Pareto on public choice

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In his *Trattato di Scoiologia Generale*[1] (1916), Vilfredo Pareto outlined a generalised theory of social interaction which methodologically is the application of economic reasoning[2] to the analysis of not only the economy, but also of a conceptually enlarged system, comprising the economy, legal institutions and the judicature[3] together with the interaction of social and political groups in society.

Pareto's proposal for a generalised theory of politics – the term is to be understood in its broadest meaning – rests methodologically on economics. Though one of the earliest and clearly the most ambitious of a sequence of comparable approaches, it has, however, (unfortunately) not been altogether successful. Economists tend either to ignore or to neglect[4] Pareto's *comprehensive* approach which, unlike the purely economic general equilibrium theory, has always been alien to them.[5] Its economic methodology notwithstanding, Pareto's Treatise is often referred to as "Political Sociology" (and consequently ignored). Meanwhile, in sociology, Pareto's work has gained more respect than influence, perhaps due to its economic methodology. Recently, it has even been argued that:

> Pareto's own individual theories . . . are by now only of historical interest and very imperfect from a modern perspective.[6]

This is surely partly true, particularly with respect to detail, but not where the basic approach is concerned.

In recent years, another and (initially) less ambitious attempt to integrate economics and politics based on an economic methodology has attracted considerable attention. This approach, the seminal works of which include Schumpeter's *Capitalism, Socialism and Democracy* (1943),[7] Downs' *Economic Theory of Democracy* (1957) and Buchanan and Tullock's *Calculus of Consent* (1962) has become known as the Economic Theory of Politics or more simply Public Choice.[8] In what follows, I shall exclusively refer to these three "classics" of the Public Choice School.[9]

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Although the two approaches are identical in many of their basic characteristics, reference to Pareto's work has scarcely been made by Public Choice theorists;[10] while Schumpeter at least occasionally refers to Pareto,[11] both Downs and Buchanan and Tullock seem to have ignored the Treatise, despite striking, occasional resemblances.

The history of economic thought should – inter alia – fulfill the function of "economising on economic thought", and "contribute (...) to the full but thrifty utilisation of that scarce resource": comprehensive theory.[12] This should prevent undue repetition and provide access to neglected economic thought in view of its relevance for the solution of present problems.

Accordingly the purpose of this paper is to explore the relevance of Pareto's general theory of social interaction for contemporary Public Choice analysis. Obviously, in a paper of limited length, this can only be undertaken in an exemplary way.

Part 2 presents a critical outline of the basic elements of Pareto's theory. This is contrasted in Part 3 with corresponding elements of the modern economic theory of politics. Part 4 contains an elementary exposition of the problem of ideology in the political process from a Paretian perspective. Finally, Part 5 incorporates this view into a discussion of a theory of "pressure groups, special interests and the constitution",[13] the aim being to show that Paretian economic sociology may be integrated smoothly and fruitfully into the present Public Choice framework.

1.

This section will confine itself to those elements of Pareto's economic sociology that may easily be incorporated into Public Choice analysis. Politics can be described as choice (plus subsequent action) and Pareto's theory of individual and collective choice will be considered in this light.

One of Pareto's basic distinctions is between "logical" and "non-logical" action.[14] "Logical" action is defined as consciously rational action, "rationality" in turn being the efficient adaptation of specified means to known ends. A non-logical action, in contrast, may well be rational; but it does not follow from correct logical reasoning, by which facts and end are logically connected.

> A non-logical action may be one which a person could see, after observing facts and the logic, is the best way to adapt the means to the end; but that adaption has been obtained by a procedure other than that of logical reasoning (Pareto, 1971).

The difference lies in the *technique* of individual choice, be it either through logical (i.e. rational) reasoning or non-logical, often subconscious decision.

It may be noted that rational action can only result from logical reasoning when *all* relevant facts are taken into account and combined logically. In practice we may, however, have to resort to a less ambitious (and therefore

more often efficient) decision and information processing (intra-individual) pattern. But ignoring the cost of gathering and processing information, Pareto insisted on logical action as the only adequately justified action. Ridiculing any counter-arguments in advance he observed:

It must be added that man has a very marked tendency to imagine that non-logical actions are logical (Pareto, 1971, II S4).

In reply however, one could argue that this, albeit "illusionary" conception, may still be helpful in *organising* knowledge. Knowledge, of course, consists of logico-experimental (scientific) knowledge and pseudo-knowledge. The latter refers to the non-scientific rationalisation of the world as perceived by individuals (as well as collectives).

In Pareto's view, any human action may be analysed from three different angles:

- the "*derivate*", i.e. the action as it may be objectively described,
- the "*derivation*", i.e. the individual conception of what constitutes (the meaning of) this action, the pseudo-logical rationalisation of that action, and
- the "*residues*", which describe the individual psychic postures to which choice (and action) corresponds.

The term "residue" should be taken literally: the "residue" is a sociological category, put forward to describe the manifestation of psychic conditions (drives and sentiments) in human action; "residues" are theoretical constructs with no direct empirical corollary.[15]

The truncated theory of residues is one of five elements which describe the general social equilibrium:[16]

The actions of human beings are among the elements that stand in a relationship of reciprocal determination with the social equilibrium. Among such actions are certain manifestations that we designate by the term "residue" and which are closely correlated with other acts so that once we know the residues we may, under certain circumstances, know the actions. Therefore, we shall say that residues are among the elements that stand in a relation of reciprocal determination with the social equilibrium.[17]

Choice and Action are, however, also determined by *derivations*. These consist in the rationalisations of non-logical conduct and theories which transcend experimental observation. Instead of a direct correspondence between action and the description of that action, typical of logical behaviour, the relationship between action and derivation is indirect, both actions and derivations depending on the *unknown*[18] psychic state. What is beyond the grasp of logical reasoning is formulated in derivations which, although they do not meet the standards of logical statements assume the form of pseudo-logical statements and fulfill the function of organising knowledge (both scientific and non-scientific) on which *organisation* man can rely in acting.

In a somewhat scientistic way, Pareto pointed towards the undesirability of derivations compared with logico-experimental theory. It may be useful, nevertheless, to shift the emphasis somewhat; pointing to the objective function of pseudo-knowledge when logico-experimental knowledge is either not immediately at hand or *costly.* Both individuals and groups objectively rely on common reference systems, shared values, beliefs etc. in organising choice and action. Therefore it is not the reliance on pseudo-knowledge in the *form* of logico-experimental knowledge (:ideology) as such, but the reliance on specific pseudo-knowledge which generates specific (undesired) action and should be the most direct object of scientific criticism. However, this differentiation renders the analysis more complicated. In what follows, I shall refrain from a comprehensive consideration of Pareto's general social equilibrium theory.[19] Rather, I shall dwell exclusively on the relevance of "the need that the human being feels for logical or pseudo-logical developments"[20] for the political process.

Policy in the Paretian system is partially a function of the perception that people have (individually and collectively) of their opportunity set. With policy being partly a function of the *definition* of reality, the process of defining reality becomes politically relevant. This is the process of the formation of values, reasoning, ideologies and myths etc. (Samuels, 1974 p. 127), the *production of derivations:*

> The elemental policy question is, then, who will elicit what policy by securing support from which sentiments by using or invoking which derivations (Samuels 1974 p. 121).

Bluntly speaking, the skillful manipulator will succeed.

> The art of governing consists in knowing how to take advantage of the residues one finds ready to hand (Treatise 1857).

and

> The statesman of the greatest service to himself and his party is the man who himself has no prejudices but knows how to profit by the prejudices of others (Treatise, 1843).

Obviously, one way of following this advice is the dissemination of those prejudices which conform to the psychic condition of citizens and at the same time facilitate the implementation of a predetermined policy.

2.

The objective function of political *ideologies*; one of the central topics of Pareto's treatise, is among the most neglected aspects of modern Public Choice research.

Downs, it is true, devoted three chapters of his "Economic theory of Democracy" to the subject,[21] yet subsequent authors have often neglected

this aspect.[22] Nevertheless, Downs' treatment of the subject is *incomplete* when compared with Pareto's model.

In contrast to Pareto, he assumes *rational* individual behaviour, which consists of (in Pareto's terminology) both logical and non-logical behaviour insofar as the latter can be described as rational (efficient relation of means to ends). With these assumptions, the subjective nature of choice, the importance of which Pareto stressed, is neglected. The assumption is further specified to include only political and economic ends.[23]

Downs allows, however, that rational individuals may make systematic errors as a consquence of a specific distribution of information costs (1957, p. 10). As a consequence of voter uncertainty concerning the prediction of future events and the considerable costs he has to incur in order to become informed about specific issues, voters according to Downs rely on party ideologies when casting their ballots. These ideologies, however, correspond to their proponents' actual policies. *Reliability* occurs because voters compare ideological statements (before the last election) with the actual policy during the most recent election period. Only where ideologies and policies coincide, do voters continue to rely on ideologies as yardsticks for the prediction of future policies. By the same reasoning, Downs depicts the rational policy maker as both *honest and responsible.*

Politicians, however, need not strive simply to provide their parties with political goodwill capital, as this is a public good for the whole party. Moreover the investment horizons of politicians are heterogeneous and can differ from that of their party. The time horizons of party members in subordinate positions, are for instance, longer than those of leading politicians. More important in Downs' argument is a strange asymmetry that leads to an idealized result. Downs allows for costs of information only when uncertainty is present, and uncertainty relates to knowledge. Therefore, the voter is unable to *predict future policy.* On the other hand, knowledge of *past* policy does not entail such costs. What is also lost sight of here is the fact that ideologies, when used as devices for the reduction of information costs, selectively affect the *perception* of information.

Ideologies[24] considered in economic terms are to a large extent public goods. Appropriation is cheap compared with that of scientific (logico–experimental) knowledge; ideological information tends to neglect news which is not welcome to the consumer, and rationalises what cannot be logically explained. Further, insofar as ideologies have to contain *novelties*, the direction of continuous ideological change is not predetermined; there is therefore no necessary close relation to reality. Furthermore, ideologies cannot be evaluated without consuming them; therefore, they are already influential when perceived, and need no further advertisement apart from their continuous supply. As ideologies (as distinct from logico-experimental knowledge) do not conform to any neutral quality standard, their evaluation is difficult.

If these properties of ideologies as functional substitutes for logico-experimental knowledge (in this case: information regarding the expected as well as part and present actual policy of a party or team of politicians) are taken into account, it seems probable that:

- rational policy-makers utilise ideology as well as policy in securing votes;
- not only a relation of *complementarity* but also that of *substitutability* between actual and stated policy prevails;
- voters can neither secure perfect information of future nor present nor past policy[25] and, relying on ideologies instead of policies, will to a certain extent vote for statements instead of actions.[26]
- Insofar as ideology is a consumption good, voters may also be to a certain extent truly benefitted by ideologies as well as policies. This aspect will not be considered further in this context.

3.

To illustrate the welfare implications of the foregoing discussion, a simple exposition of political interaction with ideology as an instrument of this *interaction* may be useful. This illustration is designed to show the possible extent of ideology-production in order to demonstrate the potential of the analysis.

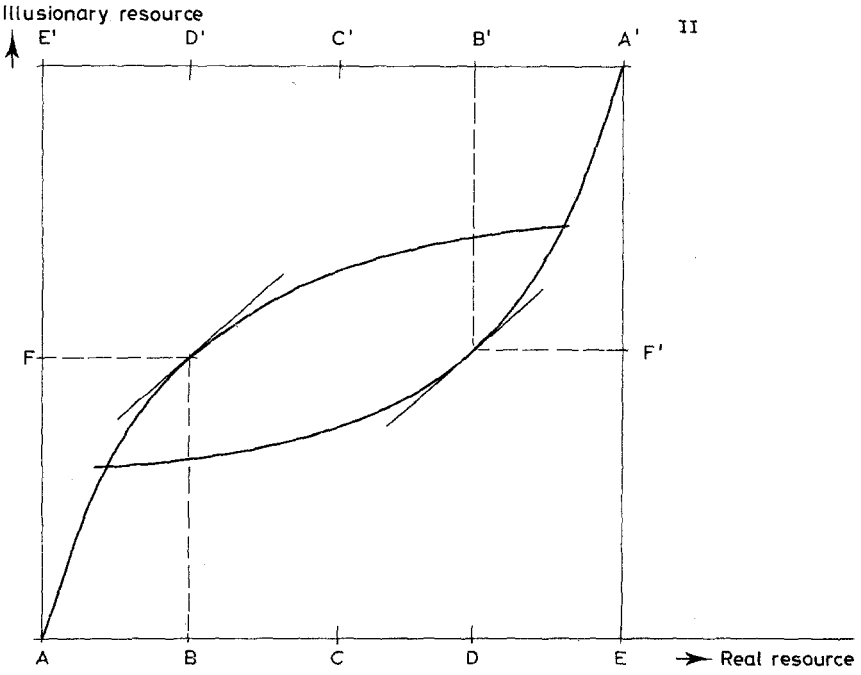

Figure 1. The production of ideology in a conflict over the distribution of a limited

In a pre-constitutional (anarchic) world two actors try to divide a resource which is in limited supply between them. Each provides his adversary with ideological information, which distracts the adversary's attention from the scarce resource to a fancy resource, the value of which can only be conceived by persons who consumed before the appropriate ideological information. Of course, the consumer is *not* (fully) aware of the ideological content of the information consumed. Each actor has provided his adversary with ideology independently.

The consequences may be shown graphically (Figure 1). Consider a constant-sum game-theoretic situation with two actors whose interests in a limited resource are strictly antagonistic. Incurring real costs, an ideology can be produced by either actor or both which induces the adversary to give up an amount of real resources, (measured horizontally) equal[27] to the amount of illusion resources (measured vertically,) i.e., these are resources he believes he possesses after consuming the ideology provided by his adversary. By this assumption, the costs of demasking an ideology are always superior to those of producing an alternative ideology to reverse the distribution.

In Figure 1. an entirely symmetric situation is depicted. The 'real' resource is measured horizontally, the illusionary resource vertically.

Ideology production involves increasing costs when differences between illusion and reality increase. Individual I produces an ideology to disturb his adversary's perceptions up to the point of marginal equality and reaps a benefit of $\overline{AF}$ at a cost of $\overline{AB}$, being left with a net gain of $\overline{BC}$. Symmetrically, individual II produces a different ideology and reaps a benefit of $\overline{A'F'}$ at a cost of $\overline{A'B'}$ being left with the differential gain $\overline{B'C'}$. Eventually, both parties possess an amount of $\overline{AF}$: $(\overline{A'F'})$ in illusionary resources and an amount of $\overline{BC}$: $(\overline{B'C'})$ in real resources, having 'spoiled' twice the amount $\overline{AB}$ for the production of ideology. The social loss is consequently twice $\overline{AB}$. Only if ideology is an economic consumption good, does the difference between 2 $(\overline{AB})$ and the aggregate demand for this good measure the social loss. The difference may even be positive. In terms of both Downs' and Pareto's models however, ideology is not a consumption good but an intermediary in the political process, which services to secure votes without necessarily conforming to voters' wishes.

4.

Public Choice theory has hitherto consisted of a comparative analysis of alternative processes of decision-making and their respective results. It has particularly focussed on the allocative and distributive consequences of decisions arrived at via market or collective decision-making procedures such as voting, representative elections etc.; starting from the assumption of utility-maximising individuals acting within prespecified constraints facing uncertainty. We would argue that such analysis fails to take account of the

following three characteristics of human behaviour:

- Because expected utility is relevant for individual choice with respect to future alternatives of choice and action, it may be worthwhile to invest in a disturbance of competitors' and electors' perceptions instead of playing the game of competition within the rules.
- People's perceptions of utility as well as of alternatives for action are dependent on cognitive systems, such as, ideologies. Far from being innate in human beings, these systems can be produced to serve specific purposes and are learned during social interaction. These, in turn, can be structured to serve specific ends.
- The rules themselves, and the range of alternative rules considered including constitutions, are dependent on the above mentioned cognitive systems.

In order to show briefly how an outline of a Paretian theory of "pressure groups, special interests and the constitution" apparently differs from the conventional Public Choice approach, compare Buchanan and Tullock's description of constitutional change:

> Each interest group will, of course, turn every effort toward improving its own position, *within the limits of the prevailing rules;* but if, in fact, all interests come to recognise that the external cost involved in this continuous struggle of interests are excessive, all might agree on some changes in the rules that allow such behaviour to take place (Buchanan and Tullock, 1962, p. 290, original italics).

with Pareto's sobering remarks in §2191 of his Treatise:

> The governing class A tries to defend its power and avert the danger of an uprising of the B's in various ways . . . It may try to take advantage of the strength of the B's and that is the most effective policy. Or it may try to prevent its disaffected members from being leaders of the B's or rather of that element among the B's which is disposed to use force; but that is a very difficult thing to achieve. And the A's use derivations to keep the B's quiet . . . , telling them that 'all power comes from God', that it is a 'crime' to resort to violence, that there is no reason for using force to obtain what, if it is 'just', may be obtained by 'reason'. The main purpose of such derivations is to keep the B's from giving battle on their own terrain, the terrain of force, and to lead them to other grounds – the field of cunning, where their defeat is certain, pitted as they will be against the A's, who are immensely their superiors in wits.

Rules and norms, we understand, are not unambiguously stated. Those rules which "prevail" are the selective and biased interpretations of written or unwritten norms.

It should be added that the interpretation of constitutions itself is, of course, a derivation. Eventually, specific rules "prevail" as a function of the strength of groups in society, not as a consequence of consent, and according to this strength, they are continuously and incrementally changed

by interpretation and amendment without an all-conclusive consent needed. Consequently, there is really no identifiable social contract in the sense of a conscious agreement of individuals or social groups.[28]

In addition to what the theory of Public Choice already includes, a Paretian formulation of the economic theory of politics contains an analysis of the investment behaviour of interest groups in people's (dependents' as well as competitors') conceptions of justice, equity and morality: their derivations (Tarascio, 1974, p. 373). The Downsian model according to this view is the analysis of a corner solution; neglecting the trade-off every politician faces between statement and action. There is, however, a methodological problem: Given the subjective nature of individual as well as collective choice, how can there be "logical" behaviour at all? How can rational power-players strategically employ derivations, in which they themselves possibly believe, as instruments in the political process? Is this (or can this be) a positive theory with testable implications?

In principle, it is not necessary to assume *conscious* behaviour, when a model is based on rationality assumptions.[29] This corresponds to Downs procedure as well, although in handling the rationality assumption he is unduly restrictive. The subjective belief in a particular derivation does not preclude the objective usefulness of the same derivation at all (Treatise, 1884). The subjective nature of human behaviour in the politico-economic process, need not preclude an objective study of the effects of certain types of such behaviour (Tarascio, 1974 p. 37G). These effects are both testable and predictable from a Paretian model which departs from the usual rationality assumptions.

5.

Many scholars have detested Pareto's theory because of its conservative bias and its obvious machiavellian elements;[30] this bias includes the implicit 'Darwinian' contention of the optimality of the status quo:

> . . . 1789. But in politics and in political economy, the day is still far distant when theory will be in a position to lay down useful prescriptions. It is not merely the difficulty of the subject that holds us off from that goal, but also the intrusion of metaphysics and its reasonings, which might be better termed 'vagueries'. And the singular fact that that intrusion has its advantages, since reasoning by metaphysics many people are capable of understanding and practicing. And that the conflict between *knowing* and *doing* stands out in striking relief. For purposes of knowing, logica-experimental science is the only thing of any value; for the purposes of doing, it is of much greater importance to follow the lead of sentiments. And just here, again, another important fact comes to the fore: the advantage, as regards eliminating that conflict, of having a community divided into two parts, the one in which knowledge prevails ruling and directing other in which sentiments prevail, so that, in the end, action is vigourous and wisely directed (Pareto, 1916; 1935).

Statements like these, instead of eliciting outrage, might also serve as a continuous challenge to the improvement of the theory of political economy. If one is quarreling with Pareto, one is quarreling with the real world. To render Pareto's analysis obsolete, it would be necessary to change the practice of social interaction. Even now, Pareto's model seems to give quite an accurate description and explanation of democratic society.

Notes

1.
Referred to hereafter as "The Treatise".
2.
In terms of a distinction suggested by Gordon Tullock, Pareto's approach is economic imperialism instead of economics imperialism, while the latter is a characterisation of a considerable body of the existing Public Choice literature. For a careful analysis of Pareto's methodology see Tarascio, (1968).
3.
In this respect, Pareto's theory may be characterised – although with certain qualifications – as an institutionalist theory; for this interpretation see Samuels, p. 199 and passim.
4.
A third group may be mentioned as well: some scholars so overtly detest his writings that in criticising him they reach a point where not even a facade of objectivity remains. See e.g. Schumpeter (1949).
5.
See e.g. Edgar Salin, (1967); notable exceptions are Samuels (1974) (N 3), and Eisermann, (1962).
6.
Interestingly, this has been written by Vincent J. Tarascio "who has devoted much of his professional effort to the study of Pareto" (Ed. note, 12 JEL 78, 1974).
7.
See Schumpeter (1943), esp. chs. 22, 23.
8.
In Central Europe, a further distinction between Political Economy (today mainly represented by Marxists) and New Political Economy (which may be characterised as a specific blend of both Public Choice and the German traditional "Sozialpolitik" (comparable to American institutionalism) is common.
9.
Consequently, part of the criticism of Public Choice theory in terms of Pareto's approach applies to some (recent) contributions only with qualifications.
10.
See apart from Schumpeter (1943) (N 7): Downs, (1957) Tullock, (1962).

11.
There is even no reference to Pareto's Treatise in Gordon Tullock's Appendix (2) on "Theoretical Forerunners" to *The Calculus of Consent* and there is also not a single reference in chs. 22, 23 of Schumpeter's *Capitalism, Socialism and Democracy*; these chapters contain the outline of Schumpeter's alternative (to the classic) theory of democracy.
12.
The quotes refer to a famous text by Robertson, who saw the function of economics in its contribution to the possibility of economising on love. See Robertson, (1954).
13.
This is the title of ch. 19 of Buchanan and Tullock's *Calculus of Consent*.
14.
This should not be confounded with either "illogical" or "irrational" action. Objectively, most non-logical action will be *rational* behaviour in the economic sense, if the costs of information and the individual costs of transgressing social normation are taken into account.
15.
In postulating residus, Pareto solved the theoretical dilemma that on the one hand there was no psychology on which he could found his general theory of social interaction and that on the other this theory was badly in need of a psychological underpinning. He, therefore, postulated six residues, serving as explanatory categories of the forces underlying human behaviour:
1. combination: man has a tendency to combine; this brings the basis of intellectual activities;
2. group persistence;
3. self-expression;
4. sociality;
5. individual integrity;
6. sex.

16.
The five theoretical elements determining the general social equilibrium are:
1. the theory of residues (see N. 15);
2. the theory of classifications (assertions, authority: accrued with sentiments: verbal proofs);
3. the theory of interests (wealth, status, honour);
4. the theory of social heterogenity;
5. the theory of class circulation.

17.
Treatise, 1690; it seems important to note that Pareto did not formulate a psychological theory; instead he inserted "residues" where such a theory should have been developed. Therefore, it is not surprising that his formulations are ad hoc and tentative; Pareto's ad hoc characterisation of the six different classes of residues seems, however, to be intended to be compatible with (the then modern) psycho-analytical theory; Eisermann (1961) (N 5), p. 42f; this compatibility should facilitate the integration of social interaction and psychological theory.
18.
Pareto's italics. Treatise, 1690, N 2 the psychic state is "unknown" in the sense of escaping logico-experimental knowledge.
19.
One Pareto's model see also Vincent J. Tarascio, Pareto on Political Economy, 6 *Hist. Pol. Ec.* 361-380, 1974.

20.
Treatise, 1397; see further 1400; as indicated above, this "need" need not have a psychological interpretaton (class I residue) as implied by Pareto, but may be explained by an economic analysis of the organisation of information.
21.
Downs stressed the importance if ideology as a device to reduce the costs of information occasionally, see also his "Inside Bureaucracy", 1965, and with R. J. Monsen: Theory of Large Managerial Firms, 73 *JPE* 221-236, 1965.
22.
An exception, however, is Gordon Tullock; see Tullock 1967, ch. 2.
23.
Peter C. Dooley (1977) concludes that because of methodological differences, Pareto's and Down's approach may not really be comparable. This may be a non sequitur. The methodological difference between Pareto and Downs is *not* the methodological difference between economics and sociology (7): Pareto, in the statement cited at length by Dooley himself (7-8), did not reject the applicability of economic methodology to the broader subject of social interaction rather, he rejected economics imperialism (see above N. 2), the unmodified application of behaviourial postulates (utility functions), describing inter-dividual interaction in the economy. While behaviour in the economy sector of society may in general be adequately described (as well as predicted) by postulating "logical" behaviour, in applying economic methodology to social and political interaction. The utility functions have to be specified differently to take account of "non-logical" behaviour. This may still be rational behaviour.
24.
This statement is based on a recent essay on the production of ideology by Gafgen (1975).
25.
In some politico-economic models, a *discount* rate for voters' forgetfulness has been introduced. If voters rely on ideologies in *perceiving* political achievements however, a singular discount rate is no longer plausible. The discount rate in this case would have to be split. Events contradicting the ideology will be more easily forgotten. Therefore, believers in party-ideology A will discount the success of B and the failures of A more often than the (expected) failures of and successes of A (and vice versa).
26.
Compare Downs' diametrically opposed formulations in ch. 7 of his Economy Theory of Democracy with these statements.
27.
The assumption of a linear substitutionary relationship is made only to simplify the exposition and abstract from the consumptive properties of ideologies.
28.
This does not imply that the Rawlsian conception has no economic relevance, but this relevance is strictly normative.
29.
The present author has formulated a model explaining the process of the interpretation of the constitution as a process of interaction of utility-maximising individuals, which rests entirely on the assumption that every actor can believe that the strategically induced interpretation of the constitution is the only legitimate and "right" interpretation. The problem of testability has been solved by insistence on the testability of assumptions. See Jurgen Backhaus, "Constitutional Guarantees and the Distribution of Power and Wealth", 31 *Public Choice*. (Fall) 1977.
30.
Pareto explicitly considered his Treatise as the continuation of the Machiavellian

tradition of political thought. For further details the reader is referred to ch. 3.2 "La radice machiavelliana del realismo "paretiano" to be found in the second part of Dino Fiorot's *Il Realismo Politico di Vilfredo Pareto: Profilo di una teoria empirica della politica*, Milano (ed. di Comunita), 1969.

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