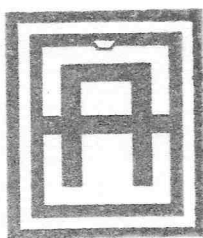
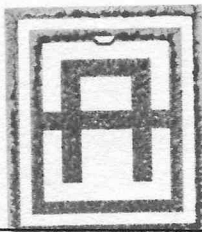


Constitutional Economics

James M. Buchanan



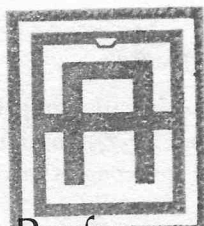
Basil Blackwell



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From Private Preferences to Public Philosophy: the Development of Public Choice

1 Introduction

I appreciate the opportunity afforded me by this invitation from the Institute of Economic Affairs to come to London and to open this seminar on the 'Economics of Politics', or as we prefer to call it in the US, 'Public Choice', which is really the application and extension of economic theory to the realm of political or governmental choices. I shall be talking here about material that is familiar to many of you, but it remains nonetheless true that 'public-choice' has been somewhat slower to attract attention in the United Kingdom than elsewhere in Europe. This body of ideas has been relatively neglected here, despite the presence of one of the genuinely seminal scholars in the discipline, Duncan Black, who has been, in one sense, a prophet without honour in his own country, or at least without appropriate honour.

I shall return to the position of 'public choice' in the UK, but first let me say that the sub-discipline is currently thriving, not only in America, but in West Germany, in Switzerland, in Japan, and, most recently, in

Published originally as a contribution to IEA Readings No. 18, *The Economics of Politics* (1978). Basic reference works in public choice are listed at the end of the chapter. A more sophisticated survey of the discipline is in Dennis C. Mueller, 'Public Choice: A Survey', *Journal of Economic Literature*, Vol. 14, No. 2 (June 1976), pp. 395-433. This survey paper is followed by Mueller's longer monograph, *Public Choice*, Cambridge University Press, 1979. My survey paper, 'Public Finance and Public Choice', *National Tax Journal*, December 1975, relates developments in public choice to public finance. An elementary treatment of the various topics in public choice theory will be found in Gordon Tullock, *The Vote Motive*, Hobart Paperback No. 9, IEA (1976).

France, where Henri Lepage has recently published a laudatory descriptive essay in *Réalités* (November 1977), an expanded version of which has now appeared as a chapter in Lepage's fascinating book *Demain le capitalisme* (1978).

History of neglect of 'public choice' in the UK

The relative neglect of 'public choice' in the UK is traceable to factors that extend back for two centuries. To the classical economists, the state was unproductive. As a result of this common presupposition, less attention was paid to the analysis of state activity. Britain was also the origin of Benthamite utilitarianism, which provided idealised objectives for governmental policy to the neglect of institutional structure. Britain was also the home of idealist political philosophy in the late-19th century, a philosophy that put up barriers against any realistic examination of politics. Finally, the very dominance of Britain in the theory of the private economy, through the major influence of Alfred Marshall, drew intellectual resources away from the theory of the public economy. British and American analysis in public finance was a half-century out of date by the onset of World War II; the seminal contributions of the Continental scholars at the turn of the century and before were largely ignored, notably those of the outstanding Swedish economist, Knut Wicksell.

In Britain, you surely hold on longer than most people to the romantic notion that government seeks only to do good in some hazily defined Benthamite sense, and, furthermore, to the hypothesis that government could, in fact, accomplish most of what it set out to do.

Your economists, and notably Lord Keynes, along with their American counterparts, continued to proffer policy advice as if they were talking to a benevolent despot who stood at their beck and call.¹ This despite Wicksell's clear but simple warning in 1896 that economic policy is made by politicians who are participants in a legislative process, and that economists could not ignore these elementary facts. But British and American economists throughout most of this century continued to seem blind to what now appears so simple to us, that benevolent despots do not exist and that governmental policy emerges from a highly complex and intricate institutional structure peopled by ordinary men and women, very little different from the rest of us. The political scientists were, if anything, even more naïve than the economists, and they have not, even today, learned very much.

2 The Economic Theory of Politics

Why do we call our sub-discipline the 'economic' theory of politics? What is there that is peculiarly 'economic' about it? Here I think we can look to Duncan Black to put us on the right track. Black commenced his work by stating, very simply, that for his analysis an individual is nothing more than a set of preferences, a utility function, as we call it. Once this apparently innocent definition of an individual is accepted, you are really trapped. If you are to argue that individuals have *similar* preferences, you are forced into a position where you must explain why. And if you can think of no good reason why they should do so, you are required to acknowledge that preferences may *differ* among persons.

From these innocent beginnings, the economic theory of politics emerges as a matter of course. The theory is 'economic' in the sense that, like traditional economic theory, the building blocks are *individuals*, not corporate entities, not societies, not communities, not states. The building blocks are living, choosing, economising persons. If these persons are allowed to have *differing* preferences, and if we so much as acknowledge that some aspects of life are inherently collective or social rather than purely private, the central problem for public choice jumps at you full blown. How are differing individual preferences to be reconciled in reaching results that must, by definition, be shared jointly by all members of the community? The positive question is: How *are* the differences reconciled under the political institutions we observe? This question is accompanied by the normative one: How *should* the differences among individuals in desired results be reconciled?

Even at this most elementary level, we must examine the purpose of the collectivity. I have often contrasted the 'economic' approach to politics with what I have called the 'truth judgement' approach. Individuals may differ on their judgements as to what is 'true' and what is not, and it is possible that, occasionally, we may want to introduce institutions that essentially collect or poll the opinions of several persons in arriving at some best estimate of what is 'true' or 'right'. The jury comes to mind as the best example here. The accused is either guilty or not guilty, and we use the jury to determine which of these judgements is 'true'. But for matters of ordinary politics, the question is *not* one of truth and falsity of the alternatives. The problem is one of resolving individual differences of preferences into results, which it is misleading to call true or false.

We can return to the parallel with standard economic theory. A

result emerges from a process of exchange, of compromise, of mutual adjustment among several persons, each of whom has private preferences over the alternatives. Further, the satisfaction of these private preferences offers the *raison d'être* for collective action in the first place. The membership of a congregation decides, somehow, that the church-house is to be painted blue rather than green, but it is inappropriate to talk of either colour as being 'true'. The members of a school board decide to hire Mr Jones rather than Mr Brown, but we can scarcely say that the successful candidate embodies 'truth'.

The paradox of voting

Let me return to Duncan Black's seminal efforts, as he faced up to the central problem. I am sure that the natural starting place for Black was with ordinary committees that are used to govern many kinds of collective activities. In this, Black was probably influenced by his own participation in the machinery used for making university-college decisions, much as Lewis Carroll had been influenced by his own share in the committee governance of Christ Church, Oxford. And it is through Duncan Black that we know that the UK's claim to early ideas in voting theory rest largely with Lewis Carroll, who joins the French nobleman, Condorcet, in making up the two most important figures in the 'history of doctrine' before the middle years of this century.

How do committees reach decisions when agreement among all members is not possible? Simple observation suggested the relevance of analysing simple majority voting in *formal terms*. When he carried out this analysis Black was, I think, somewhat disappointed, even if not surprised, to find that there may exist no motion or proposal (or candidate) from among a fixed set of possibilities that will defeat all others in a series of one-against-one majority tests. There may exist no majority motion. If this is the case, simple majority voting will produce continuous cycling or rotation among a subgroup or subset of the available alternatives. The collective outcome will depend on where the voting stops, which will, in turn, depend on the manipulation of the agenda as well as upon the rules of order. The committee member who can ensure that his preferred amendment or motion is voted upon just before adjournment often wins the strategic game that majority rules always introduce. (It is interesting, even today, to observe the reactions of fellow committee members when a public choice economist observes that the outcome of deliberation may well be dependent on the voting rules

adopted.) The 'paradox of voting' became one of the staple ingredients in any subsequent public-choice discourse.

Arrow's 'paradox of social (collective) choice'

Only a short time after Black's early efforts, Kenneth Arrow (Nobel Laureate in Economics, now of Harvard University) confronted a somewhat different and more general problem, although he was to reach the same conclusion. Arrow tried to construct what some economists call a 'social welfare function' designed to be useful in guiding the planning authority for a society. He sought to do so by amalgamating information about the separate preferences of individual members, and he was willing to assume that the individuals' preferences exhibit the standard properties required for persons to make ordinary market choices. To his surprise, Arrow found that no such 'social welfare function' could be constructed; the task was a logical impossibility, given the satisfaction of certain plausible side-conditions. The paradox of voting became the more general and more serious paradox of social or collective choice.

Perhaps it is unfair to both, but I think that Duncan Black would have been happier if he could have discovered that majority voting rules do produce consistent outcomes, and that Kenneth Arrow would have been happier if he could have been able to demonstrate that a social welfare function could be constructed. Black was, and to my knowledge remains, dedicated to government by majority rule; Arrow was, and to my knowledge remains, an advocate of social planning. Black started immediately to look for the set of conditions that preferences must meet in order for majority voting to exhibit consistency. He came up with his notion of 'single-peakedness' which means that if all individual preferences among alternatives can be arrayed along a single dimension so that there is a single peak for each voter, there will exist a unique majority motion or proposal (or candidate). This alternative will be that one of the available sets of proposals that is most preferred by the median voter. In this setting, majority voting does produce a definitive result, and in so doing it satisfies voters in the middle more than voters at either extreme. For example, if voters on school budgets can be divided roughly into three groups of comparable size – big spenders, medium spenders, and low spenders – the medium spenders will be controlling under ordinary majority voting, provided that neither the low nor the high spenders rank medium spending lowest among the three budget options. The formal collective or social choice theorists, shocked by the Arrow

impossibility theorem, have continued to try to examine the restrictions on individual preferences that might be required to generate consistent social orderings.

3 The Theory of Constitutions

It is at this point in my summary narrative that I should introduce my own origins of interest in public choice, and my own contributions, along with those of my colleague, Gordon Tullock. As did Duncan Black, I came to public choice out of intellectual frustration with orthodox pre-World War II public finance theory, at least as I learned it in the English language works of such economists as A. C. Pigou and Hugh Dalton in the UK, and Harold Groves and Henry Simons in the US. It made no sense to me to analyse taxes and public outlays independently of some consideration of the political process through which decisions on these two sides of the fiscal account were made. *Public finance theory could not be wholly divorced from a theory of politics.*

In coming to this basic criticism of the orthodoxy, I was greatly influenced by Wicksell on the one hand and by some of the Italian theorists on the other. One of my first published papers,² in 1949, was basically a plea for a better methodology. My initial reaction to Arrow's impossibility theorem was one of unsurprise. Since political outcomes emerge from a process in which many persons participate rather than from some mysterious group mind, why should anyone have ever expected 'social welfare functions' to be internally consistent? Indeed, as I argued in my 1954 paper on Arrow,³ it seemed to me that, if individual preferences are such as to generate a cycle, then such a cycle, or such inconsistency, is to be preferred to consistency, since the latter would amount to the imposition of the will of some members of the group on others.

'Positive public choice'

The next stage in my logical sequence came when Gordon Tullock and I started to analyse how majority rules actually work – what Dennis Mueller has called 'positive public choice'. Tullock developed his now-classic 1959 paper on majority voting and log-rolling in which he showed that a sequence of majority votes on spending projects financed out of

general tax revenues could over-extend the budget and could, indeed, make everyone worse off than they would be with no collective action.⁴ Tullock's example was spending on many separate road projects all of which are financed from the proceeds of a general tax, but the same logic can be extended to any situation where there are several spending constituencies that independently influence budgetary patterns. We came to the view that the apparent ideological dominance of majority rule should be more thoroughly examined. This in turn required us to analyse alternatives to majority rule, and to begin to construct an 'economic theory of political constitutions', out of which came *The Calculus of Consent* in 1962. This book has achieved a measure of success, of course to our great satisfaction. We used ordinary economic assumptions about the utility-maximising behaviour of individuals, and we sought to explain why specific rules for making collective decisions might emerge from the constitutional level of deliberation.

To pull off this explanation, we needed some means or device that would enable us to pass from individually identifiable self-interest to something that might take the place of 'public interest'. Unless we could locate such a device or construct, we would have remained in the zero-sum model of politics, where any gains must be matched by losses. We got over this problem by looking at how rules for ordinary parlour games are settled *before* the fall of the cards is known. Uncertainty about just where one's own interest will lie in a sequence of plays or rounds of play will lead a rational person, from his own interest, to prefer rules or arrangements or constitutions that will seem to be 'fair', no matter what final positions he might occupy. You will, of course, recognise the affinity between this approach that Tullock and I used in *The Calculus of Consent* and that developed in much more general terms by John Rawls in his monumental treatise, *A Theory of Justice* (1971). Rawls had discussed his central notion of 'justice as fairness' in several papers published in the 1950s, and, while our approach came, we think, independently out of our own initial attempt to look for criteria for preferred rules, we do not quibble about the source of ideas. Indeed, the basic ideas in the 'justice as fairness' notion can also be found in the work of other scholars that predate Rawls's early papers.

Our book was a mixture of positive analysis of alternative decision rules and a normative defence of certain American political institutions that owe their origins to the Founding Fathers, and to James Madison in particular. We considered that our analysis did 'explain' features of the American political heritage that orthodox political science seemed unable to do. Explicitly and deliberately, we defended constitutional

limits on majority voting. In a somewhat more fundamental sense, we defended the existence of constitutional constraints *per se*; we justified bounds on the exercise of majoritarian democracy. In this respect, I would argue that America's political history has been 'superior' to that of Britain, where neither in theory nor in practice have you imposed constraints on the exercise of parliamentary or legislative majorities comparable to those in America. For example, it would be difficult to conceive of an American cycle of nationalisation, denationalisation, and renationalisation of a basic industry merely upon shifts in the legislative majority between parties.

4 The Supply of Public Goods

I now want to get some of the early public choice contributions into methodological perspective. Black's early work on committees, Arrow's search for a social welfare function, our own work on the economic theory of constitutions, the derivations of these works in such applications as median voter models – all of these efforts were what we should now call *demand-driven*. By this I mean that the focus of attention was on the ways in which individual preferences might be amalgamated to generate collective results on the presumption that the outcomes would be there for the taking. There was almost no attention paid in these works to the utility-maximising behaviour of those who might be called on to *supply* the public goods and services demanded by the taxpayers-voters. There was no theory of public goods supply in the early models of public choice that I have discussed to this point.

Origins of public goods supply analysis

To get at the origins of the supply-side models, we must go back to some of the Italian scholars, who quite explicitly developed models of workings of the state-as-monopoly, analysed as being separate and apart from the citizenry, and with its own distinct interests. Machiavelli is, of course, the classic source of ideas here, but the discussions of Vilfredo Pareto and Gaetano Mosca about ruling classes, along with the fiscal applications by the public-finance theorists such as Antonio De Viti De Marco, Amilcare Puviani, and Mauro Fasiani all deserve mention in any catalogue.

From these writers, and independently of them, we may trace the

development of rudimentary ideas through Joseph Schumpeter and then to Anthony Downs, who, in his 1957 book, *An Economic Theory of Democracy*, analysed political parties as analogous to profit-maximising firms. Parties, said Downs, set out to maximise votes, and he tried to explain aspects of observed political reality in terms of his vote-maximising models. Perhaps the most important theorem to emerge here was the tendency of parties to establish positions near each other in two-party competition and near the centre of the ideological or issue spectrum. William Riker (of the University of Rochester), in a significant 1962 book, challenged Downs's vote-maximising assumption, and argued convincingly that parties seek not maximum votes but only sufficient votes to ensure minimally winning coalitions.

Downs's primary emphasis was on the political party, not on the behaviour of the politician or bureaucrat. This gap in early supply-side analysis was filled by Gordon Tullock who, drawing on his own experiences in the bureaucracy of the US Department of State, published his *The Politics of Bureaucracy* in 1965, although he had written the bulk of this work a decade earlier. Tullock challenged the dominant orthodoxy of modern political science and public administration, exemplified in the works of Max Weber and Woodrow Wilson, by asking the simple question: What are the rewards and penalties facing a bureaucrat located in a hierarchy and what sorts of behaviour would describe his efforts to maximise his own utility? The analysis of bureaucracy fell readily into place once this question was raised. The mythology of the faceless bureaucrat following orders from above, executing but not making policy choices, and motivated only to forward the 'public interest', was not able to survive the logical onslaught. Bureaucrats could no longer be conceived as 'economic eunuchs'. It became obligatory for analysts to look at bureaucratic structure and at individual behaviour within that structure. Tullock's work was followed by a second Downs book, and the modern theory of bureaucracy was born.

Property rights and bureaucratic behaviour

As the theory of constitutions has an affinity with the work of Rawls, so the theory of bureaucracy has an affinity with the work of those economists who have been called the 'property rights theorists', such as Armen Alchian and Harold Demsetz of UCLA, and Roland McKean of Virginia, who initiated analysis of the influence of reward and punishment structures on individual behaviour, and especially in

comparisons between profit and non-profit institutions. To predict behaviour, either in governmental bureaucracy or in privately organised non-proprietary institutions, it is necessary to examine carefully the constraints and opportunities faced by individual decision-makers.

The next step was almost as if programmed. Once we begin to look at bureaucracy in this way, we can, of course, predict that individual bureaucrats will seek to expand the size of their bureaus since, almost universally in modern Western societies, the salaries and perquisites of office are related directly to the sizes of budgets administered and controlled. The built-in motive force for expansion, the dynamics of modern governmental bureaucracy in the small and in the large, was apparent to all who cared to think. This theory of bureaucratic growth was formalised by William Niskanen, who developed a model of separate budget-maximising departments and sub-departments. In the limiting case, Niskanen's model suggested that bureaucracies could succeed in expanding budgets to twice the size necessary to meet taxpayers' genuine demands for public goods and services. In this limit, taxpayers end up by being no better off than they would be without any public goods; all of their net benefits are 'squeezed out' by the bureaucrats. The implication is that each and every public good or service, whether it be health services, education, transport, or defence, tends to be expanded well beyond any tolerable level of efficiency, as defined by the demands of the citizenry.

Alongside this theory of bureaucracy, there have been efforts to analyse the behaviour of the politicians, the elected legislators, who seek opportunities to earn 'political income'. Attempts have also been made (by Albert Breton and Randall Bartlett) to integrate demand-side and supply-side theories into a coherent analysis.

5 Rent-seeking

To this point, I have largely discussed what we might call established ideas in public choice, although this epithet should not imply that fascinating research is not continuing in some of the areas mentioned. But let me now briefly introduce an area of inquiry, 'rent-seeking', that is on the verge of blossoming. You may, if you prefer, call this 'profit-seeking', which might be descriptively more accurate. But 'rent-seeking' is used here in order to distinguish the activity from profit-seeking of the kind we ordinarily examine in our study of markets.

Once again, we can look to Gordon Tullock for the original work on

rent-seeking, although he did not originally use that term, and did not, I think, fully appreciate the potential promised in his 1967 paper.⁵

Tullock's work has been followed by papers by Richard Posner, of the University of Chicago Law School, Anne Krueger, of the University of Minnesota, who invented the term itself, and others, but my own prediction is that the genuine flurry of research activity in rent-seeking will occur only during the next decade.

What is 'rent-seeking'?

The basic notion is a very simple one and once again it represents the extension of standard price theory to politics. From price theory we learn that profits tend to be equalised by the flow of investments among prospects. The existence or emergence of an opportunity for differentially high profits will attract investment until returns are equalised with those generally available in the economy. What should we predict, therefore, when politics creates profit opportunities or rents? Investment will be attracted toward the prospects that seem favourable and, if 'output' cannot expand as in the standard market adjustment, we should predict that investment will take the form of attempts to secure access to the scarcity rents. When the state licenses an occupation, when it assigns import or export quotas, when it allocates TV spectra, when it adopts land-use planning, when it employs functionaries at above-market wages and salaries, we can expect resource waste in investments to secure the favoured plums.

Demands for money rents are elastic. The state cannot readily 'give money away' even if it might desire to do so. The rent-seeking analysis can be applied to many activities of the modern state, including the making of money transfers to specified classes of recipients. If mothers with dependent children are granted payments for being mothers, we can predict that we shall soon have more such mothers. If the unemployed are offered higher payments, we predict that the number of unemployed will increase. Or, if access to membership in recipient classes is arbitrarily restricted, we predict that there will be wasteful investment in rent-seeking. As the expansion of modern government offers more opportunities for rents, we must expect that the utility-maximising behaviour of individuals will lead them to waste more and more resources in trying to secure the 'rents' or 'profits' promised by government.

6 Empirical Public Choice

So much for a survey and narrative of the development of ideas in public-choice theory. I have to this point said little about the empirical testing of these ideas or hypotheses. In the last decade, these empirical tests have occupied much of the attention of public-choice economists. Indeed, to the Chicago-based group of scholars who talk about the 'economic theory of politics', the ideas that I have traced out above amount to little or nothing until they are tested; their view is that empirical work is the be-all and the end-all of the discipline. Those of us in the Virginia tradition are more catholic in our methodology; we acknowledge the contributions of the empiricists while attributing importance to the continuing search for new theoretical insights. The empiricists, among whom I should list my own colleagues Mark Crain and Bob Tollison, in addition to the Chicago group, notably George Stigler and Sam Peltzman, have taken the utility-maximising postulates and derived implications that are subject to test.

The Chicago-based emphasis has been on economic regulation of such industries as transport, broadcasting, and electricity. What is the economic model for the behaviour of the regulator and, through this, for the activities of the regulatory agency? What does the record show? Stigler suggested that the evidence corroborates the hypothesis that regulation is pursued in the interests of the industries that are regulated. Others have challenged Stigler and have tried to test the differing hypothesis that regulation is carried out for the self-interest of the regulatory bureaucracy, which may or may not coincide with the interest of the industry regulated. Little or none of the empirical work on regulation suggests that the pre-public-choice hypothesis of regulation in the 'public interest' is corroborated. In the long run, this research must have some impact on the willingness of the citizenry, and the politicians, to subject more and more of the economy to state regulation, although the end does not seem yet in sight.

Crain and Tollison have looked carefully at the record for legislatures in the American states. They have used straightforward utility-maximising models, with objectively measurable 'arguments' in the utility functions, to explain such things as relative salaries of legislators among states, relative occupational categories of legislators, committee structures in legislatures, varying lengths of legislative sessions. They have developed strong empirical support for the basic hypothesis that politicians respond to economic incentives much like the rest of us.

Political business cycles

A different area of empirical work that can be brought within the public-choice framework is that on 'political business cycles', i.e. the alleged attempt by politicians in office to create economic conditions timed so as to further their own electoral prospects. The results seem to be somewhat mixed, and I shall not attempt to offer any judgements on this research here.

7 Normative Implications of Public Choice

As some of you know, my own interests have never been in the empirical tradition, as narrowly defined. I have been more interested in a different sort of research inquiry that follows more or less naturally from the integration of the demand-side and the supply-side analysis of governmental decision-making institutions.

As proofs of the logical inconsistencies in voting rules are acknowledged, as the costs of securing agreement among persons in groups with differing preferences are accounted for, the theory of rules, or of constitutions, emerges almost automatically on the agenda for research, as I have already noted. But my own efforts have been aimed at going beyond the analysis of *The Calculus of Consent*. I have tried to move cautiously but clearly in the direction of normative understanding and evaluation, to move beyond analysis of the way rules work to a consideration of what rules work *best*.

Constitutional failure: the Leviathan state

In the last five years or so, my interest has been in examining the bases for constitutional improvement, for constitutional change, for what I have called 'constitutional revolution'. My efforts have been motivated by the observation that the American constitutional structure is in disarray; the constraints that 'worked' for two centuries seem to have failed. The checks on government expansion no longer seem to exist. The Leviathan state is the reality of our time. I state this for the US with certainty; I doubt that many of you would disagree concerning the UK.

My book, *The Limits of Liberty* (1975), was devoted to a diagnosis of this constitutional failure, a step that I considered to be necessary before

reform might be addressed. (In this context, I found Nevil Johnson's 1977 book, *In Search of the Constitution*, with reference to Britain, to be congenial.) My current research emerges as a natural follow-up to the diagnosis. A first project has been completed. With Richard Wagner as co-author, we published *Democracy in Deficit* in early 1977, the theme of which is restated and applied to Britain with John Burton in the IEA's Hobart Paper No. 78, *The Consequences of Mr Keynes* (published in April 1978). The book was an attempt to examine the political consequences of Mr Keynes, and the central theme was to the effect that an important element of the American fiscal constitution, namely the balanced-budget rule, had been destroyed by the political acceptance of Keynesianism. Economists blindly ignored the asymmetry in application of Keynesian policy precepts, an asymmetry that the most elementary public-choice theorist would have spotted. They naïvely presumed that politicians would create budget surpluses as willingly as they create deficits. They forgot the elementary rule that politicians enjoy spending and do not like to tax.

In *Democracy in Deficit*, Wagner and I called explicitly for the restoration of budget balance as a constitutional requirement. With Geoffrey Brennan, I am now engaged in an attempt to design a 'tax constitution'.⁶ We are examining ways and means through which the revenue-grabbing proclivities of governments might be disciplined by constitutional constraints imposed on tax bases and rates.

Can government be constrained?

These efforts, on my part and others, suggest that we proceed from a belief that governments can be constrained. We refuse to accept the Hobbesian scenario in which there are no means to bridle the passions of the sovereign. Historical evidence from America's own two centuries suggests that governments can be controlled by constitutions.

In once sense, all of public choice or the economic theory of politics may be summarised as the 'discovery' or 're-discovery' that people should be treated as rational utility-maximisers in *all* of their behavioural capacities. This central insight, in all of its elaborations, does not lead to the conclusion that all collective action, all government action, is necessarily undesirable. It leads, instead, to the conclusion that, because people will tend to maximise their own utilities, institutions must be designed so that individual behaviour will further the interests of the group, small or large, local or national. The challenge to us is one of

constructing, or re-constructing, a political order that will channel the self-serving behaviour of participants towards the common good in a manner that comes as close as possible to that described for us by Adam Smith with respect to the economic order.

8 The Wisdom of Centuries

I have described the economic theory of politics, or public choice, as a relatively young subdiscipline that has emerged to occupy the attention of scholars in the three decades since the end of World War II. If we look only at the intellectual developments of the 20th century, public choice is 'new', and it has, I think, made a major impact on the way that living persons view government and political process. The public philosophy of 1978 is very different from the public philosophy of 1948 or 1958. There is now much more scepticism about the capacity or the intention of government to satisfy the needs of citizens.

At the start of my remarks, I stated that the ideas of public choice have been relatively slow to catch on in the UK. That statement is, I think, accurate, but I should be remiss if I did not end on a somewhat different note. In one sense, public choice – the economic theory of politics – is not new at all. It represents rediscovery and elaboration of a part of the conventional wisdom of the 18th and the 19th centuries, and notably the conventional wisdom that informed classical political economy. Adam Smith, David Hume, and the American Founding Fathers would have considered the central principles of public-choice theory to be so elementary as scarcely to warrant attention. A mistrust of governmental processes, along with the implied necessity to impose severe constraints on the exercise of governmental authority, was part and parcel of the philosophical heritage they all shared. This set of attitudes extended at least through the middle years of the 19th century, after which they seem to have been suspended for at least a hundred years. Perhaps they are on the way to return.

I could scarcely do better in conclusion than to introduce a citation from J. S. Mill's *Considerations on Representative Government* (1861):

... the very principle of constitutional government requires it to be assumed, that political power will be abused to promote the particular purposes of the holder; not because it always is so, but because such is

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the natural tendency of things, to guard against which is the especial use of free institutions.⁷

How much have we forgotten? Can modern man recover the wisdom of the centuries? Let us not despair. A start has been made.

Notes

- 1 For a discussion of the political setting for Keynesian economics, see J. M. Buchanan, John Burton and R. E. Wagner, *The Consequences of Mr Keynes*, Hobart Paper 78, IEA, April 1978. An extended treatment with primary application to an American setting is in James M. Buchanan and Richard E. Wagner, *Democracy in Deficit*, Academic Press, New York, 1977.
- 2 This paper, along with several other early papers, including my essay on the Italian writers, is reprinted in my book, *Fiscal Theory and Political Economy*, University of North Carolina Press, Chapel Hill, 1960.
- 3 Also included in the book cited *ibid*.
- 4 Gordon Tullock, 'Problems of Majority Voting', *Journal of Political Economy*, 67, December 1959, pp. 571-9.
- 5 'The Welfare Costs of Tariffs, Monopolies, and Theft', *Western Economic Journal*, June 1967.
- 6 Buchanan and Brennan, *The Power to Tax: Analytical Foundations of a Fiscal Constitution*, Cambridge University Press, 1980.
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Note: References above are limited to books. A listing of article-length contributions would extend to many pages. See the Bibliography in Dennis Mueller's survey paper in *Journal of Economic Literature* 14 (2), June 1976, pp. 395-433.