

An Austrian — public choice analysis of representative democracy

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1 AUSTRIAN AND PUBLIC CHOICE METHODOLOGY

Neo-classical economists' musings on the role of the state are more likely to be confined to an evaluation or prescription of economic policy. Such reflections are often mixed with contradictions due to a lack of a consistent set of principals. However, economists of the Austrian and Public Choice schools actively engage political and social philosophy in quest of a theory of the state.¹ Unsurprisingly, numerous similarities emerge from an analysis of the epistemological underpinnings of these two schools of economic thought. Both depart from the inextricable intertwining of methodological individualism and a radical application of the concept of subjectivism. This paper will try to explain the mutual supportive analysis of a modern economic theory of representative democracy.

2 DEFINITIONS AND DEMOCRACY

One view of democracy reflects reasoning consistent with a specific concept of freedom, i.e., positive liberty (Berlin, 1969). That is: (a) there exists a general will of the people which, (b) can be observed, which in turn, (c) must be reflected in social policy, so that (d) the people are free by the incorporation of their will in the law. Arguments which follow from this Rousseauvian logic are neither equated to nor address the popular control of governments.

Austrians and Public Choice theorists offer a critical examination of the above theory of democracy. Their alternative view relies upon a "negative" conception of liberty which involves a minimisation of coercion or compulsion. Concern for the effect of the monopoly on legal coercion granted to the state leads to development of a Hobbesian contractarian theory of the state which is based upon consent and voluntarism. The concept of the existence

or relevance of a general will is portrayed as a means to resolve issues of public concern rather than an end.

3 QUESTIONS CONCERNING THE CONCEPT OF GENERAL WILL

The Austrian School provides the subjective value theory which guides Public Choice analysis (Buchanan, 1969). One of the most important implications of the Austrian contribution to the value theory debate is summarised in the work by Hayek (1945) in describing the role of the market as an information generating institution. This work can be generalised to deal with the above noted Rousseauvian concept of a general will.

Aside from the objections concerning the existence of a general will are raised on subjectivist/individualist grounds. Hayek points to an epistemological issue which Hayek identifies as the "knowledge problem". Hayek questions whether it is possible for the information implied by a general will to be gathered, let alone to be assimilated, by a one mind when such intelligence is derived from so many distinct individual sources. Claims of the existence of such a "harmony of rational wills" seems a dubious claim, or at best it is a concept which is made extremely slippery by the effect of time upon changing tastes, ideas and knowledge.

Even if a momentary indication were possible it would have no permanent validity. Markets provide a means for continuous solutions for these knowledge problems for individuals which are not available in a political context for groups.

3.1 Epistemological Problems and the General Will

The analysis continues from the above premise that individual value systems are subjective-

ly chosen. These values are also in a constant state of flux due to the unforeseeable availability of new information which becomes part of the individual's calculation process (Lavoie, 1985: 51—92). Therefore, knowledge of means and ends is both widely dispersed and unstable over time. These two characteristics of knowledge and its formation make it impossible for one mind or a sub-set of minds to interpret a consistent general will. This is not merely a technical problem to be overcome by super-computers; it implies that in a dynamic setting, it is impossible to carry out a compilation of knowledge in a usable and concentrated form (*ibid.*: 85).

Information used by politicians and planners of necessity reflects a generally static and merely a narrow set of interests. Aggregation, by its very nature, assumes away differences, seeks a common denominator and ignores important disparities in the quality and quantity of information which is available to each concerned individual actor. To complicate matters, the institutionalisation (bureaucratisation) of a particular solution in the form of public policy, tends towards inflexibility and slow adaptation to change. Such problems are compounded further by the infrequent voicing of preferences under representative democracy. While direct democracy might mitigate some of these problems it too will involve some of the transmission problems discussed below.

3.2 Problems of Revealed Social Preference

Problems for the identification of social preferences also emerge from a pragmatic rather than an epistemological perspective. Suppose that a general will does exist. Certainly, a precondition for the full promise of the above definition of democracy to be met is that there must be a means for revealing and interpreting such collective preferences, e.g., voting in some form or another. Crucial fallacies in the democratic ideal are revealed by examining well-known conclusions drawn from the theory of social choice, also known as the theory of voting (Bonner, 1986; Riker, 1982).

The first and most conspicuous complication arises in how to select the best voting rule. Just as there are numerous strategies which might be used to express (or to conceal) individual preferences, there are numerous voting rules which can be used to reflect an aggregation of

these preferences. It should be transparent that the selection of the voting rule will affect the outcome of any vote just as much as would control of the agenda. Unfortunately no objective standard exists to inform us which scheme best reveals the supposed general will. There is not even a consensus on what are the appropriate ends to be served by the best scheme.

For example, should it be most efficient, least costly or be least vulnerable to strategic voting or to voting cycles? The issue of voting cycles relates to a situation where majority-rule elections of issues/candidates are unable to reveal a clear, consistent winner. In such situations the outcome can be determined not by the expression of the members of the electorate but predetermined by the person(s) who sets the electoral agenda (Holcombe, 1985: 49—52).

It should be clear that conventional democratic procedures are best suited for the task of merely settling issues which involve one-dimensional questions such as whether to increase or decrease expenditures upon covert military activities. The more difficult and normally more interesting questions (in the previous example, whether covert activities should be funded at all!) are not easily settled with a normal ballot. More complex issues require more discussion, even compromise, than allowed by a binary, yes-no selection. Oversimplified lumping of complex political issues is more likely to emerge in a unitary system such as a one-party state. Riker (1982: 234—238) summarises that narrow interpretations of social preferences fails because it is inconsistent with social choice theory. Inopportune outcomes of votes are treated as either inaccurate readings of an amalgamation of individual preferences or they are subject to manipulation.

4 AN ECONOMIC ANALYSIS OF PUBLIC POLICY FORMATION

The final stage of the above stated democratic process requires an effective implementation of public policy as a reflection of the general will. In a representative democracy, voters' preferences are indicated through a process whereby elected representatives select policies which are meant to continuously reflect the will of the majority. A number of weaknesses emerge in the links between voters and their interests and the selection of public policy by their representatives (Buchanan, 1978). Many,

if not most, of these breakdowns in the transmission of citizens' preferences into public policy are simply a limiting function of representative democracy. These "transmission failures" imply serious flaws in the use of democratic procedures to generate outcomes which are intended to reflect a reliable aggregation of individual preferences (Tullock, 1967).

4.1 Rational Ignorance and Political Participation

In the democratic process citizens will exercise rational choice (cost/benefit comparison) and remain ignorant of some or even most political issues. Such choices to remain ignorant emerge in a market setting, however, the absorption of direct costs by the individual chooser provides a "natural" check on such behaviour. In a political setting rational ignorance is likely to be more pervasive and substantially weaken the transmission of voter's preferences to the final outcome of political decisions.

On the other hand, the unwillingness to cast one's vote (voter apathy) can be understood partly in terms of an opting out of the necessary efforts for improving political literacy. What is considered with alarm by other social scientists, the apparent apathy is seen by many economists as nothing more than rational, calculating behaviour. One paradox of voting implies that large-number elections reduce the incentive to vote (Mueller, 1987). Given the low probability of one's vote affecting the outcome, the costs (queuing, information costs) will outweigh expected benefits of voting. Thus, many well-informed individuals will find it, on balance, simply too "costly" to go to the polls despite the minimal requirement of outlays of time and effort. Some will choose to be "free-riders" from the outcome of a vote, expecting that others will act on their behalf.

The result is a group of poorly informed voters who are not likely to generate a meaningful indication of a general will due to their own rational choice pattern. These transparent ill-effects of political illiteracy and low levels of participation are likely to be compounded due to carefully manipulated electioneering of politicians who must attract the most votes to remain in or to gain public office.

4.2 Special Interest Coalitions

Special interest groups compound the above problems (McCormick and Tollison 1981). Due to the concentration of benefits of a policy for a particular group, and given the wide dispersal of associated costs, e.g., agricultural price support schemes, interest groups are able to capture a disproportionate share of political influence. The consequence of such political lobbying is that economic resources are directed toward a political minority at the expense of the majority. Interest coalitions have much greater incentive to organise voting blocks in contrast to the larger groups of at-large consumers who individually face a low cost of (and thus small payoff from opposition to) such politically determined redistributions (Olson, 1971). Analysis of these problems is summarised in the work on "rent-seeking" where social waste emerges from the expenditure of economic resources in order to secure monopoly rights (Tollison, 1982).

Politicians in a representative democracy will be well aware of how bloc votes can be used as an instrument of punishment (reward) by special interests groups for ignoring (supporting) them. Thus, politicians are vulnerable to well-organised pressures since the requirement to attract votes is so strong that it overrides other considerations (Anderson and Hill, 1980).

Rent-seeking, as identified in original insights by Tullock (1967) describes a process by which individuals seek to escape the competitive forces of the market.² Tullock's contribution was in pointing out that welfare losses can be considerably greater from regulation and monopoly than recognised previously. The welfare losses emerge from the fact that contrived entry restrictions encourage scarce resources to be misdirected toward acquiring, maintaining or avoiding the costs of such transfer rights (Colander, 1984). In summary, governments provide the means by which individual or groups both inside and outside the government pressure for legislation which protects them from competition. Maximisation behaviour of individuals, pursued in conjunction with state-sanctioned disruptions to exchange, leads to social waste rather than social surplus.

4.3 The Modern Economic Theory of Bureaucracy

Bureaucracy is yet another source of disequilibrium in the democratic process. A modern theory of bureaucracy examines the behaviour of public officials and assumes them to be like other maximising, self-interested individuals (Niskanen, 1973). Their behaviour is then analysed in a not-for-profit context where the principal players are identified as the bureaux and their sponsors (Mises, 1945). Incomes to bureaucracies are based upon neither sale of output nor profits. Without an objective measure of performance, the sponsor (usually a government) will be dependent upon the bureaucracy for information concerning budgetary requirements. Economists refer to such a situation as a "bilateral monopoly". The sponsor has control over the purse strings yet the bureaucracy has a monopoly over relevant information.

In such a strategic setting, individuals representing a bureaucracy are able to "capture" the sponsor by providing selective information. Bureaucrats will have an incentive to increase the "value" of their services to the sponsor in order to expand (maximise) their budgets. Parliamentarians charged with responsibility for budget approval are at a disadvantage in attempts to control bureaucracies due to a comparative disadvantage in access to information and lack of expertise in the details of the bureaucracies' functions. Bureaucrats will find it an easy task to furnish confounding arguments against attempts to reduce their budgets. Bureaucrats are likely to behave as budget maximisers since large budgets are consistent with most of their other motives. For example, budget maximisation enhances prestige, job security, salaries and perquisites. On the other hand, bureaucrats can also be expected to pursue their own interests perhaps indirectly by serving the interests of lobby groups which petition them. This model implies that the benefits to the public will fall short of the actual costs of maintaining a given bureaucratic structure.

In summary, the characteristic result of the provision of goods by bureaucratic structures tends towards: (a) over-supply and an internal inertia for bureau growth, (b) a waste of resources through process inefficiency due to a "defective" incentive structure, and (c) the ad-

ditional deadweight losses due to competitive, rent-seeking behaviour between bureaux.

5 OTHER PROBLEMS OF REPRESENTATIVE DEMOCRACY

Inherent to the above model of democracy is a tendency toward centralisation of government functions. The development of centralised bureaucratic structures and the complementary collectivist impulses are likely (in the absence of explicit constraints to the contrary) to involve an ever broadening set of inhibitions upon individual actions.

Many of these inhibitions are prompted by claims for economic as well as political equality. Much state intervention is justified on the basis that the enjoyment of equal rights is vitiated by economic inequalities, especially in the case of gross inequalities. Unrestrained democracy is thus compatible with, and in fact encourages, the type of centralisation of economic processes which are characteristic of authoritarian socialism (Hayek, 1960). Unfortunately, this logic is also capable of providing an apology for extreme cases of, for example, despotic socialism with massive state intervention in every aspect of life (Talmon, 1952).

5.1 Increasing Impact of Distributional Coalitions

Following Olson's socio-political model of economic growth, (1982), in the absence of traditional or explicit restraints on the extent of demands which are made by emerging distributional coalitions, enormous damage will be done to the self-adjusting mechanisms of the economy. Without these restraints under representative democracy there is little resistance to such pressures since elected governments will resist the pressures to serve these groups at their own peril. Worse, under a one-party populist regime the preferences of a large number of its citizens can be ignored (Mueller, 1983).

5.2 Increasing Bureaucratic Control

Implementation of a unitary, centralised state involves a probable increase in the power and centralisation of bureaucracies. This is bound to serve as a source of increased costs and rigidities. The additional costs will go beyond the

growing administrative costs of salaries, perquisites and pensions. Greater losses are likely to appear as a consequence of a slowdown in economic and political decision making which are associated with extensive bureaucratisation.

5.3 Democracy and a Rent-Seeking Mentality

As argued above, unrestrained democracy is consistent with and conducive to (a) the enlargement of state structures and (b) an increased tendency to resort to the conscious manipulation of economic positions on the basis of majority rule. Increases in the spheres of state activity and intervention undermine the framework of a free society by threatening the economic foundations of "liberal" democracy (Hayek, 1988 and 1978: 105—118; Usher, 1981).

Given these tendencies, and without rigidly enforced "rule-protected" spheres for individual choices, interest coalitions can induce intervention in the form of contrived economic monopolies or specific rights to specific groups. Just as legally sanctioned monopoly profits are generally accepted to be iniquitous to social welfare, the exclusiveness of "group rights" (whether of trade unions or racial groups) is contrary to equality before the law.

5.3.1 Trade Unions as Rent-Seeking Institutions

Governmental structures and institutions exert an important influence upon the degree of rent-seeking behaviour. The less competitive the market (e.g., due to government imposed barriers to entry) the larger the rents which will emerge. This will encourage more rent-seeking activities. It will also make firms more susceptible to trade union pressures for higher wages which are easier to pass on in the form of higher prices.

More competitive markets will then undermine the strength of unions due to a reduction in rents. Lower wages and feebler unions will emerge. The response is likely to an increase of rent-seeking by trade unions to demand greater protections. Thus, a vicious and self-generating cycle emerges where regulations create distortions which generate demands for new regulations.

5.3.2 Democracy and the Tyranny of Minorities

Under unrestrained democracy, citizen's de-

mands to limit populistically elected officials are likely to be viewed as obstructions which can easily be ignored or perhaps require forcible restraint. In such instances, it is easy to see how politics can easily degenerate to a support for the demands of the few in place of the will of the many (Buchanan and Tullock, 1962). By recognising the basic flaws in the process of democracy, many of the harmful and unintended consequences of implicit oppression might be avoided while also limiting the harmful effects of rent-seeking. The temptation to use the spoils of power to buy-off or to pay-off constituents is both inevitable and almost impossible to resist. However, responsible democrats must acknowledge that stability and progress require that they must understand and set rules which removes these temptations.

To avoid these effects, limits upon rent-seeking requires an institutional framework guided by political principles limiting the power of governmental structures (McKenzie, 1984: 95—139). This argument does not depend solely upon the centralisation of the government or of the economy. However, centralisation will determine the degree of social waste from rent-seeking by influencing the extent and impact of monopoly forces.

Inequalities within nations make it difficult for democratically elected politicians to resist pressures from special interest groups's for redistribution of income and wealth. However, many long-term problems will be unresolved or perhaps aggravated by such policies. Enlarged distributional coalitions and growing bureaucracies are likely to encourage zero or negative sum redistribution. Finally, politicisation of social and economic processes adds increased uncertainty and contributes to economic instability. In turn, destabilisation of the economic base reduces the prospects for economic growth.

In the end, economic efficiency (growth) will be hampered since distributional coalitions will seek to maintain their strength, e.g., by opposing new technologies or changes which, though efficient, would shift resources away from their control (Olson, 1982). Trade unions, industrial or agricultural lobbies, educational associations, or legal and other professionally licenced groups all operate along these lines, regardless of their stated objectives. Protection of the positions of distributional coalitions will then retard political and economic processes.

6 LIMITING CENTRALISATION AND RENT-SEEKING

A branch of Public Choice analysis has emerged which specifically addresses the failings described above. Constitutional Political Economy attempts to identify the types of rules which lead to mutual consent and social cooperation (Brennan and Buchanan, 1985; Buchanan and Tullock, 1962; Gwartney and Wagner, 1988; Lee and McKenzie, 1987; McKenzie, 1984). One conclusion suggests greater adherence to liberal democratic prescriptions such as those revealed by the Austrian school. Acceptance of their conclusions depends upon the importance attached to individual freedom and whether the conception of social justice is compatible with a collectivist framework.

Recent Austrian contributions can be found in Hayek (1982 and 1960). In his earlier work, Hayek develops an extended analysis to describe the relation between liberalism and democracy. This view projects a role for the state limited to maintenance of institutions and the administrative rules which govern them with the aim of generating efficient processes rather than prescribing preferred outcomes (1982: 123).

A constitutional framework consistent with liberal democracy proposes: (a) maintaining decentralised (national) political structures which limit the disproportionate access to power of any interest groups, meaning less not more power at the centre (b) constitutional constraints at the national level and upon the fiscal and monetary processes of the to control deficits and inflation, (c) reform of national and local bureaucracies to improve efficiency of public sector output. Implementation of these measures will significantly reduce the waste associated with rent-seeking.

In following these prescriptions, individual citizens can exert greater control over fiscal and political affairs which, though part of the intent behind democracy, without explicit restraints is an unlikely outcome. Transitions in authoritarian socialist regimes will bring no substantive change in either the nature nor the source of public-sector inefficiencies. What is likely is an extension of the wasteful effects of rent-seeking and perhaps an unintended development of authoritarian-type rule. While the latter may be held in check by recent experiences in East Europe and liberal democratic traditions, individual citizens power will almost

surely be lessened by the centralisation and concentration of governmental activities.

In Western Europe, the fanfare surrounding the events of 1992 and expanding the powers of the EC may make it difficult to develop a broad political constituency which would place explicit limits on centralised political power. What is necessary is to develop in the minds of the general public the necessity of limiting or diminishing political power in the hands of the majority. Achieving this end would require a slight change in perceptions, perhaps a more refined understanding of the shortcomings and failures of representative democracy made so evident through the work of Austrian and Public Choice scholars.

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NOTES

1. The most notable modern proponents of the Austrian view of the role of the state are Ludwig von Mises, F.A. Hayek and Murray Rothbard. The most illustrious representatives and founders of the Public Choice school are James Buchanan and Gordon Tullock.
2. Hayek addresses this same problem (1982).