

3 The Public Choice Perspective¹

I INTRODUCTION

On several different occasions in recent years, I have offered my interpretation of the history, development, and content of public choice.² What I want to do here is something different from the earlier efforts. The very word 'perspective' is helpful in allowing me to get some focus on the very general comments I want to make.

Let me start by indicating what the public choice perspective is *not*. It is not a method in the usual meaning of the term; it is not a set of tools; it is not a particular application of standard tools with standard methods, although we are getting somewhat closer with this last statement. Public choice is a *perspective* on politics that emerges from an extension-application of the tools and methods of the economist to collective or non-market decision-making. But this statement, in itself, is inadequately descriptive, because, in order to attain such a perspective on politics, a particular approach to economics is required.

In these notes I shall refer to two separate and distinct aspects or elements in the public choice perspective. The first aspect is the generalized *catalactics* approach to economics. The second is the more familiar *homo economicus* postulate concerning individual behaviour. These two elements, as I shall try to demonstrate, enter with differing weights in the several strands of public choice theory, inclusively defined.

II CATALAXY, OR ECONOMICS AS THE SCIENCE OF EXCHANGES

My 1962 presidential address to the Southern Economic Association in the United States was published in 1963,³ and, incidentally, about the same time that Gordon Tullock and I founded what was to become the Public Choice Society (it was initially organized under the rubric 'Committee on Non-Market Decision-Making'). In 1979, by way of a special celebration, several of my papers on methodology were published in a volume under the title

*What Should Economists Do?*⁴ which was directly taken from the title of my 1962 essay, which was included in the volume. In June 1982 I had occasion to rethink my general position in response to this old question I had posed, for an address in Giessen, Germany.

What should economists do? My 1962, as well as my 1982, response to this question was to urge that we exorcise the maximizing paradigm from its dominant place in our tool kit, that we quit defining our discipline, our 'science', in terms of the scarcity constraint, that we change the very definition, indeed the very name of our 'science', that we stop worrying so much about the allocation of resources and the efficiency thereof, and, in place of this whole set of ideas, that we commence concentrating on the origins, properties, and institutions of *exchange*, broadly considered. Adam Smith's propensity to truck and barter one thing for another—this becomes the proper object for our research and inquiry.

The approach to economics that I have long urged and am urging here was called 'catallactics', the science of exchanges, by some nineteenth-century proponents. More recently, Professor Hayek has suggested the term 'catallaxy', which he claims is more in keeping with proper Greek origins of the word. This approach to economics, as the subject matter for inquiry, draws our attention directly to the *process* of exchange, trade, agreement, or contract. And it necessarily introduces, quite early, the principle of spontaneous order, or spontaneous coordination, which is, as I have often suggested, perhaps the only real 'principle' in economic theory as such.

I could, of course, go on with an elaboration and defence of this approach to economic theory, but such is not my purpose here. You may well be asking what this methodological argument has to do with the public choice perspective, which *is* my assignment. My response is straightforward. If we take the catallactics approach seriously, we then quite naturally bring into the analysis complex as well as simple exchange, with complex exchange being defined as that contractual agreement process that goes beyond the economists' magic number 'two', beyond the simple two-person, two-commodity barter setting. The emphasis shifts, directly and immediately, to all *processes of voluntary agreement* among persons.

From this shift in perspective on what economics should be all about, there follows immediately a natural distinction between 'economics' as a discipline and 'political science' or 'politics'. There are no lines to be drawn at the edges of 'the economy' and 'the polity', or between 'markets' and 'governments', between 'the private sector' and 'the public sector'. Economists need not restrict their inquiry to the behaviour of persons within markets (to buying and selling activities as such). By a more or less natural extension of the catallactic approach, economists can look on politics and on political process in terms of the exchange paradigm. So long as collective action is modelled with individual decision-makers as the basic units, and so

long as such collective action is fundamentally conceived to be reflective of complex exchange or agreement among all members of a relevant community of persons, such action or behaviour or choice may readily be brought under the catallaxy umbrella. There is no 'economists' imperialism', as such, in this inclusion. There remains a categorical distinction between 'economics as catallaxy' and 'political science' or 'politics'. The latter, that is politics as an academic-research discipline, is then assigned the whole realm of *non-voluntary* relationships among persons, those relationships involving power or coercion. Interestingly enough, this dividing line between the two areas of social science inquiry is the same as that proposed by some political scientists and sociologists (e.g. Talcott Parsons).

Almost any observed empirical relationship among persons will incorporate some catallactic and some power elements. The idealized setting of perfect competition is defined in part for the very purpose of allowing a description of a situation in which there is no power or one person over another at all. In the world where each and every buyer of each and every commodity and service confronts many sellers, among whom he may shift costlessly, and where each and every seller of each and every commodity or service confronts many buyers, among whom he may shift costlessly, there is no power of one person over another. In such a setting, 'economic power' becomes totally without meaning or content.

As we depart from this conceptualized ideal, however, as *rents*, actual or potential, emerge in the relationships between and among persons, elements of power and potential coercion arise, and behaviour becomes amenable to analysis by something other than pure catallaxy.

I do not propose to elaborate the myriad of institutional variants in which both exchange and power elements coexist. I make the categorical distinction largely to suggest that the perspective of economics-as-catallaxy, with its quite natural extension to institutional settings in which persons interact collectively, offers one way of looking at politics and governmental processes, a 'different window', to use Nietzsche's metaphor. And, in a very broad sense, this is what the public choice perspective on politics is about, a different way of looking at political process, different in kind from that way of looking which emerges from the politics-as-power perspective.

Note that in applying the catallaxy perspective to politics, or in applying public choice, to use the more familiar term, we need not, and indeed should not, make the mistake of implying, inferring, or suggesting that the power elements of political relationships are squeezed out as if by some methodological magic. The public choice perspective, which does model politics ultimately in the exchange paradigm, is not necessarily offering an empirically refutable set of hypotheses to the effect that politics and political process is exclusively or even mainly reducible to complex exchange, contract, and agreement. It should be evident that elements of pure rent, and hence of

power, emerge more readily in settings of complex than those of simple exchange, and hence more readily in many-person than in two-person relationships, in political than in market-like arrangements. Hence, an appropriate division of scientific labour would call upon the discipline of 'political science' to concentrate more attention on political arrangements and for that of economics to concentrate more attention on market arrangements. There are, nonetheless, major contributions to be made by the extensions of both perspectives across the whole spectrum of institutions. In this sense, the public choice perspective on politics becomes analogous to the economic power perspective on markets.

There are important normative implications to be derived from the public choice perspective on politics, implications that, in their turn, carry with them an approach to institutional reform. To the extent that voluntary exchange among persons is valued positively while coercion is valued negatively, there emerges the implication that substitution of the former for the latter is desired on the presumption, of course, that such substitution is technologically feasible and is not prohibitively costly in resources. This implication provides the normative thrust for the proclivity of the public choice economist to favour market-like arrangements where these seem feasible, and to favour decentralization of political authority in appropriate situations.

Even without the normative implications, however, the public choice perspective on politics directly draws attention to an approach to reform that does not emerge from the power perspective. To the extent that political interaction among persons is modelled as a complex exchange process, in which the inputs are individual evaluations or preferences, and the process itself is conceived as the means through which these possibly diverging preferences are somehow combined or amalgamated into a pattern of outcomes, attention is more or less necessarily drawn to the interaction process itself rather than to some transcendental evaluation of the outcomes themselves. How does one 'improve' a market? One does so by facilitating the exchange process, by reorganizing the rules of trade, contract, or agreement. One does not 'improve' or 'reform' a market-like exchange process by an arbitrary rearrangement of final outcomes.

The *constitutional* perspective (which I have personally been so closely associated with) emerges naturally from the politics-as-exchange paradigm or research programme. To improve politics it is necessary to improve or reform the *rules*, the framework within which the game of politics is played. There is no suggestion that improvement lies in the selection of morally superior agents, who will use their powers in some 'public interest'. A game is described by its rules, and a better game is produced only by changing the rules. It is this constitutional perspective, as it emerges from the more inclusive public choice perspective, that brings public choice closest into

contact with current policy issues in the 1980s. I have, as an economist, always felt very uneasy about proffering advice on particular policies (e.g. on this or that proposed change in the tax law). On the other hand, and by contrast, I do feel it to be within our potential competence to analyze alternative constitutional regimes or sets of rules, to discuss the predicted workings of alternative constitutional arrangements. Hence, as you might suspect, I have been personally (both indirectly and directly) involved in the various proposals for constitutional change that have been made in the 1970s and early 1980s. I refer, of course, to such proposals as Propositions 1 and 13 in California in 1973 and 1978 respectively, the one unsuccessful the other successful; or to Proposition 2½ in Massachusetts, or Proposition 6 in Michigan; and, at the federal government level, to the proposed balanced-budget amendment, and to the accompanying tax limit or spending limit proposals, as well as to proposed changes in the basic monetary regime.

Let me backtrack to the suggestion made above to the effect that the public choice perspective leads directly to attention and emphasis on rules, on constitutions, on constitutional choice, on choice among rules. The Buchanan-Tullock 'classic' book, *The Calculus of Consent*, was the first attempt to derive what we called an 'economic theory of political constitutions'.⁵ It would, of course, have been impossible to make that effort without the methodological perspective provided in economics-as-exchange, or catallactics. The maximizer of social welfare functions could never have written such a book, and indeed, even today, the maximizer of such functions cannot understand what the book is all about.

I have identified the first element or aspect of the inclusive public choice perspective as the catallactics approach to economics, the economics-as-exchange paradigm. I referred to nineteenth-century economists who urged the catallactics framework for emphasis. I should be remiss here, however, if I should fail to mention that, for me personally, the acceptance of the catallaxy framework for economic theory emerged, *not* from inquiry into economic methodology directly, but rather from the constitutional public choice perspective that I got from Knut Wicksell.⁶ I have often remarked that Wicksell is the primary precursor of modern public choice theory. Wicksell warned as early as 1896 against the presumption that we, as economists, give advice to the benevolent despot, to the entity that would indeed try to maximize a social welfare function. Wicksell stated that if reform in economic policy is desired, look to the rules through which economic policy decisions get made, look to the constitution itself. This 'politics as complex exchange' notion of Wicksell was the stimulus for me to look more closely into the methodological presuppositions of economics itself, presuppositions that I had really not questioned independently.

III. HOMO ECONOMICUS

The second element or aspect embodied in the inclusive public choice perspective that I identified in the introduction is the behavioural postulate familiarly known as that of *homo economicus*. Individuals are modelled as behaving so as to maximize utilities subject to the constraints they face, and if the analysis is to be made at all operational, specific arguments must be placed in the utility functions. Individuals must be modelled as seeking to further their own self-interest, narrowly defined in terms of measured net wealth positions, as predicted or expected.

This behavioural postulate is, of course, part and parcel of the intellectual heritage of economic theory, and it has indeed served economists well. It stems from the original contributions of the classical economists themselves, whose great discovery was that individuals acting in pursuit of their own interests may unintentionally generate results that serve the overall 'social' interest, given the appropriate framework of laws and institutions. Since these eighteenth-century roots, economists and economics have relied on the *homo economicus* postulate to analyze the behaviour of persons who participate variously in markets and, through this, to analyze the workings of market institutions themselves.

No comparable postulate was extended to the behaviour of persons in their political or public-choice roles or capacities, either as participants in voting processes or as agents acting for the body politic. There was no such postulate stemming from the classical economists or from their successors. There was no 'economic theory of politics' derived from individual choice behaviour.

We might, in retrospect, have expected such a theory to be developed by economists, as a more or less obvious extension of their *homo economicus* postulate from market to collective institutional settings. Once economists turned their attention to politics, they should, or so it now seems, have modelled public choosers as utility maximizers. Why did they not do so? Perhaps the failure of the classical economists, as well as that of their nineteenth-century successors, to take this step might be 'excused' by their implicit presumption that collective activities were basically unproductive and that the role of the state was limited largely to what has been called minimal or protective functions. These economists simply could not conceive that much 'good' or 'goods' could be generated by collective or governmental action.

But why did their twentieth-century descendants fail similarly, despite some suggestive models as advanced by Wicksell and the Italian public-finance scholars (De Viti De Marco, Puviani, Pantaleoni, and others) in the waning years of the nineteenth century? My own interpretation of the modern failure is that twentieth-century economists had been converted to

the maximization-scarcity-allocation-efficiency paradigm for their discipline, a paradigm that is essentially at variance with that which classical economics embodies and which draws attention away from individual behaviour in exchange contracts and toward some presumably objectifiable allocative norm that remains conceptually independent of individual choices. By the third decade of this century, economic theory had shifted to a discipline of applied mathematics, not catallaxy. Even markets came to be viewed as 'computing devices' and 'mechanisms', that may or may not secure idealized allocative results. Markets were not, at base, viewed as exchange institutions, out of which results emerge from complex exchange interaction. Only in this modern paradigm of economic theory could the total absurdity of the idealized socialist structure of Lange-Lerner have been taken at all seriously, as indeed it was (and, sadly, still is) by practising economists. We may well ask why economists did not stop to ask the questions about why socialist managers would behave in terms of the idealized rules. Where are the economic eunuchs to be found to operate the system?

Or, to bring the discussion somewhat further forward in time, why did the economists of the 1930s, 1940s, 1950s, and into the 1960s take the Keynesian theory of policy seriously? Why did they fail to see the elementary point that elected politicians will seek any excuse to create budget deficits?

It all seems so simple in retrospect, but we should never underestimate the difficulties, indeed the moral costs, that are involved by a genuine shift in paradigm, a change in the very way that we look at the world around us, whether this be economists looking at politics or any other group. It was not easy for economists before the 1960s to think of public choosers as utility maximizers in other than some tautological sense. In part, the intellectual blockage here may have stemmed from a failure of those who did advance self-interest models to incorporate the politics-as-exchange paradigm in their own thinking. If politics is viewed only as a potentially coercive relationship among persons, at all levels of conceptualization, then the economist must be either courageous or callous who would model public choosers (whether voters or agents) as net wealth maximizers. Few want to reap the scorn that Machiavelli has received through the ages. Such a world of politics is not at all a pretty place. And analysis based on such a model and advanced as 'truth' becomes highly noxious. The very unpleasantness of these models of politics may have been the root cause that explain the neglect of what now appear to be clear precursors of this element in the public choice perspective. Some of the early Italians, and notably Pareto, who were themselves perhaps influenced importantly by Machiavelli, and in the middle of this century, Schumpeter, seem to have had little or no impact on the thinking of modern social scientists about political process.

It is only when the *homo economicus* postulate about human behaviour is

combined with the politics-as-exchange paradigm that an 'economic theory of politics' emerges from despair. Conceptually, such a combination makes it possible to generate analysis that is in some respects comparable to that of the classical economists. When persons are modelled as self-interested in politics, as in other aspects of their behaviour, the constitutional challenge becomes one of constructing and designing framework institutions or rules that will, to the maximum extent possible, limit the exercise of such interest in exploitative ways and direct such interest to furtherance of the general interest. It is not surprising, therefore, to discover that the roots of a public choice perspective which contains both elements here identified are to be found implicitly in the writings of the American Founders, and most notably in James Madison's contributions to *The Federalist Papers*.

I look on *The Calculus of Consent* as the first contribution in modern public choice theory that combined and balanced the two critical elements or aspects of the inclusive perspective. This combination might well not have occurred but for the somewhat differing weights that Gordon Tullock and I brought to our joint venture in that book. I think it is accurate to say that my own emphasis was on modelling politics-as-exchange, under the acknowledged major influence of Knut Wicksell's great work in public finance. By comparison (and interestingly because he was not initially trained as an economist), Gordon Tullock's emphasis (stemming from his own experience in, and his reflections about, the bureaucracy) was on modelling all public choosers (voters, politicians, bureaucrats) in strict self-interest terms. There was a tension present as we worked through the analysis of that book, but a tension that has indeed served us well over the two decades since initial publication.

In the 1960s, 1970s, and early 1980s varying contributions have represented differing weighted combinations of the two central elements in the inclusive public choice perspective. Works on the theory of bureaucracy and bureaucratic behaviour and on the theory of regulation have been weighted towards the *homo economicus* element, whereas works on constitutional analysis have been more derivative from the politics-as-exchange paradigm.

These two wings of modern public choice theory are not mutually inconsistent. Even if politics and political process is ultimately modelled in an exchange paradigm, simple and direct observation suggests that politicians and bureaucrats are inherent components. And these persons act no differently from other persons that the economist studies. Recognition of this simple point followed by a positive analysis of the working out of its implications in the institutional settings of modern politics are essential inputs into the more comprehensive comparative analytics that must precede any discussion of constitutional reform. It is precisely because of the insights of the modern theories of bureaucracy and regulation that there has

emerged the increasing awareness of the need for new institutional constraints.

NOTES

1. This paper was initially published in *Economia delle scelte pubbliche* (Rome), 1 (Jan. 1983), 7-15. I acknowledge the permission of the editor, Professor Domenico da Empoli, to reprint the paper here, substantially unchanged.
2. See James M. Buchanan, 'Public Finance and Public Choice', *National Tax Journal*, 28 (Dec. 1975), 383-94; 'From Private Preferences to Public Philosophy: Notes on the Development of Public Choice', in *The Economics of Politics*, ed. Arthur Selden (London: Institute of Economic Affairs, 1978), pp. 1-20; 'Politics Without Romance: A Sketch of Positive Public Choice Theory and Its Normative Implications', Inaugural Lecture, Institute for Advanced Studies, Vienna, Austria, *IHS Journal, Zeitschrift des Instituts für Höhere Studien*, 3 (Wien, 1979), B1-B11.
3. James M. Buchanan, 'What Should Economists Do?', *Southern Economic Journal*, 20 (Jan. 1964), 213-22.
4. James M. Buchanan, *What Should Economists Do?* (Indianapolis: Liberty Press, 1979).
5. James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962).
6. Knut Wicksell, *Finanztheoretische Untersuchungen* (Jena: Fischer, 1896).
7. On this point, see James M. Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press, 1977).