

Public Choice has demystified and undeified the state.

The Public Choice Revolution

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A HALF-CENTURY AGO, AN ORTHODOX economist would approach the analysis of public policy with the following reasoning: Markets are efficient, or “Pareto-optimal,” when perfect competition prevails. Pareto optimality means that there is no way to reallocate inputs or outputs to benefit some individual without harming another individual or, thought of another way, all gains from exchange have been realized. In many cases, such results are precluded by different types of “market failure” like macroeconomic imbalances, natural monopoly, or externalities (positive or negative). Positive externalities can be generated by “public goods,” which provide benefits to everybody as long as the goods are produced and consumed by somebody. Government must intervene to correct market failures and maximize social welfare.

That was policy analysis before the public choice revolution. Today, the view is much different and begins with a simple question: How are collective decisions made? The answer, of course, is that the decisions are made by policymakers — politicians and bureaucrats — and by voters. The starting idea of public choice theory is disarmingly simple: Individuals, when acting as voters, politicians, or bureaucrats, continue to be self-interested and try to maximize their utility.

Excluding immediate precursors like Anthony Downs’ 1957 book *An Economic Theory of Democracy* and Duncan Black’s 1958 book *The Theory of Committees and Elections*, the foundation of the public choice school can probably be dated to the 1962 publication of James Buchanan and Gordon Tullock’s *The Calculus of Consent*. Many well-known public choice economists were congregating around Buchanan and Tullock at Virginia

Tech at that time: Geoffrey Brennan, Robert D. Tollison, Richard E. Wagner, Winston Bush, and others. For his seminal work in public choice, Buchanan was awarded the 1986 Nobel Prize.

In a narrow sense, public choice analysis is concerned with “state failures.” Manned by self-interested actors on a “political market,” the state is often incapable of correcting market failures — or, at least, of correcting them at a lower price than the cost of the original market failures themselves. In a wider sense, public choice is, as Dennis Mueller writes in his book *Public Choice III*, “the economic analysis of political institutions.” In this broad sense, virtually all economists who study government intervention have now become public choice economists.

THE STATE

Why do we need the state to provide certain goods and services? Why not just have anarchy and let everyone fend for himself either individually or as a member of a private group? The subtitle of James Buchanan’s seminal 1975 book *The Limits of Liberty* summarizes where the individuals presumably want to be: “Between Anarchy and Leviathan.” In the mainstream public choice perspective, the state is necessary to stop the Hobbesian “war of all against all.” As Mancur Olson puts it, a “sedentary bandit,” the state, generates more prosperity than the “roving bandits” it puts out of business.

Once it is admitted that the state is necessary, positive public choice analyzes how it assumes its missions of allocative efficiency and redistribution. Normative public choice tries to identify institutions conducive to individuals getting from the state what they want without being exploited by it.

The contractarian approach defended by many public choice theorists is part of the normative leg of public choice theory. It distinguishes a “constitutional stage” in which, conceptually, individuals unanimously accept the rules of the political game, and a “post-constitutional stage” in which the rules of day-to-

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Why the Majority Wants Both A and Not-A

Assume a society composed of three voters: X, Y, and Z. Further, assume that they are deliberating over three mutually exclusive policy proposals: A, B, and C.

Table 1 shows each voter's order of preference among the three proposals. For example, Voter X's favored proposal is A; his second preference is B, and his least preferred policy is C. The other voters have different preferences. Note that we are only assuming ordinal utility, which means that only the rank of the alternatives matters.

Now, suppose that a referendum asks the voters to choose, under a majority rule, between proposals A and B. Proposal A will win because both X and Y prefer A to B and will vote consequently; Z, who prefers B, will be outvoted. If, instead, the electorate is presented with a choice between B and C, B will win because that is preferred by X and Z. Now, consider what happens if the voters are given the choice between A and C. C will win because voters Y and Z will vote for C. This means that the "social

preferences" expressed by the vote are intransitive — A is preferred to B, B is preferred to C, but C is preferred to A.

This happens because the preferences of some voters (Voter Y in this case) are not "single-peaked." To see what this means, imagine a one-dimension continuum

from A to B to C (like if they are placed in this order along an axis). Voter X's preferences are single-peaked because, from his most preferred alternative, A, he continuously loses utility as he moves further from A in either direction. In this case, he cannot move "left" from A because he is

at the left extreme on the continuum; but the further he goes right, the less utility he gets. Similarly, Voter Z's preferences are single-peaked: his most preferred alternative is B, in the middle of the continuum, and he loses utility as he moves left to A or right to C. But Y's preferences are not single-peaked: he most prefers C and, as he moves left to B, his utility decreases, but then increases again at A. R

TABLE 1

An Illustrative Case of Voting

	First Preference	Second Preference	Third Preference
Voter X	A	B	C
Voter Y	C	A	B
Voter Z	B	C	A

day politics apply. This latter stage typically involves decisions based on majority approval, not unanimous agreement.

CYCLING Why would individuals agree to have collective choices made by majority rule? There is only one way an individual can be sure not to be exploited by a majority: have veto power over any collective choice or, in other words, require that all decisions be approved unanimously. However, unanimous agreement is practically impossible because the decision cost is prohibitively high — a larger number of individuals will have to be persuaded, and it will be in the interest of each one to lie on his preferences in order to manipulate the decision and get the highest benefits and pay the lowest taxes. On the other hand, the lower the required plurality, the higher the risk of an individual being exploited. Depending on the cost of reaching a decision and the lost benefits if the wrong decision is made, the proportion required may be a simple majority (50 percent plus one vote) or some higher, qualified majority.

Here, we meet the first problem uncovered by public choice analysis: majorities — especially simple majorities — are arbitrary. It is far from clear who the majority is and what

it wants. Majorities can be inconsistent or, what amounts to the same, can cycle indecisively among alternatives. (See "Why the Majority Wants Both A and Not-A," above.) The majority can vote for Proposal A over Proposal B, and B over Proposal C, but then vote for C if asked to choose between A and C. The majority seems intransitive, irrational. This explains why the electorate often appears so inconsistent — for example, when it votes for minimum wages that create unemployment, and then for government programs meant to create jobs.

Cycling can occur when the preferences of some voters are not "single-peaked" — that is, given a broad spectrum of options, the force of the voter's preference does not consistently decline as he considers options further and further from his top choice. There is nothing in individual rationality that implies single-peaked preferences. As Mueller notes in *Public Choice III*, "During the Vietnam War, it was often said that some people favored *either* an immediate pullout or a massive expansion of effort to achieve total victory." Another example: Some people think that either selling tobacco should be forbidden or else smokers should be left alone; middle-of-the-road options are less preferred (by some).

Another way to see the cycling-inconsistency phenomenon is to understand how redistributive coalitions are unstable. If the middle class votes with the poor, the two classes can expropriate the rich. But then it will be in the interest of the rich to bribe the middle class into a new coalition that advocates taking all possible money from the poor and offering a bit more to the middle class. The poor, realizing that they would be better off if they were less exploited, would then offer a new deal to the middle class to exploit the rich and share the loot differently. And so on to a new winning coalition. What, then, does the majority want?

Of course, “the middle class” does not vote like a single person and, in a simple majority system, any coalition comprising a simple majority of voters will do. Logrolling is the way coalitions will often be formed in practice. “Logrolling” describes an informal exchange of votes: Politician X supports a measure he does not much like but Politician Y finds very important in exchange for Y’s support for a measure that X wants dearly. If such trade in votes is possible, somebody else can outbid one of the traders and get support for his own pet project. That new coalition can also be overturned. Mueller reports some empirical evidence that such vote trading happens in Congress — for example, lawmakers representing peanut farmers voted for initiatives favored by the sugar-farming industry in return for votes from sugar farmers’ congressmen on peanut industry measures.

MEDIAN VOTER THEOREM When no cycling occurs, the median-voter theorem kicks in. In a simple one-dimensional case,

the theorem states that, if all voters have single-peaked preferences, the winning alternative in a simple majority vote will be the ideal (or most favored) alternative that is at the median point of the preference distribution. This can be seen in Figure 1, which represents the preferences of voters X_1 to X_5 . The horizontal axis represents the different alternatives of a one-dimensional issue — say, a smaller or larger tax rate, with the rate ranging from 0 percent to 100 percent. The strength of each voter’s preference for a specific tax rate is shown by the respective inverted-U curve and measured on the vertical axis. (This is measured in an “ordinal” way, i.e., voters prefer alternatives “more” or “less” — consequently the height of each voter’s utility curve does not matter.)

Consider Voter X_3 . His ideal tax level is t_3 , which corresponds to the top of his utility curve. The more the actual tax rate diverges from t_3 , the less he likes the alternative, which is just another way to say that his preferences are single-peaked. The same is true for the other four voters. By definition, X_3 ’s ideal alternative, t_3 , is the median one among the five voters’ ideal alternatives.

The median-voter theorem is now easy to understand. In pair-wise voting, there is no alternative that can win against t_3 (assuming all voters vote). Suppose, for instance, that the electorate is asked to choose between t_2 and t_3 . Since t_3 is the median, the majority of voters (i.e., X_3 and the two voters to his right) prefer it to any lower rate. Remember that preferences in this example are single-peaked and that a voter prefers an alternative less the further it is from his ideal one. Note that this is true no matter how the other voters’ ideal



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rates are distributed across the continuum — the median rate will always win.

This explains why, especially in two-party systems, political platforms are so similar. If, in the upcoming U.S. presidential election, President Bush promises t_2 and Sen. Kerry promises t_5 , Voter X_3 will vote for Bush because Voter X_3 gets more utility from t_2 than from t_5 . Hence, t_2 will win in that pairing. If Kerry is self-interested and wants to get elected, he will move to t_4 , thereby countering Bush. Bush, if he is self-interested and wants to get elected, will then move even closer to t_3 , and so will Kerry. Both politicians will move toward the median point in pursuit of an electoral win.

Except for the median voter, all voters are unhappy with the results. This feature of voting (whether in elections or referenda) is inseparable from collective choices. If a collective choice decided the type of car that everyone would drive, the outcome might be the production of a Ford Taurus for everybody. The median voter would be happy (assuming the Taurus is the preferred car of the median voter), but everybody else would rather be driving another car.

CYCLES OR TYRANNY? Cycles grow more likely as the number of possible alternatives increases and the individual preferences become more heterogeneous. Qualified majorities can reduce the probability of cycling. An “agenda setter” who decides which alternatives are put on the ballot can also reduce cycling, but he likely will set the agenda to produce an outcome that follows his own preferences. If X is the agenda setter, he will first pair Proposal B with Proposal C and send that choice to the voters. He will then pair the winner with Proposal A, which Voter X prefers. The result of that agenda is that A will win. Likewise, if the agenda setter is Y , he will make sure that the first vote pits Proposal A against Proposal B, and will then run the winner against C so that C wins.

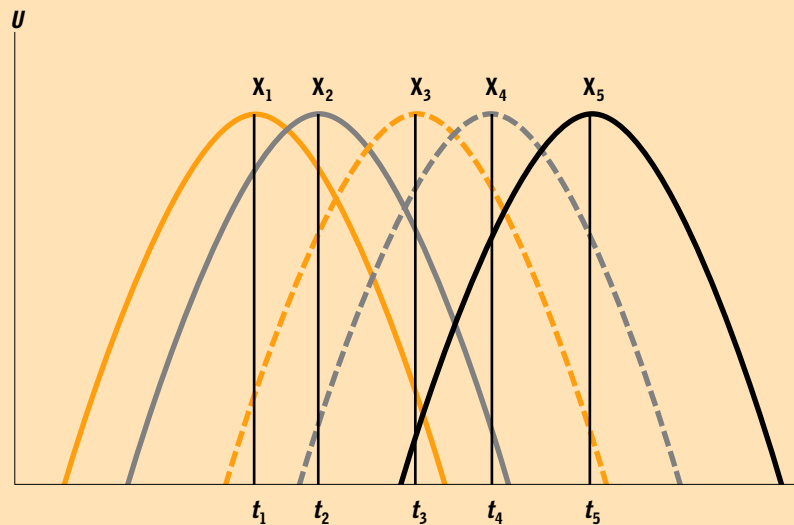
If there is no cycling, another danger looms: a stable majority that would exploit and oppress an identifiable minority. We seem to be facing an uncomfortable choice: either inconsistent majorities with unstable coalitions, or agenda-setter dictatorship, or else a Tocquevillian “tyranny of the majority.”

DIFFERENT VOTING RULES Besides the simple majority rule analyzed above, there is a large number of different voting rules meant to find out who exactly is the majority and what it wants, especially when more than two candidates are running. The plurality rule just picks the candidate who gets the highest percentage of the vote. The majority rule with runoff election pairs the two candidates who obtained the highest percentage of the vote in a first round. The Condorcet criterion calls for the winner to be the one who can defeat all the other candidates pairwise. The Hare system and the Coombs system eliminate the least-preferred candidates over many rounds. In the approval

FIGURE 1

Why the Centrist Wins

An illustration of the Median-Voter Theorem.



voting system, each voter votes for many candidates and the most popular, according to this criterion, wins. The Borda count asks voters to score the candidates, and the winner is the candidate with the highest aggregated score.

All of those systems have different advantages and drawbacks, and often give different results. “For a given set of voters with unchanged preferences,” Gordon Tullock concludes, “any outcome can be obtained by at least one voting method.” This is not without consequences in the real world: Richard A. Joslyn’s research suggests that, in the 1972 Democratic primaries, Edmund Muskie would have won against George McGovern under voting procedures other than the plurality rule.

When the issue to be decided relates to the production and financing of public goods, each individual is incited to understate what he wants, hoping to get the benefits while paying lower taxes. “Preference-revealing” systems have been devised theoretically with the aim of bringing voters to reveal truly what each alternative is worth to them. Mueller is optimistic that this line of research will eventually lead to better collective choice mechanisms. But he also shows how voting with one’s feet — exit as opposed to voice — is often a better solution: In a decentralized political system, individuals get the combination of public goods and taxes they want by moving to the jurisdictions that offer their preferred packages. They reveal their true preferences by choosing where to live.

WHY VOTE? In the 2000 presidential election, the voter turnout (proportion of registered voters who did cast a ballot) was 67.5 percent. For public choice theory, the problem is not that one-third of the voters did not vote, but that two-thirds did. Why did they bother? Granted, for the typical individual voter, the cost of voting is low and mainly involves the time spent going to the polls. But the expected benefit (the value of the benefits

Does Your Vote Really Count?

Although the question of the decisiveness of a vote rapidly gets technical, the general ideas can be grasped easily.

Suppose that you are a member of a committee of three persons, X, Y, and Z, including yourself (Y). A simple majority vote is to be taken on Proposal A vs. Proposal B. Assume that there is a 50–50 chance that any of the other two members will vote for A, and likewise for B. There is no abstention or third alternative. What is the probability that your vote will count, in the sense of being decisive? This amounts to asking the probability that there would be a tie if you did not vote.

Because Voters X and Z can each vote for either A or B, there are four possible outcomes of the vote without your voice: A-A (i.e., Voters X and Z both vote for Proposal A), B-B, A-B, and B-A. Only in the last two (A-B and B-A) is there a tie without you; in the other cases, it makes no difference whether you vote for A, for B, or do not vote at all. Therefore, there are two chances in four that your vote will count.

Those who have done some elementary combinatorial analysis and probability theory will recognize that if p is the probability that one of the other voters chooses for A, and $(1-p)$ the probability that he votes for B instead, then the probability P that there will be a tie is given by the formula

$$P = {}_n C_{n/2} \times p^{n/2} \times (1-p)^{n/2}$$

where ${}_n C_{n/2}$ is the number of combinations of all n voters taken $n/2$ at a time. In fact, with a large number of voters (1,000 or more in the table), an approximation to the above formula has to be used to calculate P , even with computers.

By counting the possible results, calculating their equal probabilities, and adding the probabilities for the tied results, or alternatively by using the above formula, it can be calculated that on a five-person committee (including you), the probability that your vote will count is $\frac{3}{8}$ or 0.375.

The larger the number of voters, the lower the probability that your vote will count. With 1,000 voters, the probability is only about 0.02 (or 1:50). With 100 million (the approximate number of voters in a presidential election), it is reduced to 0.00006 (about 1:17,000).

The probability that your vote will be decisive diminishes dramatically as the probability that any voter chooses one alternative or the other diverges from 50–50. This is easy to see in our example of a three-member committee. Assume now

that each of the other two members votes for A with probability 0.8 (or, alternatively, votes for B only once in five times). Now, the two results that make your voting worthwhile (AB and BA) only occur $\frac{1}{25}$ of the time each, so that the occurrence of one or the other event has a probability of $\frac{2}{25}$, or 0.32.

Consider again the upcoming presidential election. Assume that about 100 million other electors will vote, and that the probability that one of those voters taken randomly will vote

TABLE 2

Probability that Your Vote Will Count

Number of electors (n) without you	Probability that an elector votes for one of two alternatives (p)	
	$p = 0.5$	$p = 0.49$
2	0.5	0.4998
4	0.375	0.3747
1,000	0.0189	0.0155
10,000,000	0.0002	$5 / 10^{873}$
100,000,000	0.00006	$8 / 10^{8691}$

Note: Probabilities for $n = 2$ and $n = 4$ are exact; for other values of n , they are approximated by Owen and Grofman's formula as modified by Mueller (cf. *Public Choice III*, p. 304–305).

for Kerry is 0.49 and the probability he will vote for Bush is 0.51. Disregard the complication of the electoral college. The probability that there will be a tie, and that your vote will make a difference, can be calculated: it is eight chances in 10^{8691} . The number 10^{8691} (10 followed by 8,690 zeros) is a more-than-astronomical number. It is much, much larger than the total number of elementary particles in our universe (10^{100}) and the age of the universe in seconds (3×10^{17}). Consequently, the probability that your vote will count is extremely close to zero.

There have been some recent challenges (mentioned by Mueller in *Public Choice III*) to this methodology, and some higher probabilities have been obtained. But, for all practical purposes, one vote — your vote — still has no significant probability of changing the election outcome. **R**

promised by the voter's preferred candidate multiplied by the probability that the voter's action will get the candidate elected) is infinitesimally small. Consequently, the rational voter should abstain. Why so many voters go to the polls is called "the voting paradox."

In his new book, Mueller reviews many solutions that have been proposed to the voting paradox. The common idea is that self-interest has to be conceived in a less narrow fashion: the

voter must consider other benefits than the expected gains from his preferred candidate's policies. Those other benefits might be the pleasure of expressing an opinion or of being part of the crowd (like when one cheers or boos at a hockey game), the satisfaction of doing one's moral duty, or the desire to be seen as a "good citizen." Indeed, there is some evidence that people often vote against their own narrow interests. In brief, the benefits individuals get from voting are related to their

expressing their “public preferences.”

The voter weighs those benefits, which are independent of his being on the winning or losing side, against the cost of voting. The higher the cost of voting (other things being equal), the lower the turnout. Mueller reports research showing that, before poll taxes were made illegal in Southern states, “a six-dollar poll tax in 1960 reduced the probability of an individual voting by 42 percent.” Voters are rational — they vote for other reasons than expected benefits from their preferred candidates or measures, but they weight those reasons against the cost of voting.

This conclusion has massive consequences. One is that, because a voter’s expression has little or no impact on the election results, he has no incentive to be well-informed on political issues. Because voters thus remain “rationally ignorant,” politicians can, to some extent, cheat on their commitments and indulge in their own personal ideological preferences.

DISTORTING INTERMEDIARIES

In our democracies, voters do not decide most issues directly. In some instances, they vote for representatives who reach decisions in parliamentary assemblies or committees. In other instances, they elect representatives who hire bureaucrats to make decisions. The complexity of the system and the incentives of its actors do not necessarily make collective choices more representative of the citizens’ preferences.

POLITICIANS Public choice theory assumes that politicians want to win elections — otherwise they will not be politicians for long. To achieve their goal, the politicians propose measures that they think the majority prefers, and they join political parties. “Parties formulate policies in order to win elections,” wrote Anthony Downs in *An Economic Theory of Democracy*, “rather than win elections in order to formulate policies.”

The rule used for U.S. congressional elections and parliamentary elections in most British-tradition countries is plurality-based. This encourages the dominance of two political parties because third parties can get few candidates elected even if they can get a good proportion of the vote across all districts. In two-party political systems, as long as issues are one-dimensional and preferences are single-peaked, political parties will try to get as close as possible to the median voter. In multi-dimensional cases or with multiple-peaked preferences, cycling can occur.

In political systems with proportional representation, more than two political parties will usually thrive and will form coalitions to govern. Different systems of proportional representation exist, but the general idea is that some adjustment procedure brings the proportion of representatives closer to the proportion of the popular vote received by different parties in the whole country. Proportional representation gives better representation to voters with minority preferences or ideologies, but it also leads to more unstable governing coalitions.

BUREAUCRATS When public choice analysis is applied to the bureaucracy, it uncovers other reasons to doubt that the state can efficiently reconcile the individuals’ preferences and aggre-

gate their demands for public policies. Once again, public choice assumes that the bureaucrat is an ordinary individual who, like everybody else, tries to maximize his utility.

What does this mean in practice? What does the bureaucrat do to maximize his utility, given the constraints placed upon him? Most attempts to answer that question are adaptations of the systematic model William Niskanen developed in his 1971 book *Bureaucracy and Representative Government*. Bureaucrats are assumed to maximize the size of their bureaus’ budgets because they can thereby increase their real remuneration in terms of perks (larger offices, better expense accounts, etc.), lower risk of missing their objectives, recognition, etc. Thus, the bureaucrats will produce more than the politicians (and, presumably, the citizens) want, or at a higher cost.

Bureaucrats can do this because their political sponsors (the politicians or other political masters who determine the agencies’ budgets) do not know the real cost of producing what they order from the bureaucracy. Of course, the sponsors will try to control bureaucratic activities, but the monopolistic (single-provider) advantage of the bureaus will defeat at least some of those efforts. This theory is supported by a large number of studies showing that production costs in public bureaucracies are higher than in comparable private enterprises.

Another way the bureaucrat exerts power is by being an agenda setter. As we have seen, the agenda setter can often lead the system toward the results he prefers by deciding which alternatives, in what order, will be voted upon by the politicians or the citizens.

INTEREST GROUPS In order to influence collective choices, citizens have to engage in collective actions: participate in demonstrations, organize lobbying activities, contribute to political parties, etc. The result of a group’s collective action (say, tariff protection) is often a public good for the members of the group — each will benefit from it whether or not he has contributed. Moreover, the action of a single individual may not count much in the final success of the collective action. Thus, in participating in a collective action, every individual incurs costs for virtually no benefit and will therefore be tempted to free ride on the efforts of others. That is especially true in large groups where one individual’s actions have less impact and shirkers can more easily avoid sanctions like boycott. Thus, small groups with concentrated interests like farmers or steel producers will be better organized and wage more efficient collective action than large groups with diffuse interests like taxpayers or steel consumers. And well-organized groups will exploit less organized ones.

That was a major conclusion of Mancur Olson’s highly influential book *The Logic of Collective Action*. For example, Swiss farmers, who are a small part of their country’s population, get effective subsidies equivalent to 86 percent of their incomes while farmers in Ghana, who are a large part of their country’s population, get an effective negative subsidy amounting to 27 percent of their incomes as they subsidize the small urban class.

Interest groups will engage in what public choice theorists call “rent seeking,” i.e., the search for redistributive benefits at the expense of others. The larger the state and the more

benefits it can confer, the more rent-seeking will occur. “The entire federal budget,” writes Mueller, “can be viewed as a gigantic rent up for grabs for those who can exert the most political muscle.” Rent seeking does not produce a pure transfer; when individuals or groups compete for some advantage from the state (e.g., a subsidy, a monopoly), they will all use real resources (e.g., ink, paper, travel, meals, time) in trying to grab it. As a result, part of the expected rent will be dissipated, creating a net social loss.

GROWTH AND JUSTIFICATIONS OF THE STATE

From about 1870 until around 1913, total government (federal plus state) expenditures in the United States was around 7 percent of GDP. It grew to 12 percent by 1920, and to 20 percent by 1937. By 1980, it had reached 31 percent and has slight-

racy and federalism provide an effective check on the growth of Leviathan. This suggests that the citizen-demand model is more applicable in such cases.

SOCIAL CHOICE THEORIES What are the standards for judging state action? What should the state do, and how? Those questions are the subject matter of normative theories of public choice, which include “constitutional economics” as well as “social choice” theories outside the narrow public choice school.

In social choice theories, we meet the sort of “social welfare functions” that preceded the public choice revolution. A social welfare function is a ranking, in terms of social welfare, of all Pareto-efficient configurations of prices, wages, and income distributions. To choose between them, “society” — which in practice means the state — must weight the utility of different individuals. Before the development of the

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ly increased since then. The same evolution happened in the public sectors of other countries, though many of them have seen even more growth post-1980, and some now are as high as, or higher than, 50 percent of GDP. Why did the state grow so much?

TWO MODELS Public choice theory oscillates between two models of the state: the citizen-demand model and the Leviathan model. In the citizen-demand model, Mueller explains, “policies are reflections of the preferences of individual voters.” In the Leviathan model, he says, “it is the preferences of the state, or of the individuals in the government, that are decisive.” Depending on which model is used, analysis of why the state has grown yields different results.

The citizen-demand model claims that the citizens have demanded more public goods, more control of negative externalities (like pollution), and more redistribution of income. One interesting hypothesis, supported by some research, is that the expansion of the voting franchise to women and the poor has fueled the growth of the state. But is this really what the citizens want? And which part of the citizenry?

The Leviathan model stresses factors on the supply side: the state grows because its rulers or beneficiaries want more loot. Bureaucrats comprise a large part of the electorate — 15 percent on average in OECD countries, and 20 percent or more in some countries — and research shows that their voter turnout is higher than other citizens’. Another explanation is that politicians can easily fool rationally ignorant voters.

Mueller, in *Public Choice III*, cites evidence that direct democ-

public choice school of thought, it was already known that social welfare functions require that utility be measurable in a cardinal sense and be comparable between individuals. In other words, somebody must calculate that, say, a 10 percent increase in X’s utility is worth “to society” more than a 15 percent drop in Y’s utility. There is no scientific basis for such moral judgments or for the social welfare functions based on them.

In his 1951 book *Social Choice and Individual Values*, Kenneth Arrow attacked the problem with a different methodology. He asked if a social welfare function could be built from a few simple axioms, avoiding any interpersonal comparison of utility. In trying to answer the question, he demonstrated that no social welfare function exists that will, at the same time, respect Pareto optimality, be nondictatorial, and be transitive (i.e., not lead to cycles). In a sense, Arrow generalized the conclusions on cycling and showed that social preferences must be either inconsistent or dictatorial.

TAMING LEVIATHAN

There is an ambivalence in the corpus of theories and empirical evidence called “public choice” that Mueller encapsulates well in *Public Choice III*:

Some scholars like Brennan, Buchanan, Niskanen, and Usher look at the state and see a grasping beast set upon exploiting its power over citizens to the maximum degree. Others, like Breton and Wittman, when they gaze upon the state, see an institutional equivalent to the market in which democratic competition produces

efficiency levels comparable to those achieved by market competition.

Public choice can be seen as demonstrating either the usefulness of politics or the existence of state failures; as arguing either that the state promotes allocative efficiency or that it is a redistributive machine; as proposing either a demand model of the state where political competitors respond to citizens' demands or a supply model where Leviathan rules. Expressed differently, there is a permanent tension between the libertarian and the interventionist strands in public choice theory.

One thing is sure: public choice has destroyed the naïve view that, in order to justify state intervention, it suffices to show that there exist market failures that an ideal state could correct. After the public choice revolution, political analysts cannot be satisfied with comparing real markets with an ideal state; they must analyze the state as it is before dreaming about what it should be. Public choice has demystified and un-deified the state.

GOING FURTHER Dennis Mueller's *Public Choice III* provides a masterly overview of the public choice literature over the last half century. It will remain as the *Summa Theologica* of public choice economics at the beginning of this century.

In my view, we can go further than Mueller, who perhaps tends to be overly optimistic about politics. The more extended is the state's domain, the more likely its majorities will be either inconsistent or oppressive. The paradigmatic case is perhaps the cycling phenomenon: the more the state intervenes, the more the issues will become multidimensional, the less homogeneous will the voters' preferences be, and the more inconsistent or dictatorial Leviathan must become.

We must question the orthodox approach of weighting costs and benefits in search of optimality. Optimality can be defined in such a broad way that everything is optimal, in the sense that it cannot be otherwise given the present state of the world. Is this not what some economists do when they argue that political competition between interest groups produces optimal results because individuals will get organized when the cost of oppression gets too high? Do we not have a tautological notion of optimality?

Thoughtful defenders of the interventionist strand do have an external criterion of optimality that lies in some sort of social welfare function. What is optimal is what maximizes some function of individual utilities, perhaps represented by monetary costs and benefits. On this basis, it can theoretically be shown that some (competitive) institutions lead to Pareto optimality and the state can use cost-benefit analysis to get us there. But, as public choice analysis has shown, this approach presupposes either interpersonal comparisons of utility or "social preferences" that are inconsistent or dictatorial.

We should take seriously the challenge raised by Anthony de Jasay, himself an (unorthodox) public choice theorist. In his book *The State*, he reminds economists that interpersonal comparisons of utility "are merely a roundabout route all the way back to irreducible arbitrariness, to be exercised by authority."

"At the end of the day," he continues, "it is the intuition of the person making the comparison which decides, or there is no comparison.... In an analogous manner, the two statements 'the state found that increasing group P's utility and decreasing that of group R would result in a net increase of utility' and 'the state chose to favor group P over group R' are descriptions of the same reality." Once that is realized, public choice becomes essentially an indictment of the state.

Finally, taking public choice theory seriously implies a serious questioning of the "we" or "they" as political collectives. Statements such as "We, as a society, think or do such and such" and "The French (or the Americans) believe or do this or that" are either rhetorical and logically meaningless or else dictatorial. There is no nondictatorial way to aggregate different individual preferences and fuse them into one set of super-preferences, except if the individuals have identical preferences or if they are unanimous. Examples of similar preferences are found in small and close groups like a couple, a family, or a few friends — although even in those cases, one individual is often the "dictator" or the leader. Examples of unanimous choice include shareholders buying into a company and members joining an association. Unanimity is the only way out of the dilemma between meaningless and dictatorial collectives.

Thus, except in an abstract constitutional perspective (agreement on very basic rules), the political "we" implies that some individuals impose their preferences on others. In this sense, the public choice revolution rings the death knell of the political "we." **R**

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