Self-Interest in Politics Earns a Nobel Prize

A George Mason University economist applies marketplace analysis to government decision-making and brings more reality to political science

PUBLIC choice theory, for which James Buchanan of George Mason University, Virginia, has been awarded the 1986 Alfred Nobel Memorial Prize in Economic Science, is very much a symbol of the times. Straddling as it does the boundary between economics and politics, the theory essentially predicts that democratically elected governments are more likely to serve their own interests than those of the people who elected them. Ergo, less government is better government, a sentiment that Ronald Reagan embraced in 1980 when he was elected president—and still does.

The reason that the traditional idea of beneficent government fails, argues Buchanan, is that politicians are motivated more by self-interest than by an altruistic commitment to higher callings, such as statesmanship and national interest. "This should be no surprise," Buchanan told *Science*, "because governments are made up of individuals, and individuals operate from self-interest when they are engaged in a system of exchange, whether this is in the market economy or in politics."

In public choice theory, which, explains Thomas Borcherding of Claremont Graduate School, California, is "nothing more than the application of economic theory to political choice," self-interest dominates the analytical formulation while altruism, which in traditional approaches was assumed to be of considerable importance, is virtually excluded. The result, says Borcherding, "is to add more reality to political science models."

The award of economics' most prestigious prize to Buchanan has provoked considerable controversy among interested professionals. For instance, Robert Lekachman, an economist at Lehman College, New York, describes public choice theory as "more diatribe and editorial writing than real political or economic science." And Colman McCarthy, a political commentator for the *Washington Post*, wrote that Buchanan's conclusions "are ordinary and obvious." By contrast, Aaron Wildavsky, professor of political science at the University of California at Berkeley, characterizes Buchanan as "a supremely creative researcher," and says that "you couldn't have made a better choice for the Nobel Prize."

It is probably true, as Wildavsky says, that "if you are looking for something in economics on which everyone agrees nowadays, then forget it." But it wasn't always so. Many of the early recipients of the prize, which was first awarded in 1969, stirred little or no controversy, partly because, like Paul Samuelson, who won the 1970 prize, they were widely acknowledged as intellectual giants. More recently, however, as the selection committee of the Royal Swedish Academy of Sciences has been forced to search through the lesser ranks for potential recipients, the prize has become both more political and more controversial. Last year it went to Franco Modigliani of the Massachusetts Institute of Technology, a Keynesian and an outspoken critic of Reaganomics. This year, Buchanan represents the opposite political hue, which probably explains some of the negative commentary.

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Buchanan argues, however, that "taken directly, there is no ideological aspect to the logic of public choice theory." It is straightforward analysis, he says. "But if the analysis leads you to conclude that there are limits to what governments can do, then that will create a negative reaction in those who want government to do more and more."

The notion of self-interest as an important component of decision-making has a long tradition, not least of which was James Madison's exposition on the subject in the Federalist Papers. Adam Smith, the eighteenth century Scottish economist, crystallized the idea as it operated in the marketplace, in his famous book *The Wealth of Nations*, which was published in 1776. Contrary to expectations, he showed that the exchange system of the market produced mutual advantage to buyers and sellers, the so-called "invisible hand" of classical economics. Ever since Adam Smith's time, economic theory has retained this component at its core, though modified in various forms, for instance through Keynesian, monetarist, and supply-side analysis.

Also at the core of mainstream economic analysis—no matter what variant obtained at any particular time—has been the assumption that governments would act in the public interest to correct so-called market failures. These government actions would include the application of relatively mechanical methods to achieve macroeconomic and socioeconomic goals relating to employment, inflation, or growth rates. According to the citation from the Royal Swedish Academy of Sciences, "Buchanan and others in the public choice school have not accepted this simplified view of political life. Instead they have sought explanations for political behavior that resemble those used to analyze behavior on markets."

In other words, comments Michael Weinstein of Haverford College, Pennsylvania, "Buchanan changed the question that people were asking. Instead of asking 'What is the ideal solution to market failure?' or 'What *should* governments do?' Buchanan asks 'What *do* governments do?' " It was a simple but revolutionary change.

That revolution began more than three decades ago, and not just with Buchanan. Buchanan acknowledges the Swedish economist Knut Wicksell as laying some of the intellectual foundations upon which public choice theory is built. And in this country, the first major work on the subject, a book entitled *An Economic Theory of Democracy*, published in 1957, was by Anthony Downs, now at the Brookings Institution in Washington. But, says Wildavsky, "it was Buchanan who took this simple idea and pushed it hard."

In addition, public choice theory has been maturing in concert with social choice theory, which was developed by Kenneth Arrow, the 1972 winner of the Nobel Prize. Both fields emphasize rational choice, the former at the institutional level and the latter more at the individual level. "Rational choice had not been a component of political science models until recently," says William Riker of the University of Rochester. "But it is now a key phrase in our field."

Buchanan gained his doctorate from the Chicago school, which has long produced critics of the traditional approach to market failure. After holding positions at the University of Virginia and the University of California in Los Angeles, Buchanan went to the Virginia Polytechnic Institute (VPI) in 1969, where he founded the Center for Study of Public Choice. By the time Buchanan left VPI, wooed to George Mason University in 1982 by its aggressive self-promotion and a large salary, public choice theory had developed considerable momentum in the professions of economics and political science, with the establishment of a clearly identifiable school of thought. It had its own journal and a considerable spillover into existing journals.

Alumni of the Buchanan school are beginning to move into influential positions, most notable of whom is James C. Miller III, who is now director of the Office of Management and Budget. Federal Reserve Vice Chairman Manuel H. Johnson is also of the Buchanan school. Nevertheless, as little as 2 years ago Buchanan was lamenting that "I have faced a sometimes lonely and mostly losing battle of ideas for 30 years now in efforts to bring academic opinions into line with those of the man on the street." In that same year Buchanan was first nominated for the Nobel Prize.

Described by Borcherding as more of a vision than a tangible tool, public choice theory can be applied at virtually every level of government where agreements are made between two parties. "It is directly analogous to market theory, where you have firms on one side and individual consumers on the other," says Borcherding. "In public choice, the firms are the political parties and the bureaucracies, while the consumers are sometimes individual voters, sometimes coalitions of voters, such as trade unions, the AMA, PAC's and so on."

One of the central pillars of Buchanan's theory is that, given the propensity for self-interest in both politicians and voters, the existence of certain rules—either written or unwritten—is paramount in determining what will actually happen in government. It is the rules that keep self-interest in check. For instance, he says, before the advent of Keynesian economic theory in the 1930's, there was an unwritten but powerful rule that governments did not spend more than they gathered in taxes: in other words, budgets were usually kept in check.

Once Keynesian theory legitimized budget deficits—albeit in the special circumstance of an economic recession—financial disaster was inevitable, argues Buchanan. "The fiscal outcome of ordinary politics now resembles the behavior of the compulsive gambler who finds himself in Las Vegas or Atlantic City," he wrote recently. "Who can expect the gambler to refrain from 'irresponsible' behavior, given the temptations he faces?" What happens is that in trading promises in return for votes to ensure reelection, politicians tend to dispense more largesse than might be appropriate for the overall good. The result is pork barrel politics and budget deficits.

James Buchanan: *"There is no ideological aspect to the logic of public choice theory."*

In the absence of the pre-Keynesian admonition against deficit spending in today's political arena, politicians' natural tendency to inflate the budget while keeping down taxes will be constrained only by a balanced budget amendment, according to public choice theory. This is a clear example of the importance of fundamental rules, says Buchanan, "and you need rules that are relatively stable so that people can make predictions and operate within those rules."

Overall then, public choice theory attempts to describe the behavior of self-interested groups as they interact in systems of exchange, whether it be at the highest level of government or the lowest level of local politics, and even of the church and the family. At its most fundamental level, it seeks to explain why self-interested individuals agree to operate within a majority-vote system in which, inevitably, any particular individual or group will sometimes lose. It is, therefore, all-pervasive and largely exclusive of other motives of interaction.

McCarthy's barb—that the theory's conclusions are "ordinary and obvious"—has been loosed many times and from many quarters. Buchanan responds by saying that such critics are ignorant of just how pervasive the body of theory is. "It is very difficult to explain a whole complex body of thought that has built up over a period of 40 years," he says. "So, to try to explain it, you search around for simple examples and the one I've focused on is the proclivity to have deficits. And of course, this looks like common sense. It *is* very simplistic. But some parts of public choice theory are as esoteric mathematically as anything you can imagine in economic theory. You can model voting rules of parties and platforms, and that can get into many dimensions of policy. But you can't explain that to the lay public."

Weinstein, who ideologically is not sympathetic with the predictions of public choice theory, nevertheless defends its power. "Yes, it is all common sense, but no one said it before, no one explored it systematically like Buchanan did." The core of it, he says, is that Buchanan changed the questions that economists and political scientists were asking. "That isn't going to sound very smart. But our profession had been going along with these idealized mathematical solutions to market failure. Anyone could have worked out the theory, but Buchanan was the one who started it."

Any model of complex systems is likely to be incomplete to some degree, and the question with public choice theory is, how incomplete is it? "The fundamental notion that there is no altruism in the system is wrong," says Alice Rivlin, former director of the Congressional Budget Office, and now at the Brookings Institution. In addition, she points out that budget deficits are a relatively recent phenomenon. "Public choice theory has to explain why they didn't happen before," she challenges.

For Theodore Lowi, a political scientist at Cornell University, the principal shortcoming of public choice theory is that it does not encompass cultural elements that, he says, influence the way governments work. "It is true that public choice theory has enabled political scientists to formalize questions about government in a way that was not previously possible. But it leaves out tradition and institutional patterns of commitment that shape the behavior of governments." He acknowledges that "institutions develop a life of their own, and this is not necessarily described by the rational analysis of maximizing political profit."

Riker, by contrast, says that it is possible to encapsulate aspects of culture in formal models, and has done so "with a limited degree of success" for the major strands of American political tradition. As for the impact of public choice theory as a whole, he suggests that in the narrow sense, as represented by the Society for the Study of Public Choice, the theory has found rather limited application. However, in the general sense, and in the context of the growth of social choice theory, the notion of rational choice and utility maximization has been extremely important. "It is fair to say that the bulk of political scientists now think this way." ■

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