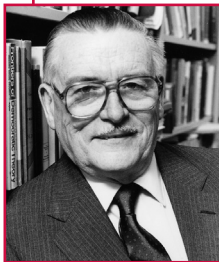


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What Is Public Choice Theory?

James M. Buchanan

Nobel Laureate in Economic Science
George Mason University

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JAMES M. BUCHANAN, winner of the 1986 Alfred Nobel Memorial Prize in Economic Sciences, is Distinguished Professor Emeritus of Economics at George Mason University and Distinguished Professor Emeritus of Economics and Philosophy at Virginia Polytechnic Institute and State University. He is best known for developing the “public choice theory” of economics, which changed the way economists analyze economic and political decision-making. Professor Buchanan received a B.A. from Middle Tennessee State College in 1940, an M.S. from the University of Tennessee in 1941 and a Ph.D. from the University of Chicago in 1948. He has taught at the University of Virginia and UCLA. Among his many books are *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (1962) with Gordon Tullock; *Cost and Choice* (1969); *The Limits of Liberty* (1975); *Liberty, Market, and State* (1985); *Better than Plowing and Other Personal Essays* (1992); and the 21-volume set, *The Collected Works of James M. Buchanan* (1999-2002).

The following is adapted from a lecture delivered at Hillsdale College on February 3, 2003, at a seminar co-sponsored by the Center for Constructive Alternatives and the Ludwig von Mises Lecture Series.

Public choice should be understood as a research program rather than a discipline or even a subdiscipline of economics. Its origins date to the mid-20th century, and viewed retrospectively, the theoretical “gap” in political economy that it emerged to fill seems so large that its development seems to have been inevitable. Nations emerging from World War II, including the Western democracies, were allocating between one-third and one-half of their total product through political institutions rather than through markets. Economists, however, were devoting their efforts almost exclusively to understanding and explaining the market sector. My own piddling first entry into the subject matter, in 1949, was little more than a call for those economists who examined taxes and spending to pay some attention to empirical reality, and thus to politics.

Initially, the work of economists in this area raised serious doubts about the political process. Working simultaneously, but independently, Kenneth Arrow and Duncan Black proved that democracy, interpreted as majority rule, could not work to promote any general or public interest. The now-famous “impossibility theorem,” as published in Arrow’s book *Social Choice and Individual Values* (1951), stimulated an extended discussion. What Arrow and Black had in fact done was to discover or rediscover the phenomenon of “majority cycles,” whereby election results rotate in continuous cycles, with no equilibrium or stopping point. The suggestion of this analysis was that majoritarian democracy is inherently unstable.



I entered this discussion with a generalized critique of the analysis generated by the Arrow-Black approach. Aren't "majority cycles" the most desirable outcome of a democratic process? After all, any attainment of political equilibrium via majority rule would amount to the permanent imposition of the majority's will on the outvoted minority. Would not a guaranteed rotation of outcomes be preferable, enabling the members of the minority in one round of voting to come back in subsequent rounds and ascend to majority membership? My concern, then and later, was the prevention of discrimination against minorities rather than stability of political outcomes. The question, from an economist's perspective, was how to obtain a combination of efficiency and justice under majority rule.

Wicksell's Insight

The great Swedish economist Knut Wicksell was the most important of all precursory figures in public choice. In his dissertation, published in 1896, he was concerned about both the injustice and the inefficiency resulting from unfettered majority rule in parliamentary assemblies. Majority rule seemed quite likely to impose net costs or damages on large segments of the citizen or taxpayer group. Why should members of such minorities, facing discrimination, lend their support to democratic political structures? Unless all groups can benefit from the ultimate exchange with government, how can overall stability be maintained?

These considerations led Wicksell to question the efficacy of majority rule itself. His solution to the problem was to propose that majority rule be modified in the direction of unanimity. If the agreement of *all* persons in the voting group is required to implement collective action, it would guarantee that all persons secure net gains and, further, that the approved actions would yield benefits in excess of costs. Of course, Wicksell recognized that, if applied in a literal voting setting, a requirement of unanimity would produce stalemate. To recognize this, however, does not diminish the value of the unanimity rule as a benchmark for comparative evaluation. In suggestions for practical constitutional reforms, Wicksell supported changes in voting rules from simple to qualified or super majorities, for example, a requirement of five-sixths approval for collective proposals.

In their analyses, Black and Arrow had assumed, more or less implicitly, that the choices to be voted on exist prior to, and outside of, the decision-making process itself. Wicksell understood the error in this assumption, although he did not recognize the importance of this insight. Neither did Gordon Tullock, who wrote a seminal paper in 1959 using the example of farmer voters, each of whom wants to have his local road repaired with costs borne by the whole community. Tullock showed that majority rule allows for coalitions of such farmers to generate election results that impose unjust costs on the whole community, while producing inefficiently large outlays on local roads.

If majority rule produces unjust and inefficient outcomes, and if political stability is secured only by discrimination against minorities, how can democracy, as the organizing principle for political structure, possibly claim normative legitimacy? Wicksell's criterion for achieving justice and efficiency in collective action – the shift from majority rule toward unanimity – seems institutionally impractical. But without some such reform, how could taxpayers be assured that their participation in the democracy would yield net benefits?

Constitutional Economics

In implicit response to these questions, Tullock and I commenced to work on what was to become *The Calculus of Consent*, published in 1962. The central contribution of this book was to identify a two-level structure of collective decision-making. We distinguished between "ordinary politics," consisting of decisions made in legislative assemblies, and "constitutional politics," consisting of decisions made about the rules for ordinary politics. We were not, of course, inventing this distinction. Both in legal theory and in practice, constitutional law had long been distinguished from statute law. What we did was to bring this distinction into economic analysis. Doing so allowed us to answer the questions posed previously: From the perspective of both justice and efficiency, majority rule may safely be allowed to operate in the realm of ordinary politics, provided that there is generalized consensus on the *constitution*, or on the rules that define and limit what can be done through ordinary politics. It is in arriving at this constitutional framework where Wicksell's idea of requiring

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unanimity – or at least super majorities – may be practically incorporated.

In a sense, the analysis in our book could have been interpreted as a formalization of the structure that James Madison and his colleagues had in mind when they constructed the American Constitution. At the least, it offered a substantive criticism of the then-dominant elevation of unfettered majority rule to sacrosanct status in political science.

Our book was widely well received, which prompted Tullock and me, who were then at the University of Virginia, to initiate and organize a small research conference in April 1963. We brought together economists, political scientists, sociologists and scholars from other disciplines, all of whom were engaged in research outside the boundaries of their disciplines. The discussion was sufficiently stimulating to motivate the formation of an organization which we first called the Committee on Non-Market Decision-Making, and to initiate plans for a journal to be called

Papers on Non-Market Decision-Making. We were unhappy with these awkward labels, and after several meetings there emerged the new name "public choice," both for the organization and the journal. In this way the Public Choice Society and the journal *Public Choice* came into being. Both have proved to be quite successful as institutional embodiments of the research program, and sister organizations and journals have since been set up in Europe and Asia.

Many subprograms have emerged from the umbrella of public choice. One in particular deserves mention – "rent seeking," a subprogram initiated in a paper by Tullock in 1967, and christened with this title by Anne Krueger in 1974. Its central idea emerges from the natural mindset of the economist, whose understanding and explanation of human interaction depends critically on predictable responses to measurable incentives. In essence, it extends the idea of the profit motive from the economic sphere to the sphere of collective

action. It presupposes that if there is value to be gained through politics, persons will invest resources in efforts to capture this value. It also demonstrates how this investment is wasteful in an aggregate-value sense.

Tullock's early treatment of rent seeking was concentrated on monopoly, tariffs, and theft, but the list could be almost indefinitely expanded. If the government is empowered to grant monopoly rights or tariff protection to one group, at the expense of the general public or of designated losers, it follows that potential beneficiaries will compete for the prize. And since only one group can be rewarded, the resources invested by other groups — which could have been used to produce valued goods and services — are wasted. Given this basic insight, much of modern politics can be understood as rent-seeking activity. Pork-barrel politics is only the most obvious example. Much of the growth of the bureaucratic or regulatory sector of government can best be explained in terms of the competition between political agents for constituency support, through the use of promises of discriminatory transfers of wealth.

As noted earlier, the primary contribution of *The Calculus of Consent* was to distinguish two levels of collective action, ordinary or day-do-day politics and constitutional politics. Indeed the subtitle of that book was *Logical Foundations of Constitutional Democracy*. Clearly, political action takes place at two distinct levels, one within the existing set of rules or constitution, the other establishing the rules or constitution that impose limits on subsequent actions.

Only recently have economists broken away from the presumption that constraints on choices are always imposed from the outside. Recent research has involved the choice of constraints, even on the behavior of persons in noncollective settings, for instance, with regard to drug or gambling addiction. But even beyond that, what I

have called the “constitutional way of thinking” shifts attention to the framework rules of political order — the rules that secure consensus among members of the body politic. It is at this level that individuals calculate their terms of exchange with the state or with political authority. They may well calculate that they are better

off for their membership in the constitutional order, even while assessing the impact of ordinary political actions to be contrary to their interests. A somewhat loose way of putting this is to say that in a constitutional democracy, persons owe loyalty to the constitution rather than to the government. I have long argued that on precisely this point, American public attitudes are quite different from those in Europe.

In a constitutional democracy, persons owe loyalty to the constitution rather than to the government. I have long argued that on precisely this point, American public attitudes are quite different from those in Europe.

Objections to Public Choice

There is a familiar criticism of public choice theory to the effect that it is ideologically biased. In comparing and analyzing alternative sets of constitutional rules, both those in existence and those that might be introduced prospectively, how does public choice theory, as such, remain neutral in the scientific sense?

Here it is necessary to appreciate the prevailing mind-set of social scientists and philosophers at the midpoint of the 20th century, when public choice arose. The socialist ideology was pervasive, and was supported by the allegedly neutral research program called “theoretical welfare economics,” which concentrated on identifying the failures of observed markets to meet idealized standards. In sum, this branch of inquiry offered theories of market failure. But failure in comparison with what? The implicit presumption was always that politicized corrections for market failures would work perfectly. In other words, market failures were set against an idealized politics.

Public choice then came along and provided analyses of the behavior of persons acting politically, whether voters, politicians or bureaucrats. These analyses exposed the essentially false comparisons that were then informing so much of both scientific and public opinion. In a very real sense, public choice became a set of theories of *governmental* failures, as an offset to the theories of market failures that had previously emerged from theoretical welfare economics. Or, as I put it in the title of a lecture in Vienna in 1978, public choice may be summarized by the three-word description, “politics without romance.”

The public choice research program is better seen as a correction of the scientific record than as the introduction of an anti-governmental ideology. Regardless of any ideological bias, exposure to public choice analysis necessarily brings a more critical attitude toward politicized nostrums to alleged socioeconomic problems. Public choice almost literally forces the critic to be pragmatic in comparing alternative constitutional arrangements, disallowing any presumption that bureaucratic corrections for market failures will accomplish the desired objectives.

A more provocative criticism of public choice centers on the claim that it is immoral. The source of this charge lies in the application to politics of the assumption that individuals in the marketplace behave in a self-interested way. More specifically, economic models of behavior include net wealth, an externally measurable variable, as an important “good” that individuals seek to maximize. The moral condemnation of public choice is centered on the presumed transference of this element of economic theory to political analysis. Critics argue that people acting politically – for example, as voters or as legislators – do not behave as they do in markets. Individuals are differently motivated when they are choosing “for the public” rather than for themselves in private choice capacities. Or so the criticism runs.

At base, this criticism stems from a misunderstanding that may have been fostered by the failure of economists to acknowledge the limits of their efforts. The economic model of behavior, even if restricted to market activity, should never be taken to provide the be-all and end-all of scientific explanation. Persons act from many motives, and the economic model concentrates attention only

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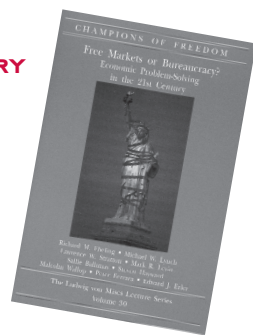
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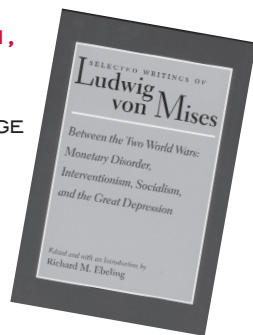
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on one of the many possible forces behind actions. Economists do, of course, presume that the “goods” they employ in their models for predicting behavior are relatively important. And in fact, the hypothesis that promised shifts in net wealth modify political behavior in predictable ways has not been readily falsifiable empirically.

Public choice, as an inclusive research program, incorporates the presumption that persons do not readily become economic eunuchs as they shift from market to political participation. Those who respond predictably to ordinary incentives in the marketplace do not fail to respond at all when they act as citizens. The public choice theorist should, of course, acknowledge that the strength and predictive power of the strict economic model of behavior is somewhat mitigated as the shift is made from private market to collective choice. Persons in political roles may, indeed, act to a degree in terms of what they consider to be the general interest. Such acknowledgment does not, however, in any way imply that the basic explanatory model loses all of its predictive potential, or that ordinary incentives no longer matter.

Impact of Public Choice

As noted, public choice theory has developed and matured over the course of a full half-century. It is useful to assess the impact and effects of this program, both on thinking in the scientific community and in the formation of public attitudes. By simple comparison with the climate of opinion in 1950, both the punditry and the public are more critical of politics and politicians, more cynical about the motivations of political action, and less naive in thinking that political nostrums offer easy solutions to social problems. And this shift in attitudes extends well beyond the loss of belief in the efficacy of socialism, a loss of belief grounded both in historical regime failures and in the collapse of intellectually idealized structures.

As I noted earlier, when we look back at the scientific and public climates of discussion fifty years ago, the prevailing mindset was socialist in its underlying presupposition that government offered the solution to social problems. But there was a confusing amalgam of Marxism and ideal political theory involved: Governments, as observed, were modeled and condemned by Marxists as furthering class interests, but gov-

ernments which might be installed “after the revolution,” so to speak, would become both omniscient and benevolent.

In some of their implicit modeling of political behavior aimed at furthering special group or class interests, the Marxists seemed to be closet associates of public choice, even as they rejected methodological individualism. But how was the basic Marxist critique of politics, as observed, to be transformed into the idealized politics of the benevolent and omniscient superstate? This question was simply left glaringly unanswered. And the debates of the 1930s were considered by confused economists of the time to have been won by the socialists rather than by their opponents, Ludwig von Mises and Friedrich Hayek. Both sides, to an extent, neglected the relevance of incentives in motivating human action, including political action.

The structure of ideas that was adduced in support of the emerging Leviathan welfare state was logically flawed and could have been maintained only through long-continued illusion. But, interestingly, the failure, in whole or in part, of the socialist structure of ideas did not come from within the academy. Mises and Hayek were not successful in their early efforts, and classical liberalism seemed to be at its nadir at mid-century. Failure came, not from a collapse of an intellectually defunct structure of ideas, but from the cumulative record of nonperformance in the implementation of extended collectivist schemes — nonperformance measured against promised claims, something that could be observed directly. In other words, governments everywhere overreached. They tried to do more than the institutional framework would support. This record of failure, both in the socialist and welfare states, came to be recognized widely, commencing in the 1960s and accelerating in the 1970s.

Where is the influence of public choice in this history? I do not claim that it dislodged the prevailing socialist mindset in the academies, and that this intellectual shift then exerted feedback on political reality. What I do claim is that public choice exerted major influence in providing a coherent understanding and interpretation of what could be everywhere observed. The public directly sensed that collectivistic schemes were failing, that politicization did not offer the promised correctives for any and all social ills, that governmental intrusions often made things worse rather than better. How could these direct observations be fitted into a satisfactory understanding?

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Public choice came along and offered a foundation for such an understanding. Armed with nothing more than the rudimentary insights from public choice, persons could understand why, once established, bureaucracies tend to grow apparently without limit and without connection to initially promised functions. They could understand why pork-barrel politics dominated the attention of legislators; why there seems to be a direct relationship between the overall size of government and the investment in efforts to secure special concessions from government (rent seeking); why the tax system is described by the increasing number of special credits, exemptions, and loopholes; why balanced budgets are so hard to secure; and why strategically placed industries secure tariff protection.

A version of the old fable about the king's nakedness may be helpful here. Public choice is like the small boy who said that the king really



has no clothes. Once he said this, everyone recognized that the king's nakedness had been recognized, but that no one had really called attention to this fact.

Let us be careful not to claim too much, however. Public choice did not emerge from some profoundly new insight, some new discovery, some social science miracle. Public choice, in its basic insights into the workings of politics, incorporates an understanding of human nature that differs little, if at all, from that of James Madison and his colleagues at the time of the American Founding. The essential wisdom of the 18th century, of Adam Smith and classical political economy and of the American Founders, was lost through two centuries of intellectual folly. Public choice does little more than incorporate a rediscovery of this wisdom and its implications into economic analyses of modern politics.

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