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# PUBLIC CHOICE AND PUBLIC POLICY

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In a conference like this devoted to national policy issues, it is always tempting for an economist, or for any social scientist, to launch into his own favorite policy proposals. I share this temptation, as I have my own favorite policy prescriptions. But if I succumb to this temptation here, I would be defrauding those who invited me to participate. Presumably, I was invited to discuss with you the “public-choice approach” to public policy issues, and perhaps the most characteristic feature of this approach is its “positivism,” the deliberate absence of a normative or “what should be” policy stance.

Saying that public-choice analysis is largely positive, or non-normative, does not imply that it has no social purpose. Along with all science, the social purpose of our efforts is to improve the social order. Ultimately, public-choice theory and analysis should make it easier for men to live together under mutually acceptable rules for behavior. In this sense, public-choice analysis is instrumental just like all other policy analysis. The difference lies in the level or stage of instrumentality that is involved.

But first, what is public-choice analysis all about? Fundamentally, we are trying to apply the analytical methods of economists to the subject matter normally reserved for study by political scientists. We are devoting our efforts to analyzing political or governmental decision making (nonmarket decision making) in terms of models derived from the choice behavior of individuals. We look at the choices confronting persons as they behave in their public-choice capacities, as voters or nonvoters, as participants or non-participants in pressure groups, as employees of governmental units, as decision makers in bureaucracies, as working politicians, and in many other capacities.

But how does this differ from political science, and notably from the modern variant called “behavioristic.” The subject matter is identical, which explains a great deal of the confusion between public-choice and behavioristic political science. Public-choice theory or analysis differs from most behavioristic political science precisely because it is “theory” or “analysis.” We start from the construction of models or theories of individual behavior

and of their mutual interactions in political or governmental settings. We draw implications from these models which may, hopefully, be subjected to empirical testing. We do not commence with empirically observed behavior and then attempt to derive theories to explain that behavior—theories which may have little or no generalized meaning outside the particular behavioral context.

What can be exciting or interesting about public-choice theory if this is all there is to it? Since the basic design seems simple enough, why were social scientists so late in applying it? I think that economics, as a discipline, has been basically positive (free of “what should be’s”), whereas political science, as a discipline, has been essentially normative (concerned with “what should be”). This may seem to contradict what I said at the outset about economists’ proclivity to spout off policy proposals *ad nauseam*, when given the opportunity to do so. But not quite. Even when economists make policy proposals, they usually base these on some underlying positive analysis of the interaction of human beings. The whole concept of economic efficiency, which influences so much of the policy discussion of economists, is based on an analysis of the behavior of persons in market-like interactions, essentially a positive theory of market exchanges.

Economists who work in the policy arena would be lost without the props that are provided by the positive theory. It is because of the existence of these props, offered by the models of economic man who behaves in his own self-interest, that economists have no need to call on moral or ethical theories of behavior.

Compare this, however, with the position of the traditional political scientist, who has no such props. His discipline offers him no underlying model or theory of how men actually behave in their various public-choice capacities. He may not want to introduce the economist’s model of self-interest, but failing this, what are his alternatives? There is no developed positive theory of individual behavior in accordance with moral or ethical precepts. While there is a sophisticated body of moral and ethical norms, precepts for behavior, there are no predictions about behavior based on the acceptance of such precepts. Historically, therefore, the pre-behavioristic political scientist found himself trying to derive norms for what men “should” do in their public-choice roles, not what they may, in fact, do in such roles. As a result, and with rare exceptions, political science has developed no genuine *theory* of government that is at all analogous to the economists’ theory of markets.

Traditionally, social science has used different methodologies

to look at market organization on the one hand and political or governmental organization on the other. Men have been more or less forced to compare the market alternative as it actually works with the governmental alternative as it might work if men in public-choice capacities followed the precepts laid down in normative political theory.

From this methodological confusion, it is little wonder that we have had a bias in favor of the governmental alternative, with the disastrous results that are only now coming to be recognized, perhaps too late for correction. Let me elaborate on this by reference to neoclassical welfare economics, which has been recognized as the theory of "market failure." The welfare economists continue to find flaws in the workings of market exchange, flaws which insure that overall economic efficiency is not attained through voluntary exchange processes. For example, the deterioration in environmental quality is explained by the concept of external diseconomies, an example of market failure.

But what is "failure"? This must be a relative term; failure must be judged against an alternative. If markets fail to generate economic efficiency when measured against an ideal, this tells us nothing about the performance of markets when measured against a realizable alternative. Market failure in the comparative sense must mean that markets are less desired than alternative social arrangements, such as governmental arrangements. And about this, modern welfare economics tells us little or nothing.

How does public-choice theory come into all of this? Indeed, the major intellectual result of public-choice theory has been to demonstrate that "governmental failure" or "political failure" is on all fours with "market failure." If we plug in models of individual behavior in public choice that are comparable to those employed by the economists for the models of private-choice behavior, we can predict that governmental decision making and governmental implementation of decisions will also fail.

More important, however, the failures of governmental processes show up in personal loss for individual citizens. Once we take the simple step of demonstrating that there is no such thing as the "public interest" over and beyond the interests of individual citizens, the workings of the ordinary political process, almost regardless of the existing decision rules and institutions, must impose undesired and coerced results on at least some persons in the social group.

How do we weigh these losses in individual freedom against

the possible gains in economic efficiency, even when it can be demonstrated that the losses are due to a shift to governmental control? It is not our task to assign weights, but progress has been made when the existence of such costs is recognized. Still we can do more than treat policy proposals on a case-by-case basis. Once we begin to analyze the working of institutions and rules for the making of collective or governmental decisions, we are led directly to answering questions such as: What is the optimal or efficient structure of rules? What is the optimal constitution?

Public-choice theory allows us to go part way toward answering these questions without introducing normative concepts, although there are severe limits to what public-choice theory and analysis can accomplish here. The public-choice theorist cannot lay down the “ideal” constitution, by which I mean the set of rules and institutions through which political choices must be made. By moving the discussion to the constitutional level, however, some progress has been made. If individual citizens, and more important, if working scholars and politicians can be forced to consider the rules, the legal order, the larger and more inclusive setting within which policies are made and implemented, actual policy would be improved immeasurably, and by almost any standards that you choose to invoke.

I have, on many occasions, called for the development of a “constitutional attitude” toward policy. I do not define “constitutional” in any legalistic sense. I mean by a constitution that set of rules, those institutions, that are treated as permanent or quasi-permanent, and which offer the framework within which social relationships take place, both private exchanges and collective choices. While not all of my colleagues who call themselves public-choice theorists would accept my position, it seems to me that the public-choice approach necessarily leads to a sharp conceptual separation between the constitutional stage or level of policy and the operational or pragmatic stage. Particular policy measures are made within the constitutional framework, within a specified legal order, within specified rules for making collective choices.

It is this attitude that seems to have been lost somewhere in modern history. Even legal philosophers, who should know better, seem to have lost sight of just what a constitution means. They make no apparent distinction between changes in the basic structure of rules, the legal order itself, and changes in programs and policies carried on within these rules. The actual lines are often blurred, but the distinction seems vital for understanding what an orderly society is all about.

It appears that the whole constitutional order has been seriously eroded in recent years, and notably since 1960. Individuals have lost respect for law, for property, for the rights of others. And with this loss of respect, this loss of mutual tolerance among persons, there has arisen a complementary unwillingness to punish those who transgress law, who invade property, who disturb the rights of others. Individuals are everywhere crying out against the arbitrary powers of government, and yet at the same time, they know of no alternatives save for more governmental action.

I am getting somewhat away from a discussion of the public-choice approach to policy, but not so far as it might first appear. If public choice can succeed in reducing the governmental alternative to realistic proportions, perhaps the organizational alternatives will be viewed more rationally. But this is not without its dangers. If man loses all faith in government, as he has lost all faith in God, where can he turn? I do not offer answers to this most basic of all questions. The American version of the Enlightenment dream has all but disappeared. This is a fact that must be faced, however bitter. And a romantic revolution that will sweep away all the chaff of liberal history is not in the cards.

It is well and good that sensible men among our political leaders, among our journalists, among our working scholars, are beginning to sense that the disrespect for law fostered and promoted by our liberal courts and our liberal scholars has wrought unpredicted damage in our social fabric. But it is folly to expect a return to the *status quo ante*. What is done is done. And all roads start from right here, not from some imaginary world.

We start from a position best described as one of constitutional anarchy, with the governmental constraints on our freedoms largely determined by the personal whims of politicians who sit as judges, as legislators, or as executives. Somehow, somewhere, in some way, we must discover or rediscover something akin to the eighteenth century wisdom, that of David Hume and Adam Smith, the wisdom that was highly skeptical about reform but yet informed by an understanding that made genuine social reform possible.

Public choice, as an approach to policy, contributes relatively little to recovery of this wisdom. Public choice, as an approach, makes its contribution negatively, by reducing to absurdity some elements of the liberalistic-socialistic heritage concerning the efficiencies of social control. But it is time to move beyond negativism; it is time to construct positive alternatives. To say this is one thing; to offer specific suggestions is quite another mat-

ter. We shall, as a society, as a nation, probably make it until 1984 without the Orwellian monstrosities. But can we be at all sure about 2004?

I should conclude on a note that may strike directly at some of your own interests. I know that many of you are engaged in community development programs, and that much of your effort goes to helping local communities organize themselves for specific purposes. One of the essential steps in attaining any constructive change or modification in our society is a shift from national or central government paternalism to local self-help, local self-development. The necessity for this shift in our whole thinking about government was, I think, correctly sensed by President Nixon when he emphasized revenue sharing and attempted to reduce the size of the federal budget. To me, one of the primary tragedies of Watergate has been the erosion of this effort, in terms of the courage of the administration in carrying it through, and in terms of the power to force some limits on a reluctant Congress, an opposition bureaucracy, an irresponsible judiciary, a biased press, and an indifferent public. Regardless of the results of this effort, however, we know that the federal budget cannot increase at rates comparable to those of the late 1960's and early 1970's.

All thinking about local community development, about projects and plans, must begin from this elementary base. There are no resources available to the central government that are not initially available to local communities. Your task should be to mobilize citizens to help them make local public choices consistent with their own resources. Your expertise can be even more valuable here than when it is applied to the development of local programs that are chosen and financed centrally with the hot breath of the Washington bureaucracy always over your shoulders.