists preach the importance of submitting theories to empirical tests, they themselves rarely live up to their declared methodological canons (Blaug 1980, p.259; Wade 1992). For instance, the hypothesis that markets have to be competitive so as to generate productivity gains, has been largely taken for granted, and yet, as it has been conceded, there is a lack of sufficient empirical evidence to corroborate this hypothesis (cf. Perkins 1991, p.34; Evans 1990, p.52). But the lack of empirical evidence and the difficulties encountered in

testing such a hypothesis did not preclude many neoclassical economists from advocating trade policy 'reforms' as part of stabilisation and adjustment policies on the grounds that 'productivity growth might uniformly be more rapid during periods of relative [trade] liberalisation' (Krueger & Tuncer 1980, p.4). Similarly, it has been asserted that 'bureaucratic control' of the economy is detrimental to high productivity and hence to economic growth, since it prevents the functioning of the markets, thus leading to 'price distortions', i.e., preventing the market prices from reflecting 'true relative scarcities' in the economy. It followed that economic growth could be accelerated by removing such controls, on the assumption that markets are the best means for 'efficient' resource allocation. This was the gist of the rather polemical argument of 'getting prices right' (cf. Lal 1983, p.107). And linking both these assertions together, or as a corollary of both, it was held that 'open economies' tend to be more efficient, thus more conducive to growth, than 'closed economies' because economic agents are forced to compete domestically as well as internationally. It is noteworthy that these assertions have been, to a large extent, taken for granted since the 1980s, as they provided the theoretical edifice of the neoliberal strategy of economic liberalisation and/or structural adjustment, although there hardly existed any evidence to establish an inverse relationship between 'price distortions' and economic growth or between the degree of state 'control' of the economy and its growth performance (cf. Colclough 1991, p.16; Perkins 1991, p.33; Wade 1990, p.19; Williamson 1990, p.402; World Bank 1983, p.57-58; 1990). Nor, admittedly, has there been much of an established criterion to test 'the degree to which government intervention distort prices' (Hiemenz-Nunnenkamp et al. 1991, p.32; Perkins 1991, p.24). No doubt those neoclassical economists who would attempt to provide empirical evidence for their assertions - that price distortions lead to departures from efficient allocation - based on 'static models' of 'Pareto optimality', face seemingly insurmountable methodological difficulties (cf. World Bank 1983, pp.57-63).

Nonetheless, this is an ongoing controversy among economists. But even some of those who support the hypothesis that there is a positive correlation between trade liberalisation and factor productivity growth admitted that the neoclassical general equilibrium model was unable to establish any link between the two. In other words, it was conceded that the 'loss of growth' cannot be explained in terms of 'static distortionary costs due to excessive market

interventions' (cf. de Melo and Robinson 1992). If so, then, the efficiency gains would not be forthcoming as a result of the adoption of 'a policy regime of neutral incentives', as advocated by generations of neoclassical economists (cf. World Bank 1987, p.79). Hence there will be an emphasis on an 'interventionist policy regime' so as to 'coordinate private sector activities' (cf. de Melo and Robinson 1992; Stiglitz 1989). The need for *extra-market* coordination has further been reiterated by the criticism of structural adjustment policies as propagated by the IMF and the World Bank for assuming that investment would rise spontaneously as market-oriented reforms are implemented, whilst investment in productive sectors of the economy have failed to materialise in many countries which have undertaken these 'reforms' during the 1980s (cf. Dornbusch 1990). These, in fact, constitute a rebuttal of the neo-liberal contentions that most distortions in many developing economies are policy-induced and that policy-induced trade distortions negatively affect private investment activities, thus preventing the efficient use of available resources (cf. Lal 1983, p.103; Hiemenz-Nunnenkamp et al. 1991, p.32).

No doubt, this rebuttal strikes a severe blow to the conception of the markets as self-regulating systems, since implicit in this conception is the assumption that markets 'possess reasonably reliable mechanisms for the coordination of activities' (Leijonhufvud 1976, p.93). And it certainly challenges the hegemony of the New Right thinking by revoking the notion of an inherently unstable market economy in need of a coordination mechanism which is conventionally associated with Keynesian economics (cf. Buchanan 1991, p.92; Barry 1987, p.1). But, more fundamentally, the theoretical rebuttal violates the 'positive heuristic', if not, the 'hard-core' of neoclassical economics, as it explicitly distances itself from the construction of 'static models' and questions the capacity of markets for coordinating the activities of 'economic agents' converging towards an equilibrium (cf. Latsis 1976; Weintraub 1988). Hence the inclination to label these attempts which modify the neoclassical model by trying to incorporate 'dynamic effects' such as 'externalities' into it so as to achieve an efficient equilibrium, as either the post-Walrasian economics or the disequilibrium paradigm (cf. Stiglitz et al. 1989; Stiglitz 1993).

However this does not necessarily imply that the Austrian criticisms of the general equilibrium model as reflected in the works of Friedrich Hayek were taken on board by the proponents of this new paradigm. Rather than taking issue with the concept of equilibrium per

se, the post-Walrasians simply register that the general equilibrium model is at fault to the extent that it presupposed that the automatic adjustment mechanisms would be operative. But this recognition by itself is certainly not sufficient to justify a new paradigm since the neoclassical economists have already acknowledged that ‘a real world *laissez-faire* economy is not likely to be Pareto-efficient’, thus identifying ‘market failure’ as being present when the conditions for Pareto-optimality are not satisfied (cf. Lal 1983, p.13; Krueger 1990). In other words, the discrepancy between the ideal and the real is once again underlined, as interference with market mechanism is viewed as a ‘second-best’ strategy to close this gap. The underlying thesis has always been that neoclassical principles could, nonetheless, be used to govern resource allocation even where the reality did not conform to the ideal (cf. Hunt 1989, p.70). The advocacy of an ‘activist’ trade policy, for instance, would not imply the questioning of those principles, as it would be based on ‘second-best’ reasoning. But the more orthodox economists rejected the arguments that these ‘interventionist policies’, though less than optimal, nonetheless, might increase welfare (cf. Helleiner 1992, p.1; Lal 1983, p.16).

3. Antinomies of rent-seeking analysis

Oddly enough, the ‘rent-seeking’ analysis which has been an integral component of the hegemony of the New Right thinking since the 1980s, is a clear manifestation of the tendency to disregard the second-best reasoning, and thus, stands or falls on the basis of ‘static’ notions of efficiency (cf. Ricketts 1987; Brooks et al.1990).² It is in fact no more than a feeble effort to account for the failure of the markets to maximise the gains for the economy as a whole as envisaged by neoclassical economics. But rather than questioning the basic assumptions of competitive equilibrium, it is asserted that interventions into the workings of self-regulating markets create ‘inefficiencies’, i.e., deviations from Pareto optimality. ‘Market failure’ is thus seen as mainly caused by intervention, rather than providing a case for intervention. For ‘political allocation’, as opposed

² Indeed, it is indicative of this hegemony that a prominent critique of the neoliberal approach, Lance Taylor refers to ‘rent-seeking’ as a ‘mainstream economic category’ which the structuralist economists like himself also started to use during the 1980s. It is especially ironic that Taylor complains about the ‘neoliberal obsession’ to remove price distortions to enhance static, allocative efficiency (cf. Taylor 1993). Nor is it clear whether this adoption of ‘rent-seeking’ as a ‘mainstream economic category’ entails the ontological commitments of the public choice school, since the rent-seeking analysis is no more than an offshoot of the latter (cf. Buchanan 1980; Colander 1984).

to market-based allocation, of scarce resources is said to have the 'unintended' result of allowing the self-seeking individuals to escape the invisible hand of the market and to redirect policy proposals for their own advantage, thus imposing 'social costs' (cf. Buchanan 1991; Colander 1984). Thus a central disjunction is said to emerge between the 'social good' and individual rationality (cf. Bates 1988; Buchanan 1979, p.60) with detrimental effects for economic development, as 'rational rent-seeking' by individuals would produce 'sub-optimality for the economy as a whole' (cf. Tullock 1980; Shapiro & Taylor 1990). The underlying assumption is that 'normal market activity' or entrepreneurship makes a 'positive' contribution to the net wealth of the community. Profit is thus identified with the net contribution made by the entrepreneur and/or the firm to the social good, while rent-seeking is considered a 'zero-sum' activity that not only creates inefficiency, but also retards capital accumulation (cf. Jones & Sakong 1980, p.270; Feiwel 1987, p.63). Hence the claim that rent-seeking generates 'social waste' and retards 'development' (cf. Buchanan 1980, p.8; Tullock 1980). Thereby, putting an end to rent seeking becomes a major objective of the structural adjustment policies so as to enable 'market forces' to generate 'efficiency' in the allocation of resources (cf. Williamson 1990).

The rent-seeking analysis highlights all the predicaments faced by the attempts to build a social theory on individualistic foundations. Firstly, there is the claim, or at least the aspiration, to be 'value-free', whilst, at the same time, holding to a priori axioms which are mental constructs that cannot be derived without involving subjective value judgements (cf. Barry 1989, p.18; Levacic 1990, p.143). By the same token, the competitive efficiency identified as Pareto-optimality is treated as if it corresponded with the ways in which markets operated in the real world (cf. Kirzner 1985, p.4). Yet, at the same time, Pareto-optimality is used normatively as a criterion to judge economic policies (cf. Bates 1990, p.39). However, since the distinction between entrepreneurship and rent-seeking can only be defended 'by introducing one's own subjective standards of value', it becomes extremely problematic, if not meaningless altogether, to do so in reference to 'objective' standards based on static notions of optimality. Indeed, this has led some to argue that it might have been more plausible to defend 'rent-seeking' analysis from a subjectivist perspective (cf. DiLorenzo 1988; O'Driscoll & Rizzo 1985, p.159; Ricketts 1987). In any case, whether employed by adhering to the hard core of the neoclassical economics or to the subjectivist assumptions

of the Austrian school, it becomes difficult to see how the rent-seeking analysis can be described as a 'mainstream category' of 'positive economics'. Instead, it appears as an epitome of the denial of the Popperian legacy in economics.

Secondly, it is an irony of the rent-seeking analysis that it aspires for the construction of an 'ideal' economic *and* political order that will channel 'the self-serving behaviour of participants towards the common good' (Buchanan 1991, p.42), whilst denying the possibility of 'social objectives' and/or 'social welfare functions' (Buchanan 1986, p.81). For if the latter is based on a view of social welfare that is above and beyond the utility of individuals as judged by themselves, then it would imply an 'organic' view of society which would be a reproach for the protagonists of the rent-seeking analysis (cf. Cullis & Jones 1992, p.19). By the same token, such a notion of a social welfare function entails a conception of the state as a (transcendental) subject that seeks to maximize some kind of 'objective function' for the whole society, clearly an anathema for the individualist political economy (cf. Barry 1989, p.121; Bates 1991, p.265; Sugden 1989). Nor, however, an appeal can be made to a social welfare function as an evaluative device to arrive at a notion of social optimum as an aggregation of individual preferences and utilities (cf. Dobb 1973, p.243; Kirzner 1985, p.153). On the one hand, individuals should not be treated as units in an aggregate social welfare function, if they are to be considered as 'ends in themselves' (cf. Barry 1988, p.38). On the other hand, it becomes difficult, if not impossible, to produce a unique social decision representing, in some sense, the opinion of collectivity, given the incommensurability and incomplete communicability of individual desires and values (cf. Feiwel 1987, p.46; Whyne & Bowles 1981, p.41). It is, therefore, possible to say that Buchanan has been consistent as a methodological individualist in rejecting what he has. However, if 'no social value scale can be constructed from individual preference patterns' (Buchanan 1987, p.5), as he contends, then, it becomes difficult to comprehend how a particular mode of seeking individual self-interest can be identified as diverging from 'social welfare', and subsequently condemned, for being 'socially wasteful' (cf. Buchanan 1980, p.8). For whilst the latter view implies that the preferences of individual economic actors as to how they will utilize their resources are given a shortshrift (cf. Samuels & Mercurio 1984, p.60), the former denies the possibility of a mechanism for aggregating the preferences of individuals so as to establish a 'collective choice' between different alternatives (cf. Cullis

& Jones 1992, p.93; Feiwel 1987, p.46). In short, if one admits the difficulty, if not the impossibility, of aggregating the preferences of individuals to derive a social optimum, then it is difficult to understand how one can apply static welfare criteria to demonstrate that there is sub-optimality for the economy as a whole, for, ultimately, reference would need to be made to a social welfare function so as to verify that. This preoccupation with the problem of defining a social optimum as a criterion of the rationality of an economic policy was, in fact, one of Hayek's major objections to welfare economics. Indeed, he had rejected the attempts either to devise or to evaluate economic policies in terms of optimal solutions which presupposed the possibility of maximising aggregate real social income (Barry 1979, p.106-107). It is, therefore, one of the supreme ironies of the New Right thinking that it adheres to the rent-seeking analysis, even though the latter disregards this Hayekian objection to welfare economics.

Above all, it is almost incomprehensible to pursue such an analysis based on a conception of static efficiency in a 'closed economic system', on the part of those who have already advocated the conception of the market as an 'open system' (cf. Samuels & Mercurio 1984, p.67). Indeed, if one is to remain loyal to the epistemological precepts of Hayek, one has to accept that 'efficient' or 'optimal' outcomes could not be conceptually defined by the economist. For the latter would not have the knowledge to predict such an outcome that could only emerge from the choice process itself (cf. Barry 1979, p.46; Buchanan 1979, p.60; 1986, p.16; Hayek 1978, p.91). Nor would it be possible to claim that market outcomes would always be 'efficient', as the standard optimality criteria would not apply for the unintended consequences of human actions. In other words, once the Paretian assumptions are dispensed with, it cannot be demonstrated that the pursuit of individual optimality results in a well-defined social optimum (cf. Barry 1988, p.80; O'Driscoll & Rizzo 1985, p.110-111). More fundamentally, the latter would be incompatible with the conception of the market as a spontaneous order since it would imply a particular hierarchy of ends (cf. Hayek 1967, p.164; 1978, p.91).

Moreover, the prominent advocates of rent-seeking analysis do not seem to heed their own advice that there can be 'no explicit meaning of the term *efficiency* as applied to aggregative or composite results' (Buchanan 1979, p.31, italics original). Since 'efficiency' cannot be defined independently of the individual preference patterns,

they would have been expected to disavow the notion of 'efficiency' in the neoclassical sense of maximising the output of the economy subject to the constraints (cf. Hunt 1989, p.32; Eggertsson 1990, p.281). Nor the perception of the market as 'the institutional embodiment of the voluntary exchange processes' would allow for an instrumentalist view which promotes market as the most efficient allocative mechanism for the accomplishment of 'national goals'. Yet, curiously, a particular strategy, - namely, export-oriented industrialisation - was advocated for promoting 'allocative efficiency', and another - namely, import-substituting industrialisation - was castigated for instigating 'unproductive' activities that yield income or profits to private interests but do not produce goods or services that add to societal output (cf. World Bank 1987, p.90; Chowdhury & Islam 1993, p.45). Paradoxically, this, in turn, would implicitly entail the redefinition of economic rationality in terms of the needs of a particular national economy, while purporting to dismiss the case that allocation of resources by the market are not necessarily beneficial for the public good.

A key component of the rent-seeking analysis is an implicit conception of the state as an entity that can be 'captured' by 'market agents' so as to explain why the expected 'efficiency gains' stemming from government regulations and/or interventions to remedy 'market failures' would not be forthcoming (cf. Peacock et al. 1984). Having rejected 'class action' as being against the precepts of 'market rationality', the advocates of rent-seeking analysis seek an alternative that would allow them to account for 'collective action'. Their key assumption that 'individuals behave in their own, rather than the collective, interests' leads them to another a priori assumption that these self-seeking individuals need a set of incentives or disincentives so as to engage in 'collective action' (cf. Barry 1987, p.118; North 1984). The interplay of such incentives, say, in the form of import quotas, export subsidies, tax rebates, etc. is said to create a series of entitlements upon which 'coalitions of interest' are formed. So the task of political management becomes one of coalition management, as the state appears to have a central role in distributing these incentives (cf. Nelson 1989; Waterbury 1989). Yet, at the same time, the state itself, being directly identified with 'office holders' - be it, politicians or bureaucrats - is reduced to a 'subset of economic interests that are organised' to seek incentives in the form of rents, and therefore, treated as a partner of these 'distributional coalitions' which are characterised as being more interested in 'zero-sum' activities

rather than those which would enhance 'societal output' (cf. Bates 1990, p.43; Srinivasan 1985). As the state is portrayed as its own vested interest group, a trade-off is said to emerge between economic efficiency and state power (Shapiro & Taylor 1990). That finds support from the Austrian school even though they would not concur with the argument about 'efficiency'. Nonetheless, interventions into the market process would be condemned for being undertaken to further the well-being of special interests - including those of the regulators themselves - rather than of the public at large (Kirzner 1985, p.120). Thus, the interference by the state into the workings of a market economy would be considered as harmful for generating failures in market coordination which would not otherwise occur (cf. Gray 1990, p.131; Kirzner 1985, p.136). The Austrian school would question the capacity of any entity external to the individual such as the state to have the necessary knowledge and/or information so as to achieve this coordination (cf. Barry 1988, p.54).

Consequently, there emerges a consensus to prevent the State from creating artificial rents for vested interests. This appears as the strongest political and pragmatic case for the promotion of a market economy (Lal 1987), and *ipso facto*, to put the economy back on a growth path (cf. Balassa 1982; Eggertson 1990). Implicit is the assumption that the removal of this constraint would be sufficient to allow the individual economic actors to fulfill the requirements of economic growth of the economy as a whole. In this assumption of a correspondence between the self-interested actions and economic growth, we return to the thesis of unintended consequences of action which begs an explanation rather than providing one (cf. Brenner 1986; Wood 1995, p.117).

As long as the trade-off remains pertinent, however, the state emerges as an instrument to be 'colonised' in order to pursue individual interests as well as a subject with a capacity to manipulate various conflicting interest groups since it is in a position to distribute the incentives. This is attempted to be justified by claiming that the state needs to be conceived both as 'an arena of group competition' and as 'a strategic actor' (cf. Bardhan 1990; Haggard 1990, p.34). The virtue of this reformulation is said to be to overcome the perceived weaknesses, on the one hand, of the so-called 'society-centered' theories of the state which, allegedly, tend to emphasise the former conception at the expense of the latter, and on the other hand, of the so-called 'state-centered' theories which tend to gloss over the impact of the vested interests in the formation of 'state interests'. The upshot

of this whole exercise, however, is a deliberate attempt to shift the principal social contradiction from being between producing and appropriating classes to one of distribution among the appropriating groups; whilst, at the same time, the state is being reduced to an agency for rent-seeking and/or to an arena for the extraction of egoistic benefits, thereby precluding any social attachment to it as a possible focus of collective identity. Indeed, the description of organised labour *merely* as one such group, eager to participate in those 'coalitions of organised interests' testifies to that attempt (Waterbury 1993, p.21).

4. Property rights: On the Horns of a Dilemma

"Third-party enforcement means the development of the state as a coercive force able to monitor property rights and enforce contracts effectively, but no one at this stage in our knowledge knows how to create such an entity." (North 1990a, p.59)

A corollary of this analysis, in the jargon of the individualistic political economy of the contemporary era, is the creation of 'inefficient property rights' - defined as rules that do not produce increases in output - by the state (North 1990b). In line with the conception of zero-sum relationship of the rent-seeking analysis, it has been contended that 'the property rights structure that will maximise rents to the ruler is in conflict with those that would produce economic growth' (North 1984).

This formulation gains significance not merely because putting an end to the practice of such 'ill-defined rights' has become one of the cornerstones of the structural adjustment policies so as to remove a major obstacle to private investment (cf. World Bank 1990, p.7), thus reinforcing the ideological hegemony of the New Right thinking as the state is being degraded as the cause of insecurity and uncertainty which debilitates the functioning of a capitalist economy. But, ironically, it also places the state right at the centre of the capitalist system as the basic determinant of the structure of property rights, albeit in a functionalist manner (cf. Campbell & Lindberg 1990; Eggertsson 1990, p.79). Thereby it initiates a reformulation of the concept of the 'property rights' with critical implications.

The significance of the original Lockean concept of property rights was that it made crystal clear that the 'abstract individual' is, in fact, a 'property owner' (cf. MacPherson 1961, p.218; Waldron 1990, p.232). However, the notion of a 'structure of property rights' as

determined by the state refers to a set of incentives and disincentives for individual action, rather than to the property relations themselves (cf. Hodgson 1988, p.152). In other words, property rights defined as 'rules of conduct' do not refer, as has been misleadingly assumed, to conditions of 'ownership of means of production' (cf. Bardhan 1989; Campbell & Lindberg 1990), but simply refers to having access to the 'use' of certain resources, say, quotas, subsidies, etc., which are provided by the state to certain groups of 'individuals'. In short, the 'entitlements' provided by the state are identified as 'property rights' by those new-institutionalists who are keen to incorporate subjective models of reality into neoclassical theory and readily adopted by the proponents of the choice-theoretic approach (cf. North 1990; Waterbury 1993, p.21). Secondly, this reformulation puts paid to the status of the property rights as a 'natural right'. For property rights, according to Locke, are *natural* rights, in the sense that they are acquired as a result of actions and transactions that men undertake on their own initiative and *not* by virtue of the operation of any civil framework of positive rules vesting those rights in them (Waldron 1990, p.138). Yet, the property rights according to this reformulation turn out to be 'procedural rights' as they are to be determined by the state. That is to say, they cannot be perceived as natural rights anymore since they cease to be independent of institutional arrangements.³ It also implies that 'natural right' ceases to become a criterion for judging the performance of the government, as the Lockean principles of 'limited government' would require (cf. Arneson 1992; Waldron 1990, p.233).

The New Right thinking tried to provide theoretical justification for this endeavour in several ways. Firstly, there was Michael Oakeshott's rejection of any conception of the state 'in terms of assured natural rights' to be subscribed 'in conduct', especially if these 'rights' came to include any 'substantive conditions', such as social welfare, to be fulfilled by the state (Oakeshott 1975a, p.245). Secondly, James Buchanan argued that it would have been a mistake to assume that property rights were 'secure in nature' and that they could be preserved through the emergence of voluntary association (Buchanan 1976, p.273). Finally, the justification for this reformulation which, in fact, entails an 'activist role' for the state in

³ However, it is important to underline that whether conceived as 'natural' or 'conventional' / 'procedural' rights, as in the Lockean and contemporary New Right conceptions respectively, property rights are grounded in relations between human beings and 'things', thus glossing over the fact that property is a 'social relation' (cf. Waldron 1990, p.20; Sayer 1987, p.60).

reshaping the institutional environment to make it more amenable for market competition could also be traced back to Hayek's rejection of 'any theory of natural property rights'. This 'capacity' to establish and enforce property rights has been hailed as a 'positive' attribute of the 'limited government' by the New Right thinking in rather functionalist terms, thereby affirming, perhaps unwittingly, the constitutive role of the state in the formation of a capitalist market economy (cf. Barry 1987, p.120; Gray 1990, p.136; Letwin 1992, p.323). Yet, at the same time, because of its adherence to rent-seeking analysis, it has also been loathed, thereby providing the basis for the conception of the state as a 'predatory' agent which deliberately creates 'inefficient' property rights (cf. Buchanan 1976, p.275; 1980, p.9; Levi 1988, p.3; Waterbury 1993, p.19). Either way, the recognition of the state as the constitutive element of the property rights signifies the difficulty of maintaining the state and civil society as distinct domains with clearly defined boundaries, if not an implicit recognition of their contradictory unity.⁴ By the same token, the conception of the market economy as an autonomous sphere of activity becomes even less plausible, once the Lockean principle of natural property rights is ruled out (cf. Colletti 1974, p.149-150; Waldron 1990, p.162). Yet, the demand for the removal of 'ill-defined property rights' reflects a desire to draw stricter limits upon the scope of state action, thereby reducing the dependence of the market agents upon the state in order to realise a more efficient allocation of resources (World Bank 1990, p.7). However, it remains totally unexplained, first of all, how this could be accomplished to the extent that the 'fundamental assumptions' of instrumental rationality are taken for granted (cf. Hodgson 1988, p.152).⁵ And, no less significantly, how its accomplishment would function as a means of reducing the role of the state in the economy.

It is, apparently, presumed that the state would somehow provide output-maximising 'property rights', if only special interest groups could be contained (cf. Eggertsson 1990, p.279). This is analogous to saying that market-based resource allocation mechanism

⁴ This reveals, in fact, the conservative trait implicit in the New Right thinking which could be traced back to Edmund Burke for whom there was no such thing as natural rights, since all rights were socially created. It followed that the state considered as an integral aspect of civil society, must be free to limit and modify such rights, including the property rights. For society was not only created by convention which thereby creates these rights, but any such right was considered as a capacity for producing advantages for those who obtain them (cf. Barker 1965, p.228-229).

⁵ "[I]f each agent is motivated by its own economic welfare ... [then, the] institutions [that] will be created [would be those] that favor what have long been referred to as 'special interests'." (Bates 1989, p.90)

would function efficiently, thus resulting in the 'common good', albeit as an incidental outcome of the activities of the market agents, within a 'bourgeois state form' provided that 'legally sanctioned personal interests' as relics of the 'ancien regime' were eliminated. This, in turn, highlights once again an attachment to a concept of 'neutral state' as an ideal, that is, a desire to re-establish the state as such by removing it from the clutches of 'vested interests' (cf. Gerstenberger 1992, p.169; Williamson 1993, p.17). Yet, this reveals another inconsistency since the initial launching of the public choice/rent-seeking analysis was simultaneously purported to be a devastating attack on the pluralist conception of the state as a 'neutral' arena where different 'interest groups' have access and compete for influencing the policy-formation and implementation process (cf. Barry 1987, p.6). And it also reveals the abhorrence felt against the pluralist politics, as the very possibility of organising on the basis of 'common interests' is contemplated as a sign of 'vested interests', for there could be no basis for the society as a whole to get organised for 'common purposes' in the absence of coercion and/or the separate incentives offered to the members of the group individually (cf. Olson 1971, p.2). Moreover, it displays the inability of this type of analysis to deal with the important issues of political analysis such as the questions of representation of interest and mediation. In short, it tends to negate the crucial role played by the so-called 'secondary organs' of interest articulation and aggregation within a democratic form of the capitalist state. This is made blatant especially by the so-called transaction-cost theory of institutions in which politics is reduced to a relationship of exchange, that is, to a transaction which has certain 'costs'. The sole purpose of the theory, then, becomes how to devise institutions which would make this exchange less costly (cf. North 1984, 1990b; Chang 1994).

Adherence to methodological individualism, thus, confronts the proponents of the 'choice-theoretic' approach with the dilemma of how to come to terms with 'collective action', as action is only contemplated as the pursuit of individual choice (cf. Bates 1990; Waterbury 1993). Indeed this is a dilemma facing not only the staunch defenders of Pareto-optimality as the basic hard core of the neoclassical economics, but also those who are critical of the latter for a variety of reasons (cf. North 1984; Naqvi 1993). For collective action becomes as natural as individual action, if and only if the 'public goods' aspect is overcome with the formation of special interest groups (cf. Olson 1971; Colander 1984). That is to say, rent-

seeking not only becomes synonymous with collective action (Chowdhury & Islam 1993, p.50), but paradoxically, turns out to be the *sine qua non* of any realistic analysis of the state based on individualistic foundations, thus effectively putting paid to any possibility of constructing the state as a 'third party', i.e., a neutral enforcer of property rights. On the other hand, by allowing the possibility of 'capturing' of the state by 'vested interests' (cf. Heijdra et al.1988; Peacock et al.1984), the neoliberal political economy destroys the basis for conceiving the state as a civil association, because, by definition, 'civil rulers' of a civil association have nothing to distribute (Oakeshott 1975a, p.153), whereas a theory of state based on the notion of 'property rights' presupposes the exact opposite (cf. Eggertsson 1990, p.32). Thus, the Hobbesian state conceived as a 'civil association' remains an 'ideal' to dream about, (in much the same way, 'the liberal state' is idealised by the liberals of the Third World) to the extent that the New Right describes the current reality of the state in a capitalist state as a 'captured' one.

5. Predicaments of the new right thinking

Given the predicaments of the contractarian conception to sustain an understanding of the state either as a third party or as a civil association, one other option, namely, that of the state as a self-constituting, self-perpetuating entity, could have been envisaged as an alternative to that of the 'captured' state. Indeed, the contractarian approach itself seemed to be signalling in that direction to the extent that rights were conceived as 'conventional' rather than 'natural' properties of the individuals. If rights could only be established through the state, then, to make the contract that formed the state, men had to be endowed with rights that derived from the state. In short, the state would appear to be a necessary condition for its own creation (cf. Kay & Mott 1982, p.23; Gray 1989, p.252). But the choice-theoretic positivists would, surely, have nothing to do with such a circular argument which presupposes what it seeks to show, hence they opt for a 'captured' state theory. This is reflected in their dismissal of the conception of the state as a 'rational decision making entity exclusively concerned with maximising economic welfare' as having a 'mythical quality', on the grounds that the 'assumption of inherent state benevolence is implicit' in this conception (Waterbury 1993, p.17). In that respect, they are in complete agreement with the subjectivists in reiterating their disdain for any conception of the state invested with transcendental qualities. The state is said to reveal its

true, 'malovelent' nature, instead of its 'benevolent' character as assumed by rather naive neoclassical and/or development economists, as vested interests within and outside the state are engaged in the practice of rent-seeking (cf. Barry 1987, p.6; Krueger 1990; Waterbury 1989). Since, historically, the elimination of such vested interests from the possession of generalised means of domination is reflected as the separation of the political from the economic in the genealogy of the capitalist state (cf. Gerstenberger 1992, p.168), the process of rent-seeking implies a retrogression to a fusion of the political and the economic. In a manner analogous to the Absolutist State, the state itself becomes a primary instrument of appropriation, as well as a private resource for public office-holders (cf. Wood 1991, p.22). On the other hand, to the extent that they would like to remove the state from the clutches of 'vested interests', they would be merely reinvigorating a Hegelian qualification for the establishment of a strong state (cf. Marcuse 1955, p.176). On the whole, however, the advocates of the choice-theoretic approach seem unperturbed by their inability to provide a theory of state formation. Or rather they would be content with providing modes of explanation in terms of incentive structures which would help us to understand why individuals act as they do (Bates 1989, p.5; Dowding 1991, p.18). Thereby, the outcome of human actions, i.e., state forms, would be explained on the basis of human desires. In the age-old Hobbesian tradition, human nature would be the cause, and the state form the effect (Oakeshott 1975b, p.28).

However, they would not refrain from arguing that the nature of the state could change that like a person, it can be 'benevolent' or 'malovelent'. In particular, the import-substituting industrialisation is said to have led to the emergence of powerful vested interests, thus paving the ground for the transformation of 'the benevolent social guardian state' - i.e., 'a public entity committed to achieving the common good' - into a 'predatory state' (Krueger 1993, p.54). The advent of the structural adjustment policies by the autonomous technocratic elites was, in turn, celebrated for enabling a transformation in the nature of the state back into benevolence, presumably because these policies are said to allow for the re-creation and enforcement by the State of economic rules that foster conditions conducive to economic growth (cf. Krueger 1993, p.131; Balassa 1982). Paradoxically, the implementation of market-oriented 'reforms' seems to have created a state with 'mythical' qualities. In fact, it reveals an underlying conception of the state as an 'autonomous'

subject, if not a distinct entity, with its own ends (cf. Lal 1987; Findlay 1988). Like the empiricist state theorists, however, these positivist political economists would tend to explain away this anomalous outcome by contending that benevolence or autonomy are contingent rather than inherent qualities of the states (cf. Alt & Shepsle 1990; Waterbury 1993, p.18). Consequently, they would have no inhibition in attempting a comparative analysis of the states in terms of their contingent qualities. Thereby, some states like those in East Asia which are characterised as having the capacity to develop national goals 'independently' - that is, from classes or groups - would be distinguished from others in the Third World where the state's goals are 'reducible to private interests'. However, the fallacy of that kind of comparison has been revealed in the wake of the Asian crisis in the late 1990s, as the explanan of the miracles that is, the East Asian state, has been vilified as the primary culprit of the crisis.⁶

It is also possible to detect a major rift among the proponents of the market order in terms of the conceptions of the state which they adhered. While the desire for a 'strong independent state', which would be able to resist sectional interests, is generally considered a prerequisite of a (neo-)liberal economic order, there is by no means any consensus about the ways in which this can be secured. For instance, for those theorists of the social-market-economy steeped in the so-called ordoliberal tradition, there must be something over and above particular interests which the state represents, i.e., that of society as a whole in order to curtail the influence of special interest groups, and monopolies in particular.⁷ Obviously, there is an affinity between the ordoliberals and the post-Walrasians in so far as they concur that the market is not self-regulating and autonomous and that it needed the 'guiding hand' of the state so as to bring about what cannot be produced spontaneously (cf. Barry 1987, p.179). This meant that the state should, if and when necessary, go beyond merely setting the broad rules of the game and interfere with the market process to affect, and if necessary, to correct the outcomes (Giersch et al.1992, p.31). On the other hand, neither disequilibria theorists, nor the

⁶ It is a common feature of many positivistic studies to attribute certain properties, to their objects of inquiry, such as 'the market' or 'the state', albeit in a haphazard manner, as the *explanans* (i.e. that which explains the explanandum, i.e. that which is explained)) of their conceptual frameworks..

⁷ Ordoliberal tradition is generally associated with a vast research programme encompassing several German schools of thought concerning the relationship between the market and the state with particular reference to individual freedoms and social balance between different strata of a market based social order. See Özbideciler 2003 for a comprehensive survey of these German schools, including the better known Freiburg School.

ordoliberals have any inclination to see the state performing ‘*ex ante* coordination in the guidance of production and distribution’ (cf. Dobb 1960, p.2). Put differently, they seem to agree with the contention that ‘interventions should promote and not impede the working of market forces’ (Giersch et al.1992, p.31).

However, while the ordoliberals tend to agree with the idea that the state can act as a subject intervening from outside in the name of the coordination of the market and, *ipso facto*, determine the mode of accumulation of capital; the post-Walrasians tend to see the state more as an associative, though compulsory, relationship for, in their view, it is a fallacy to believe that individuals can voluntarily get together to resolve any inefficiencies, without government intervention (Stiglitz et al.1989, p.36). In spite of this significant difference in their conceptions of the state, both perspectives seem to acknowledge the ‘objective necessity of the state’ for the functioning of a ‘market economy’, not merely in terms of providing the ‘conditions of existence’ for it, but also so as to prevent and/or curb its self-destructive tendencies (cf.Polanyi 1944, p.131; Wood 1991, p.165).

This has not only dispensed with the idea of the state as an external and enigmatic entity, but reiterated the view that an organic conception of both the state and society need not compromise liberal credentials, even though it would go against the grain of the mainstream liberal thinking (cf. Dyson 1980, p.96; Giersch et al.1992, p.27). It also found its resonance in the tradition of social-liberalism of the Anglo-Saxon world or that of *solidarite* in France as well as in the works of positivists like Emile Durkheim and Karl Polanyi, as it would provide the justification for a ‘dirigiste’ state, ‘able to act and plan organically on behalf of society as a whole’ both as a ‘countermove’ to the destructive tendencies of the market and as a vital ingredient of a well-functioning market economy (cf. Bellamy 1992, p.75; Freedman 1978, p.115; Polanyi 1944, p.131, p.149).

By contrast, the neoliberals of the contemporary era dismissed it as ‘a kind of Hegelian conception of the state’ which has been ‘thoroughly undermined by public choice theory’, thus confirming that they have no other option but rent-seeking analysis to deal with the state (cf. Barry 1987, p.182; 1993; Gray 1995, p.41). But, then, they appear rather inept in explaining how and in which conceivable ways the hold of the rent-seekers on policy-making processes could be broken so as to initiate much desired ‘policy reforms’ of the neoliberal economic agenda (cf. Grindle 1991; Williamson 1993). In short, rent-seeking analysis not only fails to account for ‘policy change’, but its

protagonists are confronted with the unpalatable fact that their idea of making the state an endogenous variable of their analysis cannot be accomplished within their preferred conceptual framework. For it becomes clear that within the latter, the initiation of 'policy reforms' could only be accounted for by means of exogenous factors such as the emergence of 'enlightened technocrats' or the international financial institutions acting as the 'third party' (cf. Bates & Krueger 1993, p.464; Waterbury 1992). Ironically, the protagonists of the rent-seeking analysis who, initially, set out to challenge the *autonomy* of politics by constructing a social theory on the basis of individualistic postulate of microeconomics (Barry 1987, p.25), end up in search of a theory which would justify the *necessity* of an autonomous state to check the 'disruptive influence of distributional coalitions' (cf. Bates 1989, p.153; 1990, p.51; Chowdhury & Islam 1993, p.252; Haggard 1990, p.44). This has in due course given rise to notions such as the 'regulatory state' on the one hand, and to attempts to find ways in which 'the state's ability to enhance economic and social welfare' could be improved, on the other (World Bank 1997, p.25).

6. In lieu of a conclusion

Paradoxically, this otherwise academic debate on the role of the state within a market economy reveals the limits of the contractarian approach in coming to terms with the state as an explanandum. Our review of this debate centring on the rent-seeking analysis highlights the fact that the concept of the state as a neutral guarantor of contractual relations is no more than a 'mental construct', hardly relevant to account for the phenomena in question, but one which would be instrumental in providing the circumstances conducive for the 'rational economic man' to operate according to the assumptions of a particular model. As such, the state remains an *absent concept*, that is, a concept that has no basis in reality. This, in turn, indicates the need for conceptual categories to come to terms with 'collective action' in ways in which theories premised on individualistic foundations and/or limited by empiricist epistemologies could not provide.

It is also necessary to stress that the nature of explananda is not merely a philosophical, nor even a purely academic concern, it is equally significant for the actors involved in actual policy-making processes: politicians, bureaucrats, businessmen, trade unionists, intellectuals, etc. and/or their respective organisations. In this sense, it has a political significance. Because their conceptions of reality and/or

their vulnerability to different conceptions of reality do play a significant, if not a decisive, role in influencing their 'course of action' as well as those of the others (hence, the importance of concepts like 'hegemony' in the Gramscian sense). Otherwise, it might not have been quite possible to understand how an incoherent set of ideas like the New Right thinking which proved to be immensely costly in human and political terms, could turn out to be the hegemonic thinking of the 1980s and beyond. Certainly, its 'success' had less to do with its banality as a paradigm of intellectual endeavour than its function as an ideological construct to re-establish the hegemony of a particular class.

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Özet

İktisadi devlet teorileri veya ‘iktidarın emperyalizmi’: Rant-kollama yaklaşımı örneği

‘Devlet’ ve ‘piyasa’ o kadar suistimal edilen kavramlardır ki neredeyse analitik kategoriler olarak açıklayıcı değerlerini yitirmişlerdir. Ayrıca sadece alternatif kapitalist gelişme stratejilerini değil, üzerinde hegemonya stratejilerinin geliştirildiği rakip öncülleri de sembolize etmeye başlamışlardır. Neoliberal hegemonya döneminde, ana akım iktidarın kusurlarını telafi etmek için bir ‘devlet kuramı’na gereksinim duyulduğu belirtilmiştir. Bu çalışma, etkili bir girişimin; iktisadi bir siyaset kuramı, başka bir deyişle, rant kollama analizi geliştirmenin açmazlarına odaklanmaktadır. Bu bağlamda, sözleşme ilişkilerinin tarafsız garantörü olarak devlet kavramının, bir ‘zihinsel inşa’dan daha fazlası olmadığı gerçeğini vurgulamaktadır; ki bu ‘zihinsel inşa’ ele alınan olguların açıklanmasıyla zar zor alakalı olduğu halde tikel bir modelin varsayımlarına göre işleyen ‘rasyonel iktisadi insan’a uygun koşulları sağlamada araçsaldır. Bu durum da, empirisist epistemolojilerin ve/veya bireyselci temellere dayanan kuramların sağlayamadığı şekillerde ‘kollektif eylem’i irdelemek için kavramsal kategorilere ihtiyacı belirtmektedir.

Anahtar kelimeler: Devlet, piyasa, mülkiyet hakları, rant kollama, seçim kuramsal, ikinci en iyi.