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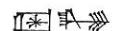
*The Collected Works of*  
James M. Buchanan

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VOLUME 1

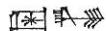
*The Logical Foundations of  
Constitutional Liberty*

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LIBERTY FUND  
*Indianapolis*

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# Politics without Romance

## A Sketch of Positive Public Choice Theory and Its Normative Implications

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*Abstract:* “Public choice theory,” or “the economic theory of politics,” has emerged only in the decades after World War II. In summary, this theory models the *realities* rather than the romance of political institutions. It commences with the utility-maximizing behavior of individuals who participate in their various public-choosing capacities, as voters, as legislators, as bureaucrats. It analyzes the effects of varying institutional constraints on generating alternative political outcomes.

Normatively, public choice forces the analyst to compare relevant institutional alternatives. In one sense, public choice is a “theory of governmental failure” comparable to the “theory of market failure” that emerged from theoretical welfare economics.

### 1. Introduction

In this lecture, I propose to summarize the emergence and the content of the “theory of public choice,” or, alternatively, the economic theory of politics, or “the new political economy.”<sup>1</sup> This area of research has become important only in the decades after World War II. Indeed in Europe and Japan, the the-

From Inaugural Lecture, Institute for Advanced Studies, Vienna, Austria, *IHS-Journal, Zeitschrift des Instituts für Höhere Studien, Wien* 3 (1979): B1–B11. Reprinted by permission of the publisher.

1. For an earlier, and differently organized, discussion, see James M. Buchanan, “From Private Preferences to Public Philosophy: The Development of Public Choice,” in *The Economics of Politics* (London, 1978), 1–18; for a more technical survey, see D. Mueller, “Public Choice: A Survey,” *Journal of Economic Literature* 14, no. 2 (1976): 395–433.

ory has come to command the attention of scholars only within the 1970's; developments in America stem from the 1950's and 1960's. As I hope that my remarks here will suggest, the theory of public choice is not without antecedents, and especially in the European thought of the 18th and 19th centuries. Ecclesiastes tells us that there is nothing new under the sun, and in a genuine sense, such a claim is surely correct, and especially in the so-called "social sciences." (I am reminded of this every week when I see my mathematically-inclined younger colleagues in economics rediscovering almost every wheel that older economists have ever talked about.) In terms of its impact on the realm of prevailing ideas, however, "public choice" is *new*, and this subdiscipline that falls halfway between economics and political science has turned around the thinking of many persons. If I am allowed to use Thomas Kuhn's overly-used word here, we can, I think, say that a new *paradigm* has been substituted for an old one. Or, to go somewhat further back, and to use Nietzsche's metaphor, we now look at some aspects of our world, and specifically our world of politics, through a different window.

My primary title for this lecture, "Politics without Romance," was chosen for its descriptive accuracy. Public choice theory has been the avenue through which a romantic and illusory set of notions about the workings of governments and the behavior of persons who govern has been replaced by a set of notions that embody more skepticism about what governments can do and what governors will do, notions that are surely more consistent with the political reality that we may all observe about us. I have often said that public choice offers a "theory of governmental failure" that is fully comparable to the "theory of market failure" that emerged from the theoretical welfare economics of the 1930's and 1940's. In that earlier effort, the system of private markets was shown to "fail" in certain respects when tested against the idealized criteria for efficiency in resource allocation and distribution. In the later effort, in public choice, government or political organization is shown to "fail" in certain respects when tested for the satisfaction of idealized criteria for efficiency and equity. What has happened is that today we find few informed scholars who would try to test markets against idealized models. The private sector-public sector decision that each community must make is now more likely to be discussed in more-meaningful terms, with organizational arrangements analyzed by comparisons between realistically modelled alternatives.

It seems to be nothing more than simple and obvious wisdom to compare social institutions as they might be expected actually to operate rather than to compare romantic models of how such institutions might be hoped to operate. But such simple and obvious wisdom was lost to the informed consciousness of Western man for more than a century. Nor is such wisdom today by any means universally accepted. The socialist mystique to the effect that the state, that politics, somehow works its way toward some transcendent "public good" is with us yet, in many guises, as we must surely acknowledge. And, even among those who reject such mystique, there are many who unceasingly search for the ideal that will resolve the dilemma of politics.

Especially at this early point in my lecture, however, I do not want to appear to place too much emphasis on the normative implications of public choice theory. These implications can stand on their own, and they can be allowed to emerge as they will or will not from the positive analysis. The *theory* of public choice, as such, is or can be a wholly positive theory, wholly scientific and *wertfrei* in the standard meanings of these terms. The implications for the comparative evaluation of institutions, noted above, have to do with methods of making such comparisons, not with specific results. I do not want to commit the naturalistic fallacy, and I make no claim that public choice theory, any more than economic theory, can tell a community of persons what they "should" choose to do.

## 2. Definition

Let me now be somewhat more concrete and try to define "public choice theory" more directly. Such a definition can perhaps best be clarified by reference to economic theory, if only because the latter is more familiar. What is economic theory? It is a body of analysis that offers an understanding, an explanation, of the complex exchange process that we call "an economy." It is a body of analysis that allows us to relate the behavior of individual participants in market activity, as buyers, sellers, investors, producers, entrepreneurs, to the results that are attained for the whole community, results that are not within the purposes or the knowledge of the separate participants themselves. (I should note here that Austria has a very proud and important heritage in the development of economic theory as I have here defined it, and I may say in passing that one of the most exciting and most encouraging

developments within economics in the United States today is the observed resurgence of interest in “Austrian economics,” and notably as among young research scholars.)

Public choice theory essentially takes the tools and methods of approach that have been developed to quite sophisticated analytical levels in economic theory and applies these tools and methods to the political or governmental sector, to politics, to the public economy. As with economic theory, the analysis attempts to relate the behavior of individual actors in the governmental sector, that is, the behavior of persons in their various capacities as voters, as candidates for office, as elected representatives, as leaders or members of political parties, as bureaucrats (all of these are “public choice” roles) to the composite of outcomes that we observe or might observe. Public choice theory attempts to offer an understanding, an explanation, of the complex institutional interactions that go on within the political sector. I emphasize the word “complex” here, since the appropriate contrast to be made is with the approach that models government as some sort of monolith, with a being of its own, somehow separate and apart from the individuals who actually participate in the process.

### 3. Methodological Individualism

As my definition suggests, public choice theory is methodologically individualistic, in the same sense that economic theory is. The basic units are choosing, acting, behaving persons rather than organic units such as parties, provinces, or nations. Indeed, yet another label for the subject matter here is “An Individualistic Theory of Politics.”

There is no formal connection between the methodological individualism that describes formal public choice theory and the motivations that are attributed to persons as they behave in their various public-choice capacities or roles listed above. It would be possible to construct a fully consistent and methodologically individualistic theory of politics on the romantic assumption that all persons in their political roles seek only to further their own conceptions of some “common good,” and with utter and total disregard for their own more narrowly defined self-interest. Such a theory would not escape problems of reconciling differing persons’ differing conceptions of just what defines “common good.” But testable propositions might emerge from

such a theory, and empirical work might be commenced to test these propositions.

But most of the scholars who have been instrumental in developing public choice theory have themselves been trained initially as economists. There has been, therefore, a tendency for these scholars to bring with them models of man that have been found useful within economic theory, models that have been used to develop empirically testable and empirically corroborated hypotheses. These models embody the presumption that persons seek to maximize their own utilities, and that their own narrowly-defined economic well-being is an important component of these utilities. At this point, however, I do not want to enter into either a defense of or an attack on the usefulness of *Homo economicus*, either in economics or in any theory of politics. I would say only, as I have many times before, that the burden of proof should rest with those who suggest that wholly different models of man apply in the political and the economic realms of behavior. Logical consistency suggests that, at least initially, we examine the implications of using the *same* models in different settings.

As I have already noted, we commence with individuals as utility maximizers. And, for present purposes, we do not need to specify just what arguments are contained in a person’s utility function. We can, at this stage, allow for saints as well as sinners. In one sense, we can simply define a person in terms of his set of preferences, his utility function. This function defines or describes a set of possible trade-offs among alternatives for potential choice, whether the latter be those between apples and oranges at the fruit stand or between peace and war for the nation.

Once we begin analysis in terms of preference or utility functions, we are led almost immediately to inquire about possible differences among persons. Since there seems to be no self-evident reason why separate persons should exhibit the same preferences, it seems best to commence with the presumption that preferences may differ. Within economic theory, such differences present no problem. Indeed, quite the opposite. If one person places a relatively higher value on apples as compared with oranges than another person, an exchange opportunity is presented. Both persons can gain utility by trade. Indeed this trading to mutual advantage is what economic theory is all about, no matter how esoteric its modern practitioners may make it seem to be in its detail.

#### 4. Political Exchange

By any comparison with politics, economic theory is *simple*. The process of “political exchange” is necessarily more complex than that of economic exchange through orderly markets, and for two quite separate reasons. In the first place, basic “political exchange,” the conceptual contract under which the constitutional order is itself established, must precede any meaningful economic interaction. Orderly trade in private goods and services can take place only within a defined legal structure that establishes individuals’ rights of ownership and control of resources, that enforces private contracts, and that places limits on the exercise of governmental powers. In the second place, even within a well-defined and functioning legal order, “political exchange” necessarily involves *all* members of the relevant community rather than the two trading partners that characterize economic exchange.<sup>2</sup>

The two levels of “political exchange” provide a somewhat natural classification for two related but separate areas of inquiry, both of which fall within the corpus of public choice. The first area of inquiry may be called an “economic theory of constitutions.”<sup>3</sup> This theory has historical antecedents in the theory of social contract, and it also has modern philosophical generalization in the work of Rawls.<sup>4</sup> The second area of inquiry involves the “theory of political institutions” as these might be predicted to work within a constitutional-legal structure. The subject matter incorporates theories of voting and voting rules, theories of electoral and party competition, and theories of bureaucracy.<sup>5</sup>

2. For a development of the distinction between political exchange at the constitutional and the postconstitutional levels, see James M. Buchanan, *The Limits of Liberty* (Chicago, 1975).

3. The development of such a theory was the primary purpose of the book that I wrote jointly with Tullock. See James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor, 1962).

4. John Rawls, *A Theory of Justice* (Cambridge, 1971).

5. In modern public choice theory, the theory of voting rules commences with Duncan Black, *Theory of Committees and Elections* (Cambridge, 1958). The theory of electoral, or party, competition stems largely from the work of Anthony Downs, *An Economic Theory of Democracy* (New York, 1957). The theory of bureaucracy in its modern sense was first developed in Gordon Tullock, *The Politics of Bureaucracy* (Washington, 1965).

#### 5. The Economic Theory of Constitutions

As I have stated, this aspect of modern public choice theory is closely related to an important strand of ideas in traditional political theory or political philosophy, namely, the theory of the social contract or compact. The whole discussion here is directly relevant to the classic set of issues involving the *legitimacy* of political order. What gives legitimacy to governments, or to governors? What rights can some men possess to rule over other men?

At some basic philosophical level, the individualist must reject the notion that any such “rights of governance” exist. In this sense, I have often called myself a philosophical anarchist. Nonetheless, we are obligated to look squarely at the alternative social order that anarchy would represent, and without the romantic blinders that putative anarchists have always worn, then and now. And we look to Thomas Hobbes, whose 17th-century vision becomes very appealing to those of us who live in the late 20th century. Hobbes described the life of persons in a society without government, without laws, as “solitary, poor, nasty, brutish, and short.” In this Hobbesian perspective, any person in such a jungle would value security to life and property so highly that any contract with a sovereign government would seem highly beneficial. The person would agree to abide by the laws laid down by the sovereign, even if he recognizes that there were essentially no limits that could be placed on the sovereign’s use of these laws for its own exploitative purposes.

Montesquieu, John Locke, and the American Founding Fathers were more optimistic than Hobbes in their conception of constitutional contract as potentially binding on the activities of government. And I think that a reading of history will, to an extent at least, bear out their conception. Governments have been limited by constitutions, and part of the Western heritage to this day reflects the 18th-century wisdom that imposed some limits on governmental powers. But the 19th- and 20th-century fallacy in political thought was embodied in the presumption that electoral requirements were in themselves sufficient to hold government’s Leviathan-like proclivities in check, the presumption that, so long as there were constitutional guarantees for free and periodic elections, the range and extent of governmental action would be controlled. Only in the middle of this century have we come to

recognize that such electoral constraints do not keep governments within the implied "contract" through which they might have been established, the "contract" which alone can give governments any claim to legitimacy in the eyes of citizens.

The theory of constitutions that makes up a central part of public choice represents, in part, a return to the 18th-, as opposed to the 19th- or 20th-, century perspective. The theory raises questions about how governments may be constrained, and about how governments should be constrained. What should governments be allowed to do? What is the appropriate sphere of political action? How large a share of national product should be available for political disposition? What sort of political decision-structures should be adopted at the constitutional stage? Under what conditions and to what extent should individuals be franchised?

These questions, and many others like them, clearly depend for answers on some positive, predictive analysis of how different political institutions will operate if, in fact, they are constitutionally authorized. An informed, and meaningful, theory of constitutions cannot be constructed until and unless there exists some theory of the operation of alternative political rules.

## 6. Postconstitutional Politics

In a postconstitutional setting, with a defined legal order, there will remain opportunities for mutually advantageous "political exchanges." That is to say, after the conceptualized constitutional "contract" has established what has been variously called the "protective," "minimal" or "night-watchman" state, there are still likely to be efficiency-enhancing complex trades among all persons in the community. The "productive state" may emerge to provide "public goods," goods that are nonexcludable as among separate beneficiaries and that may be more cheaply produced jointly than separately.

How should the complex political exchanges be organized so as to insure that all beneficiaries secure net gains in the process? Voluntaristic trade akin to the pairwise matching of buyers and sellers that characterizes private-goods market exchange may not be possible. A role for governmental action is suggested, but how are government decisions to be made and by whom? By what rules? And how might various rules be predicted to work?

The theory here, as it has developed, has involved two distinct types of

question. First, it has attempted to look at how differing individual preferences over joint outcomes are reconciled, or might be reconciled. That is, how do groups of persons reach collective decisions under differing procedural rules? This type of theory has not been concerned with government, as such. In effect, it is a theory of *demand* for government goods and services without an accompanying theory of *supply*. The second, and more recent, development has addressed the quite different set of questions relating to the behavior of persons who are themselves charged with powers of governance, with supplying the goods and services that might be demanded by the citizenry. It will be useful to summarize the strands of postconstitutional political analysis separately.

### THEORY OF VOTING RULES

We may commence with the work of Black who asked the simple question: How do committees reach decisions under simple majority voting rules? Building on only bits and pieces of precursory work by Condorcet, Lewis Carroll, and a few others, Black was led to analyze the properties of majority voting, and he discovered the problem of the majority cycle, the problem that has occupied perhaps an undue amount of attention in public choice theory. There may exist situations where no single one of the possible alternatives for choice can command majority support over all other alternatives, despite the consistency of the preference sets of all members of the choosing group. In such a cyclical majority setting, there is no stable group decision attainable by majority rule; the group cannot make up its collective mind; it cannot decide.

Simultaneously with Black, and for a different purpose, Arrow was examining the desirable properties of a "social welfare function," and he was attempting to determine whether such a function could ever be constructed from a set of individual orderings.<sup>6</sup> He reached the conclusion that no such function satisfying minimally acceptable properties could be found, and for basically the same reasons that Black developed more closely in connection with majority voting rules [Arrow]. Arrow's work is not narrowly within what we might call the "public choice tradition," since he was, and is, con-

6. Kenneth Arrow, *Social Choice and Individual Values* (New York, 1951).

cerned not with how institutions work but the logical structure of collective or social choice. Nonetheless, it was Arrow's work that exerted a major influence on the thinking of social scientists; his work was taken to have demonstrated that government cannot work, if work here is defined in terms of the standard economist's criteria for consistency in choice. Collectivities in which individual preferences differ cannot, à la Black, make up their collective or group mind. And, à la Arrow, such groups cannot be assigned an ordering that will array all possible outcomes that is itself both consistent and reflective of individual orderings. Since the 1950's, since Arrow and Black, social choice theorists have explored in exhaustive logical and mathematical detail possible ways and means of escaping from the implications of the Arrow impossibility theorem, but they have had little or no success. "Social choice theory" has itself become a major growth industry, with an equilibrium not yet in sight.

Let me return to the work of Black, who, when confronted with the prospect of majority rule cycles, discovered that under certain configurations of preferences, such cycles would not arise. If the alternatives for collective choice can be arrayed in such a fashion that individual orderings over these alternatives are single-peaked, for all voters in the group, there will be a unique majority outcome, one that will defeat any other outcome in a series of pairwise majority votes. This outcome or option will be that one which best satisfies or which is most preferred by the voter who is *median* among all voters, with respect to preferences over the options. The conditions required for single-peakedness are plausibly applicable in situations where the alternatives for collective choice are reducible to quantitative variations along a single dimension, for example, proposed amounts of public spending on a given public service. Consider a school board or committee of three members, one of whom prefers high spending on education, one of whom prefers medium spending, and the third of whom prefers low spending. So long as the high spender prefers medium to low spending, and so long as the low spender prefers medium to high spending, majority voting as within the three-member committee will produce a stable medium-spending outcome.

This tendency of majority voting rules to produce determinate outcomes that correspond to the preferences of the median voter under certain conditions has led to many studies, both analytical and empirical, notably in public-finance applications of public choice, and particularly with reference

to the budgetary decisions made in local governments. Median-voter models break down, however, even with simple budgetary allocation problems, when more than one dimension is introduced. If voters, or members of committee, consider simultaneously several issues or dimensions, such as, say, spending on education and spending on police, the cyclical majority problem returns. And, related to this return, the multiplicity of dimensions allows for vote trading and "log-rolling," the analysis of which has been important in public choice theory from its inception.

As I have already noted, the theory of voting and voting rules sketched here in summary is not a theory of government or of politics at all. It is, instead, a theory or set of theories about how groups of persons reach some decision or choice on what might be *demanded*, by the group, from some supplying agent or agency. Implicitly, the analysis proceeds on the presumption that the goods or services demanded are supplied passively and that the motivations of suppliers may be neglected. It is as if all collective decisions are somehow analogous to the decision made by a group meeting in a closed room about the setting for the thermostat, the presumption being that, once a joint decision is made, the heating or cooling system will respond automatically and passively to the demands placed on it.

#### REPRESENTATION AND ELECTORAL COMPETITION

Once we so much as move beyond the simple committee or town-meeting setting, however, something other than the passive response of suppliers must be reckoned with in any theory of politics that can pretend to model reality. Even if we take only the single step from town-meeting democracy to representative democracy, we must introduce the possible divergence between the interests of the representative or agent who is elected or appointed to act for the group and the interests of the group members themselves.

It is at this point that electoral competition, as an institution, plays a role that has some similarities with that played by market competition in the economy. In the latter, the principle of consumer sovereignty prevails if sellers are sufficiently competitive. At the idealized limit, no single seller can exercise any power over buyers. But to what extent does a system of electoral competition generate comparable results? To what extent is voter sovereignty

analogous to consumer sovereignty? There are major differences that should be recognized, despite the underlying similarities. Persons or parties who seek to represent the interests of voters compete for approval or favor much in the manner as the sellers of products in imperfectly competitive markets for private goods and services. But politics differs categorically from markets in that, in political competition, there are mutually exclusive sets of losers and winners. Only one candidate or party wins; all others lose. Only one party is the governing party. One way of stating the basic difference here is to say that, in economic exchange, decisions are made at the margin, in terms of more or less, whereas in politics, decisions are made among mutually exclusive alternatives, in terms of all-or-none prospects. The voter may be disappointed when his candidate or party or policy proposal loses in a sense that is not experienced in market exchange.

At best electoral competition places limits on the exercise of discretionary power on the part of those who are successful in securing office. Re-election prospects tend to keep the self-interests of politicians within reasonable range of those of the median voter, but there is nothing to channel outcomes toward the needs of the non-median voting groups.

#### THEORY OF BUREAUCRACY

Even if we ignore the possible divergencies between the interests of legislative representatives, as elected agents of the voters, and those interests of the voters themselves, we remain without an effective model of government because we have not accounted for the behavior of those persons who actually *supply* the goods and services that are provided via governmental auspices. Voters elect members of legislatures or parliaments. Members of legislatures, through coalitions or through parties, make selections as among various policy alternatives or options. But the implementation of policy, the actual process of government, remains with persons who hold positions in the bureaucracy. How do these persons behave? How are the conflicts between their own interests and those of the voters reconciled?

Recent developments in public choice theory have demonstrated the limits of legislative control over the discretionary powers of the bureaucracy. Modern government is complex and many-sided, so much so that it would be impossible for legislatures to make more than a tiny fraction of all genu-

ine policy decisions. Discretionary power must be granted to bureaucrats over wide ranges of decision. Further, the bureaucracy can manipulate the agenda for legislative action for the purpose of securing outcomes favorable to its own interests. The bureaucracy can play off one set of constituents against others, insuring that budgets rise much beyond plausible efficiency limits.

Increasingly, public choice scholars have started to model governments in monopoly rather than competitive terms. Electoral competition has come more and more to be viewed as competition among prospective monopolists, all of whom are bidding for an exclusive franchise, with profit-maximizing assumed to characterize the behavior of the successful bidder. Governments are viewed as exploiters of the citizenry, rather than the means through which the citizenry secures for itself goods and services that can best be provided jointly or collectively. Both the modern analysis and the observed empirical record suggests that governments have, indeed, got out of hand.

#### 7. Can Leviathan Be Limited?

The rapidly accumulating developments in the theory of public choice, ranging from sophisticated analyses of schemes for amalgamating individual preferences into consistent collective outcomes, through the many models that demonstrate with convincing logic how political rules and institutions fail to work as their idealizations might promise, and finally to the array of empirical studies that corroborate the basic economic model of politics—these have all been influential in modifying the way that modern man views government and political process. The romance is gone, perhaps never to be regained. The socialist paradise is lost. Politicians and bureaucrats are seen as ordinary persons much like the rest of us, and “politics” is viewed as a set of arrangements, a game if you will, in which many players with quite disparate objectives interact so as to generate a set of outcomes that may not be either internally consistent or efficient by any standards.

I do not want to claim, or to be taken to claim, too much for the contribution of public choice theory in turning attitudes around here, in being responsible for the paradigm shift. For social scientists, for scholars and intellectuals, the availability of an alternative model of political process probably

has been of some considerable importance. But for members of the general public, the simple observation of failure on the part of governments to deliver on their promises, these failures have been much more important in modifying attitudes than any set of ideas or any ideology.

I noted earlier that the fallacy of the 19th- and 20th-century political thought lay in an implicit faith that electoral constraints would alone be sufficient to hold the Leviathan-like proclivities of government in check. The experience in Western nations since World War II has exposed this fallacy for what it is. And we are now seeking to reimpose constitutional limits on government over and beyond those exercised through democratic electoral constraints. At least we are trying to do so in the United States. Beyond minimal efforts, I am not sure that there is a comparable movement at work in Europe. It seems to me highly doubtful that this objective can be successfully accomplished. Having come to command shares in national income or product that were undreamt of, even in the most roseate of the early democratic socialist predictions, modern governmental bureaucracies will not relinquish their relative positions in society without struggle.

Nonetheless, the effort is being made and will be made. In America, 1978 was the year of Proposition 13, when the voters of California turned back, by a two-to-one margin, the growth of government spending and taxing. This event sent political shock waves throughout the Western world. The United States is now (1979) inundated with various proposals, at all levels of government, designed to limit the expansion of governmental powers. "Bridling the passions of the sovereign"—this 18th-century slogan has resurfaced to command political respectability.

I have indicated that developments in public choice theory may have been in some small way influential in generating this shift in attitudes toward bureaucracies, politicians, and government. But the question remains as to what contribution public choice theory might make in the face of the developing distrust of traditional political institutions. It is here that the economic theory of constitutions, discussed earlier as a part of public choice analysis, becomes relatively the most important area of emphasis. Western societies face a task of *reconstruction*; basic political institutions must be re-examined and rebuilt so as to keep governments as well as citizens within limits of tolerance. But we are approaching a period when critical diagnosis is not enough. Criticism alone can generate chaos, whether this be in the form of

gradual breakdown or in the form of violent disruption. The reconstructive reform in our institutions can be accomplished without revolution of either the left or right, but this path toward the future requires that the public come to understand the limits of change as well as the value. Zealotry in the cause of anti-politics, anti-government, anti-institutions movements can result in a drift toward anarchistic terror, the jungle against which Hobbes warned us all. We must indeed keep the "miracle" of social order clearly in our mind as we seek ways and means of reforming arrangements that seem to have got out of hand. I think that public choice theory offers an analytical setting that allows us to discuss genuine reconstruction in our constitutions that may be made without major social costs.