

John Dearlove

The idea that the economy was a distinct object of study arose in the eighteenth century. The intellectual brief was wide and society, polity and economy were looked at as part of a seamless whole. Towards the end of the nineteenth century economics established itself as a distinct discipline and as this happened so its scope narrowed. Political science took on board the study of government and the state; sociologists concerned themselves with the workings of society; and economists ignored these things in favour of providing theories of market behaviour and the price system — theories that were part and parcel of the neoclassical paradigm. Neoclassical economists have never been anti-state anarchists, but from within their perspective on the world there was never any presumption that the state would *need* to assume much of a role, as individuals were seen as best able to provide for themselves by operating through the free market. The entrenchment of a broadly pro market-limited state perspective within the gut of the dominant paradigm and the professionalisation of economics have conspired to lead to a situation in which economists have never felt much of a need to develop a fully-fledged theory of the state.

Now, neoclassical theory has been one thing, but the hard reality of an interventionist twentieth century state has been quite another. The state has come to demand the attention of economists. Over the years, and against the grain of the neoclassical paradigm, economists have developed a pragmatic and prescriptive literature which deals with the role that the state does and should assume. Much of this literature is caught up in the field of public sector economics and welfare economics, and in an earlier literature on public finance. I am concerned to survey and assess this field of economics, paying particular attention to the paradigm shift that has brought public choice theory — the economics of politics — to the fore in a way that has led to the emphasis on market failure and benevolent governments being replaced by an emphasis on political failure and selfish governments.

I. Market Failure

The classical and neoclassical economists have had a longstanding tradition of defending the free market, but the depression of the inter-war years cast grave

doubt on the equilibrium emphasis of their theories, which rather suggested that involuntary unemployment could not occur and that governments did not need to intervene because workers were able to price themselves back into work by accepting wage cuts. John Maynard Keynes' challenge to this rested on his argument that an economy could remain in an unemployment equilibrium; wage cuts (by depressing the level of demand) far from offering a solution to the problem of unemployment worked only to worsen it; and he proposed how the government might intervene to lift demand to remedy the situation. Armed with the insights of Keynesian theory, economists were freed from the need to explain and defend the workings of the unfettered market since they were now able to make a case for state intervention when the market failed to provide full employment. In fact, economists had long been involved in analysing other types of market failure at the level of the micro economy, but the success of Keynesian theory prompted a renewed interest in the subject. Economists came to justify an increasingly large role for the state as they worried about the problem of externalities and the monopoly problem in decreasing cost industries; thought about the existence of public goods and merit wants; attended to the problem of uncertainty and incomplete information; and saw the 'need' for income redistribution. Economists were moving away from the *laissez faire* state that was limited to external defence, internal security and modest public works, and were coming to give the state a major role in economic affairs.

Economists may have come to give the state a major role in correcting market failure but it was no part of their brief to study just *how* the state went about performing the functions which they allotted to it. Economists had developed rich and sophisticated theories of markets and market failures but they had failed to develop any corresponding theory of the state, choosing instead simply to *assume* that democratic governments (advised by public-spirited economists) would act benevolently to secure the public interest. It was this assumption, and the related lack of interest in the problem of political failure, that was to come under increasing attack in the 1970s with the rise of the public choice perspective on the problems of public provision by the state.

II. Political Failure

The perspective on public provision by the state that I have just set down clearly constituted a challenge to the dominant neoclassical paradigm. It did, however, find a niche for itself within the discipline in the post war period, in part because it was at one with the prevailing political consensus in the West. That consensus fell apart in the 1970s. There was a public reaction against the activities of the state and governments came to power which asserted the virtues of the unfettered market. Within economics a public choice-property rights perspective has come to the fore and has sought to reassert the neoclassical paradigm, at the same time as it has tried to apply neoclassical assumptions and the economic method to the study of politics. We are dealing with a paradigm shift in the field of public sector economics as the old tradition is knocked down and a new one set up.

The rising tide of liberal political economy sweeps away the old tradition arguing, first, that it has failed to study the state; second, that it is naive in its view of the state choosing to assume a benevolence which may well not exist; third, that it ignores the externalities of state action and the problem of political failure; fourth, that it fails to weigh up the comparative efficiencies of governments and markets; and finally, that it finishes up justifying too much scope for state intervention in the market.

The positive message for new work is clear: economists cannot continue to ignore the state, treating it as exogenous to their analyses; they must bring politics within economic science and develop theories of the political process that are every bit as sophisticated as the economic theories long developed to explain market behaviour. Economists are being challenged to recreate a political economy. The argument runs that economic science has a relevance to many aspects of human behaviour because the discipline is all about providing us with a theory of rational behaviour — a theory of decision and choice — backed by a rigorous method of scientific discovery and explanation.

The problem for the student lies in the fact that we are dealing with a tangle of social theories — from game theory, theories of collective action, public choice, rational choice, and social choice, all the way through to 'rational choice Marxism'. These theories straddle disciplines and ideological perspectives and exhibit intricate interconnections in a way that makes the task of critical assessment extremely difficult. My concern in this article is restricted to economists' efforts to develop theories of the functioning of government and state in capitalist democracies. Put more precisely, I am concerned to set down and assess public choice theory, or the economics of politics, because it is here

that neoclassical assumptions and the economic method are applied to some of the traditional subject matter of political science in a way designed to overcome the limits of latter-day economics and of political science. Economists have undertaken work on political coalitions, on the problem of collective action, and on the problem of government growth and the need for constitutional reform, but I see Anthony Downs' economic theory of democracy, the literature on political business cycles, and William Niskanen's economic analysis of bureaucracy as central to the public choice perspective, and so will restrict my attention to these. The theories themselves are economical and tight. Moreover, we need only attend to the 'classic' contributions because later work has situated itself within the early mould of assumptions and method.

In Downs' *An Economic Theory of Democracy*, published in 1957, only voters, parties and a government inhabit the political scene. The government is made up by the party which was successful in maximising votes at the last election. Political parties are assumed to be completely united and solely concerned to maximise votes, as their only goal is to reap the rewards of holding government office. According to Downs, parties are not committed to any policies and so will change them in order to achieve electoral success. Voters see elections as a chance to choose a government, and because they are rational, self-interested individuals they will vote for that party which they consider will offer them most at least cost, were it to form a government. Of course, voters have to attend to the past records of the parties as a clue to their reliability in delivering the public policy goods, and they may find it makes sense to take a short cut and vote not according to the detailed policies of the parties but according to their generalised ideologies. In the context of a selfish and informed electorate, and with two parties each competing for votes at the margin, party policies will tend to gravitate to the centre so that a kind of political consensus will prevail, although the threat of abstention by party extremists is seen by Downs as a factor keeping parties away from the dead centre of the political spectrum. This economic theory of democracy assumes that political man is like the economic man beloved of neoclassical theory, with voters assuming the role of consumers and political parties assuming the role of entrepreneurs and all of them rationally geared to the pursuit of their own self-interest, be it through the market place or the ballot box.

The idea that parties are geared to producing popular policies to win elections is seen as having implications for the way in which they manage the economy. An awareness of this is developed in the literature on *political business cycles*. Some have seen business cycles as deriving from the natural instability of the capitalist system and have chosen to assume that

benevolent governments will stabilise the economy in the public interest, but a public choice perspective sees capitalism as a basically self-balancing system and argues that instability is introduced by governments who manage the economy so as to improve their re-election prospects. This perspective assumes that voters make the government responsible for the course of the economy and vote accordingly. It is suggested that voters dislike both unemployment and inflation, but it is recognised that it is difficult for any government to secure both full employment and low inflation at the same time, since each policy objective works against the other. With the voters adopting a short term perspective on the economy and the government geared to winning the next election, it is seen as rational for a government to engineer a pre-election boom in order to win popular support. In other words, a government intent on maximising votes will tend to *create* a political business cycle: after an election it will introduce deflationary policies by increasing the rate of unemployment to combat inflation; during its period of government it will tend to reduce unemployment so that it reaches its minimum in the pre-election boom period. The government hopes that the inevitable inflation will hit only after the election is in the bag and they are safely back in office.

Niskanen's *Bureaucracy and Representative Government* published in 1971 is built around the notion of supply and demand where there are just two actors on the political stage, bureaucrats and party politicians, and where bureaucratic behaviour is geared to utility maximisation. According to Niskanen, whereas businessmen maximise profits, bureaucrats maximise the budget of their bureau and they do this because practically all dimensions of bureaucratic utility are ultimately a function of the total budget. Moreover, bureaucrats are in a strong position when it comes to securing a budget for themselves because they offer a total output for a budget as opposed to specific units of output at a price; they probably enjoy a monopoly of information and can claim that it costs much more than is really the case to produce the agency output; and they face politicians who are often reluctant to prune bureaucratic bills, both because they lack independent information to challenge the claims and because they frequently see the supply of public goods as a way of securing electoral support. Niskanen is critical of this and suggests reforms to improve bureaucratic efficiency and to curtail bureaucratic expansion, with a view to securing a 'better' and 'smaller' government that would leave more space for efficient market provision.

The contrast between this approach and the older tradition outlined above could not be sharper. The older tradition was attentive to the problem of market failure; was optimistic as to the behaviour of government; and saw a positive role for state

intervention in the market. The newer approach minimises the problem of market failure; sees all the instrumentalities of the state as geared to self-interest; highlights the problem of political failure and state coercion; is pessimistic as to the outcome of governmental action, and advocates a minimal role for state intervention in the market — the more so because the market is celebrated as possessing an efficiency that cannot be attained by any monopoly government that lacks the spur of market competition. This work is making the intellectual running at present and reflects the dominance of a particular political movement; because of this it has been little criticised. In the next section I am concerned to sketch the outlines of a critical assessment of the economics of politics.

III Assessing the Economics of Politics

Public choice theorists have clearly done us a service in much of their critique of the more traditional economic orthodoxy on public provision by the state. They are also to be congratulated on their concern to bring politics into the economist's picture and to develop rigorous theories to make sense of politics and the state. Public choice theory is a valuable corrective to the excesses of that tradition of scholarship discussed in Section I, and it offers suggestive insights into the behaviour of voters, parties, government, and bureaucrats — albeit insights which do little more than massage the 'truth' of commonsense hunches about politics today.

But public choice theorists aspire to very much more than the offering of 'correctives' and 'suggestive insights', and they need to be judged according to their own aspirations. Public choice theorists are concerned to build up a body of positive political theory as a complement to positive economics and as a rival to alternative conceptualisations of politics coming from political science, sociology, or Marxism. Using the assumptions and methods of neoclassical economics, public choice theorists aim to develop simple models of politics that will enable them to generate testable hypotheses that can be used to predict, and supposedly explain, political behaviour in the real world. In addition to their scientific concern to describe and explain politics many public choice theorists are highly political animals who are keenly alive to the normative implications of their work and eager to advance the values they hold dear. The tradition as a whole is deeply supportive of the workings of the free market; it is sharply critical of big government and state intervention in the market; and advice abounds as to how to achieve a situation in which government is smaller and individuals are freer.

A critical consideration of this tradition of work needs to attend to three things. First, there are problems in

the scientific method adopted by economists to make sense of politics. Second, the assumptions adopted by public choice theorists limit their capacity to grasp some of the essential realities of politics. Third, because the positive and the normative aspects of public choice theory are tangled up, and because the particular values in question have profound and limiting implications for the development of explanatory theories, it is important to bring these values into the limelight for closer examination.

Public choice theorists are self-consciously concerned to bring the economic method into the study of politics. That method stresses the importance of seeking laws with the status of empirical hypotheses that can then be used to predict and so explain events. From this perspective, prediction is the name of the game, the reality of assumptions is not important, and scientific enquiry proceeds by testing (and possibly falsifying) empirical hypotheses against the cutting edge of empirical observation. Now, if successful prediction were the sole criterion of a science, then economics should long have ceased to exist as a serious intellectual pursuit. Moreover, the desire systematically to confront theory with fact has not been a notable feature of the discipline of economics as a whole. In the public choice field, solid predictions are few and far between; little interest has been shown in empirical testing; and such tests as have been conducted have been anything but conclusive.

Given the relative absence of predictions and the sheer problem of predicting the complex movement of politics, we must ask whether prediction should be held out as *the* goal of social science theory, and we also have to ask whether prediction of itself actually explains anything at all. We engage in social science because we seek understanding and are concerned to interpret social life in a way which tells us something we could not discover simply by looking or relying on commonsense hunches. From this perspective, an adequate explanation may well not be predictive. Indeed, because we have limited knowledge and limited control, we may be best advised to avoid struggling to predict the future in favour of trying to make sense of the past and the present by trying to situate them in the kind of larger social context within which they take on significance.

We should also, perhaps, be critical of those who take a naive view of what is involved in testing theories against 'the facts' in the real world, for 'facts' are to some degree constituted by the theories themselves. Moreover, when we deal with social systems we are dealing with open systems that cannot be closed for decisive tests. If we do find that a prediction is contradicted by the facts, it is by no means clear that we should crisply conclude that the theory is wrong as in the absence of a better theory we have little choice but to reinterpret the facts to make them fit the theory,

or to modify the theory in limited ways.

Three simple assumptions are common to public choice theory and neoclassical economic theory. First, there is the notion of methodological individualism; second, it is assumed that individuals are geared to the pursuit of their own self-interest; and third, it is further assumed that each individual is rational in choosing between alternatives so as to maximise utility. All social theorists choose to ignore certain phenomena in the interests of constructing a theory. Increasing the range of reality taken into consideration has to be traded-off against the possibility of developing the kind of simple models characteristic of economic method. Public choice theories of politics are simple in the extreme, and these theorists will have no truck with those who suggest that the realism of assumptions matters. We do need to ask, however, whether the public choice assumptions blind us to crucial aspects of politics, and thus whether public choice theories are a limited basis for understanding the politics of western democracies.

It is easy to challenge the assumption of self-interest by pointing to the presence of altruism in politics; it is also easy to challenge the view that individuals act rationally by pointing out that much politics revolves around the irrational and the manipulation of the irrational, the ignorant and the uncertain. However, it is more important to concentrate on methodological individualism because notions about individual self-interest and rationality are based on the prior notion that the individual is the basic unit in any social analysis. Accordingly, all explanations of human behaviour have to be couched in terms of facts and statements about the preferences, dispositions, beliefs and values of individuals, because the individual choice maker is seen as the only legitimate unit for analysis.

But a perspective which is exclusively geared to the individual is ill-equipped to get to grips with organisations, power, class, and a variety of other social facts that are the very stuff of politics. Because economists have traditionally focused on the individual consumer and entrepreneur, they have no history of concern with organisations *as* organisations — with an existence over and beyond the particular individuals who are within them. Instead, they have sought to reduce all issues of organisation, including political organisation, to the individual's confrontation with alternatives. To take an example, Niskanen assumes that a governmental bureau is run completely by the top official, and Downs avoids the whole problem of policy conflicts in political parties by assuming that they are completely united, when we know that this is just not the case. In mainstream economic theory, power has been practically eliminated as a theoretically relevant concept because, in a situation where perfect competition serves as the basic

model, power is so widely and thinly distributed that its influence and very existence can be neglected. Public choice theorists have taken over the neoclassical nonperception of economic power and so fail to see power in the marketplace or in corporations or to understand how this operates by eating into the workings of politics and the state. At the same time, however, the values of public choice theorists mean that they are crushingly mindful of the power of the state over the individual. Yet their initial assumption about the centrality of individuals denies them the capacity and the tools to make a serious study of political power because they ignore the importance of social relations and inequality.

In criticising methodological individualism as the starting point for political analysis, I am not seeking to make a case for the exclusive virtues of a methodological holism which assumes that social structure determines all, and which sees individuals as simply the pressured products of society, lacking any will and autonomy and as constrained in their goals and desires as in their capacity to realise them. When our subject matter is people and their collective political behaviour in society, we inevitably confront parts *and* wholes, individuals *and* society, social action *and* social structure, autonomy *and* constraint in a way which defies the sense of making an either/or choice between individualism *or* holism. Social theorists who choose to put all of their explanatory eggs into the basket of just one tradition of scholarship are making an unnecessary choice — one which is likely to put them at a disadvantage in the struggle to comprehend a complex and changing social reality. Although we cannot decide *in vacuo* what is the best starting point for political analysis (since it all depends on the explanatory task at hand), we can say that economists who choose to make sense of politics by relying exclusively upon the assumptions integral to methodological individualism are denying themselves the opportunity to appreciate insights from differing traditions of social enquiry which are more attentive to the structured context within which political behaviour occurs. Politics is above all else an organised activity involving various formal institutions, and because of this it tends to hover uneasily between individuals and society in such a way that it makes sense to search for some kind of middle ground in terms of social theory that avoids the pitfalls of voluntaristic individualism on the one hand, and structural determinism on the other.

Public choice theorists justify the use of simple neoclassical economic assumptions in the field of political analysis by pushing the parallels that are alleged to exist between economics and politics and by claiming that the accuracy of their predictions and not the reality of their assumptions is the decisive test of their work. Two things need to be said about this

statement. First, it is all too easy to exaggerate the parallels which do exist between economics and politics and hence the utility of market concepts in political analysis. Second, the simple assumptions of public choice theory have not generated much by way of predictive pay-off. This being the case, and in a situation where understanding is more important than prediction, students of politics are well-advised to recognise the complexity of things by refusing to rely on assumptions that are partial in their representation of the system under scrutiny.

The third element of my critical assessment of public choice theory involves the values that are integral to this work. If we were to take mainstream economics and public choice theory on their own terms, we would have little to say in confronting the problem of values because the most conspicuous normative assumption in 'positive' economics and 'positive' political theory is that the discourse does not, and should not, contain normative and value-laden assertions. Positive theory is distinguished from normative theory, science from ideology, facts from values, and although it is recognised that the values of a researcher shape the choice of what is studied, once the research is under way the logic of scientific discovery is said to prevail and the worth of research needs to be assessed, not according to the starting bias of a researcher, but according to the explanatory worth of the finished product. How valid is all of this, and how far is it possible for public choice theorists to separate out the positive aspects of their scientific work from their normative concerns as citizens? In my view we find analysis tangled up with ideology and normative theory passed off as positive theory. This being the case, we are forced to examine rather more closely the values of those who advance economic theories of politics. I say this, not because the inevitable attachment of values *of itself* confounds the credibility of positive theories, but because the *particular* values in question have limiting implications for the research programme of public choice theorists. What, then, are the values that lie at the core of so much of the economics of politics, and just how do they serve to limit the analysis of politics?

In bald terms, public choice theorists tend to be pro market and anti-state; their policy prescriptions reflect these values as they seek changes that will enhance the role of the 'free' market at the same time as they are eager to restrict the role of the 'coercive' state. There is a commitment to individualism and the value of individual freedom at the same time as there is a hostility to collectivism and constraints on individuals. However, the liberalism that is at the core of so much public choice work means that theorists have a narrow, negative, view of freedom as freedom *from* government, and are unconcerned with a more positive notion of freedom to *do* worthwhile things.

They cannot 'see' that the state might be able to enhance positive freedoms for many just as they cannot 'see' that the market is a system of power that can coerce those who lack clout within it. Behind the old-fashioned economic liberalism of public choice theory there is frequently a covert and rather more modern political conservatism that is less about the worth of individuals than about the defence of a system of market power that should be left untouched by state intervention.

Now, all social science is shot through with value judgements, but the values integral to public choice theory matter for those of us who are concerned both to assess this work and to advance an understanding of politics — and they matter for a number of reasons. First, the values held by public choice theorists blind them to crucial aspects of economic and political reality in a way which limits their capacity to make good sense of the real world of politics and power. Second, rival traditions of scholarship that also bear on the nature of politics are either ignored or caricatured because they embody values at odds with those integral to public choice theory. For example, Marxism is ignored and political science is caricatured as simply embodying a public interest perspective on politics and the state. This has closed up the public choice debate and has prevented this work being informed and challenged by other work of keen explanatory relevance, in a way that has inhibited the development of social theory and encouraged the entrenchment of dogmatism. Third, there is the strong suggestion that the analytic dice are value-loaded from the very start to reach predetermined policy positions that are then fed into the political debate as privileged 'scientific' conclusions supposedly devoid of any ideological bias because they are presented as based upon disinterested economic science applied to politics. Fourth, there is often a heady jump from values and assumptions into prescriptions as to how the world of politics should be changed, with little by way of intervening research into political behaviour itself. Finally, public choice theorists have rarely felt the need to distinguish what they assume from what may be reasonably said to exist. The strength of their commitment to certain values has meant that they have often passed off their value judgements and assumptions as factual descriptions.

IV Conclusions

At issue in the literature I have reviewed is both a normative debate over the respective roles of the market and the state and a more positive debate about how best to study these matters. A perspective that was grounded in a utilitarian social philosophy and that was attentive to the problem of market failure and sympathetic to state intervention has been swept aside.

A paradigm shift has occurred in the field of public sector economics. Nowadays, the emphasis is on natural rights; attention is paid to the problem of political failure and to the virtues of the market; and new life is breathed into the neoclassical paradigm and into the methods and assumptions of positive economics. Explaining this shift is not simply an academic matter of a tired old theory being killed off by the discovery of new political facts as this intellectual realignment relates to developments in the larger political arena. The rise of a public choice perspective feeds into and off the real world of politics and power. It offers some kind of intellectual underpinning for the political movement towards increased individualism and for a more limited (albeit a stronger) state, at the same time as the political climate supports work on public choice theory. When ideas begin to become dominant academically, and when they fit snugly with the views of those in power, it is not always easy to see them as partial, limited, and value-laden. However, it is precisely because social theories sometimes enjoy this dominant position that the critique attempted here needs to be made.

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Bibliographical Note

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In order to go further with a critique it is important to push into the philosophy of social science and into critiques of neoclassical economics, as well as attending to the New Right, the New Liberalism, and Monetarism and its related doctrines.