

CHAPTER 1

Public choice in perspective

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1. Forerunners

Public choice applies the methodology of economics to the study of politics. As such it is inherently interdisciplinary and has been so more or less from its inception.

This inception might be said to have occurred over two hundred years ago in the investigations of the properties of voting rules undertaken by two french mathematicians, Jean-Charles de Borda (1781) and the Marquis de Condorcet (1785). Subsequent analytic investigations of voting rules over the next century were also largely carried out by mathematicians.¹

One of these, the Reverend Charles L. Dodgson, a lecturer in mathematics at Cambridge, is better known for his fictional works under the pseudonym Lewis Carroll. His pamphlets on voting procedures were published over a span of twelve years beginning in 1873 (Black 1958, chap. 20). Mention should also be made of the book by Dodgson's countryman, John Stuart Mill, published in 1861. Although Mill's *Considerations on Representative Government* contains no mathematical demonstrations of the kind found in Dodgson's pamphlets and should be regarded as a (classic) contribution to political science, it also can be viewed as the first investigation of political institutions by an economist.

Before leaving the nineteenth century the important contribution in 1896 of the Swedish economist Knut Wicksell must be noted. Although a "classic in public finance," it also had a significant and direct influence on the development of public choice through the work of James Buchanan. A chance reading of Wicksell's treatise in 1948 had a "dramatic" effect on the young Buchanan and helped shape the contractarian perspective he has brought to public choice throughout his career.²

1. For an account of the early history of the study of voting rules, see Duncan Black (1958, part 2). See also Peyton Young's essay in this volume.
2. For Buchanan's own account of his discovery of Wicksell's essay and its impact upon him, see Buchanan (1992, 5–6).

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Although Wicksell's essay had an important influence on the development of public choice, this influence was not felt until half a century after it was written. Other "continental" scholars were also making original contributions with relevance to public choice at the beginning of the twentieth century, but their work remained largely unknown to the English reading community until the public choice field was well launched.³ It therefore cannot be said to have contributed to the field's development. Nor did the earlier work of the continental and English mathematicians. Both Dodgson and Mill wrote about the newly invented methods of proportional representation, and the academic debate over systems of representation that flourished in the nineteenth century did undoubtedly contribute to the adoption of proportional representation in virtually every European country *except* the England of Dodgson and Mill. But the mathematical methods that Condorcet, Dodgson, and their contemporaries employed to study voting procedures were not taken up by those studying politics during the first half of this century. Duncan Black, who brought much of this work to the modern profession's attention, discovered it *after* he had worked out his own theories (Black 1958, xi).

Three additional contributions, all by economists, should be mentioned before turning to the modern literature. Harold Hotelling (1929) used a two-candidate election to illustrate the characteristics of spatial competition, and Hotelling's modeling was adopted by Anthony Downs in his 1957 classic. Downs (1957, 27, n11) credits Schumpeter's *Capitalism, Socialism, and Democracy*, first published in 1942, as being "the inspiration and foundation for [his] whole thesis." Schumpeter's link to Downs's book, and more broadly to public choice, seems almost exclusively through his emphasis upon the pursuit of self-interest by politicians and the role competition plays in politics. In general, Schumpeter's *Capitalism, Socialism, and Democracy* appears to have had much more influence on political scientists than economists.⁴ The third contribution by Howard Bowen in 1943 was pioneering both in its discussion of voting and treatment of public goods.

2. The modern literature

Although Bowen's article has all of the properties we think of as characterizing public choice, it did not launch the field. The emergence of public choice as an identifiable discipline did not occur until after

3. For discussions of this work, see Buchanan (1985, chap. 3) and Peacock (1992).

4. For a discussion of the nature and importance of Schumpeter's ideas, see Mitchell (1984a, 1984b).

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World War II with the appearance of papers by three economists – Duncan Black (1948a, 1948b), James Buchanan (1949), and Kenneth Arrow (1950).

The Arrow essay and subsequent book (1951) immediately spawned a torrent of articles and books written mostly by economists but also by a few mathematicians. The publication of Anthony Downs's *Economic Theory of Democracy* in 1957, James Buchanan and Gordon Tullock's *Calculus of Consent* in 1962, and Mancur Olson's *Logic of Collective Action* in 1965 made it clear that the "economic approach" to the study of politics had something important to contribute to our understanding of how political institutions work. Since the authors of these now classic works were all economists, one might well have guessed, as the 1960s were drawing to a close, that public choice was destined to be not only the "economic approach" to the study of politics but also an approach to the study of politics that only economists pursued.

But even then there were signs that this was not to be so. William Riker had published a paper in the *American Political Science Review* as early as 1961 surveying the literature on the Arrow theorem. His *The Theory of Political Coalitions* was published a year later. Although clearly a contribution to political science, it employed the kind of analytic rigor one would come to associate with the field of public choice.

In 1966 the sociologist, James Coleman, would employ the public choice methodology in two articles about politics – one published in the *American Journal of Sociology*, the other in the *American Economic Review*. These early contributions by future presidents of the Public Choice Society indicate that public choice was, even at this early stage in its modern history, an interdisciplinary field and foreshadowed its further development in these directions.

The interdisciplinary nature of public choice is well reflected in the essays in this book. Roughly half of them are by people who are not members of economics departments. It is further reflected in the many references to articles published in noneconomics journals.

3. Main themes*3.1 The first generation*

The methodology of economics is often described as resting on the postulate of *methodological individualism*. The individual agent is taken as the fundamental building block for all economic analysis. Agents are assumed to have certain objectives or preferences and to interact in particular institutional settings (e.g., markets). Aggregate outcomes are discovered and characterized by examining the consequences of the

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assumed behavior of individual agents and the institutional constraints on that behavior. The most famous of the aggregation results of economics is, of course, the invisible hand theorem demonstrating that under certain conditions the institution of competitive markets leads to an allocation of aggregate resources that is Pareto optimal.

Given the prominence of methodological individualism in economic analysis, and the attraction of the invisible hand theorem, it was natural that when economists turned their attention to the examination of the consequences of political institutions they would adopt the same methodological building block and try to establish a similar aggregate result. These methodological links to economics had the further consequence that much of public choice at the beginning was inherently normative.

The normative emphasis of the early public choice literature is perhaps most clearly revealed in the characterization of the subject matter itself. Public choices were assumed to be made by *democratic* governments, and often democracies of a fairly ideal type. Thus, James Buchanan and Gordon Tullock in *The Calculus of Consent* (1962) investigate the properties of governmental institutions that are designed by the citizens to advance their common interests. Their contractarian approach to government leads them to inquire as to the Pareto optimality of democratic choices, just as Pareto optimality is used as the normative benchmark in much of economics.

Kenneth Arrow (1951) also included Pareto optimality as one of the axioms his ideal set of institutions would satisfy, along with the absence of dictatorship. His treatise is the most markedly normative of the early classics. His famous theorem that *no* set of institutions can produce outcomes that are Pareto optimal and nondictatorial, and satisfy a few other seemingly weak axioms both posed and answered an essentially normative question.

Duncan Black's (1948a, 1948b) pioneering studies of majority rule can also be viewed as a largely normative quest to define the conditions under which the majority rule aggregates preferences to produce an equilibrium outcome. Even Anthony Downs's investigation of representative democracy, a work that launched much future positive analysis, was intended to see whether competition between parties could not produce the same kind of normatively attractive political outcomes as competition among firms produced in the market place (1957, 17–19).

William Riker's *The Theory of Political Coalitions* (1962) and Mancur Olson's *The Logic of Collective Action* (1965), studies of coalition and interest group formation, are, among the early classics, the only truly positive studies of political behavior.

Each of the early classics helped launch a stream of research that has continued to the present day. Among economists, Arrow's theorem had

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the most immediate impact. One theorem followed upon another showing the inconsistency of all aggregation procedures with small sets of axioms. When possibility proofs appeared, they rested on such improbable conditions that they underlined only the negative implications of Arrow's theorem. The first wave of research in this area tended to focus upon the dichotomy between dictatorship and stability. Instability, or cycling, appeared to be a ubiquitous property of all preference aggregation procedures. Later work showed that the same sorts of axioms implied that all nondictatorial procedures were vulnerable to the strategic misrepresentation of preferences by individuals. Even minimal notions of liberalism were inconsistent with certain weak axioms of aggregation. This axiomatic literature is reviewed by Prasanta Pattanaik. Peyton Young reviews the axiomatic properties of various aggregation rules but concentrates on the early contributions of Borda and Condorcet. It is striking how much more positive (optimistic) the eighteenth-century mathematicians were about the possibility of preference aggregation than are their twentieth-century counterparts who are economists.

Although Arrow and many of his followers studied the properties of all preference aggregation procedures, an important subset of that group concentrated on a particular voting rule, namely the simple majority rule. Here, there are two streams of research: One seeks to establish the conditions under which majority rule produces equilibrium outcomes; the other sidesteps the cycling problem by focusing on binary choices and describes the normative properties of majority rule in this context. The literature defining conditions under which the simple majority rule yields equilibrium outcomes can be traced back to Duncan Black's work on committees and is reviewed here by James Enelow and by Douglas Rae and Eric Schickler. The study of majority rule's properties in binary choices goes back to Condorcet, and in the modern literature to Kenneth May (1952). This literature is taken up by Peyton Young and by Rae and Schickler.

In contrast to the Arrow literature, much of the work focusing on the simple majority rule paints a prettier picture. Majority rule can produce an equilibrium, under certain assumptions. It can help a modestly well-informed population choose the *best* of two possible outcomes. It has the properties of being egalitarian and fair often associated with democracy.

These results are important, and the works that derive them have appropriately received much attention. But the conditions under which majority rule produces an equilibrium with three or more possible outcomes, or the restriction that there be only two possible outcomes, seem so restrictive that many public choice scholars have not concluded that all problems of preference aggregation can be solved by relying on the simple majority rule to make collective decisions. For all its attractive

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properties, the majority rule does not throw off the shadow cast by Arrow's theorem.

Arrow's book had its greatest impact on more mathematically inclined economists, but Anthony Downs's book was perhaps the most influential among political scientists. Certainly, it had the biggest immediate impact on political scientists of any of the early classics in public choice written by an economist. Indeed, it had two sets of impact, one methodological, the other substantive. Writing in the late 1950s, Downs presented his ideas diagrammatically, a pedagogic style often adopted by economists at that time. But the depiction of voter preferences and candidate choices geometrically was sufficiently novel in political science that it was given a name, "the spatial theory of voting."

Downs's main results, like those of Black, seemed to sound a happier note than the Arrow literature. Competition for votes in a two-party system would produce an equilibrium outcome. But, like Black's theorem, this finding was soon judged to be "an artifact" of the assumption of a single-dimensional issue space.⁵ Candidates who competed for votes over multidimensional issue spaces would be just as prone to cycles as committees. The literatures on electoral politics that Downs launched is reviewed by Peter Ordeshook.

Although Downs's influence is perhaps most conspicuous in the spatial voting literature on electoral politics, another line of research he started has arguably had even more profound, and more negative, implications regarding the outcomes of democratic processes. Building on some observations of Schumpeter, Downs, in the latter portion of his book, took up the behavior of rational voters. Given the infinitesimal probability that an individual's vote affects an election, the rational individual does not bother to become informed about possible electoral outcomes and, if he is only interested in affecting these outcomes, does not bother to vote. The literature spawned by Schumpeter and Downs on why and how people vote is reviewed by John Aldrich and Morris Fiorina.

Downs devoted a chapter to multiparty systems, but it has had little impact on the subject. Much more influential has been William Riker's account of why grand coalitions tend to devolve into minimum winning coalitions. Multiparty parliaments often produce coalition governments, and Riker's concept of a minimum winning coalition has proven extremely valuable in the analysis of these systems. Norman Schofield reviews the literature on multiparty systems and coalition governments.

A particular stream of research cannot be related to Mancur Olson's

5. The term "artifact" is borrowed from Hinich (1977), but the potential for cycling in two-candidate elections was recognized much earlier.

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(1965) book in the same way that Anthony Downs's book can be to the literature on spatial models of electoral politics. Interest groups are major actors in politics, however, and Olson's work is the pioneering application of public choice analysis to the study of interest groups. These figure prominently in the essays by David Austen-Smith, Thomas Stratmann, and Cheryl Holsey and Thomas Borchering.

Although its 1971 publication date is perhaps too late for William Niskanen's book to qualify as an *early* classic, it resembles the other works discussed in this section in that it is a direct and original application of public choice reasoning and modeling to a topic usually thought to lie in the domain of political science (or, alternatively, sociology). And, like the early classics, it launched a stream of the public choice literature, the one concerned with bureaucracies. The public choice work on bureaucracies is reviewed by Ronald Wintrobe and Terry Moe.

As even this brief overview will make clear (and if not, certainly, the cited essays will), many of the most important results of the early public choice literature conveyed a rather negative message about the potential of democracy and about its effects. No procedure for aggregating individual preferences was consistent with minimal sets of normative constraints. Equilibria did not exist. Small groups with narrow interests exercised a disproportionate influence on democratic outcomes. Government bureaucracies grew too big and inefficient. Voters remained rationally ignorant of the issues.

Among the early classics Buchanan and Tullock's *Calculus of Consent* (1962) is almost alone in presenting the positive potential of democracy. Adopting Wicksell's (1896) voluntary exchange approach to government, they emphasize the potential government has to advance the interests of *all* citizens and demonstrate the essential link between the existence of market failures (or other latent Pareto moves) and the creation of government. The literature on why governments and other forms of organizations for making collective decisions exist as well as their different characteristics is reviewed by Russel Hardin, Elinor Ostrom and James Walker, and Bruno Frey.

Central to the constitutional approach to government developed in *The Calculus of Consent* is the distinction between the selection of rules at the constitutional stage and later decisions made within the rules. The implications of this constitutional approach and the literature that has evolved from it are discussed in my subsequent essay.

The Calculus reproduces Tullock's (1959) earlier demonstration that the simple majority rule can lead to excessive government spending and waste, and in general Buchanan and Tullock have little good to say about the simple majority rule. But even here a more optimistic message is offered with the suggestion that majority rule when combined with

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vote trading (logrolling) might actually lead to better social outcomes since it takes into account the preference intensities of voters. The public choice literature on logrolling is reviewed by Thomas Stratmann.

3.2 The second generation

The imprint of the early classics in public choice can be seen in several of the main streams of research in the field, and in a number of chapters in this volume. But not all the major developments in public were touched upon or anticipated in the early classics.

As I have already stressed, the message of the early public choice literature about the potential of democratic institutions seemed to be largely negative. This negative theme dominates my first survey of the field, which was published in 1976. But around the time I was writing this survey, a literature began to emerge that carried quite a different message. Edward Clarke (1971, 1972) and Theodore Groves (1973) published papers describing “the demand revelation process,” and soon after an article showing that it was possible to induce people to reveal their preferences and aggregate them in a normatively appealing way appeared. Nicholas Tideman surveys this literature.

All of the early classics in public choice discussed above were theoretical contributions, thus, my 1976 survey even at that late date makes scant reference to an almost nonexistent empirical literature. The second generation of public choice, however, has seen a blossoming of empirical testing of models and hypotheses. No single essay in this volume is devoted to the empirical literature in public choice per se. But empirical contributions are discussed in Morris Fiorina’s chapter on how people vote, Stratmann’s essay on logrolling, Martin Paldam’s review of political business cycles, Robert Tollison’s review of rent seeking, Stephen Magee’s essay on protectionism, and Cheryl Holsey and Thomas Borcherding’s review of the growth of government literature.

The normative properties of many voting procedures and other sorts of democratic questions rest on what are essentially empirical questions. Will individuals behave strategically? How quickly does an iterative procedure converge? Answers to such questions are perhaps best obtained in the experimental laboratory. It is not surprising, therefore, that pioneers in the development of experimental research in economics like Vernon Smith and Charles Plott are also major contributors to the public choice literature. Parts of the experimental literature as it pertains to public choice are reviewed by Elizabeth Hoffman and by Elinor Ostrom and James Walker.

Its 1967 publication date might qualify Tullock’s seminal article on rent seeking as an *early* classic in the public choice field. But the signifi-

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cance of the rent-seeking idea and its importance to public choice did not become apparent until the next decade, when it was rediscovered by several authors. Since the 1970s the rent-seeking literature has exploded. Robert Tollison overviews this vast literature, Stephen Magee discusses the special case of rent seeking as protectionism, and Holsey and Borcharding mention it as one of the possible explanations for the growth of government.

Some of the early important contributors to public choice like James Buchanan and Mancur Olson were trained in public finance and taught and wrote in this field as well as in public choice. Consequently, from the field's beginnings there has been a close relationship between public finance and public choice. The emphasis on the normative side of government in the early literature, and on explaining why governments ought to exist, led to a close connection between the *expenditure* side of public finance and public choice. This connection is apparent in many of the essays in this volume, from Russell Hardin's and Elinor Ostrom and James Walker's essays on why governments exist and the forms they take, through my own review of constitutional public choice and Holsey and Borcharding's analysis of the question of government size. Although there has always been a close link between the expenditure side of public finance and public choice, the taxation side was neglected for a long time by public choice scholars. Walter Hettich and Stanley Winer were among the first to begin remedying this deficiency, and their essay reviews the recent but rapidly growing public choice literature on taxation.

The economics literature on fiscal federalism, like the literature on public goods, is one that has traditionally been treated as part of public finance. Charles Tiebout's (1956) influential article on "voting with the feet" might be regarded as one of the early classics in *public choice*, as well as a seminal contribution to public finance. But, like taxation, the literature on fiscal federalism has to a considerable extent evolved as part of public finance, and so I have not included Tiebout as one of the pioneers of public choice. The ties between the literature on fiscal federalism and public choice are the subject matter of Robert Inman and Daniel Rubinfeld's essay.

4. Accomplishments, failures, potential

In my 1976 survey of public choice I observed that "much remains to be done" in answering the many difficult questions raised by the early literature concerning both the normative and positive properties of democratic institutions. In closing I stated that "one can remain optimistic about the field's future growth and development," and thus its ability to answer these difficult questions, because "public choice at-

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tracts so many fine scholars.” A generation has elapsed since those words were written and, as the public choice field is roughly half a century old now, one might well take stock of the field today and inquire how successful it has been in answering these and other important questions about politics and political institutions. Such stock taking seems all the more needed in light of the highly critical evaluation of the field’s accomplishments in the recent book by Donald Green and Ian Shapiro (1994).

To a considerable degree *this volume* constitutes such a stock taking, for it reviews and evaluates most of the major areas in the public choice literature. Each reader can decide for herself after reading the book whether the findings in a particular area, as well as of the entire field, have added anything useful to our knowledge of how individuals behave and how political institutions do or could affect that behavior. But no single paper looks at the entire field and tries to evaluate its accomplishments and failings. Although space constraints preclude a thorough examination of these questions, some discussion of them, however brief, does seem warranted, if only to convince the reader that she should continue reading this volume.

4.1 Accomplishments, normative

The salient characteristic of the public choice approach to politics, which distinguishes it from other approaches, is the prominent role played by the behavioral assumption that individuals seek rationally to advance their self-interest. Both casual observation and systematic experimental evidence indicate that individuals do not behave in the sophisticated, super-rational ways some public choice models presume, that individuals are not driven only by the very narrow definitions of self-interest many models assume. Rationally, self-interested individuals will not bother to vote to influence election outcomes, yet millions of seemingly normal and rational individuals vote in every election.

Empirical anomalies such as these are disturbing and imply that rational actor models must be modified to explain certain kinds of behavior. One must recognize, however, that regardless of how devastating one deems some empirical observations for rational actor models as predictive devices, these observations *in no way* detract from the validity and importance of the *normative* literature of public choice.

The Arrow theorem states that we cannot in general construct an ordering of the possible social outcomes from the preference orderings of the individuals in the society without violating nondictatorship or one of the other axioms. This result seems rather disturbing. And is made no less disturbing by the knowledge that individuals sometimes cannot con-