

A Primer on Modern Themes in Free Market Economics and Policy

Second Edition

JOHN M. COBIN, PhD

Universal Publishers

Boca Raton, Florida

A Primer on Modern Themes in Free Market Economics and Policy
Second Edition

Copyright © 1999-2009 John M. Cobin
All rights reserved.

No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage and retrieval system, without written permission from the publisher

Universal-Publishers
Boca Raton, Florida • USA
2009

ISBN-10: 1-59942-894-6
ISBN-13: 978-1-59942-894-9

www.universal-publishers.com

Library of Congress Cataloging-in-Publication Data

Cobin, John M.

A primer on modern themes in free market economics and policy /
John M. Cobin. -- 2nd ed.

p. cm.

Includes bibliographical references and index.

ISBN-13: 978-1-59942-894-9 (pbk. : alk. paper)

ISBN-10: 1-59942-894-6 (pbk. : alk. paper)

1. Free enterprise. 2. Social choice. 3. Economic policy. I. Title.

HB95.C63 2009

330.12'2--dc22

2009039079

“The essence of Government is power; and power, lodged as it must be in human hands, will ever be liable to abuse.”

— James Madison

“Sometimes it is said that man cannot be trusted with the government of himself. Can he, then, be trusted with the government of others? Or have we found angels in the forms of kings to govern him? Let history answer this question.”

— Thomas Jefferson

“What is history but the story of how politicians have squandered the blood and treasure of the human race?”

— Thomas Sowell

“Is it conceivable that a newly emancipated people can soar to the heights of liberty, and, unlike Icarus, neither have its wings melt nor fall into an abyss? Such a marvel is inconceivable and without precedent. There is no reasonable probability to bolster our hopes.”

— Simon Bolivar

“Money is preferable to politics. It is the difference between being free to be anybody you want and to vote for anybody you want. And money is more effective than politics both in solving problems and in providing individual independence. To rid ourselves of all the trouble in the world, we need to make money. And to make money, we need to be free.”

— P.J. O'Rourke

“In this present crisis, government is not the solution to our problem; government is the problem.”

— Ronald Reagan

Acknowledgments

I wish to acknowledge my gratitude and debt to my colleagues at George Mason University. These friends and associates assisted me by acquiring and sending many necessary resources and materials for this book that were not available to me in Chile. I would like to thank Fred Foldvary, Eugenio Guzmán, Jerry Ellig, Tracy Harms, Randall Holcombe, Ray Harbaugh, and N. Stephan Kinsella for their review of the first edition and helpful comments on drafts or ideas pertaining to it, as well as Universidad Finis Terrae in Santiago, Chile for financing it. Finally, I would like to thank Universidad Andrés Bello for financing the second edition (Spanish translation) and for giving me leave to write it, as well as Universal Publishers for publishing the English version.

Contents

Acknowledgments _____	iv
Preface _____	vii
1 Ideas and interest groups in public choice economics and public policy _____	1
2 Capture theory and antitrust _____	29
3 Rent seeking _____	52
4 The calculus of consent and vote-seeking _____	86
5 Public policy and public choice _____	119
6 Public choice issues for regulation _____	163
7 Ludwig von Mises: a compendium of his classically liberal thought _____	200
8 Austrian methodology and the knowledge problem _	228
9 Entrepreneurship: an Austrian perspective _____	269
10 Interventionism: an Austrian critique _____	304
11 The Austrian business cycle and free banking ____	343
12 Market failure fiction _____	377
13 The economic analysis of law _____	409

14 Cases and criticisms in law and economics with a focus on property rights	448
15 Allodialism as economic policy	497
Index	569
About the author	599

Preface

Free market economics has made many advances during the past thirty years. These advances are due to the maturing of public choice theory and empirical studies, along with a resurgence of interest in Austrian economic themes like free banking, market process entrepreneurship, and the critique of socialism and interventionism. In addition, new avenues have opened in law and economics and regulatory studies which favor free market ideas.

The purpose of this book is to introduce and summarize some of the important advances in contemporary free market economics and policy. It is written as a document to be translated, primarily for my Chilean and Latin American students who do not read well in English, but who would like to read about free market ideas from the original sources. For that reason, the English version seems a bit rough at points. And my academic colleagues will notice the oddity of having so many long quotations in the text. Having these quotations makes sense once one understands that the main purpose of the book is to provide access to translations of original sources for non-English speakers.

But the English version should nonetheless prove useful for students in *ad hoc* seminars, such as the ones I regularly conduct in Europe, Belgrade and Prague in particular, just as it would for students in classic liberal summer programs

such as those offered by the Institute for Humane Studies in Fairfax, Virginia, etc. Accordingly, many free market thinkers have been cited which will help acquaint the reader with many key contributors and their contributions. The book is designed for a variety of uses:

- as a textbook in an upper-division or graduate economics elective course,
- as a textbook in an economics-based social science elective for advanced undergraduates in political science, public administration, legal studies, or public policy,
- for academics, free market advocates, policy analysts, or serious intellectual readers (with some knowledge of economics or political science) who want to gain a broad understanding of free market motifs,
- as a textbook to facilitate discussion in an MBA or law school elective course in regulation, and
- in some cases, the text could be the basis for an upper-division required trampoline course in economics or business programs, especially in universities which offer electives in public choice, Austrian economics, law and economics, regulation, and public policy.

In the latter case, a course following this book would serve as a springboard to more in-depth studies, especially when the general focus is on regulation and policy. The book is purposefully eclectic, in that it does not favor any single branch of free market theory. There are five public choice chapters (1, 2, 3, 4 and 6), five Austrian economics chapters (7, 8, 9, 10, and 11), three chapters on public policy themes (5, 12, and 15), and two chapters on law and economics (13 and 14).

There are many long quotations in some parts of the book so that students (or even a casual reader) may have some direct exposure to the theorists behind the ideas. This format should prove to be an effective teaching device, and hopefully encourage classroom discussion of the statements

by the various free market theorists. Indeed, the quotations should be exploited for their full pedagogical value given that they will likely represent the lion's share of many students' direct exposure to key free market theorists—especially for student whose first language is not English. As an additional exercise, I typically require students to memorize the definitions of rent seeking, free banking, public goods, and the Coase Theorem because I think they will be useful during other courses and their academic and professional careers. I also require students to write a paper on environmental policy, using the sources brought up in chapter six as a basis, and applying their knowledge of public choice, Austrian economics, and law and economics theory.

When I teach a semester-long course covering all the topics in the text, I follow this arrangement of the material.

Chapter	Number of 90 minute classes
1	2
2	1½
3	2½
4	2
5	1½
6	1½
7	1
8	2
9	1½
10	1½
11	2
12	2
13	2
14	3
15	2

Given this system, the weights for each area of analysis are (roughly):

Public choice	34%
Austrian economics	29%
Law and economics	18%
Public policy	19%

However, there is always considerable overlap between the topics and students will usually spend more time studying outside class for the relatively copious law and economics and public policy portions.

My course also requires some outside readings, including (1) selections from newspapers and magazines which report relevant cases that can be applied to the class, I have used for example: Hillary E. MacGregor (1997), "City Process for Granting Permits Due for Overhaul Development: Many Say Winning the Right to Build Houses in Ventura Is Based On Politics and Deal-Making Rather than Good Planning," *Los Angeles Times*, Ventura County Edition, Tuesday, January 21, p. B1 (Metro), (2) Highly recommended: William H. McNeill (1976), *Plagues and Peoples*, Doubleday (Anchor Books): New York, pp. 1-13, 33, 40, 48, 56, 59-68, 75-76, 164-165, 196, 206-207, 216, 256-257, (3) Ludwig von Mises (1996/1949), *Human Action: A Treatise on Economics*, Fourth Revised Edition, The Foundation for Economic Education: Irvington-on-Hudson, New York, (4) George Selgin (1990), "Short-Changed in Chile: The Truth about Free-Banking Episode," *Austrian Economics Newsletter*, Winter/Spring, pp. 5-7, (5) Fred Foldvary (1994), *Public Goods and Private Communities: The Market Provision of Social Services*, Edward Elgar Publishing Co. [The Locke Institute]: Brookfield, Vermont, chapters 1 and 2, (6) Randall Holcombe (1997), "A Theory of the Theory of Public Goods," *Review of Austrian Economics*, vol. 10, no. 1, January, pp. 1-22, (7) Robert Cooter and

Thomas Ulen (1997), *Law and Economics*, second edition, Reading, Mass.: Addison-Wesley, chapters 1, 3 and 4, (8) John Robson and Owen Lippert, "Introduction: Law and Markets," chapter 1 in John Robson and Owen Lippert, eds., *Law and Markets: Is Canada Inheriting America's Litigious Legacy?*, Vancouver, B.C.: The Fraser Institute, 1998, pp. 3-10, and (9) any other material I find of interest.

1 Ideas and interest groups in public choice economics and public policy

What is public choice economics?

Consider a market negotiation, including a political decision which has economic implications, between a buyer and a seller. When a deal is concluded, there is manifested an agreed upon choice for person 1 and person 2. However, when this choice also affects person 3, or persons 4, 5, 6, 7...x, then the choice is said to be a *public* choice.

Public policy generally involves public choices. Politicians, bureaucrats, judges, lobbyists, special interest groups, and similar political actors make choices and deals, compromises and arrangements. These arrangements are distilled into legislations, rulings, and executive orders which allocate scarce resources, imposing costs on certain people and conferring benefits on others. In general, all of these choices are public choices. And public choice economics seeks to study choice and maximizing behavior found within the political process. As a concept, public choice has been absorbed into the mainstream of economic thought to some extent. But it is still considered by many to be a bit of an outcast on account of its perceived nexus with classic liberalism. Nevertheless, its logic and conclusions are both simple and powerful, and can hardly be ignored.

The hard-wrought influence of free market ideas

Never underestimate the power of ideas. An idea despised in one generation can rule the world in subsequent generations. Marxism is a good example. There has been no one since Jesus Christ and the Apostles who have had more influence on the world than Karl Marx. Even Mohammad, Einstein, Jefferson, Luther, Calvin, Beethoven, Ford and Gates have failed to penetrate every corner of the world as Marxism has done. Obviously, Marxism was embellished and spread considerably by future generations of Marxian thinkers and activists such that the twentieth century and current versions are considerably different than from what Marx himself taught.

Yet Marx was basically derided and despised in his day. He was a Jew who disdained Jews. He was an odd-looking, bushy-bearded German academic who lived off of the kindness his comrade Friedrich Engels' wealthy father in London. Who would have thought in the late nineteenth century that such a man would engender disciples that would so dramatically impact the world? And yet his ideas did influence the world. Marxian doctrine applied to twentieth century public policy resulted in the deaths of some 272 million non-combatants and the greatest destruction of the environment and private property ever known to man. Thus, one should never underestimate the power of an idea, no matter how absurd or ludicrous it may appear.

Public choice economics, along with Austrian economics, tend to be aligned with classic liberalism: small government and free markets. While their influence continues to grow, the ideas generated in these schools still tend to be disdained or ignored by mainstream neoclassical economists and policymakers. There have been several Nobel Laureates in economics from these research programs in the last 40 years: Friedrich von Hayek (1973), James Buchanan (1986), and Vernon Smith (2002). These achieve-

ments have made it harder to ignore free market theories from public choice and Austrian economics. They also add to the strong University of Chicago derived line up of Nobel laureates, whose methodology is neoclassical but whose policy conclusions tend to be similar: Milton Friedman (1976), George Stigler (1982), Robert Solow (1987), Ronald Coase (1991), Gary Becker (1992), Robert Fogel (1993), and Robert Lucas (1995). Then there is a notable line up of influential free market thinkers who did not receive a Nobel Prize, such as Ludwig von Mises, Murray Rothbard, Israel Kirzner, Gordon Tullock, Armen Alchian, Paul Heyne, Julian Simon, and many others. Obviously free market economists are not monolithic in their thought and there is often considerable, healthy disagreement between them.

Free market thought has several branches, each with distinctive methodologies and research programs. Public choice has perhaps the widest appeal, given the dissemination of ideas through the University of Chicago and George Mason University in Fairfax, Virginia, that have led to the generation of interest in other major research universities, such as University of California at Los Angeles, Rochester, Minnesota, Washington University, University of California at Santa Barbara, and numerous liberal arts colleges. Law and economics has likewise enjoyed a growing appreciation in the academy, having a particularly free market thrust in recent years, which has also impacted regulation studies. Moreover, there has been a revitalization of “Austrian” economics (named for the nationality of the school’s founder and chief proponents). There are now Austrian economics programs at New York University and George Mason University, plus leading Austrian thinkers at Auburn University, the University of Georgia, University of Missouri, and Florida State University, in addition to numerous liberal arts colleges and smaller schools like Pace University, Grove City College, Hillsdale College, Universidad

Francisco Marroquín in Guatemala, Universidad San Pablo in Guatemala, and Universidad Andrés Bello in Santiago, Chile.

Thus, there has been growing interest in these free market perspectives. Despite the resistance encountered by free market factions from the neoclassical mainstream, the potency of their ideas has made it impossible to ignore them. Indeed, a growing number of their ideas have been and continue to be incorporated into the mainstream of economic thought. However, they have not always been welcomed with open arms. Despite the fact that several members from these traditions won Nobel prizes during the 1970s and 1980s, those thinkers hardly enjoyed widespread repute during those decades. Nevertheless, winning Nobel prizes requires considerable scholarship. And there are a number of other widely-respected economists with substantial publication records in these schools, including Ludwig von Mises, Israel Kirzner, Murray Rothbard, Charles Rowley, Richard Wagner, Robert Tollison, Larry White, Jack High, George Selgin, Roger Garrison, and Gordon Tullock. Yet it is not always easy to be a leader of a new idea. Consider Buchanan's frustration in a statement cited by Peter Boettke.

If I am not an economist, what am I? An outdated freak, whose functional role in the general scheme of things has passed into history? Perhaps I should accept such an assessment, retire gracefully, and, with alcoholic breath, hoe my cabbages? Perhaps I could do so if the modern technicians had indeed produced "better" economic mousetraps. Instead of evidence of progress, however, I see a continuing erosion of the intellectual (and social) capital that was accumulated by "political economy" in its finest hours (Buchanan 1979, p. 279).

Boettke discusses the fate of such "brave individuals who buck the intellectual trends of their time" (Boettke

1997, p. 1). They pursue truth usually at great professional cost, although their contributions are often admired eventually. Indeed, perhaps the ideas contained in this book will finally achieve the full recognition they deserve in public policy and the academy—in both North and South America, as well as the rest of the world. Boettke has a favorite tale by which he warns economists and other scholars not to ignore public choice ideas.

There is an ancient legend that has it that a Roman Emperor was asked to judge a singing contest between two participants. On hearing the first contestant, the Emperor simply gave the prize to the second under the assumption that the second could be no worse than the first. Of course, the Emperor's assumption could in fact be wrong. The second singer could have indeed been worse. The theory of market failure as developed in the 1950s committed the same mistake as the Emperor. Demonstrating that the market economy failed to live up to the ideas of a general competitive equilibrium was one thing, but to gleefully assert that public provision could costlessly correct the failure was quite another matter (Boettke 1997, p. 9-10).

Nevertheless, the worldwide Financial Crisis beginning in 2009 brought yet another attempt at using government policy to correct a perceived market failure. People's faith in the state is striking, in spite of the fact that the state has so often failed to further the so-called "public interest." Public choice attempts to explain why public policies often fail to yield the expected outcome of their designers, or why such policies were never really intended to further the public interest at all but rather some private interest.

The public choice insight of Buchanan and Tullock must be credited for changing the focus on market failure. Public choice applies economic theory to collective action, pri-

marily government and public policy. That is because public choices are made when one person's decision is also a decision for another person. Moreover, public choice theory suggests that people are self-interested in all choices, including public choices. Accordingly, Boettke's tale reminds us about the basic symmetry between politics and the market, and the importance of letting both sides tell their story.

Public choice theory (and other free market theories) needs to be heard. Moreover, ideas are not without consequences—they can have a significant impact in directing the course of a field of study like economics, public policy, history, or political science. Watching the gradual advances of public choice theory manifests the paramount importance of ideas.¹

The influence of ideas in academia, politics, and society

In his paper, “Economic Education and Social Change,” Boettke argues that ideas still reign. He describes an “intellectual pyramid of society,” in which scholars produce ideas that are distributed by policy think tanks and teachers, which are in turn passed on to the government, media, students, and businesses. Boettke's sentiment parallels that of the famous Austrian economist Ludwig von Mises, who said that most people do not have their own ideas but parrot them from others.

Most people are common men. They do not have thoughts of their own; they are only receptive. They do

¹ Boettke is a leader in a younger generation of scholars and an archetype of the eclectic free market thinker. He received his graduate training at George Mason University under his mentors Buchanan and some Austrian economists. While Boettke is a distinctively Austrian theorist in terms of methodology, he also has a substantial appreciation for public choice and other free market spheres. Thus, Boettke's work is a good starting point for a compendium of free market themes like this book.

not create new ideas; they repeat what they have heard and imitate what they have seen. If the world were peopled only by such as these, there would not be any change and any history. What produces change [are] new ideas and actions guided by them. What distinguishes one group from another is the effect of such innovations. These innovations are not accomplished by a group mind; they are always the achievements of individuals. What makes the American people different from any other people is the joint effect produced by the thoughts and actions of innumerable uncommon Americans (Mises 1969/1957, pp. 191-192).

Building on Mises, Boettke suggests that while scholars are often an under-appreciated class of producers (which is especially true in places like Latin America and Africa), their contribution is the most significant of any other segment of the pyramid. Certainly both the producers and distributors of ideas are necessary, and Boettke is arguing for recognition of the integrated capital structure of ideas more than the relative importance of each branch. However, like the goose and the golden eggs, there is a cardinal value difference in some sense between the relatively scarce producers of ideas and the multitude of more easily replaced distributors of ideas. This fact holds true in spite of the existence of extraordinary distributors (creating some cardinal value distinction between them as well). And the public, which relies almost exclusively on the ideas they hear from the media, receives ideas perhaps without realizing that they ultimately come from the academy (Boettke 1992, pp. 64-65). Correspondingly, Boettke cites Keynes's famous statement about the power of ideas.

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the

world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. *I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas* [emphasis added by Boettke] (Boettke 1992, p. 66—quotation from Keynes, *The General Theory*, p. 383).

This statement serves as an excellent prologue for public choice theory, and interest group theory in particular, as we begin to consider just how powerful special interest groups (SIGs) can be. Is the power of SIGs *paramount*, even exceeding the power of ideas and those who generate them? Does SIG influence exceed the influence of the entrepreneur? According to Keynes and Boettke, interest groups are ultimately driven by ideas. It is as if a voice from the past is continually reminding the progenitors of interest groups about the ideology that drives them. Thus, it may seem that ideas are dwarfed by special interests but in reality ideas still reign.

Table 1.1 Intellectual Pyramid of Society

<p><u>The intellectual pyramid of society is composed of:</u></p> <p>(1) Generators of ideas (scarce).</p> <p style="text-align: center;">↓</p> <p>(2) Distributors of ideas.</p> <p style="text-align: center;">↓</p> <p>(3) The masses: “common men,” “practical men.”</p>
--

Ideas vs. special interests

An extreme application of public choice economics would conclude the victory of special interests over ideas, such that SIGs now rule the world. As Boettke summarizes:

Politicians are vote seekers and most voters are rationally ignorant of the vast majority of issues—concentrating instead on those that are of special interest to them...the logic of the political process is to concentrate benefits on well-informed and well-organized interest groups, and to disperse the costs among the ill-informed and unorganized mass of voters (Boettke 1992, p. 67).

Indeed, this insight is a key implication of public choice theory. However, Boettke contends that this insight does not negate the preeminent role of ideas. Alternatively, Boettke shows that ideas produce a “climate of opinion” wherein policy activists and interest groups make decisions. Academics also retain an important role in developing appropriate rules to organize society, as well as explaining human behavior.

Boettke contends that free market ideas like public choice and constitutional economics have enjoyed considerable success in recent years, especially since the fall of the Soviet Union in 1989 and the vindication of the Austrian School. Public choice theorists have found strong empirical support for public choice theory in Western democracies too. Boettke notes that, “In many ways, free market ideas are now an acceptable part of intellectual conversation (Boettke 1992, p. 70).”

Nevertheless, special interest pressures still serve to stall reform movements and the dissemination of ideas. Boettke isolates the problem succinctly.

“The main objective of praxeology and economics,” Ludwig von Mises wrote, “is to substitute consistent correct ideologies for the contradictory tenets of popular eclecticism.” But such a substitution does not occur just by winning the battle of ideas. Ideas are intertwined with interests, and for the substitution of correct ideologies for false beliefs, ideas must not only be developed but must

be utilized to reconstruct the basic rules of social interaction when opportunities arise (Boettke 1992, p. 73—citing Mises, *Human Action*, p. 185).

Pariahs of economics

Boettke identifies the major “Virginia School” economic contributions of Buchanan that previously led some to consider his work wayward. These include a retreat from mathematical methods and a revitalization of moral philosophy that reopened a nexus for Austrian economics and modern political economy. The Austrian School has emphasized case study and apodictic methodologies for policy and economics, rather than the static and statistical techniques used by mainstream theorists (see chapters 7 and 8). Austrian School and Virginia School public choice founders share a common disdain for the overuse of physical science methods in economics, on account of the subjective nature of the data available to analyze human action.

For instance, Hayek emphasizes the “essentially subjective character of all economic theory,” where “social phenomena can be recognized by us and have meaning to us only as they are reflected in the minds of men” (Hayek 1979, pp. 54, 58; cf. 44, 46, 48-49, 51). Buchanan split with the more quantified Chicago tradition and adopted a similar methodology as Mises and Hayek. According to Buchanan, the goal of economics is to show “how choices are made in non-equilibrium settings will generate shifts toward equilibrium.” He especially points to the subjective nature of opportunity costs and sunk costs, since “objectively-measured marginal outlay is not a veritable expression of genuine opportunity cost” due to the subjective nature of choice, which is “a purely mental event” (Buchanan 1969, pp. 49, 50, 46, cf. 47-48).

Mises had earlier decried the trend toward mathematical economics. Traditional market-clearing equilibrium models, beyond their proper use in simple abstraction and classroom exercises for “undergraduates,” are characterized by Mises as “inconceivable, self-contradictory, or unrealizable,” easily resulting in “fallacious syllogisms” which spawn “sterile” diversions and distortions (Mises 1966, pp. 236, 237, 333, 350).² Mathematical economics, with its “constant relations,” cannot describe reality, but “only a hypothetical and unrealizable state of affairs” and, consequently, it is “a useless piece of mental gymnastics” (Mises 1966, pp. 353, 354). As Boettke notes, many public choice theorists in the Virginia tradition have a similar view, although much less vituperative or extensive (mathematical methods are still used by many public choice theorists). Boettke states:

Standard economics is trapped within a static framework that cannot deal with the important issues of political economy. As a result, modern economics seems to be losing its ability to shed light on economic problems and in the process losing the meaning of its mission (Boettke 1994, p. 245).

Economics is a philosophical science, not a physical science. Thus, equilibrium models may have some usefulness but only when one recognizes their limits. The focus should be on the process of exchange rather than maximization (Boettke 1997, p. 8). Boettke points out the major outcomes of this metamorphosis.

² Mises (1966) further contends, “What they are doing is vain playing with mathematical symbols, a pastime not suited to convey any knowledge” (p. 250). Moreover, “The mathematical method must be rejected not only on account of its barrenness. It is an entirely vicious method, starting from false assumptions and leading to fallacious inferences” (p. 350). And, “Statistics is a method for the presentation of historical facts concerning prices and other relevant data of human action. It is not economics and cannot produce economic theorems and theories” (p. 351).

Before Public Choice it was commonplace in economic theory to postulate an objective welfare function which “society“ sought to maximize, and to assume that political actors were motivated to pursue that objective welfare function. The Buchanan/Tullock critique amounted to simply pointing out that (1) no objective welfare function exists, (2) that even if one existed “societies” do not choose, only individuals do, and (3) that individuals within the political sector, just as in the private sector, base their choices on their private assessment of costs and benefits. Many major insights of modern political economy flow from these three elementary propositions, including the vote motive; the logic of dispersed costs and concentrated benefits; the shortsightedness bias in policy; and the constitutional perspective in policy evaluation. Politics must be endogenous in any reasonable model of economic policy-making, and reasonable political processes are not something to be romanticized (Boettke 1997, p. 10).

The end of the romantic vision of government

Buchanan and Tullock led the way into developing public choice economics and thus dramatically undermined traditional conceptions in public policy theory and political science. As Boettke summarizes, “Buchanan burst the romantic vision of politics that dominated political science and was reflected in the mainstream economics treatment of market failure theory and public economics in general during the 1950s to 1970s” (Boettke 1997, p. 2). Concurring, Tullock, the other leading public choice thinker, describes the public choice theory of economics as the “invasion of political science by the economists” (Tullock 1988, p. 1). Public choice says that politicians and bureaucrats, far from being altruists, act as any other economic agent in the mar-

ketplace or society. As Jerry Ellig, another eclectic Austrian–public choice scholar notes:

Government leaders respond to political pressures, regardless of the consequences for the “public interest.” Government officials do so, not because they are inherently corrupt or evil, but because of the political incentives they face (Ellig 1994, p. 8).

Boettke applies the same reasoning to economic policy.

Economic policy, therefore, can not be modeled with the assumption that government is operated by a benevolent despot. Recognition must be made of the fact that politicians, like the rest of us, are purposive actors pursuing their own self interest (Boettke 1994, p. 246).

Buchanan has also given a synopsis of the affect of public choice on economics, politics, and political science.

What are the rewards and penalties facing a bureaucrat located in a hierarchy and what sorts of behaviour would describe his efforts to maximise his own utility? The analysis of bureaucracy fell readily into place once this question was raised. The mythology of the faceless bureaucrat following orders from above, executing but not making policy choices, and motivated only to forward the ‘public interest’, was not able to survive the logical onslaught [from public choice thinking]. Bureaucrats could no longer be conceived as ‘economic eunuchs’. It became obligatory for analysts to look at bureaucratic structure and at individual behaviour within that structure (Buchanan 1991, p. 37).

In sum, the nature of man does not change on account of passing through the test of the ballot box or by receiving a

political appointment. For years scholars in disciplines like political science and history presumed that most men who succeeded in being elected to office would reasonably be the “cream of the crop”—able to govern his fellow man with virtue—and subordinating his own self-interest motives for publicly-spirited ideals. Paradoxically, the mass of self-interested and often selfish voters would evidently elect such a virtuous man from their own dissolute ranks. Democratic processes and majority voting may thus bring about optimal social results, especially when “the voice of the people” has been heard through large voter turnouts.

Public choice economists have dispelled this romantic notion. They promote a simple but radical idea. They extended the work of Adam Smith in *The Wealth of Nations* (1776) and other economists to conclude that being elected or appointed to office does not affect man’s nature. Men still pursue their own self-interest in the political arena just as men in the private sector would.

Table 1.2 Principal themes of public choice

<p><u>The two fundamental ideas of public choice are:</u></p> <ol style="list-style-type: none">(1) All people, including politicians, bureaucrats, and regulators, serve their own self-interest (that does <i>not</i> mean that they are selfish necessarily). The errant romantic or quixotic vision of the state is devastated by applying the fundamental self-interest doctrine of Adam Smith.(2) The logic of <i>concentrating</i> benefits on well-informed and well-organized interest groups, and <i>dispersing</i> the costs among the ill-informed and unorganized mass of voters.

Furthermore, public choice scholars discovered a simple phenomenon of political life that can be explained with economic tools. Self-interested actors, whether they are in the private or public sector, will maximize profits by working to concentrate benefits from public revenues or beneficial regulation. The costs of these benefits are widely dis-