Chapter 3
Public Choice Trailblazers versus the Tyranny of the Intellectual Establishment[1]

Charles K. Rowley[2]

Introduction

Public choice—or the economics of politics—is a relatively new science located at the interface between economics and politics. It was founded during the late 1940s in a sequence of papers by Duncan Black, primarily focused on voting within committees and elections. Black died in 1991 without achieving full recognition as a Founding Father of the discipline.

Public choice was extended into the arena of representative government first by Anthony Downs (1957), who outlined a theory that emphasized the centripetal tendencies of two parties competing for electoral votes, and then by Buchanan and Tullock (1962), who provided the long-term foundations for the subject within the framework often referred to as politics without romance. The practitioners of this latter brand of public choice seek to understand and to predict the behavior of political processes by utilizing the analytical techniques of private market economics—most notably methodological individualist and the rational choice postulates—albeit identifying the crucial differences between the behavior of the private market and non-market decision-making processes.

In this paper, I suggest that leading United States neoclassical economists, both from saltwater and freshwater universities, have systematically ignored, downplayed, or distorted the scholarship of the public choice trailblazers, thereby slowing down the impact of public choice ideas on the intellectual mainstream. Because of the radical nature of public choice thinking, its trailblazers ran head on into the tyranny of the intellectual establishment, as reflected by four highly prestigious Nobel Prize winning economists, namely Paul Samuelson, Kenneth Arrow, George Stigler and Gary Becker. I explore the conflict in the context of four episodes in the

[1] This is an original paper written specifically for this book.

[2] Charles K. Rowley is Professor of Economics at George Mason University and General Director of The Locke Institute. Address: The Locke Institute, 5118 Dungannon Road, Fairfax, Virginia, 22030, USA. e-mail: crowley@gmu.edu.

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development of Public Choice ideas: Cycling under the rule of simple majority voting, the burden of the national debt, interest-group theory, and rent-seeking and the efficiency of government legislation.

The Saltwater 'Social Welfare Function' Economists

Paul Samuelson and Kenneth Arrow are pre-eminent figures of modern neoclassical economics. They and their innumerable disciples would offer the first line of defense against public choice ideas, relying on a complete separation between, on one hand, private market analysis with behavior evaluated against a carefully specified social welfare function, and, on the other hand, on a public-interested state as responding impartially to the considered advice of philosopher-king economists. Inevitably, the approach established an uneven playing field that unfairly favored government over private markets across a significant range of policy margins.

Paul A. Samuelson

Paul Samuelson received his bachelor's degree from the University of Chicago (where he studied under Frank Knight and Jacob Viner) in 1935, his master's degree from Harvard University in 1936 and his doctorate from Harvard University (where he studied under Joseph Schumpeter and Wassily Leonief) in 1941. He joined MIT as an assistant professor in 1940, was promoted to associate professor in 1944 and to full professor in 1947. In 1966, he became Institute Professor, a rank of high honor reserved for only a few members of the MIT faculty.

In 1947, Samuelson earned international renown for his magnum opus, *Foundations of Economic Analysis*, based on his doctoral dissertation. In that book, Samuelson confronted the perceived contradictions, overlaps and fallacies in classical economics and attempted to unify economics through the language of mathematics. The American Economic Association recognized this book in 1947 by awarding Samuelson the John Bates Clark Medal, the first of what would be many illustrious awards.

In 1948, Samuelson confirmed his international reputation with the publication of his famous textbook, *Economics*, which, under single-authorship until 1986, and thereafter under co-authorship, has survived 60 years in multiple editions, translated into 41 different languages, and selling well in excess of four million copies. This book introduced generations of students to Keynesian economics and pursued a consistently social-democratic approach to economic policy throughout the second half of the twentieth century.

By 1970, Samuelson was widely regarded as the pre-eminent economist of the West, with several hundreds of articles to his name spanning almost all fields of neoclassical economic theory. In that year, only the second year of the Prize, he became the first American economist to be awarded the Bank of Sweden Prize in

Economic Sciences in Memory of Alfred Nobel. The following excerpt from the Nobel citation summarizes the reasoning behind this award:

> More than any other contemporary economist, Samuelson has helped to raise the general analytical and methodological level in economic science. He has simply rewritten considerable parts of economic theory. He has also shown the fundamental unity of both the problems and analytical techniques in economics, partly by a systematic application of the methodology of maximization for a broad set of problems. This means that Samuelson's contributions range over a large number of different fields.

Samuelson was never wary of intermingling policy advice with scientific contributions. For many years, he wrote a column on economics for *Newsweek Magazine*. He was an advisor to Presidents Kennedy, Johnson and Carter while adding to President Nixon's list of enemies for his consistently harsh criticism of the Nixon administration's economic policies. In 1996, he was awarded the National Medal of Science by President Clinton. The award recognized "his fundamental contributions to economic science, education and policy for nearly 60 years, establishing both the agenda of modern economics and scientific standards for economic analysis of a wide range of problems including social security and the public debt, welfare and international trade."

So the public choice trailblazers ran into a very serious road block when they challenged Samuelson's new welfare economics, and set in motion a research program that would eventually level the playing field in all political economic debates concerning the appropriate limits of the state, for Samuelson's interest in welfare economics dates back certainly to his *Foundations of Economic Analysis* (Samuelson 1947).

The chapter on welfare economics in that book provides a brief but fairly complete survey of the entire field. It also exposits and develops what became commonly known as the Bergson-Samuelson social welfare function, a device that shows how to rank different feasible economic policy alternatives as better than, worse than, or indifferent to each other from the perspective of welfare economics.

In subsequent papers, Samuelson emerged as one of the most aggressive purveyors of the mid-twentieth century economics of market failure. As such, he became an inevitable target for, and a forthright opponent of, the public choice trailblazers.

Kenneth J. Arrow

Kenneth Arrow was born in August 1921 in New York City. He attended the City College in New York, graduating in 1940 with a bachelor's degree in social science with a major in mathematics. He continued his studies at Columbia University, first in mathematics and then in economics, though his primary interest at that time was mathematical statistics. He received his master's degree in 1941. He served as a weather officer in the United States Army Air Corps from 1942 to 1946, utilizing mathematical models to analyze the optimal use of winds for flight planning.

The years 1946 to 1949 were spent studying for a doctorate in economics at Columbia University under the mentorship of Harold Hotelling, while simultaneously engaging in research in mathematical economics at the Cowles Commission for Research in Economics at the University of Chicago. Arrow was appointed Assistant Professor of Economics in the University of Chicago for the year 1948/49. He also consulted at the RAND Corporation, where he first formulated the theory of social choice that proved his famous 'impossibility theorem' of group decision-making.

In 1949, Arrow was appointed Acting Assistant Professor of Economics and Statistics at Stanford University, two years before completing his doctorate at Columbia University in 1951. He remained at Stanford University until 1968, eventually becoming Professor of Economics, Statistics and Operations Research. In 1968, he left Stanford University to become Professor of Economics at Harvard University, where he remained until 1979, becoming James Bryant Conant University Professor in 1974. In 1979, he returned to Stanford to take up the position of Joan Kenney Professor of Economics and Professor of Operations Research. Arrow retired in 1991 at 70 years of age.

During the course of a stellar career, the scientific community has recognized Arrow's work with some of its most prestigious awards. In 1957, he received the John Bates Clark Medal from the American Economic Association. In 1972, he shared the Royal Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel with Sir John Hicks for the development of theories underlying the assessment of business risk and government economic and welfare policies. In 2004, he received the National Medal of Science for his ground-breaking contributions to economic theory and for his broad understanding of the social science arena in which theories are confronted and practical lessons worked out.

Although Kenneth Arrow, in one of his earliest papers (Arrow 1950) demonstrated the impossibility of formulating any social welfare function capable of satisfying simultaneously a number of so-called 'reasonable assumptions', nevertheless, he was a prolific user of social welfare functions (notably utilitarian in nature) throughout the remainder of his career.

With the possible exception of his 1954 paper co-authored with Gerard Debreu (Arrow and Debreu 1954) all of Arrow's policy papers have focused on the prevalence of market failure, and all his policy recommendations are grounded on the assumption of a benevolent welfare-maximizing government. Inevitably, therefore, he would prove to be a formidable establishment figure obstructing the real public choice trailblazers, even if some second-generation public choice scholars choose to put the fox in the henhouse by claiming him as one of their own.

The Freshwater 'Democracy is Efficient' Economists

George Stigler and Gary Becker are widely regarded as the joint founders of the Chicago political economy research program (CPE). The CPE research program was a relatively late starter, launched by George Stigler's 1971 article on economic regulation. Stigler retained the intellectual leadership of the program until his death in 1991, when the mantle passed to Gary Becker. CPE is overtly positivist in its methodology, asserting for the most part that economists can observe, explain and predict, but cannot influence the course of political economy, and that attempts to change the world, by and large, are futile and wasteful of scarce resources (Rowley 1993, pp. 38–41).

CPE is a body of literature that analyzes political markets from the perspective of price theory and tight equilibrium theory (Mitchell 1989, Tollison 1989, Reder 1982). It views government primarily as a mechanism utilized by rational self-seeking individuals to redistribute wealth within a society. *Homo politicus* is modeled as a solipsist who exclusively pursues expected wealth maximization. Thus, CPE denies all credibility to the public interest theory of government. Yet, its analytics indicate that political markets efficiently allocate scarce resources among competing ends (Rowley 1993).

The thrust of their theory is towards instantaneous and durable equilibrium, with political markets always clearing. In equilibrium no individual can raise his expected wealth without reducing the expected wealth of at least one other individual. Political agents (brokers) clear political markets without invading them as principals. In this sense, political markets are not driven by broker preferences, aside from the desire for personal wealth. Political ideology plays no role, at least among the brokers of the political process.

The assumptions of CPE do not produce equilibrium based on perfect information or perfect mobility across political market space. High transaction costs will impede exchanges within the political process much as they impede private market exchanges. Uneconomic information will not be utilized by individuals within the political process. Random shocks may well create temporary disequilibrium, as actors respond to false signals. Nevertheless, CPE places a strong presumption in favor of stochastic analogues of deterministic general equilibrium in its analytic modeling. Such modeling differs sharply from that developed by the public choice trailblazers. Leading exponents of CPE, therefore, have attempted to sideline key contributions by public choice pioneers, seeking to uphold the rational expectations perspective of the late twentieth-century Chicago intellectual establishment.

George J. Stigler

George Stigler was born in 1911 in Renton, Washington. He received a Bachelor of Arts degree in Economics from the University of Washington in 1931 and an MBA from Northwestern University in 1932. Stigler returned to the University of Washington for one more year of graduate study, before receiving a tuition scholarship that enabled him to enroll at the University of Chicago in 1933. There, working under the guidance of scholars such as Frank Knight, Jacob Viner, John Nef, Henry Simons, and others, Stigler bathed in an intense intellectual atmosphere that would captivate him for the remainder of his life. Notable among his Chicago peers were Milton Friedman, Paul Samuelson, Kenneth Boulding and Allen Wallis, each of whom would become a stellar academic economist following the Second World War.

In 1936, while still working on his doctoral dissertation under the chairmanship of Frank Knight, Stigler accepted an appointment as Assistant Professor of Economics at Iowa State College. He completed his doctoral dissertation in Spring 1938 and immediately moved to the University of Minnesota. In 1942, following the outbreak of war, Stigler took a sustained leave of absence, first to the National Bureau of Economic Research, where he became acquainted with Arthur Burns, and then to the Statistical Research Group at Columbia University, where he engaged in statistical analysis related to military problems. The Director was Allen Wallis, and other senior figures included Milton Friedman, Harold Hotelling, L.J. Savage and Abraham Wald.

When the war ended in 1945, Stigler returned to the University of Minnesota, where he was joined briefly by Milton Friedman. Within a year, however, Stigler moved to Brown University to take up a professorship, having been turned down for a position at the University of Chicago in favor of his erstwhile colleague, Milton Friedman. After a year at Brown, Stigler moved to Columbia University in New York, where he remained until 1958, despite several attempts by Theodore Schultz to lure him to Chicago.

In 1958, Allen Wallis, Dean of the University of Chicago Business School, persuaded Stigler to accept the Charles R. Walgreen Professorship of American Institutions. Stigler would remain at Chicago for the remainder of his life, editing the *Journal of Political Economy*, directing the Industrial Organization Workshop and founding, in 1977, the Center for the Study of the Economy and the State, serving as its director until his death. From 1971 until his death Stigler also held a fellowship at the Hoover Institution at Stanford where he spent part of almost every year.

Stigler was elected to the National Academy of Sciences in 1975. He received the Royal Bank of Sweden Prize in Economic Sciences in the Memory of Alfred Nobel in 1982 ‘for his seminal studies in industrial structures, functioning of markets and causes and effects of public regulation’. In 1987, he received the National Medal of Science.

Until late in his career, Stigler was a consistently pro-market economist who made stellar contributions to the history of economic thought (Stigler 1947), price theory, the economics of information, economic regulation (Stigler 1971) and the organization of industry. For these contributions, Stigler justly earned his Nobel Prize.

Unfortunately, Stigler’s late contributions to Chicago Political Economy (Stigler 1988 a, b, 1992) proved to be less insightful, as the supreme market analyst failed to recognize significant institutional differences between private markets and political processes. This failure would lead Stigler to challenge head-on most of the major findings of the public choice trailblazers, with his final (posthumous) contribution on ‘law or economics?’ (1992) providing an unfortunate monument to his fundamental lack of understanding of the nature of the state.

Gary S. Becker

Gary Becker was born in December 1930 in Pottsville, Pennsylvania, but grew up in Brooklyn, New York. At school, he specialized in mathematics and the natural sciences, sharing team prizes in math and science competitions against specialized high schools. He won a math scholarship to Princeton University at age seventeen, and enrolled in an economics elective, where he studied microeconomics by reading the works of Paul Samuelson, George Stigler and John Hicks before taking a range of more advanced courses.

Graduating in three years with a bachelor's degree, Becker published (with William Baumol) his junior-year thesis on classical monetary theory and his senior-year thesis on multi-country trade, both in 1952 in the *American Economic Review*. With two well-received publications under his belt, he would have his pick among the top economics graduate schools, including Princeton. In the most important decision of his professional career, Becker chose the University of Chicago, despite the fact that it was not as highly ranked in economics as Princeton, Harvard, and Yale.

At Chicago, Becker would learn price theory from Milton Friedman, human capital theory from Ted Schulz, labor economics from Gregg Lewis (who would chair his doctoral dissertation committee), and statistics and probability theory from L.J. Savage. He obtained a master's degree in 1953 and a doctorate in 1955. His doctoral dissertation on the economics of discrimination was published in 1957 by the University of Chicago Press. The publisher received a subsidy from the Department of Economics (no market brief here for every tub standing on its own bottom). The book, though ultimately very successful, was initially viewed askance by an economics profession largely skeptical of its economic relevance.

Becker, without acceptable outside offers, stayed on at Chicago as Assistant Professor of Economics over the period 1954–1957 before accepting an Assistant Professorship at Columbia University. In 1958, he was promoted to Associate Professor and in 1960 to Professor of Economics. In 1968, he was appointed to the Arthur Lehman Professorship of Economics at Columbia University. Throughout his stay at Columbia University, Becker also researched at the National Bureau of Economic Research.

In 1969, upset by the weak-kneed responses both by the Columbia University administrators and his economist colleagues to student riots, Becker returned to Chicago as Ford Foundation Visiting Professor of Economics. In 1970, Chicago appointed him University Professor of Economics. In 1983, in recognition of his work in sociology, Becker became University Professor of Economics and Sociology at Chicago, a position that he still holds. Since 1990, he has also held the position of Senior Research Fellow at the California-based Hoover Institution on War, Revolution and Peace.

Becker has produced a prodigious volume of high quality scholarship, deploying the rational choice approach of neoclassical economics effectively across diverse areas of human behavior, many of which were previously assumed to be beyond the reach of economic analysis (Rowley 1999). His work has brought him great recognition within the economics profession, starting as early as in 1967, when he was awarded the John Bates Clark Medal by the American Economics Association.

In 1992, Becker was awarded the Royal Bank of Sweden Prize in Economic Sciences in honor of Alfred Nobel for his pioneering work on the behavior of the family, including distribution of work and allocation of time, crime and punishment, and discrimination. In the judgment of the Swedish academy, Becker's contribution consisted "primarily in having extended the domain of economic theory to aspects of human behavior which had previously been dealt with—if at all—by other social science disciplines such as sociology, demography and criminology."

In December 2000, Becker received the National Medal of Science. He was cited for his pioneering the economic analysis of racial discrimination, inventing the economics of human resources, producing the major modern innovations in economic demography, and leading recent developments in how social forces shape individual economic behavior. In November 2007, Becker was awarded the Presidential Medal of Freedom.

Once Milton Friedman retired from Chicago in 1976, Becker increasingly came under the intellectual influence of George Stigler. Following the lead of his new mentor, Becker began to model the political process as conveying many of the efficiency characteristics of private markets. Becker's ideas about the working of pressure groups under conditions of democracy, as we shall see, place him in the front line among the rational expectations establishment at Chicago and in direct conflict with the writings of the early public choice trailblazers in this important area of public choice analysis.

Cycling under the Rule of Simple Majority Voting

Duncan Black (1908–91) was a Scot, born in Motherwell, an industrial town located some 12 miles from Glasgow. He obtained an M.A. degree in mathematics and physics at the University of Glasgow in 1929, and an M.A. in political economy and political philosophy, also at Glasgow, in 1932. He was appointed in 1932 to an assistantship in economics at the University of Dundee, joining Ronald Coase in a two-year exposure to rigorous analytical economics (Coase 1981). For a short biography of Duncan Black, see Chapter 4 of this book.

From the outset of his scientific career, Black's vision had been grand yet simple, namely to develop a pure science of politics as a generalized theory of committees (Grofman 1981). To this end, Black modeled political phenomena 'in terms of the preferences of a given set of individuals in relation to a given set of motions, the same motions appearing on the preference schedule of each individual' (Black 1948a). This body of scholarship, on what came to be called the theory of committees and elections, constitutes one of the major pillars of public choice.

Some 230 years ago, the Marquis de Condorcet demonstrated that majority rule need not yield a stable outcome when there are more than two alternatives to be considered. Although periodically rediscovered or reinvented by succeeding generations of scholars, "the paradox of cyclical majorities" for all practical purposes was unknown to twentieth century scholars of democratic theory until Duncan Black called it to their attention in two innovative papers (Black 1948a and b). Although Black was not the first to discover the phenomenon, his work is the foundation of all subsequent research on the problem. Yet, ironically, Kenneth Arrow, not Duncan Black, is incorrectly credited with this rediscovery.

In his seminal paper (Black 1948a), Duncan Black first formulated the median voter theorem—a contribution which is widely acknowledged as providing the intellectual foundation for the spatial theory of voting under majority vote rules—which earned him recognition as a founding father of public choice. The median voter theorem provides an optimistic insight that the majority-vote rules, under favorable conditions where all voters' preferences are single-peaked over policy space, and provides unique and stable election outcomes, much as perfect competition provides such outcomes in private markets.

Less well-known, however, is the fact that, in the same article, Black 'discovered' that once the assumption of single-peaked voter preferences is relaxed, no motion "need exist which is able to get at least a simple majority over every other" (Black 1948a, p. 32). Black illustrates this 'paradox of voting' by reference to the following set of preferences by three voters, A, B and C over three alternative motions, a_1, a_2 and a_3 (Fig. 3.1).

Black notes that motion a_1 wins a pair-wise majority against a_2; that a_2 wins a pair-wise majority against a_3; and that a_3 wins a pair-wise majority against a_1. In such circumstances, none of the three motions is able to get a simple majority over the other two. He then demonstrates that, "the greater the number of motions put forward in a committee of any given size, the greater will be the percentage of the total number of possible cases in which there exists no motion which is able to get a simple majority over each of the others" (Black 1948a, p. 33).

Black further notes that, in such a state of affairs, the particular motion that is adopted by the committee, using the majority vote rule, will depend on chance—the chance of particular motions coming earlier or later into the voting process. He does not mention, in this paper, the opportunity thus provided for agenda-manipulation, but his analysis takes the astute reader precisely to this extension.

Duncan Black's 1948a article was published by the *Journal of Political Economy*, one of the world's leading economic journals. In 1950, just two years later, Arrow published his famous article on the concept of social welfare in the same journal (Arrow 1950). Arrow's article makes no reference to Black's contribution

		Voters		
		A	B	C
Preference Order	1	a_1	a_2	a_3
	2	a_2	a_3	a_1
	3	a_3	a_1	a_2

Fig. 3.1 Duncan Black's paradox of voting

despite the fact that Arrow utilizes this paradox as the fulcrum of his analysis of democracy as an unacceptable mechanism for making collective choices.

How come, one may well ask, Arrow was able to evade the attention of the very same editors at the JPE who, just two years earlier, had approved the publication of Black's article? The answer is that he claimed in one short sentence that the paradox of voting was "well-known" (Arrow 1950, p. 328), before proceeding to illustrate its nature with an example almost identical to that outlined by Black. On the basis of this illustration Arrow proceeded to make his now-famous claim that "the method just outlined for passing from individual to collective tastes fails to satisfy the condition of rationality as we understand it ordinarily" (Arrow 1950, p. 329). In his paper, Arrow does not cite any source for the paradox of voting.

In his follow-up book, *Social Choice and Individual Values* (Arrow 1951), which comprised his doctoral dissertation at Columbia University, Arrow recognized the importance of citing a source for the paradox of voting: "the 'paradox of voting' seems to have been first pointed out by E.J. Nanson (*Transactions and Proceedings of the Royal Society of Victoria*, Vol 19, 1882, pp. 197–240)" (Arrow, 1951/1963, p. 3). Arrow acknowledges, however, that he had not read that reference. In 1963, now somewhat more defensively, Arrow expands on this cryptic reference:

> When I first studied the problem and developed the contradictions in the majority rule system, I was sure that this was no original discovery, although I had no explicit reference, and sought to express this knowledge by referring to 'the well-known paradox of voting'. When the basic ideas of the book were first read as a paper to the Econometric Society in December 1948, Professor C.P. Wright of the University of New Brunswick called my attention to the work of E.J. Nanson. Nanson, in discussing the proposal of his for a method of election, refers without great emphasis to the possibility of intransitivity arising from majority choice ... for which he gives no previous reference (Arrow 1963, p. 93).

Bernard Grofman (Grofman 1981), one of the world's leading scholars of public choice, is skeptical (to say the least) about Arrow's 1950 and 1951 claim that the paradox of cyclical majorities was well known prior to Black's 1948 publication. Let me quote Grofman in full on this issue:

> The paradox was rediscovered by Huntington (1938), but this work had no discernible impact on subsequent research and also did not connect the problem to issues in democratic theory. Certainly, in political science, the then standard texts on democratic theory and political philosophy make no mention of the paradox. We are aware of only two 20th century, pre-WWII references to it other than Huntington (1938): the 1907 reprint of Nanson (1882) and Hoag and Hallett (1926). Furthermore, Riker (1965, p. 43) has asserted that as far as he knew 'there was no handbook of parliamentary law that mentions the cyclical majority.' The present author is a professional parliamentarian familiar with well over a dozen parliamentary manuals and has no evidence to contradict Riker's assertion (Grofman 1981, p. 14).

Black's paper was published by the JPE in February 1948, and must have circulated among economics scholars at Chicago well before that date. Between 1946 and 1948, Arrow worked for the Cowles Commission at the University of Chicago. During 1948/49, he was a junior member of the Chicago economics faculty. It is inconceivable that he would not have read Black's 1948 article at some stage during that period, especially given his direct interest in the subject-matter of Black's article.

In 1949, Duncan Black (this time with R.A. Newing as co-author) extended his work on the paradox of voting by focusing attention on a situation in which the preferences of voters over any set of alternatives depend on what decisions have previously been made. The order in which decisions are made now plays a crucial role in the ultimate outcome. The ensuing paper was submitted to *Econometrica* in November 1949.

Econometrica did not provide the authors with a publication decision for 18 months. When the decision came from the Managing Editor in Chicago, in a letter dated May 24, 1951, it 'had a very peculiar character' (Coase 1981, p. 8). The Editor stated that he was willing to recommend the paper for publication "if the interrelationships with Arrow's recent monograph could be brought out clearly throughout the paper" (Coase 1981, p. 8). As Coase put it:

> Kenneth Arrow's monograph Social Choice and Individual Values had been published in 1951 shortly before the managing editor's letter was written. The suggestion that Black and Newing should revise a paper written and submitted for publication in 1949 so as to relate to a book which had appeared in 1951 (and which they had not even seen) was obviously completely unacceptable. (Coase, 194–195 of the reprint in *Essays on Economics and Economists* 1994).

Black and Newing withdrew the manuscript from *Econometrica*, and published it elsewhere as a little read short monograph in 1951 (Black and Newing 1951).

Those who concern themselves only with the advancement of ideas, and not with whom those ideas should be associated, may conclude that the Black-Arrow story is much ado about nothing. However, they would be incorrect, for the purpose and ultimate thrust of the two scholars differed sharply, with significant consequences for subsequent scholarship.

Duncan Black was concerned with understanding the strengths and weaknesses of simple majority voting in committees and elections and to discover institutional and procedural reforms that would remedy perceived defects. To this end, he wrote a sequence of papers following his 1948 masterpiece, designed to find avenues to ameliorate the problem of cyclical voting (Black 1948a, 1948b, 1949, 1950; Black and Newing 1951). With his work overshadowed by Arrow, however, these contributions largely fell upon deaf ears, at least until Anthony Downs re-awakened interest in the median voter theorem in 1957.

In contrast, Arrow was much less interested in understanding, navigating, and improving real-world voting mechanisms. The thrust of his research was much more abstract, and it tended to accentuate the philosopher-king approach to collective decision-making, indeed to accentuate the discretionary role of official social-decision-makers. Let me justify this interpretation by reference to Kenneth Arrow's own words when commenting on the following 1954 statement by Abram Bergson:

> I have been assuming that the concern of welfare economics is to counsel individual citizens generally. If a public official is counseled, it is on the same basis as any other citizen. In every instance reference is made to some ethical values which are appropriate for

> the counseling of the individual in question. ... But some may be inclined nevertheless to a different conception, which allows still another interpretation of Arrow's theorem. *According to this view the problem is to counsel not citizens generally but public officials.* Furthermore, the values to be taken as data are not those which might guide the official if he were a private citizen. The official is envisaged instead as more or less neutral ethically. His one aim in life is to implement the values of other citizens as given by some rule of collective decision-making. (Bergson 1954).

Arrow's commentary on this statement is as follows:

> I need only add that my interpretation of the social choice problem agrees fully with that given by Bergson beginning with the italicized statement (Arrow 1963, p. 107).

The Burden of the National Debt

The perspective held by the classical economists on the burden of debt is best outlined by brief references to the writings of Adam Smith and David Ricardo.

Smith (1776) directly confronted the view prevalent among mercantilist thinkers of the late eighteenth century, that the public debt bears no burden: 'In the payment of interest of public debt, it has been said, it is the right hand which pays the left. This apology is founded, altogether, in the sophistry of the mercantile system' (Smith 1776/1976, pp. 926–927). Smith rejected this view on three grounds.

First, as Smith chronicled in the case of Britain, part of the British national debt was held by the Dutch, as well as by other foreign nations, in which case clearly 'we do not owe it to ourselves'. Second, even with respect to the internal debt, public debt does more than induce the annual transfer of interest from taxpayers to bondholders. It involves a reallocation of resources from productive to unproductive agents. Third, in a comment full of insight, Smith noted that the purchaser of a government bond undergoes no sacrifice at the time of purchase, when the debt is created, but rather makes money by lending to the government. In essence, therefore, the entire burden of the debt falls on future generations when the debt is redeemed:

> By lending money to government, they do not even for a moment diminish their ability to carry on their trade and manufactures. On the contrary, they commonly augment it .... The merchant or monied man makes money by lending money to the government, and instead of diminishing, increases his trading capital' (Smith 1776/1976, pp. 910–12).

Writing at the end of the Napoleonic Wars (1820), Ricardo, like Smith before him, emphasized that the primary burden of government war expenditures lies in the loss of the original capital as represented by the resources withdrawn from productive activity. Ricardo, like Smith, recognized that debt financing places no current burden on society.

Ricardo was more sanguine than Smith, however, concerning the debt burden actually placed upon future generations, arguing that future tax payments may be fully capitalized by rational citizens: 'The argument of charging posterity with the interest of our debt, or of relieving them from a portion of such interest, is often used by otherwise well-informed people, but we confess to see no weight in it (1820/1951, p. 187). This should not be taken to imply that Ricardo accepted the actual equivalence between debt and taxes, as the following passage clearly proves:

> But the people who pay taxes never so estimate them, and therefore do not manage their private affairs accordingly. We are too apt to think that the war is burdensome only in proportion to what we are at the moment called to pay for it in taxes, without reflecting on the probable duration of such taxes. It would be difficult to convince a man possessed on 20,000L, or any other sum, that a perpetual payment of 50L per annum is equally burdensome with a single tax of 1000L. (Ricardo, 1820/1951, p. 186).

The classical economists all agreed that debt imposed some kind of debt on the future generations, even when all the debt was held internally. They differed somewhat concerning the precise nature of the burden. This consensus disappeared, however, in the wake of the Keynesian revolution.

The most categorical denouncement of the classical debt doctrine emanated from Abba Lerner (1948), possibly Keynes' most fervent disciple. Lerner acknowledged that external borrowing imposed a burden on future generations. He categorically denied that any such burden was imposed by the internal debt:

> Very few economists need to be reminded that if our children or grandchildren repay some of the national debt these payments will be made to our children or grandchildren and to nobody else. Taking them together they will be no more impoverished by making the repayments than they will be enriched by receiving them (Lerner 1948, p. 256).

Lerner displayed no overt understanding that he was reverting to the mercantilist doctrine of the late eighteenth century in arguing that *'we owe it to ourselves'*. He did recognize that the creation of debt was likely to involve income redistribution, but argued that such redistribution 'can be ignored because we have no more reason for supposing that the new distribution is worse than the old one as for assuming the opposite (Lerner 1948, p. 261). As a committed Keynesian, he rejected out of hand any suggestion that deficit-financed government expenditure might crowd out private investment. He concluded his essay by urging that 'the kinds of evil most popularly ascribed to national debt are wholly imaginary' (Lerner 1948, p. 275).

Lerner's views on national debt, even in 1948, were not fully shared by Paul Samuelson, then well on his way to becoming the leading Keynesian within the US academy. Certainly, Samuelson endorsed Lerner's view that internal debt imposes no direct burden on future generations:

> 'Can it be truthfully said that "internal borrowing shifts the war burden to future generations while taxing places it on the present generation?" A thousand times no!' (Samuelson 1948, p. 427).

Nevertheless, even in 1948, Samuelson was aware of the possibility that private investment might be deterred by the taxes required to finance interest on the debt. Even if each individual's taxes exactly met the debt interest that he received, a deadweight loss would occur as taxes distorted the relationship between work and leisure and adversely affected willingness to venture capital on risky projects. In

1948, Samuelson followed Lerner in making no reference to the possibility that increased government expenditure might crowd out private investment.

In the meantime, James Buchanan (1958) had mounted a major counter-revolution in favor of the position of Adam Smith. For a biography of James Buchanan, see Chapter 7 of this book. Starting with the classical notion of full-employment and with the assumption that the debt is created for real purposes, thus drawing resources entirely from private capital formation, Buchanan convincingly argued that the issuing of new debt imposes no burden on the current generation:

> The mere shifting of resources from private to public employment does not carry with it any implication of sacrifice or payment. If the shift takes place through the voluntary actions of private people, it is meaningless to speak of any sacrifice having taken place. An elemental recognition of the mutuality of advantage from trade is sufficient to show this. If an individual freely chooses to purchase a government bond, he is presumably moving to a preferred position on his utility surface by so doing. He has improved, not worsened, his lot by the transaction. This must be true for each bond purchaser, the individual who only actually gives up a current command over economic resources (Buchanan, 1958/1999, p. 28).

Buchanan drew the following inference from this analysis:

> The primary burden of the debt, in the only sense in which this concept is meaningful, must rest with the future generations, at least in large part. These are the only individuals who suffer the consequences of wasteful government expenditure and who reap the benefits of useful government expenditure. All other parties to the debt transactions are acting in accordance with ordinary economic motivations. (Buchanan, 1958/99, p. 37).
>
> Buchanan (1958, 1964) analyzes the public debt burden from the perspective of individual actors who collectively choose, through a democratic polity, both the level of government expenditure and the method of financing such expenditure. To understand this process better, Buchanan (1969) focused attention on the subjective nature of the opportunity cost considerations relevant to making such individual choices.

From this perspective, choice-influencing cost, the true opportunity cost, consists of each individual's own evaluation, in utility space, at the moment of his decision, of the sacrifice he is making in selecting his course of action. Subjective cost is imbued with the following important characteristics:

1. It is borne exclusively by those who choose; it cannot be shifted onto others who do not make the choice.
2. It is subjective, existing in the mind of each individual chooser, and nowhere else.
3. It is an *ex ante* concept, based on anticipations and not on retrospective calculations.
4. It is dated at the moment of choice and at no other point in time.

Quite distinct from the above-mentioned choice-influencing cost are the consequences that eventually flow from the choices that are made. Buchanan (1969) designates such consequences as choice-influenced cost. Choice-influenced cost does not reflect an evaluation of sacrificed alternatives, since such alternatives are in the past. Thus it does not represent opportunity cost. It is a future burden that emanates from current decisions.

Choice-influenced cost may be experienced both by individuals who were party to the original choice and by individuals who were not. The burden of the debt imposed on the future generations is of this latter type. At the moment of choice, rational individuals would not endorse a fiscal outcome unless anticipated benefits outweigh their respective choice-influencing cost.

Financing government expenditures by immediate taxation would raise choice-influencing cost. A vote to finance the same expenditures by long-term bonds designed to mature after the decision-makers are dead, does not do so, at least in the absence of some far-fetched Ricardian-equivalence (Buchanan 1964). Thus, not only are the future generations burdened with choice-influenced costs, but, because they cannot vote at the time of the decision, they play no role in the current collective choice. The opportunity to avoid such choice-influencing cost, at the moment of decision, thus biases democracies in favor of excessive levels of public expenditure.

By 1970, in the eighth edition of *Economics*, Samuelson was much more cautious concerning the burden placed by internal debt upon future generations. Specifically, he recognized the crowding out hypothesis, acknowledging that 'the main way that one generation can put a burden on a later generation is by using up currently the nation's stock of capital goods, or by failing to add the usual investment increment to the stock of capital' (Samuelson 1970, p. 341). Yet, even as Paul Samuelson and his Keynesian colleagues shifted perceptibly back towards the classical viewpoint, nowhere within their camp was there any recognition of the insight of Adam Smith concerning the mutuality of exchange and its implications for the burden of the debt. The Keynesian intellectual establishment remained implacably hostile to any notion that debt financing placed a direct burden only on future generations.

Indeed, Samuelson (1970) reacted caustically to the notion that deficit-financing imposed any primary burden on future generations:

> We have seen that the public debt, prorated over the population, is sometimes regarded to be a load on each man's back. According to this same image, when Congress adds a dollar to the debt by running a current deficit of a dollar, that is like just one more rock added to the load our children or grandchildren will already have to carry on their backs. This image is misleading . . . .Suppose that all debt came from World War II. This war is over. Suppose that all America's families (1) share equally in ideal non-distorting taxes, (2) hold equal shares of public-debt bonds, (3) all live forever (as individual or as a cohesive family). With no debt abroad, (4) "we owe it all to ourselves" (Samuelson 1970, p. 351).

The devil, of course, lies in the assumptions. Samuelson hides behind the above-mentioned set of unrealistic assumptions designed to rule out any future generations' problem. Just as Samuelson (1963) characterized Milton Friedman's alleged misuse of assumptions designed to justify his methodology of positive economics as the F-Twist, so I shall designate Samuelson's use of the above-mentioned burden of the debt assumptions as the S-Twist.

The motivation behind the S-Twist may well have been ideological rather than scientific. Samuelson would be well aware that a shift from deficit-financing of public expenditures to taxation under a balanced-budget rule would significantly constrain the fiscal role of government under conditions of democracy. As a liberal democrat, this would be a very hard pill to swallow.

In any event, James Buchanan's 1964 predictions, as further elaborated in his 1978 monograph co-authored with Richard Wagner (Buchanan and Wagner, 1977) have come to pass with a vengeance. Throughout the period 1961 to 2007, U.S. governments have delivered budget deficits in all but three years, irrespective as to whether the economy has been in boom or in recession. Thus has the intellectual establishment blocked out a public choice trailblazing insight, arguably with serious long-term consequences for future generations. James Buchanan (1987) sums up the fiscal masquerade as follows:

> While confusion and ambiguity described economists' discussion of public debt, the politicians had learned the Keynesian policy lessons with roughly a two-decade lag. By the early 1960s, the 'old-time fiscal religion', based on adherence to the normative precepts of the classical analysis, had lost its constraining influence. The political leaders of the 1960s and beyond had learned that demand-enhancing deficits may be justified in some economic settings. Their natural proclivities to spend without the levy of taxes on constituents caused them to look on economic settings in a biased or one-sided fashion. The idealized Keynesian policy set—deficits in depression, surpluses in booms—proved to be unworkable in democratic politics. (Buchanan 1987, p. 1046).

The Nature and Political Impact of Interest Groups

The notion of 'interest group' goes back into antiquity, starting perhaps with the claim by Thrasymachus, in Plato's *Republic*, that 'justice is nothing else than the interest of the stronger'. In the dialogue that follows, Socrates and Thrasymachus debate the idea of interest, finding the notion hard to specify because each individual appears to have both a self and a collective interest and that these interests may conflict with each other

Research on interest groups goes back certainly to Cicero who distinguishes parties from factions. Parties, in the view of Cicero, seek to discover the common good, whereas factions work only in their respective interests. This distinction surely influenced the American Founding Fathers in their efforts to create a Republic that might withstand the adverse impulses of faction. James Madison and Alexander Hamilton succinctly identify the tension between party and faction in *Federalist* 10 and *Federalist* 51:

> The latent causes of faction are thus sown in the nature of man and we see them everywhere brought into different degrees of activity, according to the different circumstances of a civil society. The regulation of these various and interfering interests forms the principal task of modern legislation, and involves the spirit of party and faction in the necessary and ordinary operations of the government. (Madison, *Federalist* #10).

and

> In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed: and in the next

> place oblige it to control itself. This policy of supplying, by opposite and rival interests, the defect of better motives, might be traced through the whole system of human affairs, private as well as public. (Hamilton and Madison, *Federalist* #51).

The American Founders clearly recognized that organized interest groups, or factions, aim to manipulate politics to their own advantage and rarely display concern for the well-being of the other members of society. They believed, perhaps erroneously, that the adverse effects of faction could be limited by a territorially large, diverse republic, invested with separation of powers among its governing institutions. In general, however, both the Founders and the enlightenment scholars who influenced their thinking, held a very dim view of factions.

By the turn of the twentieth century, however, such concerns of political economy had been eroded and a more optimistic view about interest groups had begun to emerge. In his influential 1901 book, *Representative Democracy*, the institutional economist, John R. Commons, shifted attention away from the geographical in favor of the occupational interest groups. Commons evidenced strong support for occupational interest groups, arguing that they were the most representative and beneficial forces affecting American economic policy.

Indeed, Commons went so far as to advocate direct election of representatives for each interest group as the basis for the effective legislature of the country. In his judgment, economic interest groups were more representative of the people than were legislatures based on territorial representation. In this respect, Commons' thinking anticipated the emergence of Benito Mussolini's Italian occupational state (Olson 1965, p. 116). It also anticipated John Kenneth Galbraith's 1952 concept of 'countervailing' power.

John Commons' institutional economic views failed to attract much interest within an economics profession still dominated by the classical economic models. However, they provided an intellectual platform seized upon by a number of influential 'analytical-purist' political scientists anxious to distance themselves from methodological individualism and to develop alternative theories of group behavior. The most important of these was Arthur F. Bentley's 1908 book *The Process of Government* that advanced the hypothesis that pressure groups play a dominant role in economic and political life.

According to Bentley, '[t]he great task in the study of any form of social life is the analysis of … groups'; and 'when the groups are adequately stated, everything is stated'. It is group *interests*, moreover, that are basic. 'There is no group without its interest'. Whereas group interests are everything, individual interests are nothing. What matters are the common interests of groups of people and not the gains and losses of individuals.

In such circumstances, conflicting group pressures completely explain government policies, with groups exercising pressure more or less in proportion to their numbers. The logrolling of special interests is an excellent device for adjusting group interests. For the most part, group pressures improve on the performance of democracy by allowing preference intensities to register in the policy-making process. Bentley was an enthusiast and an apologist for group participation in the political process.

Bentley paid little attention to the factors that caused groups to organize and to act effectively through the political process. His political science disciples attempted to fill this lacuna. In particular, David B. Truman's influential 1951 book *The Governmental Process* explores the issue in some detail, developing a sociological theory of voluntary associations to argue that effective group pressures emerge as societies become more complex. In this perspective, suffering, dislocation and disturbance almost inevitably result in organized political pressure as disadvantaged individuals form themselves into effective groups.

Truman mirrors Bentley in his belief that group pressures alone determine equilibrium through the political process. He suggests, more strongly even than Bentley, that group equilibrium is just and desirable, arguing that groups would become weak and divided if they asked too much and would thereby expose themselves to potential competition from new, better adjusted groups. From this perspective, Truman belittles all attempts to improve the existing system of legislation and lobbying (Olson, 1965, p. 125).

In 1965, in his book *The Logic of Collective Action*, a young trailblazing economist, Mancur Olson, challenged head-on the Panglossian thinking of conventional political scientists concerning the nature and role of interest groups under conditions of democracy. In so doing, Olson justly earned his place among the founding fathers of public choice (Rowley 1999). For a short biography of Mancur Olson see Chapter 9 of this book.

In essence, Olson (1965) demonstrates that rational individuals, at least when solicited for support by *large* interest groups, would tend to free ride in the pursuit of their common interests. This free-riding is a direct consequence of the 'publicness' characteristics of most interest groups' objectives and would result in an under-provision of interest group pressure on government:

> If the members of a large group rationally seek to maximize their personal welfare, they will *not* act to advance their common or group objectives unless there is coercion to force them to do so, or unless some separate incentive, distinct from the achievement of the common or group interest, is offered to the members of the group individually on the condition that they bear the costs or burdens involved in the achievement of the group objectives. Nor will such large groups form organizations to further their common goals in the absence of the coercion or the separate incentives just mentioned. These points hold true even when there is unanimous agreement in a group about the common good and the methods of enforcing it. (Olson 1965, p. 2).

Olson further demonstrates that, even in the smallest interest group, the public good (bad) will not ordinarily be provided on an optimal scale. That is to say, the members will not provide as much of the commodity as it would be in their common interest to provide. This tendency toward sub-optimal provision lies in the fact that other members of the group cannot be excluded from consuming the commodity once an individual has provided it for himself. The only exception is the case where a group is composed of members of greatly different size and/or interest in the public good. In such circumstances, the largest member may exert pressure on its own equal to the optimal pressure for the group as a whole, a situation that Olson labels as 'exploitation of the great by the small'. A possible example of this was the role played by the United States in pressing successfully for the creation of the North Atlantic Treaty Alliance during the early phase of the Cold War.

Nevertheless, small groups typically are more effective in supplying pressure than are large groups:

> In this, small groups differ from larger ones. The larger the group is, the farther it will fall short of obtaining an optimal supply of any collective good, and the less likely that it will obtain even a minimal amount of such a good. In short, the larger the group, the less it will further its common interests. (Olson 1965, p. 36).

Olson thus establishes three exceptions to the general expectation that interest groups will under-provide political pressure in pursuit of their members' respective goals. The first exception is where the leaders of an interest group are able to coerce members to provide pressure. Examples of this are labor unions and trial lawyers' associations. The second exception is where groups are sufficiently small in number, and sufficiently homogeneous in nature to overcome free-riding by a mixture of economic and social incentives. Examples of this are producer groups, like the petroleum lobby, the tobacco lobby, the farming lobby and the automobile lobby. The third exception is where the leaders of large, heterogeneous groups are able to lock in members' pressure by offering selective benefits of a private nature in return for overall membership fees. An example of this is the American Association of Retired Persons which provides access to medical and life insurance benefits to members, on the basis of a large membership, on superior terms to those available (if available at all) to individuals bargaining on their own.

The implications of Olson's analysis suggest that political systems that react to lobbying pressures (i.e. all political systems) will concentrate political benefits on the more influential, typically concentrated, interest groups while laying off the political costs onto large, dispersed groups and onto individuals who cannot organize themselves into groups (for example taxpayers and consumers). In so doing, the political system may diverge significantly in its implemented policies from the expressed electoral preferences of the median voter.

Although *The Logic of Collective Action* was primarily a theoretical treatise, Olson was an empiricist of the first order, deeply concerned to make sense of the world around him. Acutely aware of the differential economic success of the victors and losers in World War II, with West Germany and Japan out-performing the United States and the United Kingdom, Olson turned the searchlight of the *Logic* onto the conundrum. The result was his second public choice masterpiece, *The Rise and Decline of Nations* (Olson 1982).

In *The Rise and Decline of Nations*, Olson argues that, because the free rider problem is pervasive, even the best advantaged interest groups find great difficulty in organizing and effectively invading the political system in pursuit of favors. Once established, however, they have significant sunk cost advantages over potential new entrants and are able to exercise muscle to protect the interests of their members from economic change. Countries that experience long periods of political stability (the United States and the United Kingdom) tend to suffer from internal economic sclerosis, as powerful interest groups lobby as successful Luddites in defending their members from economic innovations. In contrast, in countries that have recently experienced political upheaval, as a consequence of internal revolution or unconditional defeat in war, pre-existing interest groups typically are severely weakened (as in Japan) or completely wiped out (as in West Germany). Because of the free rider problem, new interest groups are slow to merge. In the interim, the channels through which economic change flows are much less obstructed.

Taken together, *The Logic (1965*) and *Rise and Decline* (1982) identify interest groups as a significant source both of economic inefficiency and of serious potential political market failure. These trailblazing results, though widely accepted by political scientists and sociologists, as well as by public choice scholars, would not long be allowed to stand without a major challenge from the Chicago political economy program, this time in the form of two articles by Gary Becker (Becker 1983, 1985).

Prior to Becker's contributions, the Chicago political economy had taken no position on the role of interest groups except for Stigler's (1974) critique of Olson's (1965) selective benefits model of interest group formation. Becker followed this lead by his colleague and mentor (Becker 1983) with a theory of competition among pressure groups for political influence predicated on the assumption of widespread rational ignorance among the voting public. In direct contradiction to Olson's emphasis on the harmful political consequences of interest group activity, Becker steadfastly followed the developing Chicago political economy tradition with an optimistic political market theory in which wealth redistribution through pressure group competition occurs at least economic cost to society:

> Political equilibrium depends on the efficiency of each group in producing pressure, the effect of additional pressure on their influence, the number of persons in different groups, and the deadweight cost of taxes and subsidies. An increase in deadweight costs discourages pressure by subsidized groups and encourages pressure by taxpayers. This analysis unifies the view that governments correct market failures with the view that they favor the politically powerful: both are produced by the competition for political favors. (Becker 1983, p. 371).

In making his case, Becker (1983) relies on a number of unrealistic Chicago-type assumptions, without, for the most part, acknowledging any shift from those deployed by Olson (1965 and 1982). First, rather than dealing with obviously high excess burden transfers in kind, Becker assumes in his model that all transfers take the form of lower excess burden taxes and subsidies (even he does not imply that such transfers are always lump-sum in nature). Second, rather than deal with the possibility that interest group pressures might create or exacerbate government fiscal deficits, Becker (1983) blithely assumes that a balanced budget constraint always holds. Third, although Becker (1983) recognizes that the cost of controlling free-riding will affect the size of pressure groups (incidentally without any explicit recognition of Olson on this point), he does not acknowledge that free-riding and other transaction costs may prevent the formation of many potential pressure groups, even where effective pressure might conceivably reduce the excess burden of wealth transfers. Fourth, and crucially, Becker (1983) assumes that individuals who may exert pressure through interest groups are motivated by private returns. Nowhere, other than in a brief reference to a potential free-riding problem in large interest groups, does Becker acknowledge that benefits from interest group lobbying primarily take the form of public good or public bad. Becker (1983) cites Olson's 1965 paper in the references, but nowhere in the text, of his paper.

In 1985, Becker (1985/88) extended his pressure group model to encompass altruism and envy, in addition to solipsism, among members of pressure groups. He also introduced explicitly the principle of the potential compensation test as a means of evaluating the social welfare implications of pressure group activities. It becomes quickly evident that the purpose of these adjustments, for the most part, is to consolidate his earlier view that most pressure group activity is socially beneficial:

> Some policies might raise social output because of altruism by taxpayers or envy by recipients. Redistributions are Pareto-improving when altruistic taxpayers also benefit. Although altruists would be harmed by redistributions beyond the Pareto-efficient point, social output would be increased as long as the monetary value of the gains to beneficiaries exceeds the monetary value of the loss to altruists. (Becker 1985/1988, p. 94)

> and

> If the *intent* of public policies were fully known, I am confident that the public sector would be revealed to be a far more efficient producer and distributor than is popularly believed... Redistribution should be included among the 'measured outputs' of public and regulated enterprises before one can conclude that they are less efficient than private enterprises. (Becker 1985/88, p. 95)

Becker (1985/88) critically addresses Olson's (1982) assertion that established interest groups are responsible for sluggish economic growth and, eventually, for the economic decline of nations. In Becker's (1985/88) judgment, this view is excessively pessimistic:

> the condemnation of special interest groups is excessive because competition among these groups contributes to the survival of policies that raise output: favorably affected groups tend to lobby more for those policies than unfavorably affected groups lobby against. Indeed, no policy that lowered social output would survive if all groups were equally large and skillful at producing political influence, for the opposition would always exert more influence than proponents. (Becker 1985/88, p. 102).

Becker's Panglossian model of interest group behavior under conditions of democracy runs starkly counter to Olson's logic of collective action. Without accounting for any of the empirical work that supports Olson's theory, Becker airily replaces it with a model founded on extremely suspect assumptions. Of course, the opportunity afforded by Becker, a leading member of the Freshwater academy, for those well-disposed of by government to mark down the trailblazing theoretical and empirical work of Olson, was seized upon and an influential literature has now emerged dedicated to the glorification of democratic government (Wittman, 1989, 1995). That literature is not supported by any significant body of empirical evidence. It is long on idolatry and singularly short on facts.

Rent-Seeking and the Efficiency of Government Legislation

Prior to 1967, when Gordon Tullock (for a biography see chapter 8 of this book) published his seminal paper on the '*welfare costs of tariffs, monopolies and theft*' (Tullock 1967) economists regarded legislation largely as the public-spirited response by government to the expressed preferences either of a majority of its electorate or of its well-informed interest groups. Even those who were acquainted with Olson's (1965) book viewed the costs associated with such legislation as minimal, or as simply the ordinary transaction costs of the political process. For example, if government legislates in favor of a tariff, or a monopoly, this legislation redistributes producers' and consumers' surplus among those involved while reducing overall economic welfare only by the deadweight loss, excess burdens involved (the so-called Marshallian or Harberger triangles of welfare loss). Such welfare losses, even in a highly monopolized society, tend to be small, relative to the overall benefits generated by the activities involved. Even theft can be viewed, according to this perspective, primarily as a socially costless transfer of resources between the thief and his victim.

Tullock was far from convinced by such Panglossian analysis. In his 1967 paper (Tullock 1967) he centered attention on the rectangle of producers' surplus transferred from consumers as a consequence of the creation of a monopoly. Surely, he argued, the potential for such a transfer gain would induce wasteful expenditures lobbying government in order to secure the monopoly (or tariff) under consideration:

> Surely we should expect that with a prize of this size dangling before our eyes, potential monopolists would be willing to invest large resources in the activity of monopolizing. In fact the investment that could be profitably made in forming a monopoly would be larger than this rectangle, since it represents merely the income transfer. The capital value, properly discounted for risk, would be worth much more. Entrepreneurs should be willing to invest resources in attempts to form a monopoly until the marginal cost equals the properly discounted return. The potential customers would also be interested in preventing the transfer and should be willing to make large investments to that end. (Tullock 1967, p. 231)

Tullock noted that the welfare cost of securing a monopoly is not limited to the outlays made by the winning firm. Rather it is measured by the total outlays of all the would-be monopolists, losers as well as winners. These additional welfare costs, he argued, might be ameliorated either by free trade or by an active antitrust policy. In 1967, Tullock had not yet completely blended 'rent-seeking', as it eventually was named by Anne Krueger in 1974, with public choice theory.

In his 1971 paper on *the cost of transfers*, Tullock extended his rent-seeking theory to income redistribution. Even with respect to entirely private charitable giving, he argued that competitive rent-seeking on the part of would-be beneficiaries of such transfers wasted resources, as those seeking charity render themselves appealing objects for it. With respect to income transfers mediated through the welfare state, he suggested that rent-seeking is endemic, with perhaps as much as 95 per cent off all such transfers involuntary from better-off members of society coerced by middle-class lobbies. In two follow-up papers (Tullock 1974 and 1975a), he outlined the working of exactly the same principle when lower-level governments wastefully compete for aid from higher-level governments in a federal system by rendering their own programs ineffective.

In his well-known 1975 paper on *the transitional gains trap* (Tullock 1975b), Tullock explains why many government programs do not appear to benefit their targeted recipients for very long. Basically, Tullock suggests that initial benefits are quickly capitalized and often sold to others at rent-inflated capital values. Subsequent holders of such assets thus earn only a normal return on their investments. If the privilege should ever be withdrawn, the later entrants would incur a capital loss. To avoid such an outcome, the holders of rents will lobby aggressively against any such removal of privilege.

In his 1980 paper on *efficient rent-seeking*, Tullock deploys game theory to define the circumstances under which competing rent seekers exactly dissipate the rent available (he labels this 'efficient rent-seeking'), the circumstances under which they under-dissipate rents and the circumstances under which they over-dissipate rents. Typically, he suggests, rents will be under-dissipated through political rent-seeking not least because of the logic of collective action. Typically, rents will be transferred at considerable social cost and rarely without any social cost. Available evidence supports both hypotheses.

Mancur Olson's 1965 book, *The Logic of Collective Action*, based on his 1963 doctoral dissertation, was completed well before Tullock's 1967 paper, and, therefore could not incorporate the rent-seeking insight. His 1982 book, *The Rise and Decline of Nations*, however, recognized and applied Tullock's insights with powerful effect. By 1982, the trailblazing rent-seeking contribution, with its implications for the failure of political markets, was fully embedded in the literature of economics.

Such knowledge was not embedded even by 1982 in the thinking of members of the Chicago School of Political Economy, as first became evident in Becker's 1983 and 1985 papers on interest groups. In his 1983 paper, Becker fails to cite any of Gordon Tullock's contributions to the rent-seeking literature. Throughout his 1983 paper, he focuses attention exclusively on the Marshallian (or Harberger) deadweight loss triangles and never on the Tullock rectangles. In his 1985 paper, Becker once again sidesteps any reference to rent-seeking behavior, whether by Tullock or by any of a large number of contributing scholars. It is almost as though a rapidly growing literature remained entirely outside his comprehension. The only other explanation is that Becker's methodological emphasis on efficiently functioning political markets might have been grounded had he taken account of 'Tullock rectangles' as well as 'Harberger triangles'.

If Becker's contributions provide primarily a passive resistance to the public choice theory of political market failure, largely by sidestepping the issues that public choice trailblazers like Tullock have developed, George Stigler's contributions take on a much more aggressive tone. As we noted earlier, George Stigler was the founding father of Chicago Political Economy (Stigler 1971) and, until his death in 1992, the acknowledged leader of the research program (Stigler 1988) which combines regular price theory with positive economics in its analysis of political market behavior (Mitchell 1989, Tollison 1989). Always skeptical about the ability of economists to influence economic policy, (Stigler 1982) as he aged, Stigler became ever more committed to the notion that political markets were efficient (though he was ambiguous as to whether such efficiency was political or economic). His posthumous 1992 publication (*law or economics*?) effectively summarizes his willingness to apply the Coase theorem (Coase 1960) well beyond private exchange, and the common law, to the law of legislation, essentially turning public choice on its head.

Stigler (1966) first introduced the concept of the Coase theorem to economics albeit focusing attention at that time exclusively on the zero transaction cost model. In his 1992 paper, he was more catholic in his definition:

> Coase reminded economists and taught lawyers that, in a world of exchange by agreement rather than by coercion, the costs and benefits of agreement determine its scope. Because agreements can be costly, many will not be struck, and these unachieved agreements will have been inhibited by the smallness of the benefits or the largeness of the costs of agreement. (Stigler 1992, p. 456).

Stigler defines maximum efficiency to infer 'that a given goal is achieved as best as one knows how' (ibid., 458). He recognizes that the economist's conventional concept of efficiency 'turns on the maximization of the output of an economic process or of an economy (ibid., 458). However, in the case of political markets, he suggests that a broader meaning can be inferred:

> In policy analysis, one may legitimately imply an alternative definition of efficiency that rests on the goals adopted by the society through its government. When a society wishes, for example, to give more income to a group, than the market provides, we may surely analyze the efficiency with which this is done. (Stigler 1992, pp. 458–459).

He deploys this new definition, some may think outrageously, to suggest that all durable social institutions, including common and statute laws must be efficient:

> In this latter view, every durable social institution or practice is efficient, or it would not persist over time. New and experimental institutions or practices will rise to challenge the existing systems. Often the new challenges will prove to be inefficient or counterproductive, but occasionally they will succeed in replacing the older system. Tested institutions and practices found wanting will not survive in a world of rational people. To believe the opposite is to assume that the goals are not desirable: who would defend a costly practice that produces nothing? (Stigler, 1992, p. 459).

Stigler's deconstruction of the notion of efficiency with respect to political markets, without any reference to the institutions and agents that form that market-place, without any reference to the logic of collective action or to the unnecessary costs of rent-seeking behavior, boils down to a remarkable judgment that 'whatever exists is efficient' (Rowley 1997). If one accepts such a judgment, then there is little or no place for public choice analysis or even for constitutional political economy.

All that is necessary for efficiency is democracy—democracy of any kind, anywhere, irrespective of the institutions that emerge, just as long as democratically-established institutions persist over time. Any old tariff is a good tariff. Any old quota is a good quota. Any old public enterprise is a good public enterprise. Any old income transfer system is a good system. Hail to the United States Post Office, hail to state-run Departments of Motor Vehicles! Hail to sugar-beet subsidy programs! Get lost, public choice!

Conclusions

It is somewhat ironic that key insights of four important public choice trailblazers ran head on into the adverse winds of the intellectual economics establishment, on two occasions (Black and Buchanan) from the left and on two occasions (Olson and Tullock) from the right. In part, no doubt, these adverse winds stemmed from differences of methodology and of science. In part, no doubt, they stemmed from ideology and reputation-protection.

In any event, ultimately, these adverse winds helped rather than hindered the progress of public choice and constitutional political economy. Battle-hardened, the trailblazers pressed forward with their insights against opposing forces with a vigor and zest that might have been less evident had the establishment initially proved more welcoming to their then-alien ideas. Now that the ideas of the trailblazers have become part of the intellectual economics establishment, their public choice successors perhaps should think long and hard before abruptly rejecting or side-stepping equally alien ideas that may emanate in the future from an even younger generation of thinkers.

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