Post-Socialist Political Economy

Selected Essays

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17. The individual as participant in political exchange

An important element in James S. Coleman's scientific enterprise has been the derivation of collective organization and collective action from the rational-choice behaviour of individual decision makers. It is not therefore surprising that he was a contributor to *Public Choice* (Coleman, 1968) and an active participant in the Public Choice Society, when both the journal and the Society were in their infancy. In a very real sense, Coleman's was always a 'public choice' perspective, as this somewhat misnamed, and widely misunderstood, subdiscipline emerged into viability as a research programme.

On several occasions, I have suggested that a necessary component in the public choice perspective is a conception of politics as a complex exchange process in which individuals participate in some sense analogous to their participation in markets (Buchanan, 1983). I have compared and contrasted this exchange model of politics with (1) the pure conflict model and (2) the truth-judgement model. My concern has been to demonstrate the relative superiority of the exchange model, both for descriptive analyses of observed political reality and for any normative justification of government as political agency. I have not directed sufficient attention to explication of the several variants of the exchange model itself, which becomes the self-assigned objective for this chapter.

In the second section, I set out the two distinct 'exchanges' in which the individual may be presumed to participate in the role as a member of an organized polity. The third section describes in some detail the idealized operation of the voluntaristic exchange model and extends its potential applicability by shifting attention to the constitutional stage of interaction. The fourth section examines the second model – that of coerced or unequal Hobbesian 'exchange' between the monolithic sovereign and the individual citizen. The fifth section discusses the institutional marriage of the two exchange models in political regimes.

EXCHANGE *AMONG* INDIVIDUALS AND EXCHANGE *BETWEEN* THE INDIVIDUAL AND THE COLLECTIVITY

In its most abstracted formulation, political exchange takes place among all members of the set of individuals who share a common objective and who can

secure this objective more effectively through joint rather than separate action. This setting describes the familiar public-goods model of interaction; individuals are conceived to be exchanging, one with another, shares in the costs of the joint undertaking. Note that, in this formulation, there is no 'state' or 'government', as such. Politics is limited to the cooperative activity that is involved in the joint *demand* for the commonly desired 'good', which is, presumably, 'purchased' directly from ordinary suppliers on a market.

The exchange involved here is complex because of the necessary inclusion of all participants who share in the demand enterprise. There is no possible factoring down of the exchange into a single-buyer/single-seller relationship. And, because of the nonexcludability characteristics of the 'good', all participants must be brought simultaneously into the contract. Bargaining among participants takes place along two dimensions – that which measures the relative shares in the costs of the good that is to be purchased and that which measures the quantity to be purchased.

In its idealized limits, this is a model of purely voluntary exchange – analogous in important respects to exchange in private goods markets, with the significant exception being the extension in the number of participants. The relevant exchange takes place among demanders; the derivative exchange between demanders (as a collective group or as a corporate actor) and some single supplying agent is treated as an ordinary market relationship, with the good that is purchased being supplied at a competitive price.

As some public-choice critics noted early, the political exchange model in orthodox public-goods analysis is exclusively limited to the demand side of the fiscal process and leaves out of account any organization of public-goods supply. In real-world politics, governments do, indeed, exist, and they can scarcely be modelled as passive transmitters of the preferences of citizens, who have presumably completed the trade-offs among themselves so as to arrive at some collective determination of cost shares and public goods quantity. As they are observed to function, governments *extract* tax payments from and *supply* goods and services to citizens; the transaction between each citizen, as taxpayer-beneficiary, and government would seem amenable to analysis in terms of 'political exchange' between government-as-supplier and the individual-as-demander, much as with the case of an ordinary exchange between the seller and the buyer in the market-place.

Such an 'exchange' is, however, quite different from either a market transaction in private goods or the idealized contractual agreement on cost shares in the pure public goods setting. A central characteristic of exchange is absent; the individual does not *voluntarily* participate in the fiscal exchange with government, at least in a sense that is analogous to ordinary market behaviour. The individual does not retain the relatively low-cost *exit* option that remains ever present in the market, nor does the individual retain the effective veto power that is

present in the idealized Wicksellian contract for the demand of collectively purchased goods. In direct fiscal exchange, the government confronts the individual, as taxpayer, with a bill that he or she is required to pay, upon pain of penalty for failure. At the same time, the government supplies to the individual some flow of goods and services from which some benefits are enjoyed. But there is no individual behavioural adjustment available at relatively low cost – adjustment that can ensure that, at least at the margin, benefits are subjectively measured to be equal to costs. If such adjustment to the 'exchange' offered by the fisc were possible, the individual would, of course, accept the flow of services offered while at the same time withholding all payments. Voluntariness, in this sense, is clearly impossible in this transaction between the government and the individual.

The presence or absence of this central feature of exchange does not modify the formal definition of the conditions that must be met to ensure that the *results* of the overall or inclusive relationship between the individual and others in the political unit, including those who act in roles as governmental agents, are analogous to those that emerge in market exchange. And it may be useful here to specify precisely the idealized fiscal process in its entirety, if for no other reason than to suggest the incentive incompatibilities that must arise at some critical spots where persons confront choice alternatives.

Consider, then, a setting, where all members of a political community enter initially into a discussion-dialogue on the prospect for collective action directed towards the purchase of a good that is to be made available for consumption-usage by all persons simultaneously. An agreement is signified when and as each person, voluntarily, accepts an obligation to contribute a specified sum towards the joint costs in exchange with matching contributions specified for all other members of the group. The complex agreement describes the allocation of cost shares (tax prices) among persons as well as the quantity of the good that is to be purchased and subsequently made available.

Government then enters the calculus solely as an *agent* directed to implement the agreement that has been reached through the voluntary exchange among members. Acting as agent, for the collectivity of persons, government then confronts each citizen with a tax charge – the one that the member in question has agreed to pay – and then uses funds so collected to finance and to supply the collective-consumption good in precisely the quantity that had been earlier agreed to by all members.

Each individual attains an 'equilibrium' at which the assigned tax price per unit of good is equal to his or her relative marginal evaluation of the good, defined in some numeraire. In this sense, each person is in a position that is allocatively analogous to that attained by his or her own individualized behavioural adjustment in the market for a partitionable private good. But despite this formal equivalence in positions, note that the individual in the exchange with government-as-agent here is not faced with an incentive compatible structure,

one that will be voluntarily sustained. The individual will find it rational to defect on the prior agreement; the individual will seek to become a free rider; the benefits of the nonexcludable public good will be available independently of the individual's own behaviour. Hence, the government-as-agent must be assigned powers of coercion; persons must be forced to contribute shares in the financing of the collectively consumed good, even if they have agreed to the terms of the more inclusive 'exchange'.

If, however, the government-as-agent is assigned powers of coercion over citizens in order to overcome the incentive incompatibility in citizens' behaviour, another potential incentive incompatibility emerges as government is allowed to depart from its role as idealized agent. It will be useful to specify precisely the form that the coercive charges levied by government must take, if government should strictly remain in the role of idealized agent. The government could not, in this role, be empowered to *tax* in any orthodox meaning of the term; it could not impose a coercive charge against any measurable base such as income, expenditure or use of particular goods. Each individual must be confronted with the tax price per unit of public good that he has agreed to pay in the inclusive contractual process. But since, by the nature of this charge, the individual cannot behaviourally adjust so as to modify his or her liability (per unit of public good), there is no direct negative feedback exerted on government when it departs from its idealized role, either by levying higher than agreed taxes or utilizing some share of funds collected to finance goods for agents' rather than citizens' benefits. Just as individual citizens have incentives to free ride in the absence of governmental coercion, government itself, through its agents, has incentives to depart from the terms of its own mandate by exploiting its coercive powers.

CONSTITUTIONAL EXTENSION OF THE MODEL OF EXCHANGE AMONG INDIVIDUALS

The procedural requirements that any pure model of voluntary fiscal exchange must meet in order to accomplish the defined purpose are indeed extreme. Unanimous agreement among all members of the polity must be reached on each and every component item in the budget. Each outlay must be treated separately in the collective decision calculus. Further, government must be established and assigned powers of coercion to enforce the agreed upon contractual terms, but means must be found to restrict government to these limits. Recognizing the immense practical difficulties of approximating such requirements, it is all too easy to reject the voluntary-exchange model out of hand, even as an ideal conceptualization of the relationship between the individual and the collectivity in which membership is claimed.

If, however, the exchange model is modified by shifting attention to the level of *constitutional* choice, essential elements may be retained, while moving some considerable distance towards plausibly recognizable institutional features of real-world politics. Suppose that the separate individual members of the political community acknowledge that the costs of attempting to reach agreement on each and every item of proposed collective outlay will be prohibitive. But suppose, further, that they also recognize that any assignment of coercive powers to government must be accompanied by restrictions or limits on the arbitrary usage of such powers. In this setting, agreement may be reached on a structure of collective decision making that will facilitate collective action while at the same time keeping the exercise of coercion in check (Buchanan and Tullock, 1962). In place of idealized agreement on each and every proposal to inaugurate joint action, a legislative body, periodically elected by voting, may be empowered to use majority voting rules to make spending and taxing decisions, provided that the degree of arbitrary discrimination in these decisions is limited by some appropriate criteria of generality. That is to say, legislative majorities may be authorized to impose taxes on all citizens, but only so long as taxes are levied on acceptable, and well-defined, criteria of generality. Supporters of legislative minorities cannot be singled out for discriminatory tax treatment, nor can supporters of majorities be discriminatorily favoured. Analogous constitutional criteria of generality may be applied to the distribution of benefits from goods and services that government is authorized to finance with tax funds, although this fully symmetrical application is much less familiar in observed fiscal systems.

The provisions that establish the whole structure, involving the voting franchise, the periodicity of elections, the voting rule among the electorate, the size of the legislative body, the bases of representation, the voting rule within the legislature itself, the veto powers of the executive, the range and scope of legislative powers, fiscal and nonfiscal and so on – these may be set out in a political constitution for the community. And *agreement*, or potential agreement, on the provisions in the constitution provides the ultimate legitimation for action taken within the terms of the structure that is described.

Note that this shift of idealized agreement to the constitutional level allows for very substantial departures from the procedural conditions described earlier as those necessary to bring any fiscal exchange into close analogy to market exchange. The process through which constitutional agreement is reached, conceptually, remains contractual, and remains in this sense 'political exchange', in which each individual trades off or exchanges his or her own interests with others. Each person or group accepts the potential constraints defined by the constitution in exchange for the like acceptance of comparable constraints by others in the community. But, acting strictly within the constitutional limits that may have been accepted, a legislative majority may impose tax charges upon

an individual as means of financing outlay that the individual values much less than the private goods that might be purchased by the tax funds extracted. There need be little, if any, relationship here between the tax charges that are imposed coercively on an individual and the value that is placed by that individual on the flow of goods and services made available by the government. Almost every person in the polity will prefer a budgetary mix different from that which is provided, and, universally, each person will prefer a tax structure that involves lower charges against his or her own account. Further, there may exist substantial numbers of citizens who consider themselves to be net losers in the complex fiscal exchange process which includes the whole taxing-spending package; they may value the total flow of benefits from public goods and services lower than the value of taxes extracted.

The limits on such fiscal exploitation rest in the constitutionally dictated electoral processes. A government, acting through the constitutionally authorized legislative majority, is subject to electoral replacement in whole or in part if its combined package of outlays and taxes gets too far beyond the limits dictated by the ultimate preferences of a majority of citizens in the polity. But such limits are broad indeed, so much so that the conceptualization of the fiscal process in the exchange metaphor may be called into question.

There are two difficulties with the exchange or contractual model of politics that must be acknowledged, even at the level of abstract analytical discourse. The first invokes the familiar and long-standing criticism of any contract theory of the state. Individuals find themselves born into membership in an ongoing political structure, with a well-defined set of constitutional rules. They have never participated in any process from which general agreement on the set of constitutional rules in existence might have emerged. In this situation, which is acknowledged to be descriptive of empirical reality, how can the individual's acquiescence in the constraints of politics be meaningfully discussed as an element of an 'exchange' with others?

At this point, those who defend contractual or exchange models find it useful to introduce conceptual as opposed to actual agreement as a device for retaining some explanatory value. The exercise becomes one of potential legitimation of existing constitutional structures rather than one of the historical explanation. Could the existing rules that define the overall operations of the polity have been agreed upon by all citizens if, indeed, there could have been some imagined initial dialogue? At this point, the potential conflict among the separate interests of persons and groups is mitigated by resort to constructions that introduce a veil of ignorance or uncertainty.

Even if this major criticism of the exchange or contract model of politics is somehow countered, there remains a second difficulty, related to the incentive incompatibility previously noted. In a large-number polity, individuals will have little or no incentive to become informed about relevant choice alternatives or

even to participate actively in any discussion leading to ultimate agreement upon the general constitutional rules that define the constraints upon their actions, either privately or publicly. That is to say, it remains fully rational and in their own interest for persons to remain disinterested in such processes, and this disinterestedness, in turn, offers the opportunity for exploitation by potential political entrepreneurs who seek to exploit emotion-based prejudices, as opposed to reasoned expressions of interests (Brennan and Buchanan, 1984; Buchanan and Vanberg, 1989).

'EXCHANGE' BETWEEN THE INDIVIDUAL AND THE SOVEREIGN

Recognition of the attenuated nature of any exchange model derived directly from the democratic-contractual setting, even as extended to the constitutional as opposed to the within constitutional level of political action, prompts attention to the alternative conceptualization noted earlier; that in which the basic model becomes one in which there is a two-party relationship between the citizen and the government (state or sovereign). This model can also be interpreted in exchange terms, although in a sense that sharply contrasts to that examined in the democratic setting previously discussed.

The setting for the second model presumes some prior existence, or the initial emergence of, a putative sovereign entity which confronts the individual (any individual, every individual) with the ultimate 'choice': pay tribute in 'exchange' for the protection and security of person and property offered, along with whatever other goods and services the sovereign chooses to make available. This fundamental Hobbesian challenge is nonvoluntary, in any other than a purely semantic sense, and it is equivalent to the highwayman's offer: 'your money or your life'. And, of course, this sort of exchange takes familiar nonpolitical form in the various mafia-like protective rackets operated by organized criminal syndicates.

Historically, this model for political 'exchange' may well be more descriptive than any version of the democratic, contractual model, which involves the agreement of citizens on the rules under which they will live politically. Most states, or governments, emerge from conquest and coercion; rarely have constitutions emerged from general contractual process. But note that, in the noncontractual model for governance, for the individual's relation to the state, the source of the legitimacy of coercion becomes quite different from that which characterizes the voluntary-exchange, and participatory, model earlier described. In the basic Hobbesian contract between the individual and the sovereign, the exercise of coercion by the latter is legitimate only to the extent

that the value of the security (and other services) thereby guaranteed exceeds the value of the resources extracted from the individual. The government, as the sovereign agency, is armed with the exclusive monopoly of coercive force, and it makes no pretence of offering to the individual that bundle of goods and services that most closely correspond to the latter's preferences, analogously to the response of producers-suppliers of goods in the market place.

The 'political exchange' involved here is unequal in two separate respects, making it categorically different from exchange among persons in competitively organized markets for private partitionable goods. The sovereign is a monopolist and possesses, thereby, power to set 'price' on its own terms. Secondly, the sovereign also exercises monopoly control over the good, or bundle of goods, that the individual 'purchases'. The government can supply the bundle of goods and services along with the prices charged for this bundle in accordance with its own objectives, which may or may not include explicit concern for the satisfaction of individuals' preferences for public goods. To the extent that the government seeks to enhance the value base upon which it can levy claims, that is, so long as the sovereign acts as a residual claimant of economic value in the system, it will be motivated to tax and to spend in such fashion as to ensure that measured economic growth will take place. An 'efficient' sovereign, in this sense, may place a greater emphasis on growth enhancing public goods and on growth promoting taxation than the preferences of citizens would dictate.

Whether or not the sovereign will act in this way will depend, in part, upon the effective time-horizon that guides its action. Because of its monopoly position, the sovereign has available for exploitation the whole resource base of the political economy. But uncertainty about the length of its own tenure, as sovereign, may provide the motivation for an inefficient drawdown, or mining, of the value potential in the economy.

INSTITUTIONAL MARRIAGE: THE SOVEREIGN WITHIN ELECTORAL AND CONSTITUTIONAL CONSTRAINTS

The two models of 'political exchange' that have been discussed embody categorically different relationships between the individual citizen and political authority. In its idealized limiting case, there is no independently motivated sovereign in the first model. Such authority exists exclusively for the purpose of carrying out the expressed objectives of citizens, particularly the joint consumption of public goods. In the second model, by dramatic contrast, the political authority, as an independently existent 'person', or association, finds its own expected utility enhanced by specializing in the supply of services which it 'sells', monopolistically, to the citizens as demanders-users.

Analytical models are, of course, constructed with the aim of imposing some sort of intellectual order on complex reality, and widely different models carry with them differing perspectives on the reality subject to observation. It is not at all surprising, therefore, that any empirical description of political institutions would, in most cases, identify features of each model. In a sense, it is necessary that individuals in most political settings must live with the continuing tensions created by the conflicts imposed by the two 'exchange' relationships. This result applies to individuals in their roles as citizens who, on the one hand, participate in electoral processes and in constitutional dialogue and, on the other hand, face the monolithic and coercive agency of government. But, the result also applies to those persons who find themselves in roles of political agent, who are constrained, through electoral feedback mechanisms, to satisfy the preferences of citizens, but who, at the same time, face opportunities to further their own agendas.

Differing political structures reflect differing weightings of the two models, as reflective of the relationships sensed by individuals. Concentrated authoritarian regimes may be almost totally described by the second model, in which the individual, as citizen, faces unequal exchange with the monopolistic sovereign which, itself, remains unconstrained by either electoral or constitutional feedbacks. Romania before 1989 offers the polar case. Regimes described as parliamentary and majoritarian move considerably along the spectrum towards the participatory-voluntaristic pole. But the individual-as-citizen remains subject to the dictates of the parliamentary majority in office, subject only to the prospect of removal through electoral processes. The market analogue to parliamentary majoritarianism is that of the monopolist franchisee, who holds a franchise (for example, cable television) subject to periodic renewal. The constitutional democracy, along the lines of the US structure, shifts the weights somewhat further toward the voluntaristic model of political exchange, while remaining some distance from the ideal. Legislative majorities are constrained both by electoral feedbacks and by explicitly constitutional restrictions, and majorities reflect some bargained vector of interests which may shift as among separate policy issues. Majorities do not 'govern' in the parliamentary sense, and, because they do not, there is a somewhat greater sense of direct participation by citizens in political process. At the same time, there is a loss of the possible consistency in ordering that comes with the replacement of the monolithic, if constrained, Hobbesian sovereign.

It is not within my purview to join the debates among political scientists concerning the relative strengths and weaknesses of parliamentary and nonparliamentary political regimes. But the thrust of my argument is clear. In any and all political regimes there is a sense in which the individual citizen, *qua* individual, feels locked into the unequal and bilateral 'exchange' with the

monopolistic sovereign, essentially the second of the models discussed above. To the extent that institutional-constitutional structures shift the weighting so that the individual senses governmental responsiveness to his or her expressed preferences, there must exist a greater acceptance of shared responsibility for political outcomes, no matter how such outcomes may be assessed externally.[1]

Hence, the 'political exchange' that matters, in any normatively meaningful sense remains the first model discussed, even if the location of consent of agreement must be shifted almost exclusively to the constitutional level, and even if the individual fully acknowledges the strict irrationality of rational inquiry and discourse. In realpolitik, the Hobbesian sovereign always exists, but we tolerate its incursions if we know that we share in the construction of the constraints that limits its behaviour.

CONCLUSION

By necessity, the individual in a democracy participates simultaneously in the two political exchanges isolated for discussion in this chapter. On the one hand, there is the idealized exchange among equals derivative from the universality of the electoral franchise, which may find expression in consensual support for the constitutional structure that constrains the activity of agents who act on behalf of the collective unit. On the other hand, and in contrast, there is the exchange between unequals, which materializes in the continuing and unavoidable confrontation between the individual and the collective unit. Note that the first of these 'exchange' relationships may remain below the individual's level of conscious evaluation; the second 'exchange' is, by comparison, brought into the individual's explicit attention span by the simple necessity to pay taxes. The selfsame person who 'agrees', implicitly or explicitly, with fellow citizens in consensual support for the basic rules of political order may, in accordance with the dictates of rational interest, seek to subvert these rules as a player in the two-party game with the sovereign collective. The tensions created by the requirement that the individual act in these two roles provide the source of the fundamental political dilemma.

A final note: I have limited discussion in this chapter to the two relationships of exchange in politics. It is obvious that the same duality exists in the structure of any large organization. The individual, as a participant in the collective, trades off interests with others in the attempted achievement of jointly shared objectives. At the same time, the individual, as subject to the constraints internal to the collective, bargains with the collective, as a unit, in attempts to further his or her particularized interests.

NOTE

1. Robert Nozick's clever 'Tale of the Slave' obscures the relevant distinction here. The individual who participates, as one voter in a large-number electoral process, may be subject to the external dictates of the collective unit, and, objectively, his position need be no different from the slave subject to the dictates of the master. But the two situations may be dramatically different to the individual, and this difference may exert behavioural effects. See Robert Nozick (1974).