1 Ethics, politics, and public choice

The burden of proof should rest with those who suggest wholly different models of man apply in the political and economic realms of behaviour.
James M. Buchanan, "Politics Without Romance"

Introduction

This book offers a theory of electoral preference. That is, it aims to give an account of what it is – or more particularly, what it is not – that voters do when they go to the ballot box in the large-scale collective decision-making processes that are characteristic of Western democracies. The basic analytical arguments generalize to a whole range of "collective" activities, but our focus throughout the book will be on electoral behavior, and our discussion proceeds almost exclusively in terms of that particular (and highly significant) example.

The topic is an almost totally neglected one; and this is, in itself, extraordinary. For one thing, the role of electoral considerations in shaping actual political decision making in most Western democracies seems entirely beyond dispute. For another, electoral constraints, and the connection these are presumed to imply between electoral outcomes and citizens' preferences over those outcomes, are commonly taken to be crucial features of genuinely democratic institutions and basic ingredients in establishing the normative case for democratic rule. Other bits of democratic apparatus may be important, but without periodic elections in which parties and/or candidates compete for office and/or alternative policies are offered for popular electoral scrutiny, we would simply not have democratic order as it has come to be understood.

Accordingly, one would have thought that the systematic analysis of the choice behavior of individual voters would occupy a central place in our formal theories of democratic process. Not so. Political theory is otherwise preoccupied with the question of whether electoral constraints are sufficiently binding, with the quality of political decision makers, or with the properties of majority rule in transforming individual votes into social "decisions," but not, it seems, with the nature of the votes themselves. Apparently, it is simply taken for granted that votes are what they seem to be: straightforward statements of voters' preferences over electoral options whether those options are parties, candidates, or the politics those parties or candidates stand for.

We shall argue that such complacency is utterly misplaced. We shall try to show that voting in large-scale elections is disconnected in a fundamental way from citizen preference over electoral outcomes. And we shall try to spell out the implications of this disconnection for the positive predictive science of politics and for the normative theory of democratic rule.

The account we give of electoral behavior is basically a decision-theoretic one. It involves an application of the kind of rational actor theory most fully developed in mainstream microeconomics. In that sense, this book is properly to be construed as an exercise in what has come to be known as "public choice theory." By public choice theory here, we mean simply the application of the techniques and methods of mainstream economics to the study of political processes. And we want at the outset to identify ourselves clearly with the public choice tradition so defined. That is, we are faithful to the individualist method; we take it that actors are rational (in a sense we shall have to specify with some care); we believe in the role of relative prices, and of changes in them, in explaining human affairs; we hold, within limits, to the virtues of abstraction; and our tools of analysis are drawn almost entirely from the mainstream economist's kit bag.

Yet if our argument is properly construed as an application of public choice theory, it is also a *critique* of it. More particularly, it is a critique of one important element in the public choice approach – namely, the wholesale importation of homo economicus into electoral politics. We shall argue, against public choice orthodoxy, that consumer choice and voter choice are fundamentally different in decision-theoretic terms and, hence, that market behavior and political behavior are likely to be distinctly different. We shall argue that while interests may predominate in market behavior, they are strongly muted in the ballot box. At the same time, ethical considerations, which are muted in the marketplace, are likely to play an increased role in democratic electoral politics. In other words, we shall offer a decision-theoretic foundation for a kind of "two-hats" thesis – for the thesis that actors have two personas: one for markets and a different one for the ballot box (and analogous collective activities).

This critique of public choice theory may seem to cut very deep. After all, the homo economicus behavioral assumption – the assumption that all political actors are predominantly egoistic, and that their egoism is expressed mainly as a desire for income or wealth broadly conceived – is often seen by both critics and proponents alike as the characteristic feature of the public choice approach. For example, Dennis Mueller in his book-length survey of the field states that "the basic behavioral postulate of public choice, as for economics, is that man is an egoistic, rational, utility-maximizer."[1] And Alistair Cooke, in the particular "Letter from America"[2] in which he discussed the award of the Nobel Prize to James Buchanan, described public choice as embodying the homely but important truth that politicians are, after all, no less selfish than the rest of us. What then, one may ask, is left of public choice if homo economicus is removed? This is one question we want to address in this opening chapter, partly for its own sake and partly because it helps to establish something of the intellectual context within which the argument of this book is set.

[1] Mueller (1979), p. 1. Mueller does go on to state that a "second salient characteristic . . . of modern public choice literature [is that it] employs the analytic tools of economics" (p. 2), a definition we prefer to follow. It is worth noting that Mueller is effectively distinguishing the homo economicus assumption from the "analytic tools" of economics.
[2] Broadcast sometime late in October 1986.

There is, however, more at stake here than homo economicus, or indeed any other particular behavioral model. Many public choice scholars may be prepared to retreat from the strict homo economicus model – to allow for considerations of benevolence and virtue, and a richer psychology generally, in plotting human behavior. What they are likely to find more objectionable is the "two-hats" aspect of our argument – the idea that human behavior is institution dependent in the manner we shall argue for. That is, the idea that human behavior is uniform across alternative institutional forms could be argued to be a much more central part of the public choice enterprise than the use of the homo economicus model, as such. Why this is so is a matter that we shall also explore in what follows.

We shall develop this chapter in the following way. First, we describe the public choice enterprise in terms that we think substantially reflect those in which public choice theory sees itself. In the process we shall distinguish between two strands of public choice theory (or "rational actor" political theory more broadly) – one essentially positive strand that aims to develop a predictive political *science* with the same claims to intellectual rigor, analytic clarity, and predictive power that economics makes in the analysis of market behavior; and a strand that is normatively driven and has as its aim the *evaluation* of political institutions on the same basis and using the same criteria as are used in the evaluation of market institutions. We shall then focus on the role that motivational assumptions play, both in these two strands of the public choice program, and in traditional economics. On this basis, we shall try to isolate what drives the egoistic behavior assumptions within the public choice approach, and to specify at what point in the whole intellectual scheme we depart from orthodoxy and what of orthodoxy we retain.

What is public choice?

An analogy: just price theory

To give an account of public choice theory from *within* (i.e., in the terms that public choice scholars themselves might see it) it is useful to pursue an analogy with an earlier development in intellectual history. The medieval doctrine of "just price" no longer plays any role in the economist's theory of markets. Economists, naturally enough, believe that this is a good thing. They have a theory that explains why prices (and quantities) are as observed. The explanation in question runs in terms of "demand" and "supply" – categories that are essentially descriptive. In the face of such explanation, the question of whether the price in question is "just" or not is seen to be somewhat beside the point. Prices are what they are; they reflect the forces of demand and supply, and the *justice* of any particular price is simply irrelevant to the exercise of explaining how the market works.

The triumph of demand–supply analysis over just price theory is then to be seen not merely as the replacement of worse theory by a better one (like, perhaps, the demise of phlogiston theory in chemistry): It is to be seen rather as the triumph of science over superstition. Just price theory involves a kind of category error: It treats as an object of ethical concern something that, like the weather, should prop-

erly be recognized as arising from "natural" causes. The relation between modern price theory and the just price doctrine is rather like that between meteorology and rain dancing. Or at least, this is how most economists see it.

The just price enthusiast might make several responses. He might seek to reintroduce considerations of justice into the account of how markets work by asserting that demanders and suppliers are, in fact, strongly influenced by their perceptions of justice and will not pay (or charge) prices that depart too far from those they see justice to require. On this line, just price theory is not so much categorically inappropriate as poorly expressed. Once filtered through the proper demand–supply language, it becomes a hypothesis to be empirically explored. The modern microeconomist's reaction to this reformulation may be of two kinds. As far as the pure logic of demand–supply analysis is concerned, there would be some adjustment to be made: Agents' utility functions would need to include as arguments prices as well as quantities, and the basic consumer and producer equilibrium conditions would have to be modified accordingly. But such adjustments could be made easily enough, and not a great deal would be at stake at this level. As far as the practical economist-qua-scientist-dentist is concerned, however, the just price theorist's response is to be rejected: The basic hypothesis can, of course, be explored, but only to be exploded. As an account of agent behavior rivaling the standard egoistic model of consumer choice, just price theory fails: When the relevant empirical work is actually done, considerations of justice are found not to bear on the behavior of economic agents in any significant way. Or at least this is what economists generally believe the empirical evidence would show. It is interesting that direct tests of such matters are uncommon[3] and that many of the indirect "tests" do not actually prove that conceptions of justice are irrelevant.

It is worth emphasizing here that even if considerations of just price did bear on actual market behavior, it would be the participants' own conceptions of justice that would be relevant and not some putatively "correct" notion derived from independent ethical axioms or from a careful reading of Aristotle via Thomas Aquinas. In arguing the empirical relevance of just price conceptions, one would need to appeal to a purely positive account of the prevailing morality: There would be no prescriptive element as such.

The just price enthusiast might, at this point, try another tack. He might argue that just price doctrine is not to be seen as a rival predictive theory of market behavior, but rather as a set of instructions as to how market participants ought to behave. The fact that such instructions are much more honored in the breach than in the observance (so much so that they seem to have negligible predictive power) does not necessarily imply that the instructions are ethically defective. On its face, this may seem to be a reasonable response. But the modern economist, adopting his standard normative posture, would reject it entirely – and this for two reasons. First, because proper ethical theorizing must, in the economist's view, take account of what is *feasible* – otherwise, the central core of practical ethics is simply swept

[3] Amartya Sen (1987) makes a similar point in commenting on relevant remarks of George Stigler's.

away – and second, and relatedly, because just price analysis applies normative evaluation at the *wrong level*. Both points merit brief elaboration.

Economists have always insisted that social ethics should be informed by a proper sense of scarcity. Extrapolating from their account of individual choice behavior, they see ethics as a matter of choosing among alternative *feasible* states of the world. Indeed, some (most notably Milton Friedman) have been inclined to argue that most disagreements in social ethics, including ideological ones, are actually disagreements about which states of the world are feasible or about which states of the world follow from various policies rather than how those states should be valued. By implication a lot of ethical theorizing is a waste of time: Ethicists would more profitably expend their energies in trying to understand how the social order works. Furthermore, in deriving claims about what states of the world are feasible, one must take account of the scarcity not merely of the standard resources – time, ingenuity, and so on – but also of human benevolence and individual ethical sensibility. As Dennis Robertson remarks, one of the chief roles of the economist is to offer a warning bark whenever someone proposes a policy arrangement that demands much in the way of the scarce human resource "love." On this view, an ethical theory of social phenomena that fails to take adequate account of how people *actually* behave is at best irrelevant to real-world decision making and at worst deeply misleading. Just as an individual chooser in the standard economic calculus will choose wrongly if she fails to perceive the set of feasible options accurately, so the social ethicist will make mistakes if the specification of feasible worlds is inaccurate. Just price theory fails on these grounds, so the argument goes, because that theory takes benevolence and a sense of justice to play a larger role in human conduct than they actually do.

If the just price theory fails on these grounds, this does not mean the death of ethics entirely. Rather, armed with a theory of how markets actually work, the relevant normative question changes. The focus of normative attention switches away from the behavior of particular market agents and the ethical properties of particular prices, to the properties of the market system as a whole. And the analytical apparatus relevant to this more abstract, systemic evaluation is rather different from that which just price theory (or for that matter much conventional morality) offers. A different task requires different tools. In the case at hand, attention focuses on the coordinating capacity and incentive structure of the market system, on the "invisible hand" properties of market organization and the circumstances under which those properties fail to apply. Considerations of justice may obtrude, but in a way unlikely to be enlightened by the niceties of just price analysis. For this reason just price categories are not merely irrelevant to the explanatory exercise of how markets actually work: They are also substantially irrelevant to proper ethical evaluation. The case against the just price theory is complete.

This small excursion into the history of economic thought may seem to be somewhat beside the point. It is, in fact, highly germane, for public choice theorists see themselves engaged in an exercise in the analysis of political processes almost ex-

actly analogous to that in which economist-crusaders against just price theory were engaged two centuries or so ago. That is, public choice theorists have insisted that the direct application of normative categories is inappropriate to the explanation of how politics actually works. They have identified, rightly or wrongly, most conventional political theory as representing an inappropriate amalgam of normative and positive analysis, pretty much at the level of the just price doctrine. As they see it, accepted "political theory" is characterized by prescriptive definition and heroic assumption, stronger on "hope" than on analytic reasoning. The requisite, hard-nosed insistence on feasibility is almost entirely absent – and this because there has been inadequate attention to political *science* properly understood and too much attention to political *ideals*. Public choice scholars have insisted that a proper *positive* account of political process is a critical exercise in its own right, and that any subsequent ethical evaluation must be undertaken at the more abstract level of political institutions – the rules of the political game – rather than at the level of particular policies or policy platforms. And of course it is exactly in such terms that public choice scholars have seen their own enterprise: to provide a properly positive scientific account of political processes, using the techniques of economic theory; and to bring to bear in evaluating political institutions the same abstract normative apparatus, the same concern for incentive structures, coordination of information, invisible hand structures, and so on that economists have used in the evaluation of markets.

The positive strand of public choice

Within this enterprise, the two strands – the purely positive "political science" strand and the normatively driven "comparative institutional evaluation" strand – are conceptually separable and have developed to some extent along independent lines. As in traditional economics, some theorists have been entirely content with the purely explanatory dimension. To such theorists the application of the methods and analytic techniques of economics to the study of political process promises to provide for political science the same sort of theoretical undergirding and framework for empirical investigation as economic theory provides for economics. Their object has been positive analysis: the working-out of the logical implications of basic axioms, and the testing of resultant hypotheses. They have secured the cultivatedly sharp separation of the positive and normative by the simple expedient of leaving the normative dimensions of the enterprise to others.

Indeed, for scholars with this strictly scientific ambition, the introduction of any normative element at all is likely to represent a distraction, and in some ways a highly unwelcome one. After all, an explicit object of the whole exercise is precisely to stake a claim for positive analysis *against* a tradition in which normative considerations have played too immediate and undisciplined a role (as they see it). To answer just price doctrine with an alternative conception of justice, even one that emphasizes the indispensability of a proper positive undergirding, is arguably less likely to cure just price exponents of their superstition than is a purging diet of pure hard science. Accordingly, this scientific strand of public choice scholarship

has been inclined on occasion to try to distance itself from its more normatively driven counterpart (which we shall discuss later in greater detail).[4]

One feature of this scientific strand is worth special emphasis – namely, its aspiration to provide a fully unified social theory, a theory of human behavior in the entire range of social institutions (of which markets and political processes are to be seen as particular cases). Of course, a unified social theory might conceivably be developed on other than rational actor foundations; but it is perhaps not too surprising that those with a taste for the elegance and austerity of a single unified social theory should be attracted to the abstract analytics and deductive methods of modern economics. In any event, and for whatever reason, positive public choice theory can be seen as the major contemporary articulation of an Enlightenment aspiration – to build a *single* theory of social phenomena. For at least some scholars that aspiration is fundamental to the whole enterprise of public choice or rational actor political theory.

The normative strand of public choice

> We must all recognize, I think, that the ultimate purpose of positive analysis, conceptual or empirical, must be that of modifying the environment for choices, which must in some basic sense be normatively informed. (Buchanan, 1979b, p. 176)

In politics, even more than in traditional economics perhaps, positive analysis tends to be driven by normative concerns. And indeed, as a matter of intellectual history, public choice inquiry did emerge largely as an explicit counter to a perceived anti-market bias embedded in the welfare economics treatment of so-called market failure. The object of that welfare economics literature had been precisely to provide an ethical justification for government intervention in the economy. As Samuelson puts it in motivating his seminal work on public goods: "We can formulate the grand Walrasian model of competitive general equilibrium so stringently as to leave no economic role for government at all. What strong polar case shall the student of public expenditure set alongside this pure private economy?" (1955, p. 350). The strong polar case developed was precisely an extreme case of "market failure." Public choice theorists have not, of course, objected per se to the demonstration of market failure, or to more general ethical scrutiny of market arrangements. Indeed, many of them have contributed, one way or another, to that enterprise. What they have objected to, quite strenuously, are the terms on which that ethical scrutiny had been conducted; for it had simply been taken to be self-evident that the demonstration of market failure is *sufficient* to establish a case for government intervention. That this is so is reflected in the predominant method in public economics – a method that seeks to evaluate alternative policies directly in

[4] To the extent, e.g., that it sometimes describes itself in terms other than "public choice" – say as "positive political economy," as in Alt and Shepsle (1990). Interestingly, this "political *science*" strand of public choice is more to be found in political science departments than in economics departments, where the welfare economics strand is more predominant. Scholars who would identify themselves with this "positive political economy" camp include, e.g., Bill Riker, Gerald Kramer, Ken Shepsle, James Alt, John Ferejohn, Morris Fiorina, and Barry Weingast, to mention a few names that spring to mind.

terms of their effects on "efficiency" and "equity" in a way more or less analogous to that in which just price theorists evaluated prices. Implicitly, government is viewed as a benevolent despot – as one who has the power to decide on policy unilaterally, and whose sole inclination in doing so is to promote the conception of the good society promulgated by economic advisors. It is precisely this implicit benevolent despot model of government behavior that public choice theory set out to criticize: "Public choice theory 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" (Buchanan and Tollison, 1984, p. 13). As public choice theorists conceive it, the central issue in normative public choice is the scrutiny of political process on terms exactly analogous to, and on all fours with, the normative scrutiny of markets: What is required is a piece of "comparative institutional analysis." To simply *assume* that government will somehow correct any imperfections we may observe arising out of market interactions is "to imply, by neglect, preference for the collective alternative." It is to act "like the judge who awarded the prize to the second singer after he had heard only the first" (Buchanan, 1979a, p. 272). And in particular, the ascription of heroic motivations to political agents, without a corresponding ascription of heroic motivations to those agents in their market roles, seems bound to bias the whole comparative institutional exercise.

To the extent that an enterprise can be understood as much by what it is *opposed* to as by what it is in favor of, public choice theory, particularly in its normative guise, can then be understood in terms of its implacable opposition to the benevolent despot model of government. That benevolent despot model treats government as a kind of deus ex machina. The public choice scholar opposes both the deus and the ex machina elements – the former because it assumes what is to be tested (namely, whether political forces are or are not on balance benign); the latter because it sweeps off the explanatory agenda all questions about how exactly government operates.

To summarize briefly, public choice insists on a radical separation of positive and normative elements in the analysis of political process (just as of market process). Public choice identifies the relatively abstract level of "the system as a whole" as the appropriate level for normative evaluation and focuses largely on the issue of comparing the properties of political and market processes – or more generally the properties of centralized versus decentralized decision-making mechanisms. For public choice theorists, as for welfare economists more generally, the central normative questions have been: What should government do? What activities should government pursue? And equally, and no less crucially, what should government not do? What restrictions on government action should be imposed? This orientation remains central in the normative agenda. However, to deal with such issues adequately, public choice theorists insist, requires a substantial, purely "positive," analytical component entirely comparable with what economics provides for markets. The workings of market process are, on the whole, well understood – or at least so economists believe. The workings of political process are, by contrast, poorly understood. In traditional "theories" of politics, so the argument might go, we are still pretty much at the level of the just price doctrine – at

a level where prescriptive definition, heroic assumption, and "romantic" conceptions abound. Public choice analysis sees itself as attempting to set all this to rights.

The role of homo economicus

What is the role of homo economicus in this whole enterprise? Before attempting to answer this question, we ought to make it clear what exactly the homo economicus assumption amounts to. How, for example, does homo economicus relate to Mueller's specification that "man is an egoistic, rational utility-maximizer"?

In fact, there is some confusion on this matter at both popular and professional levels. We do not aspire here to settle the issues once and for all, but we do want to make it clear what we shall understand by the various terms "egoistic," "rational," "utility maximizing" and how we shall define homo economicus in this book in terms of that vocabulary.

Defining homo economicus

Consider, first, utility maximization. What we shall mean by "utility maximization" is that each agent has purposes that her action is designed to promote, and that such purposes are commensurable, so that the agent's ends can be represented by a function[5] connecting achievement of the various purposes to a single measure. This measure we shall call "utility," for want of a better term, and the related function, a "utility function." Only if the agent acts to maximize this utility function can she be considered "rational."

"Rationality" requires rather more than this, however. Specifically, it imposes a *structure* on the utility function so described. In particular, we require that the utility function be continuous and continuously differentiable (so that small increases in the achievement of one's purposes involve small increases in utility) and "convex." Roughly stated, "convexity" means that generalized demand curves slope downward. It is this assumption that allows us to predict agent behavior in response to changes in relative prices: The more costly some object is in terms of other valued objects forgone, the less of that object the agent will choose to take. On this reading, rationality implies utility maximization, but not vice versa.

None of this requires any assumption about the particular purposes the agent has. *Egoism* is an assumption of this latter kind. It postulates that the agent's purposes are selfish in the natural everyday sense. When we speak of self-interest here, we refer to the *object* of the interest not the *subject*. It is uninformative to be told that, when an agent acts, the reasons underlying the action are his; for that is just what it is for a bodily movement to be an action. Each of us necessarily is moved by reasons that are, in the last instance, our own rather than someone else's. To be interested is to be the subject of one's actions; to be self-interested is, in addition, to be the object of one's actions – that is, to be concerned with the flourishing of oneself. So, for example, we will normally take it that to feed someone else is

[5] This is unnecessarily strong, but specifying the weakest axiom set sufficient to generate the results is a distraction here.

to act in an other-interested way, while to feed oneself is to act self-interestedly. Even such simple examples, however, invite psychological speculation. Though it is plausible that feeding another is grounded either in a concern for the other's well-being or perhaps in a commitment to a moral principle requiring succor of the hungry, it may of course be that I am acting to assuage pangs of guilt or to garner the approval of spectators. Equally, feeding myself may (in bizarre cases) be an other-interested act. Jones, for example, in pursuit of his own well-being, is dieting and judges that it is better for him to go hungry than to eat. Jones's mother is, however, distressed at the knowledge of her son's hunger, and Jones decides to eat after all to relieve his mother's distress: Eating then is interested, but not self-interested.

Economists have never been much interested in this kind of motive unraveling. Their concern in specifying the content of individuals' utility functions has been to assist in the development of empirically testable hypotheses – to develop a "science of choice" beyond the pure "logic of choice" that derives from the rational actor axioms themselves. For this purpose, even egoism may be slightly too complex, as the simple eating example indicates. In at least some instances it will simply not be clear what egoism implies.[6] For purposes of empirical application – and for deriving hypotheses that show some prospect of being conceptually testable – something rather more specific will be required.

Economists have typically taken the logical contender here to be wealth (or income) maximization. Wealth can be more broadly or narrowly defined for these purposes. In the limit it can be taken as the capitalized money value of all the goods the actor values (including leisure, and nonmarketed activities for which some "shadow price" can be adduced). But the broader the definition, the less empirically manageable; and hence economists have tended to settle for income/wealth definitions that accord more or less with common usage and statistical convention. Such a usage is sufficient to generate a rich array of testable predictions about agent behavior, and it is on this basis that homo economicus makes his appearance on the analytical stage.

In our usage, then, homo economicus is to be understood as the embodiment of three independent assumptions:

1. that agents are rational (which includes the notion of utility maximizing as we shall understand it);
2. that agents are egoistic; and
3. that egoism takes the form of economic self-interest, narrowly understood. Homo economicus is a personal-wealth maximizer.

Homo economicus in politics

With this as background, let us return to the grounds on which public choice theory has imported homo economicus into the study of political processes. What role does homo economicus play in public choice? Is he really necessary?

[6] David Gauthier's (1986) *Morals by Agreement*, e.g., argues that an entire apparatus of morality can be derived from agreement among rational egoistic actors.