

'Trompe-l'oeil': A critical exploration of theory underpinning public choice theory and the preference for individual action

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ABSTRACT

In this paper I want to outline the theory of 'public choice', or the application of economics to politics, and discuss some of its central ideas. The apparent rationality of economic theory, as it appears in public choice theory and which now informs educational policymaking in New Zealand, conceals some logical steps which are very convincing on first and even close viewing, but which conceal some major tricks of perspective when critically examined.

History of public choice

Public choice theory was first developed by James Buchanan and Gordon Tullock in a book published in 1962 called *The Calculus of Consent*. Buchanan, who won a Nobel Prize for Economics in 1986, was - and is - an adherent of F.A. Hayek, although his theories differ in some very important respects. Buchanan, an American, was present at the founding conference of the Mount Pelerin Society, and has been on the Board of the IBA, the original and most influential of the right-wing think-tanks. He was Professor of Economics at Virginia Polytechnic and University, and later at George Mason University, and Director of the Centre for the Study of Public Choice. Tullock was a United States civil servant in the State Department serving in China and on his return took up with enthusiasm the ideas of Ludwig von Mises, a colleague of Hayek's. Both Hayek and Mises were significant members of the 'Austrian School of Economics.' Tullock spent a year with Buchanan at Virginia, writing the *Calculus*, before going on to become Karl Eller Professor of Economics and Political Science at the University of Arizona. Theorists such as William Niskanen and Mancur Olson who have been significant in developing currently favoured ideas about government service such as contracting out, using market forces in government and so on, acknowledge the influence, particularly of Tullock on their writing and thinking.

It is worthwhile here stressing that public choice theory is in line with the traditional liberal enterprise of elevating the political status of the individual and reducing that of whatever is seen to be the converse of the individual - autocracy, collectivism, socialism or the welfare state. The liberal project is to find a method of governance which does least violence to individual wishes, or, put another way, which most accurately turns the wishes of individuals into public policy. However Dunn suggests that the methodology of public choice produces a model of the individual that is so reduced to mechanics that it raises the question as to why the individual thus described should be worth respecting in this way. (1979: 43). A consequence of reducing the individual to a mechanistic type is that those who do not fit (most women, and members of groups not as focussed upon individual material successes) are placed at risk of not being regarded as individuals at all. Public

choice writers (incidentally, including ones who describe themselves as 'analytic Marxists') seldom refer to women, and always describe the individual as 'he.' I intend to continue this practice, because to imply that the theory reflects the lives of women in a substantial way would be misleading (See for commentary, Stretton and Orchard, 1994).

Economics as the basis of public choice theory

The central theme of public choice is 'the application of economics to politics' (Buchanan 1991: 29). The idea is plausible, but needs critical examination, as does the application of any metaphor. The 'economics' referred to is 'classical economics'; it does not include the economic ideas of theorists such as Karl Marx.

The justification for seeing some purpose in transferring the ideas of economics to politics or political science, is the belief that 'economics' is a science, and that therefore it is more rigorous and productive than conventional analyses of politics. (Buchanan and Tullock, 1962: 17). This confidence in economics as a science is well illustrated by Alchian and Allen, a favoured university textbook of the 1970's:

A test of any theory of science is its ability to explain the events of the real world in a coherent, consistent fashion. Economics passes that test (*University Economics* by Alchian and Allen, 1964).

By analogy, public choice takes on the mantle of science in the arena of politics. It portends to offer a clear-cut, scientific and mathematical model of the way things apparently work in the real world. The impression is reinforced by the use of algebraic statements to represent theoretical positions, and the use of geometrical figures to present visualizations of the relationships between variables postulated by public choice theory. In this paper I am going to challenge some of the assumptions that lie behind the algebra and geometry of the Calculus of Consent.

This topic might be regarded as slightly esoteric, but once the concept $a < b < g$ is clearly understood, then the rationale for government policies of the last 13 years will become transparently clear.

When public choice theorists apply 'economics' to politics they do so on both a 'positive' and a 'normative' level. That is, they both describe how politics currently works in terms of economic theory as a series of 'scientific', presumably disprovable, hypotheses which are to be regarded as 'facts.' They also describe how it *ought* to work, using the prescriptions of economics which are usually aimed at greater outputs, efficiency and so on. It is, therefore, in the business of telling government not only how it ought to see the phenomena of the political world, but what it ought to do about them.

To understand the calculus we must first have some inkling of the public choice world in the nature of those who inhabit that world.

This world is one in which the individual is constructed as *Homo economicus*: 'economic man' who has, as his closest relation, the utilitarian 'utility maximizer.' In this world, too, the individual of the predictive 'science of economics' is nothing more than a bunch of 'preferences.' The individual seeks his own advantage and is rational in so far as he can order his preferences. The 'Behaviour of the individual is said to be "rational" when the individual chooses "more" rather than "less" and when he is consistent in his choices' (Buchanan and Tullock, 1962: 33).

In his 1986 address on receiving his Nobel Prize, Buchanan, in his discussion of *homo economicus*, gave an example of the workings of the ordering and reordering of preferences. The 'economic man' who, as a theoretical construct enables economists to predict behaviour in the market place, and presumably therefore enables public choice theorists to predict behaviour in the political market place:

... if the marginal rate of tax on income source A increases relative to that on income source B, more effort at earning income will be shifted to source B; if charitable giving is a positively valued 'good'; then, if charitable gifts are made tax deductible, more giving will be predicted to occur ...'

Homo economicus, thus constructed, has to choose a political environment. The Calculus is about the nature of the choices he will make.

The presumption of rights

Two choices are assumed to have been already made: personal and property rights are already in existence. The existence of these two rights presupposes policing to protect them.

The individual therefore has to choose, in an environment in which personal and property rights are already guaranteed, whether to act as an individual, whether to act with others in a voluntary collective, or whether to act with others in a non-voluntary collective, i.e. the coercive entity known as a government. These are the choices I alluded to above: the individual is represented by a, the voluntary collective by b, and government by g. It might be suspected from the notation that the authors of this work are not entirely impartial between the three options.

The costs of social interdependence

The costs of social interdependence are conceptualized as 'decision-making costs' and 'externalities.' 'Externalities' are the effects created by other people which the individual must suffer (or enjoy - public choice theory is somewhat reluctant to discuss the possibility of positive externalities). The individual making a decision about what vehicle to use (individual action, voluntary collective or government) must weigh up those two factors - decision-making costs and externalities - as he makes the choice between them.

The assumption of public choice is that, since the individual is rational (that is, since his choices will always be in accord with his own interest, and since the costs of decision-making and externalities can be related to the vehicle) it will be possible to predict which of the vehicles the individual will choose. He will always calculate the costs of social interdependence and choose the minimal costs structure.

Besides the set of assumptions about the nature of the individual and the predictability of rational choice, there are another two important assumptions to be made before the calculation can be made.

One is that decision-making costs increase in proportion to the number of people involved. The most efficient form of action in terms of decision-making costs will be individual action. Decision-making costs in individual action are seen as negligible.

The second is that externalities decrease as more people are involved in the structure. Externalities are typically produced by individuals and reduced by co-operative action. Smog is produced, for instance, by the individual decision to burn coal, and reduced by council ordinances against open fires.

Buchanan and Tullock produce an exhaustive range of possible orderings, like this:

1. ($a \leq b < g$)
2. ($a < g < b$)
3. ($b < a < g$)
4. ($b < g < a$)

5. ($g < a \leq b$)

6. ($g < b < a$)

Their examination of each of these possible orderings is based on the belief that the first one - individual action - is more efficient than voluntary collective action, which is in turn more efficient than government action - and this belief underpins their discussion of all other alternatives. Voluntary action can only be preferred to individual action if it is regarded as an aggregation of individual voluntary actions - in other words, like toddlers playing alongside each other in a sandpit, rather than like older children playing in a way which involves interaction with each other. But voluntary action is to be preferred to government action because it involves fewer 'costs of social interdependence' - that is, fewer decision-making costs and fewer externalities. Government action is only acceptable if individual action or voluntary action is not yet available, and government action can be seen as creating a nursery for individual action through the market.

This leads to another important point: that the more that externalities can be turned into the form of property, the less trouble they are. If smog can be turned into property - either as a substance, which belongs to someone, or a right to create smog - the externality problem is solved. It is no longer appropriate to create a collective authority to restrict smoke emissions - you pay rents for your smog-locations to the locals, or they sue for compensation. Smog becomes a matter for individual action, which is now assumed to be much more efficient than collective action. The Treaty of Waitangi settlements might be viewed in this light as an instance of the conversion of political claims into property rights.

Government policy

It will be apparent that this is a recipe which the government has followed fairly closely in education and even more in other fields in New Zealand. The presumption of policy is that individual action is to be preferred, that voluntary agencies are more efficient than government agencies, and that government has somehow a right and *obligation* to replace government institutions with ones which conform more closely to this model of the structures which the rational individual will choose to operate through.

I want to examine this sense of 'right and obligation' before indulging myself in exposing what I feel to be the major weaknesses in the theoretical structure.

The individuals of this country really have not been asked, and when they have sniffed the least opportunity to register an opinion they have voted against this programme of substitution of government agencies by individual and voluntary structures. So why does government continue to do it?

The answer is not simply that this chapter of Buchanan and Tullock says it is the best thing to do. The answer is also in the model of the voter as *homo economicus*. The voter has been construed as a rational individual. The rational individual by definition follows his own interest. Therefore, his choices are predictable - and the government, in the shape of Treasury, can predict them. If his interest is discernible, and he does not follow it, then he is not a rational individual and need not be considered in the creation of predictive models. There is a choice of reasons available to government to justify ignoring the preference of voters for other systems: that the recalcitrant individual is not well informed about what is in his best interest, and that the irrational individual, whilst acknowledged *logically*, is of no *scientific* interest because he is just too hard to fit into predictive patterns, (Buchanan, in Streissler (ed.), 1969: 50-51) and that the irrational individual simply does not count. F.A. Hayek explains:

When we speak of man we refer to one whose actions we can understand (Hayek in O'Neill, 1973: 67).

The theory does not cope at all well with people who refuse to conform, except in terms of self interest, in which case the individual who does not conform is simply withholding his consent in order to increase the value of it. This entrepreneurial type is seen as trying to arrogate to himself all the profits to be made by the proposed undertaking. That is to say, he is acting in restraint of trade and is quite justifiably to be ignored. The calculation of just how great a proportion of the voting population should be in favour of a proposal before it should be actioned is the subject of a great deal of attention in Buchanan and Tullock's work. Governments, then, in implementing this system are simply doing what is in the people's interest, or what the people would want if only they were well informed enough and rational enough to know that this is what they want.

Education

These elements of the system apply to education in two ways. In the first instance, an individual will recognize that education is an investment for himself. Likewise he will recognize that other people's education imposes externalities on himself (taxes) which he will be anxious to avoid. He will therefore rationally invest in education for himself (or for his children - there is a little confusion here as to the meaning of the term 'individual'). He may be happy to subscribe to a voluntary collective, assuming that this amounts to an aggregation of individual decisions, but will reject a governmental (coercive) system which will force him or his children to partake in an education he does not choose, and moreover to pay for the education of his feckless neighbours. That is, a classic case of $a \leq b < g$.

On the other hand, the individual may have worked out that the ignorance and unemployability of his neighbours' children actually costs him something. They steal from his garden, cannot deliver his mail, and are likely to become dependent upon the parish. It is in his interest to ensure the education of these children. He does not want to undertake the cost of it himself, since there may be large numbers of these children. He wants the cost spread around all those who share his apprehension. Therefore, he will favour either a voluntary collective - or even a governmental operation. The voluntary collective is more efficient (by definition) but may invoke too much decision-making, and anyway the neighbours' children's parents may very rationally refuse to join the collective. Government in this case becomes a desirable mechanism for ensuring that the neighbours' children are educated and the neighbours have to at least share the cost. It enforces - on other people - the requirements of the individual in question.

Government Management (1987) puts it better:

Where the societal benefits exceed those to the individual - for example learning to value others' dignity may help reduce crime - then the parent, in maximising the child's benefit, may invest less than necessary to maximise the net social benefit. There thus may be a case for government intervention to increase the purchase of education and to ensure that its contents include aspects of civic values (p. 137).

Education, here, provides a way of reducing externalities by creating externalities, that is, the costs of governmental action are predicted to be less than the costs of individual action, or individual inaction.

It is generally assumed that the difference between these two views of the desirable form of education, as an investment or as a collective good, is one of age. Children should be taught at the public expense, young adults (i.e. tertiary students) should be taught at their own expense. *The Calculus of Consent* does not make this distinction, and the divide is not clear at the best of times, either within education or in government policy. If older people's lack of education is regarded as likely to make them permanently dependent upon the public purse, the government pays a training allowance. For some older people in other circumstances, the government does not pay. An enormous number of our tertiary students do not fall tidily into either the category of dependent or the category of investor. I would like to suggest, however, that age is not the crucial divide: the

question to be asked is that of the individual: is this my child or not? If it is my child, then education must be seen as a property to be acquired for future income. If it is not my child, then education must be seen as a disciplinary measure: the point of education for the children of others to reduce the inconvenience the individual might experience as a result of their not being educated. The images that come to mind are Victorian; the child of others must be fitted out to become a useful and productive member of society, that is, not to impinge on another individual's personal and property rights. However, if the child of others can also be persuaded to see this education as a piece of property, he or she will be more inclined to look after it. The language of 'rights' and 'entitlement' does this. As *Education for the 21st Century* puts it, 'Success will require commitment and a substantial investment from everyone' (p. 7).

The major conceptual difficulty here however occurs if we pose the question: What if the child of others does damage to the individual as conceived by public choice theory - and government policy - with his education? This is a challenging externality. The answer is that the education available to the child of others must be severely circumscribed so that he does not acquire the attributes which might prove damaging to the interests of the individual. Education as a positional good should be reserved for the children of investors - otherwise their investment will not pay a dividend. Neither should the children of others acquire critical skills which might prove inimical to the individual who counts. In this regard I note the Tertiary Green Paper, which suggests that the role of university as a critic of society might well be considered less than essential (*Education Review*, Sept 17, p.5).

The practical outcome of this of this view of education shaped by the divide between the child of the rational individual and the children of others, must be in the direction of private funding of education for those who count, and a narrowly conceived, instrumentally-rational, publicly-funded education, with a heavy emphasis upon conformity for the children of those who do not count. The rhetoric tends to be in terms of the educational interests of the rational individual, but there is an underlying counterpoint, not so easily discerned, of the interests of the rational individual in the education of the children of the others, the people Ratana called 'Nga morehu.'

To quote *Education for the 21st Century* again, the first statement is in the rhetoric of the education of the individual who counts:

Investment in education is an investment in our greatest resource: people. All New Zealanders have a right to education and the benefits it brings.

Then the counterpoint:

The Crown *also* guarantees to **Pacific Islands people and those from other groups** within the wider New Zealand community the right to educational opportunities and choices which are *appropriate* and which enable them to achieve their potential (p. 6) (my emphases).

I may be very wrong here, but it is not too difficult to hear the Victorian overtones of the notion of a particular form of education to fit the working classes for their station in life.

It should be noticed, also, that the order of preference for the *delivery* of schooling remains the same, even if the individual decides that this is one of the few occasions on which he calculates that his interests are better served by government. The method of *delivering* education (as distinct *from* *funding* education) can still be private, voluntary or governmental, and the order of preference remains the same. The preference for private provision is rather well expressed in this quotation from S.R. Dennison, the Vice-Chancellor of Hull University from 1972-1979:

'Far from the state being necessary (to the provision of education), a market is usually superior in meeting the wants of individuals as they themselves judge them in the light of their own circumstances; and the market does so with economy and efficiency in the use of scarce resources. Further, in meeting the genuine wants of individuals 'social' objectives are more likely to be achieved than by imposing *political* objectives administered by bureaucrats. Finally, state

provision, especially if a monopoly, creates problems which profoundly affect not only the operation of the service but also the whole political, economic and social structure' (Dennison, 1984: 8).

A voucher system is an effective way of transferring funding from public to private schools, or to charitable schools. The idea is not to withdraw public funding entirely, but to transfer as much as possible of the business of education into the private sector, bearing in mind the necessity for educating those whose lack of education would create a serious externality for the individual. The student totally reliant on a voucher, however, can expect to be eligible for a more severely restricted form of education.

Logical problems:

I want now to finally turn to what I see as the fundamental flaws in this system of calculus. As I said at the outset, it is assumed that the individual is the primary element in any system of government. The individual comes first and selects, by the calculation of his interests, the social organisations in which he will participate to achieve his aims. In other words, the individual is logically prior to his society. But hold! The institutions of personal and property rights, and the policing necessary to protect both, are assumed to be in existence *before* the individual makes his commitment to any form of social or political interaction. Now these things are created *only* by a society. In other words, the individual who is assumed to be the first element is not. The society which allocates personal and property rights must be there first. Even Buchanan concedes that it is through those rights that the individual exists (1962: 47).

Right at the outset, then, there is real confusion as to which comes first, society or the individual. The assumption of personal and property rights, and the consequent necessity of policing have another effect. The effects of individual action, are claimed by Buchanan and Tullock to have relatively minor effect on others. They use the example of a person choosing to wear red underwear where both the decision-making costs and the externality costs might be seen as insignificant. But if we replace such an innocuous action with the decision to drink and drive, or to kill large numbers of innocent people, then both the decision-making costs (assuming the individual to, have some concern for himself and others) become more significant, and the externalities created can become extremely important. But they do not enter into the calculus. The effects on others are not relevant to the calculation of self interest unless the person affected has a very direct influence upon one's personal interest and the externalities are swallowed up in the general provision of property rights and policing. You can for instance take the offender to court and get compensation for the loss he has caused. The offended individual will have no further cause for complaint. If adequately compensated, there is no problem.

If I am right about this, there are two sets of consequences which follow. One is that individual decision-making is considerably more expensive to the individual than Buchanan and Tullock suggest, and that rationally he (or she) may well decide that collective forms of organisation are more efficient and satisfactory. The second is that the range and cost of policing is going to increase as more and more responsibilities are transferred into the field of individual action as this is the appropriate response to externalities in the absence of collective forms of organisation. This can be seen in the figures used by Tim Hazledine (University of Auckland Department of economics) to show that much of the productivity supposedly produced by the 'reforms' in economic structure in New Zealand the past 14 years have been swallowed up by the increased need for managerial and supervisory staff, and the findings of the PPT A inquiry into the operation of the Education Review Office, which describe the results of the use of what they call a 'low-trust model' of management within the schooling sector. (Robertson *et al.*, 1997).

The implications for us are that we do not need to be backward in suspecting the economics of choice of a bias towards the interest of a highly defined individual, neither that the 'economic' arguments for preferring individual, or private forms of action, including private schooling over public forms convincing, and finally, that the efficiency returns made by private action, if any, may well be swallowed up by the extra cost of policing the education sector. The apparent focus on efficiency and choice would appear to mask both inefficiency and compulsion.

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