

ENHANCING ENVIRONMENTAL QUALITY  
THROUGH PROPERTY RIGHTS AND  
MARKETS

SESSION VII:  
PUBLIC CHOICE AND PUBLIC LANDS.

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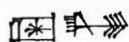
SESSION VIII:  
POLITICS WITHOUT ROMANCE.

The Collected Works of  
James M. Buchanan

VOLUME 1

*The Logical Foundations of  
Constitutional Liberty*

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The cuneiform inscription that serves as our logo and as the design motif for our endpapers is the earliest-known written appearance of the word “freedom” (*amagi*), or “liberty.” It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

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# Politics without Romance

## A Sketch of Positive Public Choice Theory and Its Normative Implications

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*Abstract:* “Public choice theory,” or “the economic theory of politics,” has emerged only in the decades after World War II. In summary, this theory models the *realities* rather than the romance of political institutions. It commences with the utility-maximizing behavior of individuals who participate in their various public-choosing capacities, as voters, as legislators, as bureaucrats. It analyzes the effects of varying institutional constraints on generating alternative political outcomes.

Normatively, public choice forces the analyst to compare relevant institutional alternatives. In one sense, public choice is a “theory of governmental failure” comparable to the “theory of market failure” that emerged from theoretical welfare economics.

### 1. Introduction

In this lecture, I propose to summarize the emergence and the content of the “theory of public choice,” or, alternatively, the economic theory of politics, or “the new political economy.”<sup>1</sup> This area of research has become important only in the decades after World War II. Indeed in Europe and Japan, the the-

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1. For an earlier, and differently organized, discussion, see James M. Buchanan, “From Private Preferences to Public Philosophy: The Development of Public Choice,” in *The Economics of Politics* (London, 1978), 1–18; for a more technical survey, see D. Mueller, “Public Choice: A Survey,” *Journal of Economic Literature* 14, no. 2 (1976): 395–433.

ory has come to command the attention of scholars only within the 1970's; developments in America stem from the 1950's and 1960's. As I hope that my remarks here will suggest, the theory of public choice is not without antecedents, and especially in the European thought of the 18th and 19th centuries. Ecclesiastes tells us that there is nothing new under the sun, and in a genuine sense, such a claim is surely correct, and especially in the so-called "social sciences." (I am reminded of this every week when I see my mathematically-inclined younger colleagues in economics rediscovering almost every wheel that older economists have ever talked about.) In terms of its impact on the realm of prevailing ideas, however, "public choice" is *new*, and this subdiscipline that falls halfway between economics and political science has turned around the thinking of many persons. If I am allowed to use Thomas Kuhn's overly-used word here, we can, I think, say that a new *paradigm* has been substituted for an old one. Or, to go somewhat further back, and to use Nietzsche's metaphor, we now look at some aspects of our world, and specifically our world of politics, through a different window.

My primary title for this lecture, "Politics without Romance," was chosen for its descriptive accuracy. Public choice theory has been the avenue through which a romantic and illusory set of notions about the workings of governments and the behavior of persons who govern has been replaced by a set of notions that embody more skepticism about what governments can do and what governors will do, notions that are surely more consistent with the political reality that we may all observe about us. I have often said that public choice offers a "theory of governmental failure" that is fully comparable to the "theory of market failure" that emerged from the theoretical welfare economics of the 1930's and 1940's. In that earlier effort, the system of private markets was shown to "fail" in certain respects when tested against the idealized criteria for efficiency in resource allocation and distribution. In the later effort, in public choice, government or political organization is shown to "fail" in certain respects when tested for the satisfaction of idealized criteria for efficiency and equity. What has happened is that today we find few informed scholars who would try to test markets against idealized models. The private sector–public sector decision that each community must make is now more likely to be discussed in more-meaningful terms, with organizational arrangements analyzed by comparisons between realistically modelled alternatives.

It seems to be nothing more than simple and obvious wisdom to compare social institutions as they might be expected actually to operate rather than to compare romantic models of how such institutions might be hoped to operate. But such simple and obvious wisdom was lost to the informed consciousness of Western man for more than a century. Nor is such wisdom today by any means universally accepted. The socialist mystique to the effect that the state, that politics, somehow works its way toward some transcendent “public good” is with us yet, in many guises, as we must surely acknowledge. And, even among those who reject such mystique, there are many who unceasingly search for the ideal that will resolve the dilemma of politics.

Especially at this early point in my lecture, however, I do not want to appear to place too much emphasis on the normative implications of public choice theory. These implications can stand on their own, and they can be allowed to emerge as they will or will not from the positive analysis. The *theory* of public choice, as such, is or can be a wholly positive theory, wholly scientific and *wertfrei* in the standard meanings of these terms. The implications for the comparative evaluation of institutions, noted above, have to do with methods of making such comparisons, not with specific results. I do not want to commit the naturalistic fallacy, and I make no claim that public choice theory, any more than economic theory, can tell a community of persons what they “should” choose to do.

## 2. Definition

Let me now be somewhat more concrete and try to define “public choice theory” more directly. Such a definition can perhaps best be clarified by reference to economic theory, if only because the latter is more familiar. What is economic theory? It is a body of analysis that offers an understanding, an explanation, of the complex exchange process that we call “an economy.” It is a body of analysis that allows us to relate the behavior of individual participants in market activity, as buyers, sellers, investors, producers, entrepreneurs, to the results that are attained for the whole community, results that are not within the purposes or the knowledge of the separate participants themselves. (I should note here that Austria has a very proud and important heritage in the development of economic theory as I have here defined it, and I may say in passing that one of the most exciting and most encouraging

developments within economics in the United States today is the observed resurgence of interest in “Austrian economics,” and notably as among young research scholars.)

Public choice theory essentially takes the tools and methods of approach that have been developed to quite sophisticated analytical levels in economic theory and applies these tools and methods to the political or governmental sector, to politics, to the public economy. As with economic theory, the analysis attempts to relate the behavior of individual actors in the governmental sector, that is, the behavior of persons in their various capacities as voters, as candidates for office, as elected representatives, as leaders or members of political parties, as bureaucrats (all of these are “public choice” roles) to the composite of outcomes that we observe or might observe. Public choice theory attempts to offer an understanding, an explanation, of the complex institutional interactions that go on within the political sector. I emphasize the word “complex” here, since the appropriate contrast to be made is with the approach that models government as some sort of monolith, with a being of its own, somehow separate and apart from the individuals who actually participate in the process.

### 3. Methodological Individualism

As my definition suggests, public choice theory is methodologically individualistic, in the same sense that economic theory is. The basic units are choosing, acting, behaving persons rather than organic units such as parties, provinces, or nations. Indeed, yet another label for the subject matter here is “An Individualistic Theory of Politics.”

There is no formal connection between the methodological individualism that describes formal public choice theory and the motivations that are attributed to persons as they behave in their various public-choice capacities or roles listed above. It would be possible to construct a fully consistent and methodologically individualistic theory of politics on the romantic assumption that all persons in their political roles seek only to further their own conceptions of some “common good,” and with utter and total disregard for their own more narrowly defined self-interest. Such a theory would not escape problems of reconciling differing persons’ differing conceptions of just what defines “common good.” But testable propositions might emerge from

such a theory, and empirical work might be commenced to test these propositions.

But most of the scholars who have been instrumental in developing public choice theory have themselves been trained initially as economists. There has been, therefore, a tendency for these scholars to bring with them models of man that have been found useful within economic theory, models that have been used to develop empirically testable and empirically corroborated hypotheses. These models embody the presumption that persons seek to maximize their own utilities, and that their own narrowly-defined economic well-being is an important component of these utilities. At this point, however, I do not want to enter into either a defense of or an attack on the usefulness of *Homo economicus*, either in economics or in any theory of politics. I would say only, as I have many times before, that the burden of proof should rest with those who suggest that wholly different models of man apply in the political and the economic realms of behavior. Logical consistency suggests that, at least initially, we examine the implications of using the *same* models in different settings.

As I have already noted, we commence with individuals as utility maximizers. And, for present purposes, we do not need to specify just what arguments are contained in a person's utility function. We can, at this stage, allow for saints as well as sinners. In one sense, we can simply define a person in terms of his set of preferences, his utility function. This function defines or describes a set of possible trade-offs among alternatives for potential choice, whether the latter be those between apples and oranges at the fruit stand or between peace and war for the nation.

Once we begin analysis in terms of preference or utility functions, we are led almost immediately to inquire about possible differences among persons. Since there seems to be no self-evident reason why separate persons should exhibit the same preferences, it seems best to commence with the presumption that preferences may differ. Within economic theory, such differences present no problem. Indeed, quite the opposite. If one person places a relatively higher value on apples as compared with oranges than another person, an exchange opportunity is presented. Both persons can gain utility by trade. Indeed this trading to mutual advantage is what economic theory is all about, no matter how esoteric its modern practitioners may make it seem to be in its detail.

#### 4. Political Exchange

By any comparison with politics, economic theory is *simple*. The process of “political exchange” is necessarily more complex than that of economic exchange through orderly markets, and for two quite separate reasons. In the first place, basic “political exchange,” the conceptual contract under which the constitutional order is itself established, must precede any meaningful economic interaction. Orderly trade in private goods and services can take place only within a defined legal structure that establishes individuals’ rights of ownership and control of resources, that enforces private contracts, and that places limits on the exercise of governmental powers. In the second place, even within a well-defined and functioning legal order, “political exchange” necessarily involves *all* members of the relevant community rather than the two trading partners that characterize economic exchange.<sup>2</sup>

The two levels of “political exchange” provide a somewhat natural classification for two related but separate areas of inquiry, both of which fall within the corpus of public choice. The first area of inquiry may be called an “economic theory of constitutions.”<sup>3</sup> This theory has historical antecedents in the theory of social contract, and it also has modern philosophical generalization in the work of Rawls.<sup>4</sup> The second area of inquiry involves the “theory of political institutions” as these might be predicted to work within a constitutional-legal structure. The subject matter incorporates theories of voting and voting rules, theories of electoral and party competition, and theories of bureaucracy.<sup>5</sup>

2. For a development of the distinction between political exchange at the constitutional and the postconstitutional levels, see James M. Buchanan, *The Limits of Liberty* (Chicago, 1975).

3. The development of such a theory was the primary purpose of the book that I wrote jointly with Tullock. See James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor, 1962).

4. John Rawls, *A Theory of Justice* (Cambridge, 1971).

5. In modern public choice theory, the theory of voting rules commences with Duncan Black, *Theory of Committees and Elections* (Cambridge, 1958). The theory of electoral, or party, competition stems largely from the work of Anthony Downs, *An Economic Theory of Democracy* (New York, 1957). The theory of bureaucracy in its modern sense was first developed in Gordon Tullock, *The Politics of Bureaucracy* (Washington, 1965).

## 5. The Economic Theory of Constitutions

As I have stated, this aspect of modern public choice theory is closely related to an important strand of ideas in traditional political theory or political philosophy, namely, the theory of the social contract or compact. The whole discussion here is directly relevant to the classic set of issues involving the *legitimacy* of political order. What gives legitimacy to governments, or to governors? What rights can some men possess to rule over other men?

At some basic philosophical level, the individualist must reject the notion that any such “rights of governance” exist. In this sense, I have often called myself a philosophical anarchist. Nonetheless, we are obligated to look squarely at the alternative social order that anarchy would represent, and without the romantic blinders that putative anarchists have always worn, then and now. And we look to Thomas Hobbes, whose 17th-century vision becomes very appealing to those of us who live in the late 20th century. Hobbes described the life of persons in a society without government, without laws, as “solitary, poor, nasty, brutish, and short.” In this Hobbesian perspective, any person in such a jungle would value security to life and property so highly that any contract with a sovereign government would seem highly beneficial. The person would agree to abide by the laws laid down by the sovereign, even if he recognizes that there were essentially no limits that could be placed on the sovereign’s use of these laws for its own exploitative purposes.

Montesquieu, John Locke, and the American Founding Fathers were more optimistic than Hobbes in their conception of constitutional contract as potentially binding on the activities of government. And I think that a reading of history will, to an extent at least, bear out their conception. Governments have been limited by constitutions, and part of the Western heritage to this day reflects the 18th-century wisdom that imposed some limits on governmental powers. But the 19th- and 20th-century fallacy in political thought was embodied in the presumption that electoral requirements were in themselves sufficient to hold government’s Leviathan-like proclivities in check, the presumption that, so long as there were constitutional guarantees for free and periodic elections, the range and extent of governmental action would be controlled. Only in the middle of this century have we come to

recognize that such electoral constraints do not keep governments within the implied “contract” through which they might have been established, the “contract” which alone can give governments any claim to legitimacy in the eyes of citizens.

The theory of constitutions that makes up a central part of public choice represents, in part, a return to the 18th-, as opposed to the 19th- or 20th-, century perspective. The theory raises questions about how governments may be constrained, and about how governments should be constrained. What should governments be allowed to do? What is the appropriate sphere of political action? How large a share of national product should be available for political disposition? What sort of political decision-structures should be adopted at the constitutional stage? Under what conditions and to what extent should individuals be franchised?

These questions, and many others like them, clearly depend for answers on some positive, predictive analysis of how different political institutions will operate if, in fact, they are constitutionally authorized. An informed, and meaningful, theory of constitutions cannot be constructed until and unless there exists some theory of the operation of alternative political rules.

## 6. Postconstitutional Politics

In a postconstitutional setting, with a defined legal order, there will remain opportunities for mutually advantageous “political exchanges.” That is to say, after the conceptualized constitutional “contract” has established what has been variously called the “protective,” “minimal” or “night-watchman” state, there are still likely to be efficiency-enhancing complex trades among all persons in the community. The “productive state” may emerge to provide “public goods,” goods that are nonexcludable as among separate beneficiaries and that may be more cheaply produced jointly than separately.

How should the complex political exchanges be organized so as to insure that all beneficiaries secure net gains in the process? Voluntary trade akin to the pairwise matching of buyers and sellers that characterizes private-goods market exchange may not be possible. A role for governmental action is suggested, but how are government decisions to be made and by whom? By what rules? And how might various rules be predicted to work?

The theory here, as it has developed, has involved two distinct types of

question. First, it has attempted to look at how differing individual preferences over joint outcomes are reconciled, or might be reconciled. That is, how do groups of persons reach collective decisions under differing procedural rules? This type of theory has not been concerned with government, as such. In effect, it is a theory of *demand* for government goods and services without an accompanying theory of *supply*. The second, and more recent, development has addressed the quite different set of questions relating to the behavior of persons who are themselves charged with powers of governance, with supplying the goods and services that might be demanded by the citizenry. It will be useful to summarize the strands of postconstitutional political analysis separately.

#### THEORY OF VOTING RULES

We may commence with the work of Black who asked the simple question: How do committees reach decisions under simple majority voting rules? Building on only bits and pieces of precursory work by Condorcet, Lewis Carroll, and a few others, Black was led to analyze the properties of majority voting, and he discovered the problem of the majority cycle, the problem that has occupied perhaps an undue amount of attention in public choice theory. There may exist situations where no single one of the possible alternatives for choice can command majority support over all other alternatives, despite the consistency of the preference sets of all members of the choosing group. In such a cyclical majority setting, there is no stable group decision attainable by majority rule; the group cannot make up its collective mind; it cannot decide.

Simultaneously with Black, and for a different purpose, Arrow was examining the desirable properties of a “social welfare function,” and he was attempting to determine whether such a function could ever be constructed from a set of individual orderings.<sup>6</sup> He reached the conclusion that no such function satisfying minimally acceptable properties could be found, and for basically the same reasons that Black developed more closely in connection with majority voting rules [Arrow]. Arrow’s work is not narrowly within what we might call the “public choice tradition,” since he was, and is, con-

6. Kenneth Arrow, *Social Choice and Individual Values* (New York, 1951).

cerned not with how institutions work but the logical structure of collective or social choice. Nonetheless, it was Arrow's work that exerted a major influence on the thinking of social scientists; his work was taken to have demonstrated that government cannot work, if work here is defined in terms of the standard economist's criteria for consistency in choice. Collectivities in which individual preferences differ cannot, à la Black, make up their collective or group mind. And, à la Arrow, such groups cannot be assigned an ordering that will array all possible outcomes that is itself both consistent and reflective of individual orderings. Since the 1950's, since Arrow and Black, social choice theorists have explored in exhaustive logical and mathematical detail possible ways and means of escaping from the implications of the Arrow impossibility theorem, but they have had little or no success. "Social choice theory" has itself become a major growth industry, with an equilibrium not yet in sight.

Let me return to the work of Black, who, when confronted with the prospect of majority rule cycles, discovered that under certain configurations of preferences, such cycles would not arise. If the alternatives for collective choice can be arrayed in such a fashion that individual orderings over these alternatives are single-peaked, for all voters in the group, there will be a unique majority outcome, one that will defeat any other outcome in a series of pairwise majority votes. This outcome or option will be that one which best satisfies or which is most preferred by the voter who is *median* among all voters, with respect to preferences over the options. The conditions required for single-peakedness are plausibly applicable in situations where the alternatives for collective choice are reducible to quantitative variations along a single dimension, for example, proposed amounts of public spending on a given public service. Consider a school board or committee of three members, one of whom prefers high spending on education, one of whom prefers medium spending, and the third of whom prefers low spending. So long as the high spender prefers medium to low spending, and so long as the low spender prefers medium to high spending, majority voting as within the three-member committee will produce a stable medium-spending outcome.

This tendency of majority voting rules to produce determinate outcomes that correspond to the preferences of the median voter under certain conditions has led to many studies, both analytical and empirical, notably in public-finance applications of public choice, and particularly with reference

to the budgetary decisions made in local governments. Median-voter models break down, however, even with simple budgetary allocation problems, when more than one dimension is introduced. If voters, or members of committee, consider simultaneously several issues or dimensions, such as, say, spending on education and spending on police, the cyclical majority problem returns. And, related to this return, the multiplicity of dimensions allows for vote trading and “log-rolling,” the analysis of which has been important in public choice theory from its inception.

As I have already noted, the theory of voting and voting rules sketched here in summary is not a theory of government or of politics at all. It is, instead, a theory or set of theories about how groups of persons reach some decision or choice on what might be *demand*ed, by the group, from some supplying agent or agency. Implicitly, the analysis proceeds on the presumption that the goods or services demanded are supplied passively and that the motivations of suppliers may be neglected. It is as if all collective decisions are somehow analogous to the decision made by a group meeting in a closed room about the setting for the thermostat, the presumption being that, once a joint decision is made, the heating or cooling system will respond automatically and passively to the demands placed on it.

#### REPRESENTATION AND ELECTORAL COMPETITION

Once we so much as move beyond the simple committee or town-meeting setting, however, something other than the passive response of suppliers must be reckoned with in any theory of politics that can pretend to model reality. Even if we take only the single step from town-meeting democracy to representative democracy, we must introduce the possible divergence between the interests of the representative or agent who is elected or appointed to act for the group and the interests of the group members themselves.

It is at this point that electoral competition, as an institution, plays a role that has some similarities with that played by market competition in the economy. In the latter, the principle of consumer sovereignty prevails if sellers are sufficiently competitive. At the idealized limit, no single seller can exercise any power over buyers. But to what extent does a system of electoral competition generate comparable results? To what extent is voter sovereignty

analogous to consumer sovereignty? There are major differences that should be recognized, despite the underlying similarities. Persons or parties who seek to represent the interests of voters compete for approval or favor much in the manner as the sellers of products in imperfectly competitive markets for private goods and services. But politics differs categorically from markets in that, in political competition, there are mutually exclusive sets of losers and winners. Only one candidate or party wins; all others lose. Only one party is the governing party. One way of stating the basic difference here is to say that, in economic exchange, decisions are made at the margin, in terms of more or less, whereas in politics, decisions are made among mutually exclusive alternatives, in terms of all-or-none prospects. The voter may be disappointed when his candidate or party or policy proposal loses in a sense that is not experienced in market exchange.

At best electoral competition places limits on the exercise of discretionary power on the part of those who are successful in securing office. Re-election prospects tend to keep the self-interests of politicians within reasonable range of those of the median voter, but there is nothing to channel outcomes toward the needs of the non-median voting groups.

#### THEORY OF BUREAUCRACY

Even if we ignore the possible divergencies between the interests of legislative representatives, as elected agents of the voters, and those interests of the voters themselves, we remain without an effective model of government because we have not accounted for the behavior of those persons who actually *supply* the goods and services that are provided via governmental auspices. Voters elect members of legislatures or parliaments. Members of legislatures, through coalitions or through parties, make selections as among various policy alternatives or options. But the implementation of policy, the actual process of government, remains with persons who hold positions in the bureaucracy. How do these persons behave? How are the conflicts between their own interests and those of the voters reconciled?

Recent developments in public choice theory have demonstrated the limits of legislative control over the discretionary powers of the bureaucracy. Modern government is complex and many-sided, so much so that it would be impossible for legislatures to make more than a tiny fraction of all genu-

ine policy decisions. Discretionary power must be granted to bureaucrats over wide ranges of decision. Further, the bureaucracy can manipulate the agenda for legislative action for the purpose of securing outcomes favorable to its own interests. The bureaucracy can play off one set of constituents against others, insuring that budgets rise much beyond plausible efficiency limits.

Increasingly, public choice scholars have started to model governments in monopoly rather than competitive terms. Electoral competition has come more and more to be viewed as competition among prospective monopolists, all of whom are bidding for an exclusive franchise, with profit-maximizing assumed to characterize the behavior of the successful bidder. Governments are viewed as exploiters of the citizenry, rather than the means through which the citizenry secures for itself goods and services that can best be provided jointly or collectively. Both the modern analysis and the observed empirical record suggests that governments have, indeed, got out of hand.

## 7. Can Leviathan Be Limited?

The rapidly accumulating developments in the theory of public choice, ranging from sophisticated analyses of schemes for amalgamating individual preferences into consistent collective outcomes, through the many models that demonstrate with convincing logic how political rules and institutions fail to work as their idealizations might promise, and finally to the array of empirical studies that corroborate the basic economic model of politics—these have all been influential in modifying the way that modern man views government and political process. The romance is gone, perhaps never to be regained. The socialist paradise is lost. Politicians and bureaucrats are seen as ordinary persons much like the rest of us, and “politics” is viewed as a set of arrangements, a game if you will, in which many players with quite disparate objectives interact so as to generate a set of outcomes that may not be either internally consistent or efficient by any standards.

I do not want to claim, or to be taken to claim, too much for the contribution of public choice theory in turning attitudes around here, in being responsible for the paradigm shift. For social scientists, for scholars and intellectuals, the availability of an alternative model of political process probably

has been of some considerable importance. But for members of the general public, the simple observation of failure on the part of governments to deliver on their promises, these failures have been much more important in modifying attitudes than any set of ideas or any ideology.

I noted earlier that the fallacy of the 19th- and 20th-century political thought lay in an implicit faith that electoral constraints would alone be sufficient to hold the Leviathan-like proclivities of government in check. The experience in Western nations since World War II has exposed this fallacy for what it is. And we are now seeking to reimpose constitutional limits on government over and beyond those exercised through democratic electoral constraints. At least we are trying to do so in the United States. Beyond minimal efforts, I am not sure that there is a comparable movement at work in Europe. It seems to me highly doubtful that this objective can be successfully accomplished. Having come to command shares in national income or product that were undreamt of, even in the most roseate of the early democratic socialist predictions, modern governmental bureaucracies will not relinquish their relative positions in society without struggle.

Nonetheless, the effort is being made and will be made. In America, 1978 was the year of Proposition 13, when the voters of California turned back, by a two-to-one margin, the growth of government spending and taxing. This event sent political shock waves throughout the Western world. The United States is now (1979) inundated with various proposals, at all levels of government, designed to limit the expansion of governmental powers. "Bridling the passions of the sovereign" — this 18th-century slogan has resurfaced to command political respectability.

I have indicated that developments in public choice theory may have been in some small way influential in generating this shift in attitudes toward bureaucracies, politicians, and government. But the question remains as to what contribution public choice theory might make in the face of the developing distrust of traditional political institutions. It is here that the economic theory of constitutions, discussed earlier as a part of public choice analysis, becomes relatively the most important area of emphasis. Western societies face a task of *reconstruction*; basic political institutions must be re-examined and rebuilt so as to keep governments as well as citizens within limits of tolerance. But we are approaching a period when critical diagnosis is not enough. Criticism alone can generate chaos, whether this be in the form of

gradual breakdown or in the form of violent disruption. The reconstructive reform in our institutions can be accomplished without revolution of either the left or right, but this path toward the future requires that the public come to understand the limits of change as well as the value. Zealotry in the cause of anti-politics, anti-government, anti-institutions movements can result in a drift toward anarchistic terror, the jungle against which Hobbes warned us all. We must indeed keep the “miracle” of social order clearly in our mind as we seek ways and means of reforming arrangements that seem to have got out of hand. I think that public choice theory offers an analytical setting that allows us to discuss genuine reconstruction in our constitutions that may be made without major social costs.



*Selected Essays on*  
POLITICAL  
ECONOMY

*Frédéric  
Bastiat*

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# I

## What Is Seen and What Is Not Seen<sup>1</sup>

In the economic sphere an act, a habit, an institution, a law produces not only one effect, but a series of effects. Of these effects, the first alone is immediate; it appears simultaneously with its cause; *it is seen*. The other effects emerge only subsequently; *they are not seen*; we are fortunate if we *foresee* them.

There is only one difference between a bad economist and a good one: the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be *foreseen*.

Yet this difference is tremendous; for it almost always happens that when the immediate consequence is favorable, the later consequences are disastrous, and vice versa. Whence it follows that the bad economist pursues a small present good that will be followed by a great evil to come, while the good economist pursues a great good to come, at the risk of a small present evil.

The same thing, of course, is true of health and morals. Often, the sweeter the first fruit of a habit, the more bitter are its later fruits: for example, debauchery, sloth, prodigality. When a man is impressed by the effect *that is seen* and has not yet learned to discern the effects *that are not seen*, he indulges in deplorable habits, not only through natural inclination, but deliberately.

This explains man's necessarily painful evolution. Ignorance surrounds him at his cradle; therefore, he regulates his acts according to their first consequences, the only ones that, in his infancy, he can see. It is only after a long time that he learns to take

account of the others.<sup>2</sup> Two very different masters teach him this lesson: experience and foresight. Experience teaches efficaciously but brutally. It instructs us in all the effects of an act by making us feel them, and we cannot fail to learn eventually, from having been burned ourselves, that fire burns. I should prefer, in so far as possible, to replace this rude teacher with one more gentle: foresight. For that reason I shall investigate the consequences of several economic phenomena, contrasting those *that are seen* with those *that are not seen*.

### 1. *The Broken Window*

Have you ever been witness to the fury of that solid citizen, James Goodfellow,\* when his incorrigible son has happened to break a pane of glass? If you have been present at this spectacle, certainly you must also have observed that the onlookers, even if there are as many as thirty of them, seem with one accord to offer the unfortunate owner the selfsame consolation: "It's an ill wind that blows nobody some good. Such accidents keep industry going. Everybody has to make a living. What would become of the glaziers if no one ever broke a window?"

Now, this formula of condolence contains a whole theory that it is a good idea for us to expose, *flagrante delicto*, in this very simple case, since it is exactly the same as that which, unfortunately, underlies most of our economic institutions.

Suppose that it will cost six francs to repair the damage. If you mean that the accident gives six francs' worth of encouragement to the aforesaid industry, I agree. I do not contest it in any way; your reasoning is correct. The glazier will come, do his job, receive six francs, congratulate himself, and bless in his heart the careless child. *That is what is seen*.

But if, by way of deduction, you conclude, as happens only too often, that it is good to break windows, that it helps to circulate money, that it results in encouraging industry in general, I am obliged to cry out: That will never do! Your theory stops at *what is seen*. It does not take account of *what is not seen*.

\* [In French, *Jacques Bonhomme*, used like "John Bull" in English to represent the practical, responsible, unassuming average man.—TRANSLATOR.]

*It is not seen* that, since our citizen has spent six francs for one thing, he will not be able to spend them for another. *It is not seen* that if he had not had a windowpane to replace, he would have replaced, for example, his worn-out shoes or added another book to his library. In brief, he would have put his six francs to some use or other for which he will not now have them.

Let us next consider industry *in general*. The window having been broken, the glass industry gets six francs' worth of encouragement; *that is what is seen*.

If the window had not been broken, the shoe industry (or some other) would have received six francs' worth of encouragement; *that is what is not seen*.

And if we were to take into consideration *what is not seen*, because it is a negative factor, as well as *what is seen*, because it is a positive factor, we should understand that there is no benefit to industry *in general* or to *national employment* as a whole, whether windows are broken or not broken.

Now let us consider James Goodfellow.

On the first hypothesis, that of the broken window, he spends six francs and has, neither more nor less than before, the enjoyment of one window.

On the second, that in which the accident did not happen, he would have spent six francs for new shoes and would have had the enjoyment of a pair of shoes as well as of a window.

Now, if James Goodfellow is part of society, we must conclude that society, considering its labors and its enjoyments, has lost the value of the broken window.

From which, by generalizing, we arrive at this unexpected conclusion: "Society loses the value of objects unnecessarily destroyed," and at this aphorism, which will make the hair of the protectionists stand on end: "To break, to destroy, to dissipate is not to encourage national employment," or more briefly: "Destruction is not profitable."

What will the *Moniteur industriel* \* say to this, or the disciples

\* [Newspaper of the Committee for the Defense of Domestic Industry, a protectionist organization.—TRANSLATOR.]

of the estimable M. de Saint-Chamans,\* who has calculated with such precision what industry would gain from the burning of Paris, because of the houses that would have to be rebuilt?

I am sorry to upset his ingenious calculations, especially since their spirit has passed into our legislation. But I beg him to begin them again, entering *what is not seen* in the ledger beside *what is seen*.

The reader must apply himself to observe that there are not only two people, but three, in the little drama that I have presented. The one, James Goodfellow, represents the consumer, reduced by destruction to one enjoyment instead of two. The other, under the figure of the glazier, shows us the producer whose industry the accident encourages. The third is the shoemaker (or any other manufacturer) whose industry is correspondingly discouraged by the same cause. It is this third person who is always in the shadow, and who, personifying *what is not seen*, is an essential element of the problem. It is he who makes us understand how absurd it is to see a profit in destruction. It is he who will soon teach us that it is equally absurd to see a profit in trade restriction, which is, after all, nothing more nor less than partial destruction. So, if you get to the bottom of all the arguments advanced in favor of restrictionist measures, you will find only a paraphrase of that common cliché: "*What would become of the glaziers if no one ever broke any windows?*"

## 2. *The Demobilization*

A nation is in the same case as a man. When a man wishes to give himself a satisfaction, he has to see whether it is worth what it costs. For a nation, security is the greatest of blessings. If, to acquire it, a hundred thousand men must be mobilized, and a hundred million francs spent, I have nothing to say. It is an enjoyment bought at the price of a sacrifice.

\* [Auguste, Vicomte de Saint-Chamans (1777-1861), Deputy and Councillor of State under the Restoration, protectionist and upholder of the balance of trade. His celebrated stand on the "obstacle" here quoted by Bastiat comes from his *Nouvel essai sur la richesse des nations*, 1824. This work was later (1852) incorporated in his *Traité d'économie politique*.—TRANSLATOR.]

Let there be no misunderstanding, then, about the point I wish to make in what I have to say on this subject.

A legislator proposes to discharge a hundred thousand men, which will relieve the taxpayers of a hundred million francs in taxes.

Suppose we confine ourselves to replying to him: "These one hundred thousand men and these one hundred million francs are indispensable to our national security. It is a sacrifice; but without this sacrifice France would be torn by internal factions or invaded from without." I have no objection here to this argument, which may be true or false as the case may be, but which theoretically does not constitute any economic heresy. The heresy begins when the sacrifice itself is represented as an advantage, because it brings profit to someone.

Now, if I am not mistaken, no sooner will the author of the proposal have descended from the platform, than an orator will rush up and say:

"Discharge a hundred thousand men! What are you thinking of? What will become of them? What will they live on? On their earnings? But do you not know that there is unemployment everywhere? That all occupations are oversupplied? Do you wish to throw them on the market to increase the competition and to depress wage rates? Just at the moment when it is difficult to earn a meager living, is it not fortunate that the state is giving bread to a hundred thousand individuals? Consider further that the army consumes wine, clothes, and weapons, that it thus spreads business to the factories and the garrison towns, and that it is nothing less than a godsend to its innumerable suppliers. Do you not tremble at the idea of bringing this immense industrial activity to an end?"

This speech, we see, concludes in favor of maintaining a hundred thousand soldiers, not because of the nation's need for the services rendered by the army, but for economic reasons. It is these considerations alone that I propose to refute.

A hundred thousand men, costing the taxpayers a hundred million francs, live as well and provide as good a living for their

suppliers as a hundred million francs will allow: *that is what is seen.*

But a hundred million francs, coming from the pockets of the taxpayers, ceases to provide a living for these taxpayers and *their* suppliers, to the extent of a hundred million francs: *that is what is not seen.* Calculate, figure, and tell me where there is any profit for the mass of the people.

I will, for my part, tell you where the *loss* is, and to simplify things, instead of speaking of a hundred thousand men and a hundred million francs, let us talk about one man and a thousand francs.

Here we are in the village of A. The recruiters make the rounds and muster one man. The tax collectors make their rounds also and raise a thousand francs. The man and the sum are transported to Metz, the one destined to keep the other alive for a year without doing anything. If you look only at Metz, yes, you are right a hundred times; the procedure is very advantageous. But if you turn your eyes to the village of A, you will judge otherwise, for, unless you are blind, you will see that this village has lost a laborer and the thousand francs that would remunerate his labor, and the business which, through the spending of these thousand francs, he would spread about him.

At first glance it seems as if the loss is compensated. What took place at the village now takes place at Metz, and that is all there is to it. But here is where the loss is. In the village a man dug and labored: he was a worker; at Metz he goes through "Right dress!" and "Left dress!": he is a soldier. The money involved and its circulation are the same in both cases: but in one there were three hundred days of productive labor; in the other there are three hundreds days of unproductive labor, on the supposition, of course, that a part of the army is not indispensable to public security.

Now comes demobilization. You point out to me a surplus of a hundred thousand workers, intensified competition. and the pressure that it exerts on wage rates. That is what you see.

But here is what you do not see. You do not see that to send home a hundred thousand soldiers is not to do away with a hun-

dred million francs, but to return that money to the taxpayers. You do not see that to throw a hundred thousand workers on the market in this way is to throw in at the same time the hundred million francs destined to pay for their labor; that, as a consequence, the same measure that increases the *supply* of workers also increases the *demand*; from which it follows that your lowering of wages is illusory. You do not see that before, as well as after, the demobilization there are a hundred million francs corresponding to the hundred thousand men; that the whole difference consists in this: that before, the country gives the hundred million francs to the hundred thousand men for doing nothing; afterwards, it gives them the money for working. Finally, you do not see that when a taxpayer gives his money, whether to a soldier in exchange for nothing or to a worker in exchange for something, all the more remote consequences of the circulation of this money are the same in both cases: only, in the second case the taxpayer receives something; in the first he receives nothing. Result: a dead loss for the nation.

The sophism that I am attacking here cannot withstand the test of extended application, which is the touchstone of all theoretical principles. If, all things considered, there is a *national profit* in increasing the size of the army, why not call the whole male population of the country to the colors?

### 3. Taxes

Have you ever heard anyone say: "Taxes are the best investment; they are a life-giving dew. See how many families they keep alive, and follow in imagination their indirect effects on industry; they are infinite, as extensive as life itself."

To combat this doctrine, I am obliged to repeat the preceding refutation. Political economy knows very well that its arguments are not diverting enough for anyone to say about them: *Repetita placent*; repetition pleases. So, like Basile,\* political economy has "arranged" the proverb for its own use, quite convinced that, from its mouth, *Repetita docent*; repetition teaches.

\* [In Act II of *The Barber of Seville*, Basile, the musician, says: "I have arranged several proverbs with variations."—TRANSLATOR.]

The advantages that government officials enjoy in drawing their salaries are *what is seen*. The benefits that result for their suppliers are also *what is seen*. They are right under your nose.

But the disadvantage that the taxpayers try to free themselves from is *what is not seen*, and the distress that results from it for the merchants who supply them is *something further that is not seen*, although it should stand out plainly enough to be seen intellectually.

When a government official spends on his own behalf one hundred sous more, this implies that a taxpayer spends on his own behalf one hundred sous the less. But the spending of the government official *is seen*, because it is done; while that of the taxpayer *is not seen*, because—alas!—he is prevented from doing it.

You compare the nation to a parched piece of land and the tax to a life-giving rain. So be it. But you should also ask yourself where this rain comes from, and whether it is not precisely the tax that draws the moisture from the soil and dries it up.

You should ask yourself further whether the soil receives more of this precious water from the rain than it loses by the evaporation?

What is quite certain is that, when James Goodfellow counts out a hundred sous to the tax collector, he receives nothing in return. When, then, a government official, in spending these hundred sous, returns them to James Goodfellow, it is for an equivalent value in wheat or in labor. The final result is a loss of five francs for James Goodfellow.

It is quite true that often, nearly always if you will, the government official renders an equivalent service to James Goodfellow. In this case there is no loss on either side; there is only an exchange. Therefore, my argument is not in any way concerned with useful functions. I say this: If you wish to create a government office, prove its usefulness. Demonstrate that to James Goodfellow it is worth the equivalent of what it costs him by virtue of the services it renders him. But apart from this intrinsic utility, do not cite, as an argument in favor of opening the new bureau, the advantage that it constitutes for the bureaucrat, his family,

and those who supply his needs; do not allege that it encourages employment.

When James Goodfellow gives a hundred sous to a government official for a really useful service, this is exactly the same as when he gives a hundred sous to a shoemaker for a pair of shoes. It's a case of give-and-take, and the score is even. But when James Goodfellow hands over a hundred sous to a government official to receive no service for it or even to be subjected to inconveniences, it is as if he were to give his money to a thief. It serves no purpose to say that the official will spend these hundred sous for the great profit of our *national industry*; the more the thief can do with them, the more James Goodfellow could have done with them if he had not met on his way either the extralegal or the legal parasite.

Let us accustom ourselves, then, not to judge things solely by *what is seen*, but rather by *what is not seen*.

Last year I was on the Finance Committee, for in the Constituent Assembly the members of the opposition were not systematically excluded from all committees. In this the framers of the Constitution acted wisely. We have heard M. Thiers \* say: "I have spent my life fighting men of the legitimist party and of the clerical party. Since, in the face of a common danger, I have come to know them and we have had heart-to-heart talks, I see that they are not the monsters I had imagined."

Yes, enmities become exaggerated and hatreds are intensified between parties that do not mingle; and if the majority would allow a few members of the minority to penetrate into the circles of the committees, perhaps it would be recognized on both sides that their ideas are not so far apart, and above all that their intentions are not so perverse, as supposed.

However that may be, last year I was on the Finance Committee. Each time that one of our colleagues spoke of fixing at a moderate figure the salaries of the President of the Republic, of cabinet ministers, and of ambassadors, he would be told:

\* [Adolphe Thiers (1797-1877), French statesman and distinguished historian. In his long political career he was Deputy and Prime Minister (1836 and 1840), and, as a final tribute, was elected President of the Third Republic in 1871.—TRANSLATOR.]

“For the good of the service, we must surround certain offices with an aura of prestige and dignity. That is the way to attract to them men of merit. Innumerable unfortunate people turn to the President of the Republic, and he would be in a painful position if he were always forced to refuse them help. A certain amount of ostentation in the ministerial and diplomatic salons is part of the machinery of constitutional governments, etc., etc.”

Whether or not such arguments can be controverted, they certainly deserve serious scrutiny. They are based on the public interest, rightly or wrongly estimated; and, personally, I can make more of a case for them than many of our Catos, moved by a narrow spirit of niggardliness or jealousy.

But what shocks my economist’s conscience, what makes me blush for the intellectual renown of my country, is when they go on from these arguments (as they never fail to do) to this absurd banality (always favorably received):

“Besides, the luxury of high officials of the government encourages the arts, industry, and employment. The Chief of State and his ministers cannot give banquets and parties without infusing life into all the veins of the body politic. To reduce their salaries would be to starve industry in Paris and, at the same time, throughout the nation.”

For heaven’s sake, gentlemen, at least respect arithmetic, and do not come before the National Assembly of France and say, for fear that, to its shame, it will not support you, that an addition gives a different sum depending upon whether it is added from top to bottom or from bottom to top.

Well, then, suppose I arrange to have a navy dig me a ditch in my field for the sum of a hundred sous. Just as I conclude this agreement, the tax collector takes my hundred sous from me and has them passed on to the Minister of the Interior. My contract is broken, but the Minister will add another dish at his dinner. On what basis do you dare to affirm that this official expenditure is an addition to the national industry? Do you not see that it is only a simple *transfer* of consumption and of labor? A cabinet minister has his table more lavishly set, it is true; but a farmer has his field less well drained, and this is just as true. A Parisian

caterer has gained a hundred sous, I grant you; but grant me that a provincial ditchdigger has lost five francs. All that one can say is that the official dish and the satisfied caterer are *what is seen*; the swampy field and the excavator out of work are *what is not seen*.

Good Lord! What a lot of trouble to prove in political economy that two and two make four; and if you succeed in doing so, people cry, "It is so clear that it is boring." Then they vote as if you had never proved anything at all.

#### 4. *Theaters and Fine Arts*

Should the state subsidize the arts?

There is certainly a great deal to say on this subject pro and con.

In favor of the system of subsidies, one can say that the arts broaden, elevate, and poetize the soul of a nation; that they draw it away from material preoccupations, giving it a feeling for the beautiful, and thus react favorably on its manners, its customs, its morals, and even on its industry. One can ask where music would be in France without the Théâtre-Italien and the Conservatory; dramatic art without the Théâtre-Français; painting and sculpture without our collections and our museums. One can go further and ask whether, without the centralization and consequently the subsidizing of the fine arts, there would have developed that exquisite taste which is the noble endowment of French labor and sends its products out over the whole world. In the presence of such results would it not be the height of imprudence to renounce this moderate assessment on all the citizens, which, in the last analysis, is what has achieved for them their pre-eminence and their glory in the eyes of Europe?

To these reasons and many others, whose power I do not contest, one can oppose many no less cogent. There is, first of all, one could say, a question of distributive justice. Do the rights of the legislator go so far as to allow him to dip into the wages of the artisan in order to supplement the profits of the artist? M. de

# Notes

## NOTES TO CHAPTER I

1. [This pamphlet, published in July, 1850, is the last that Bastiat wrote. It had been promised to the public for more than a year. Its publication had been delayed because the author had lost the manuscript when he moved his household from the rue de Choiseul to the rue d'Algen. After a long and fruitless search, he decided to rewrite his work entirely, and chose as the principal basis of his demonstrations some speeches recently delivered in the National Assembly. When this task was finished, he reproached himself with having been too serious, threw the second manuscript into the fire, and wrote the one which we reprint.—EDITOR.]
2. [See chap. 10 of *Economic Harmonies*.—EDITOR.]
3. [See chap. 3 of *Economic Harmonies*.—EDITOR.]
4. [The author has often invoked the presumption of truth which is connected with the *universal assent* manifested by the practice of all men. See especially chap. 13 of *Economic Sophisms*, the end of chap. 6 of the *Essays* (in the French edition), and in *Economic Harmonies* the appendix to chap. 6 entitled "Morality of Wealth."—EDITOR.]
5. [See in Vol. V, pages 86 and 94 (of the French edition), chaps. 14 and 18 of the first series of *Economic Sophisms*; as well as chap. 7 (of this volume).—EDITOR.]
6. [See in *Economic Harmonies* chaps. 3 and 8.—EDITOR.]
7. [See the end of the twelfth letter on *Interest-free Credit*, Vol. V, pages 282 ff. (of the French edition).—EDITOR.]
8. The Honorable Minister of War has recently affirmed that each individual transported to Algeria has cost the state eight thousand francs. Now, it is certain that the poor people involved could have lived very well in France on a capital of four thousand francs. How, I should like to know, do you help the French people when you take away one man and the means of existence for two?
9. [See note 5 *supra*.—EDITOR.]
10. If all the consequences of an action redounded on its author, we should soon enough receive our education. But this is not the case. Sometimes the visible good effects are for us, and the invisible bad effects are for others, which makes them all the more invisible. We must therefore wait for the reaction to come from those who have to endure the bad consequences of the act. Occasionally this takes a long time, and that is what prolongs the reign of error.

A man does something that produces good effects equal to ten, to his profit, and bad effects equal to fifteen, divided among thirty of his fellows in such a way that each of them receives only one half. In the total there is a loss, and there must necessarily be a reaction. We must concede, however, that it will be all the longer in coming because the bad effects are spread out so widely among the masses, while the good are concentrated at one point. [Unpublished fragment of the author.]

## NOTES TO CHAPTER 2

1. [It was in June, 1850, that the author, during a few days spent with his family at Mugron, wrote this pamphlet.—EDITOR.]
2. [See (in chap. 8 of this volume) the two last pages of the essay entitled "Plunder and Law."—EDITOR.]
3. [General Council of Manufacturing, Agriculture, and Commerce. (Session of May 6, 1850.)—EDITOR.]
4. If protection were granted in France to only one class—for example, to the ironmasters—it would be so absurdly spoliative that it could not be maintained. So we see all the protected industries banding together to make common cause and even to recruit members in a way calculated to make the association appear inclusive of the whole of *national industry*. They feel instinctively that plunder is masked by being made general.
5. [In the pamphlet "Academic Degrees and Socialism" (chap. 9 in this volume), the author, by a series of analogous citations, shows again how this same error has been handed down from the past.—EDITOR.]
6. For a nation to be happy, it is indispensable that the individuals that compose it have the foresight, the prudence, and the confidence in one another that is born of security.

Now, these things can be acquired only by experience. People become foresighted when they have suffered for not having been so; prudent when their rashness has been punished; etc., etc. It follows that liberty always begins by being accompanied by the evils that result from the unconsidered use that is made of it.

Seeing this, men arise who demand that liberty be proscribed. "Let the state," they say, "be foresighted and prudent for everyone."

To them I put these questions:

1. Is this possible? Can an experienced state emerge from an inexperienced nation?

2. In any case, will this not inhibit the growth of experience from the very beginning? If specific acts are imposed on men by force, how will the individual be instructed by the consequences of his acts? Will he, then, be under guardianship forever?

And the state, having ordered everything, will be responsible for everything.

There is in this the seed of revolutions without end, since they will be undertaken by a people to whom progress has been forbidden at the same time as experience. [Observation excerpted from the manuscripts of the author.]