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Center for Study of  
Public Choice

Lectures on  
Virginia Political Economy

The "Virginia School" and  
Public Choice

by

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# The "Virginia School" and Public Choice

Dennis C. Mueller

The title of this lecture contains two terms, both of which require definition. Let me start with the easiest of the two. I regard public choice as the economics of politics. Public choice uses the methodology of economics to study questions traditionally investigated by political science. The key ingredient in this approach is the assumption that political man, like his economic cousin, is a rational, self-interested being. The central role this assumption plays makes public choice, like economics, inherently individualistic and utilitarian. Both fields share this philosophical heritage, and this characteristic of public choice is important in understanding why the public choice approach often leads to radically different conclusions than its rival disciplines.

I favor a broad definition of public choice, one that encompasses what the literature in political science often referred to as "rational politics," and the literature in economics frequently referred to as "social choice." That is to say, I draw no distinctions based on degree of abstraction or analytic approach. Game theoretic and axiomatic analyses of political behavior are legitimately classified as parts of the public choice literature in that they build their analyses upon the assumption that individuals are rational and self-interested.

Given this conception of the public choice field, the question with which I am concerned today is what has been the Virginia School's contribution to the development of this field, and to some extent what has been the contribution of the field itself to our understanding of political institutions.

Before we can proceed, however, we must turn to the question of defining what we mean by the "Virginia School," or, more basically, determining whether it is even legitimate to speak of a Virginia School within the public choice field. Did Mancur Olson, whom Robert Tollison credits with having first used the term "Virginia School," fabricate an image for which no reality exists?

The appellation "school" is used surprisingly sparingly in the field of economics. Outside of the instance in question, I can think of only three, maybe four, other schools of thought in economics. There is, of course, the Chicago School, the most frequently used and widely known appellation of this sort. There is the Austrian School. There is the Cambridge School, whereby a place in England, not Massachusetts, is designated. And I think it legitimate to refer to a Marxist School. Some might object that this is too narrow a use of the term school, and that one can also think of a Keynesian School, a Monetarist School, a post-Keynesian School, a Rational Expectations School, and so on. I reject these additional candidates to my taxonomy of schools for reasons that will become apparent as we proceed.

If we accept for the moment my claim that these are the only schools of thought in economics it is legitimate to differentiate, the question arises what characteristics do



they have in common and does the Virginia School share these characteristics? While each appellation may connote different things to different people, I think there are three characteristics all schools have in common. Two of these will be readily acknowledged by all. First, each has its own methodology to some extent. Second, the writings of each school are colored by a distinctive ideology. I shall return to the third, more controversial characteristic these schools have in common after reviewing the first two.

Let us begin with methodology. This attribute is most clearly apparent in the Marxist and Austrian Schools. Marx was clearly influenced greatly by the writings of classical economics and incorporated some of its concepts into his analysis. Yet his writings were obviously meant in part as a methodological challenge to classical economics, and the distinguishing feature of Marxist economics to this day is the use of concepts and methods employed or developed by Marx and largely alien to the rest of the economics literature, e.g., the dialectic approach, the concept of surplus value, and, most importantly, the substitution of class for the individual as a basic building block of the analysis. So different is the methodology of the Marxist from that of the modern non-Marxist economist one might reasonably question whether Marxism is really a school of thought *within economics*. But if one is willing to classify as economists those individuals who study economic questions (the causes of poverty, unemployment, etc.) and/or are housed in economics departments around the world as economists, then there are many economists who employ the Marxist methodology, and Marxist economics is legitimately defined as a separate school in economics.

Austrian economics shares with Marxist economics an antipathy toward some of the fundamental methodological presumptions of the ruling orthodoxy in economics, although for the Austrians it is *neoclassical orthodoxy* which is questioned. The Austrians' rejection of the use of equilibrium conditions, the importance they place on uncertainty and subjectivism can all be regarded as distinctive breaks with prevailing neoclassical analysis.

Of the four schools identified, the Cambridge School is perhaps the most amorphous. Methodologically, it is a mixture of Keynesianism and Marxism and is thus also critical of modern neoclassical economics, although it is not nearly as far removed from it as Marxist or Austrian thought. Ideologically, it shares with Marxist economics a distrust of the outcomes from the market, and a belief in the desirability of government intervention, although the Cambridge School does not necessarily go as far as the Marxists in their espoused role for the government.

Where the Marxist, Austrian, and Cambridge Schools all are critical of orthodox economics methodology, the Chicago School embodies its quintessence. Chicagoans, more readily than most economists, are willing to extend the rational man assumption, as in rational expectations models, to the point where man is not only capable of behaving consistently when making choices, but possesses powers bordering on clairvoyance. To assume that selfish, rational man might be motivated by altruism, ideology, or the like is to abandon economics for sociology in the eyes of most Chicagoans. While all non-Marxist, non-Cambridge economists share an appreciation for the potential benefits from market competition, this appreciation is carried,

once again, to the extreme by market product markets might not function, dismissed, since entry barriers, in the opinion of most Chicagoans, are criticism that is made of the efficiency of a Chicagoan by invoking an efficiency raised by the separation of owners, easily get resolved in a Chicagoan managers (Fama, 1980). The Chicago economics not because it rejects product but because it epitomizes them.

I have slipped in that most abundant. Let me define it.

*Webster's Third New International* definitions of ideology: "A system of concepts, especially about human nature, characteristic of an individual, group, and aims that constitute a social program or philosophy constructed on ideational bases." Certainly Marxism is one if not all of these definitions.

I hope you will all agree with me. Identified is also an ideology by which one might disagree as to which of the

It is a pity that the word "ideology" is particularly among academicians. When, with some relief, it was popularized in favor of presumably more understandable at a time when wrought by fascism and was gripped by would wish to free social discourse from "extremist sociopolitical propaganda" on factitious or hypothetical ideology is to my mind an essential element to avoid the negative overtones of the German word *Weltanschauung*. A first definition of ideology: "A system of concepts especially about human nature, descriptive than the literal translation."

The work of the major figures of the schools of thought was imbued with reflection of a school of thought's reflection to questions, but the questions it asks upon a set of interrelated questions.



once again, to the extreme by members of the Chicago School. The notion that some product markets might not function well due to the existence of entry barriers is dismissed, since entry barriers, other than those created by government, do not exist in the opinion of most Chicagoans (e.g., Posner, 1976, pp. 92-3). Indeed, almost any criticism that is made of the efficiency of a capitalist-market economy is answered by a Chicagoan by invoking an efficient market. Thus, for example, the potential problems raised by the separation of ownership from control in the modern, large corporation easily get resolved in a Chicagoan's eyes by the efficient working of the market for managers (Fama, 1980). The Chicago School is distinguishable within the field of economics not because it rejects parts of the methodology or ideology of economics, but because it epitomizes them.

I have slipped in that most abused word "ideology" in a couple of places already. Let me define it.

Webster's *Third New International Dictionary* (unabridged) presents the following definitions of ideology: "A systematic scheme or coordinated body of ideas or concepts, especially about human life or culture....the integrated assertions, theories, and aims that constitute a sociopolitical program....an extremist sociopolitical program or philosophy constituted wholly or in part on factitious or hypothetical ideological bases." "Certainly Marxist economics is an ideology on the basis of at least one if not all of these definitions. I hope you will all agree with me that each of the other three schools I have identified is also an ideology by at least one of the above definitions, although we might disagree as to which of the several definitions best fits each school. It is a pity that the word "ideology" has taken on a negative connotation, particularly among academicians. I suppose this goes back to the time in the fifties when, with some relief, it was popular to declare an "end to ideology" in the social sciences in favor of presumably more scientific and impartial social science research. It is understandable at a time when the world still vividly recollects the ravages wrought by fascism and was gripped by fear of the dangers of communism, that one would wish to free social discourse from the most fanatical manifestations of ideology, from "extremist sociopolitical programs" or philosophies) constituted wholly or in part on factitious or hypothetical ideological bases." But in less extreme forms, ideology is to my mind an essential element or catalyst in most truly important research. To avoid the negative overtones of the word "ideology," let me substitute for it the German word *Weltanschauung*. A good translation of *Weltanschauung* is Webster's first definition of ideology: "A systematic scheme or coordinated body of ideas or concepts especially about human life or culture." Certainly this definition is more descriptive than the literal translation "view of the world."

The work of the major figures in the development of each of the enumerated schools of thought was imbued with a clear *Weltanschauung*. Perhaps the best reflection of a school of thought's *Weltanschauung* is not so much the answers it gives to questions, but the questions it asks. Each school of thought has focused its attention upon a set of interrelated questions that distinguish it both from the other schools of

Share these characteristics? While different people, I think there are two of these will be readily biology to some extent. Second, the ideology. I shall return to the third, in common after reviewing the

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thought and from the ordinary research of other economists and social scientists. Each has posed questions central to both our understanding of human life and our potential for improving it. Each has asked a set of questions, which either had gone previously unanswered, or to which unsatisfactory answers had been given. Those who have been attracted to each school have been drawn by the belief that the questions their school is asking are the most important of the day in need of answering.

All of the great thinkers in economics have been first and foremost askers of important questions. Moreover, they seem to be driven by a curiosity that leads them to ask fundamental questions about aspects of everyday life. What separates the great thinkers from the average is their capacity to recognize which aspects of human behavior are capable of being explained by more general laws, and their capacity to distinguish between the fundamental regularities in human behavior and the trivial. No reader of Adam Smith, Karl Marx, Ludwig von Mises, or John Maynard Keynes can come away from their writings without having gained the impression that these were astute observers of human behavior, who gained sustenance for their theories from their everyday observations of individual behavior and the operation of economic institutions.

While the great thinkers of all ages have in common a curiosity about their environment and a capability to observe and generalize about human behavior, they differ in both the questions they ask and the aspects of human behavior that attract their attention. Adam Smith was moved to inquire into the causes of the wealth of nations, and into the possible impediment to the accumulation of this wealth the Mercantilist practices of his day might constitute. Marx became obsessed by the misery of workers. What explains these different curiosities? Time and place? Social background? Religion? The answers to these questions I must leave to psychologists. Let me simply assert that it is here that an individual's *Weltanschauung* plays its most visible and vital role. For some reason, different scholars of equal genius have had different conceptions of human life, which have led them to ask different questions about human life and to observe different aspects of it. These differences, these different *Weltanschauung* have given rise to the different schools of thought.

Marx observed aspects of human life that many others feel that they too have observed, if only subconsciously. When these potential members of the Marxist School read Marx a resonant chord is struck. A similar sensation is experienced by converts to Austrian, Cambridge, or Chicago economics upon exposure to the teachings of these respective schools. Moreover, the chords struck seem to resonate with a more vibrant sound than normally occurs when one reads a work in economics. Those won over to the teachings of each school seem filled with greater conviction as to the validity of their arguments, as to the rightness of their positions, and, by implication or explication, the wrongness of those opposed to the teachings of their school. This then is the third characteristic the four schools have in common. Members of each school typically write and speak with more conviction about the teachings of their schools. A certain intensity is apparent both upon the written page and in the spoken word. Members of each school are filled with an enthusiasm for their work that goes well beyond the professional economist's normal interest in economic issues,

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an enthusiasm that even exceeds the fondness each of us has for his own ideas. Let me now, finally, turn to the subject at hand. In what sense is it legitimate to speak of a Virginia School of economics or public choice? Is there a methodology and an ideology that is sufficiently identifiable that we can clearly speak of those who espouse it as members of a distinct group or school? Do members of the school have the same enthusiasm, the same passion for their work as do members of the other schools?

So broad and fundamental were Adam Smith's insights into human nature and the workings of economic institutions that nearly every reader became a convert in part to Smith's way of thinking. Publication of the *Wealth of Nations* led not to the founding of a Scottish School *within* political economy, but to the founding of the field itself. Similarly, I think the Virginia School's methodological contribution to the evolution of scientific thought is not so much in developing a separate methodology within public choice, but in contributing to the development of the public choice field itself. Of course, the early writings of the Virginia School were not the only works that one can legitimately classify as having led to the development of the field. Kenneth Arrow's *Social Choice and Individual Values* (1951); Duncan Black's early articles and subsequent book, *The Theory of Committees and Elections* (1958); Anthony Downs' *An Economic Theory of Democracy* (1957); and Mancur Olson's *The Logic of Collective Action* (1965) all appeared around the time Buchanan and Tullock's early articles and the *Calculus of Consent* (1962) appeared. But, Arrow and Downs failed to follow up their pathbreaking studies with further research on economic politics, and neither Black nor Olson appear to have produced many students of the subject.

In contrast, Buchanan and Tullock followed up their seminal writings with a stream of articles and books that continues uninterrupted up to today. In addition, and most importantly, the Virginia schools at which they have resided produced a large number of scholars who have chosen to work in the public choice field. The first meeting of public choice scholars was organized by Buchanan and Tullock and took place in Charlottesville, Virginia, in 1963. Soon thereafter *Papers in Non-Market Decisionmaking* appeared, a journal devoted to the new field, and forerunner to the *Public Choice* journal. The existence of both the journal, *Public Choice*, and the *Public Choice Society* can be traced directly to the early efforts of James Buchanan and Gordon Tullock. One can, with justification, question whether public choice would have emerged as a separate, well-defined field within economics and political science had Buchanan and Tullock not fathered the field they helped spawn with the degree of paternalistic care with which they did.

Today, those of us working within public choice are all members of the Virginia School, in much the same way that all economists are members of the "Scottish School" founded by Adam Smith. We are conscious that our methodology is somewhat unique only when we are in the presence of political scientists, philosophers, or other social scientists who do not employ this approach. That public choice scholars are a rather different breed is readily apparent at any interdisciplinary conference at which they are present. But at the annual Public Choice Society

normal interest in economic issues, with an enthusiasm for their work upon the written page and in the conviction about the teachings of schools have in common. Members opposed to the teachings of their fitness of their positions, and by filled with greater conviction as one reads a work in economics. The chords struck seem to resonate economics upon exposure to the similar sensation is experienced by potential members of the Marxist any others feel that they too have different schools of thought. Its of it. These differences, these and them to ask different questions scholars of equal genius have had 's Wellanschauung plays its most ions I must leave to psychologists. uriosities? Time and place? Social . Marx became obsessed by the accumulation of this wealth the e into the causes of the wealth of ts of human behavior that attract ize about human behavior, they common a curiosity about their behavior and the operation of uted sustenance for their theories g gained the impression that these Mises, or John Maynard Keynes. a human behavior and the trivial. general laws, and their capacity to cognize which aspects of human day life. What separates the great ven by a curiosity that leads them been first and foremost askers of in need of answering. the belief that the questions their had been given. Those who have which either had gone previously ng of human life and our potential nomists and social scientists. Each



meetings, one cannot tell a member of the the Virginia School without a scorecard. The Virginia School's methodology and the "public choice approach" are one and the same, particularly when viewed from the perspective of someone outside the field.

If methodological approach does not distinguish the Virginia School from the rest of public choice then ideology, or my third, less tangible ingredient, enthusiasm, must. Certainly, in the eyes of many it is ideology that sets the Virginia School apart. But, in my mind, the third ingredient is at least as important.

I spent one year at the Public Choice Center in Blacksburg, Virginia, in the early seventies and have visited the Public Choice Center both in Blacksburg and Fairfax several times since. Upon each occasion, I have been struck by the level of interest of members of the Public Choice Center in questions of a public choice nature, by the intensity with which public choice issues are discussed, regardless of whether the issue is one upon which the individual is personally doing research. Chance meetings at the coffee urn, in the locker room, or in the cafeteria all become occasions for lively discussion of public choice issues. I have been employed at and have visited numerous other universities and research centers, but I associate with none of these the same level of enthusiasm and excitement for new ideas as I have always found at the Public Choice Center.

The importance of the existence of a center, i.e., a place at which the public choice approach can be learned and public choice questions studied to the development of the public choice field and the Virginia School, cannot be overemphasized. Indeed, it is interesting to observe that three of the four schools discussed here are named after places: Austria, Cambridge, and Chicago. Why the choice of a place name in three cases, a single person's name in the fourth? The reason for the choice of a place name is that the body of research to which reference is made in each instance cannot be associated with the name of a single person. Rather, the research is the product of several scholars working over a number of years at the place which gives the work its name. But why are these places and these bodies of work singled out? Why is it that there exists no Belgian School, no Oxford School, no New Haven School? Certainly it is not because these places have not been inhabited by several fine scholars, who have produced much important research. Rather, it is because the research emanating from these and almost every other place lack the methodological and ideological cohesiveness that allows one to identify it as being part of a school of thought, and lacks my third ingredient, that extra degree of enthusiasm which makes members of the school excited about their own work and infects others with similar excitement.

If the leading luminaries of a school of thought are to be found at a given place, then those who read the work of the school and become enthused by it have a place to which they can go to study and mingle with those who share their *Weltanschauung*. Moreover, if a school of thought is more or less associated with a given location, it is possible for the ideas of the school to evolve. By definition, the ideas of the *X* School are the ideas emanating from *X*. If *X* is a place containing several scholars studying different questions, then the ideas of this school will evolve as human behavior evolves and our knowledge of it accumulates. If *X*, in contrast, is a person, then only *X*'s ideas can be unambiguously defined as part of the *X* School, and once *X* dies the

development of the school atrophies. In contrast to the Virginia School (which contrasts the Marxist and Chicago university, there was no place to go for a lifetime. When he died, no single person could be put forward by disciples of Marx as having been that Marxism has by and large. The methodology employed and the ideas (and the imperialism) are the same today as they were then. Workers are a vanishing class, and the ideas have disappeared.

In contrast, because economists have the same *Weltanschauung* that has been characteristic of Chicago economics is an evolving one. As expectations comes along, an idea of *Weltanschauung* as this one does not. There is no hesitation. For Chicago economics is a set of principles. It is the Chicago economic approach and ensures that only the "right" reference must be made.

In much the same way that Chicago has been attracting from around the world students, the *Weltanschauung* has been kindred. It is inexplicably but ineluctably linked to every corner of the globe those who are asking the basic questions of why government?

I come now to the issue of the evolution of our understanding of political institutions. The contribution has been. To appreciate the contribution of the 1950s and examine what the contribution of science was at that point of time in the development of economics.

On the macro side, the Keynesian approach and empirical work discussed here is not coordinated to control unemployment. The confidence existed that the former approach of macro-Walrasian counting of instruments vary all of the instruments potential. The Phillips curve came into vogue. A government debt, with a consequence. In general, a macro impact ruled on the macro front.

On the micro side, similar sources. *The Theory of the State* appeared in



development of the school atrophies. This point is immediately underlined when one contrasts the Marxist and Chicago Schools. Since Marx was not associated with any university, there was no place to which his followers could go and study during his lifetime. When he died, no single place existed where Marxists studied and taught. There was neither a Pope, Marx being dead, nor a Vatican to authenticate the ideas put forward by disciples of Marx as legitimate elements of Marxist thought. The result has been that Marxism has by and large failed to evolve as an intellectual field. Both the methodology employed and the issues addressed (the misery of the working class, imperialism) are the same today as in the 19th century, even though blue collar factory workers are a vanishing class, and all empires, except ironically the Russian Empire, have disappeared.

In contrast, because economists at the University of Chicago continue to share the same Wellenschaunung that has made "the Chicago School" readily identifiable, Chicago economics is an evolving body of thought. When an idea like rational expectations comes along, an idea which fits so comfortably into the Chicago Wellenschaunung as this one does, it can be incorporated into the litany without hesitation. For Chicago economists is what Chicago economists do, not some rigid set of principles. It is the Chicago economists' Wellenschaunung that provides consistency and ensures that only the "right" ideas are incorporated, not some set text to which reference must be made.

In much the same way that Chicago for so many years has served as a magnet attracting from around the world students and scholars in whom the Chicago School's Wellenschaunung has been kindled, the Center for Study of Public Choice, inexplicably but ineluctably linked to Jefferson's state of Virginia, has drawn from every corner of the globe those who share its Wellenschaunung; those interested in the basic questions of why governments exist, and how they operate.

I come now to the issue of what public choice has contributed to our understanding of political institutions, and what the Virginia School's share of this contribution has been. To appreciate these contributions, one must go back to, say, the 1950s and examine what the conventional wisdom within economics and political science was at that point of time regarding political institutions. Let us start with economics.

On the macro side, the Keynesian revolution was still in full swing. Theoretical and empirical work discussed how fiscal, monetary, and trade policies could be coordinated to control unemployment, inflation, and the balance of payments. A kind of macro-Walrasian counting of policy goals and instruments was popular, and a confidence existed that the former could be achieved if the government was free to vary all of the instruments potentially at its command. It was at this time that the Phillips curve came into vogue. A brief debate ensued over the impact of increases in government debt, with a consensus reached that it was largely of no economic consequence. In general, a mood of optimism regarding government's potential impact ruled on the macro front.

On the micro side, similar sounds were heard. Baumol's *Welfare Economics and the Theory of the State* appeared in 1952. It used the existence of externalities to justify

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government intervention on efficiency grounds. The classic papers on externalities and public goods by James Meade and Paul Samuelson appeared between 1952 and 1954. The whole literature was pulled together in the influential article by Francis Bator published in 1958, with the catchy title "The Anatomy of Market Failure." "Market failure" was the watchword of the day and the implicit assumption and explicit recommendation were that government could move to remove these market failures, and that is should.

Similar developments occurred in other branches of microeconomics. In industrial organization, for example, Joe Bain's classic *Barriers to New Competition* was published in 1956 and Kaysen and Turner's *Antitrust Policy* in 1959. These books provided arguments and evidence indicating that high industry concentration and entry barriers lead to high industry profits. They helped spawn a generation of research in the structure-conduct-performance tradition that advocated tough enforcement of existing antitrust laws and rationalized further tightening of the laws themselves.

Although his flamboyant generalizations often earned him the scorn of his more timorous professional colleagues, just as his elegant style elicited their envy, the writings of popularizer John Kenneth Galbraith during the fifties and early sixties are a fair barometer of the more staid "conventional wisdom" within the profession of the failings of the market and the promise of government action.

As representative of the thinking within political science at the time, let me focus upon a single work, Robert Dahl's *A Preface to Democratic Theory*, published in 1956, although mention might also be made of Dahl and Lindbloom's *Politics, Economics, and Welfare*, published in 1953, in which the potential for government policy in a market economy subject to market failure is treated at length. But, *A Preface* is a clear and concise review of basic political principles by America's premier, non-public choice, political theorist.

Dahl takes as his point of departure James Madison's theory of democracy. Thus, Dahl does not base his analysis on a romantic view of the individual and his motives. The first hypothesis of the book is that, "If unrestrained by external checks, any given individual or group of individuals will tyrannize over others" (p. 6). Dahl goes on to analyze Madison's attempt to restrain the proclivities of individuals and groups to tyrannize through the introduction of checks and balances into the political process. Dahl concludes that Madison's model is "clearly inadequate" on both logical and empirical grounds (p. 31). Majority rule, at least as it has been defended in American Populist thought, fares even worse under Dahl's critical, analytic scrutiny (chapter 2), but, nevertheless, the American political system as it functions in reality winds up getting very high marks. The closing lines of the book read as follows:

...so long as the social prerequisites of democracy are substantially intact in this country, it [the American political system] appears to be a relatively efficient system for reinforcing agreement, encouraging moderation, and maintaining social peace in a restless and immoderate people operating a gigantic, powerful, diversified, and incredibly complex society.

This is no negligible contribution to the arts of government and politics is the most difficult, (p. 151)

Thus, while leading practitioners for government to achieve economic demonstrating how well the American To these prevailing currents of thought presented a stark contrast. Of the Duncan Black's *A Theory of Competition* positive note about the potential of celebrated median voter theorem, under certain conditions. Unfortunately conditions are so unlikely to hold from the perspective of today, as a in majority rule committee outcom

Downs reproduced Hotelling's several other spatial model results (gets overturned in precisely the same of Downs' spatial results are subject contribution of Downs' book is un that the rather small probability of a political process implies that rational accepts Downs' reasoning on this whether we can aggregate their vo

No single work has driven the aggregate information about voter normative properties better than *Values* (1951). A case can be made oversold. But three decades of subsequent dramatically attests to the captivated result.

Olson's first book (1965) is also pervasive. Interest groups with special association for an oligopolistic industry associations like consumers' unions later, when he tells us of the causes

The *Calculus of Consent* (1965) Tullock's classic article (1959) shows expansion of government is reproducible kind to majority rule. But, in many potential of democratic institutions It comes close to defending logrolling and provides the normative *raison*



